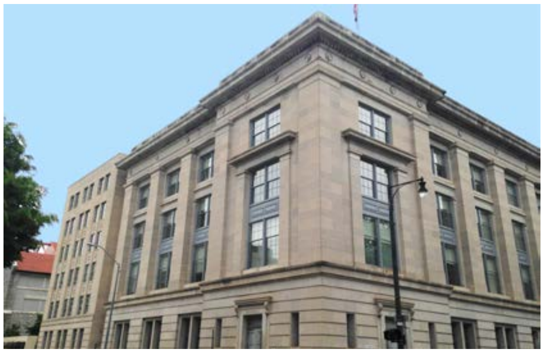
STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA



MONTGOMERY COMMUNITY COLLEGE

TROY, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2016

A COMPONENT UNIT OF THE STATE OF NORTH CAROLINA

NCOSA

The Taxpayers' Watchdog

STATE OF NORTH CAROLINA
Office of the State Auditor

Beth A. Wood, CPA
State Auditor

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AUDITOR'S TRANSMITTAL

The Honorable Roy Cooper, Governor
The General Assembly of North Carolina
Board of Trustees, Montgomery Community College

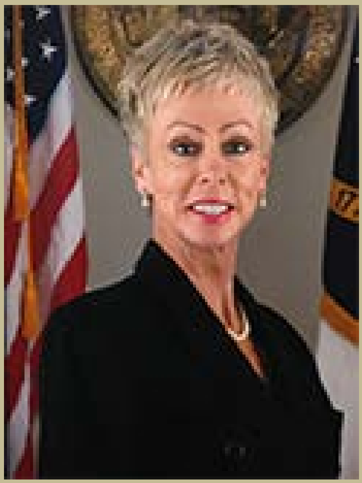
We have completed a financial statement audit of Montgomery Community College for the year ended June 30, 2016, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material 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.

Beth A. Wood

Beth A. Wood, CPA
State Auditor



Beth A. Wood, CPA
State Auditor

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Article V, Chapter 147 of the *North Carolina General Statutes*, gives the Auditor broad powers to examine all books, records, files, papers, documents, and financial affairs of every state agency. The Auditor also has the power to summon people to produce records and to answer questions under oath.

INDEPENDENT AUDITOR'S REPORT

STATE OF NORTH CAROLINA
Office of the State Auditor

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State Auditor

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Montgomery Community College
Troy, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of Montgomery Community College (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, 2016, 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*.

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 respective financial position of Montgomery Community College, and its discretely presented component unit, as of June 30, 2016, and the respective 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 and other required supplementary information, as listed in the table of contents, 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 March 29, 2017 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 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

Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

March 29, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

Overview of Financial Statements and Financial Analysis

This section of Montgomery Community College's Financial Statements present the Management's Discussion and Analysis of the College's financial activity during the fiscal year ended June 30, 2016 with comparative amounts at June 30, 2015. 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, deferred outflows of resources, liabilities, and deferred inflows of resources. 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, deferred outflows of resources, liabilities, deferred inflows of resources, and net position of the College at a point in time for the fiscal year ended June 30, 2016. 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 and deferred outflows of resources minus liabilities and deferred inflows of resources) and their availability for expenditures by the College.

Net position is divided into three major categories. The first category, investment 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.

Condensed Statement of Net Position

	June 30, 2016	June 30, 2015	Variance
Assets			
Current Assets	$ 995,957.65	$ 928,023.80	$ 67,933.85
Noncurrent Capital Assets, Net	7,791,109.41	7,606,119.72	184,989.69
Other Noncurrent Assets	22,764.79	270,675.71	(247,910.92)
Total Assets	8,809,831.85	8,804,819.23	5,012.62
Deferred Outflows of Resources	437,443.00	389,756.00	47,687.00
Liabilities			
Current Liabilities	302,806.70	265,418.16	37,388.54
Long-Term Liabilities	1,141,783.71	567,937.45	573,846.26
Total Liabilities	1,444,590.41	833,355.61	611,234.80
Deferred Inflows of Resources	213,649.00	1,078,095.00	(864,446.00)
Net Position			
Investment in Capital Assets	7,791,109.41	7,606,119.72	184,989.69
Restricted	253,931.72	475,608.83	(221,677.11)
Unrestricted	(456,005.69)	(798,603.93)	342,598.24
Total Net Position	$ 7,589,035.44	$ 7,283,124.62	$ 305,910.82

As shown above, the College's financial operations in 2016 were similar to 2015. Other noncurrent assets and restricted net position decreased by $247,910.92 and $221,677.11, respectively, due to the College expending a $250,000 Duke Energy Equipment Grant in 2016 that was received in 2015. Long-term liabilities increased by $573,846.26 mostly due to an increase in the College's net pension liability of $663,707.00. Unrestricted net position increased by $342,598.24, which is mostly due to the change in deferred inflows in the current year of $864,446.00 and deferred outflows of $47,687.00, offset by the change in long-term liabilities. The long-term liabilities, deferred inflows, deferred outflows and unrestricted net position variances are attributable to the prior year's implementation of *GASB Statement No. 68 – Accounting and Financial Reporting for Pensions*, which requires that colleges record their net pension liability and related deferred inflows and outflows. Total net position increased by $305,910.82 as a function of the changes described above.

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 nonoperating revenues and expenses of the College.

Generally, operating revenues are received to provide goods and services for the College. Operating expenses are expenses paid to acquire or produce those goods and services that carry out the mission of the College for which operating revenue are received. Nonoperating revenues are revenues received for which goods and services are not provided. State aid and county appropriations are considered nonoperating because the College received revenue without providing a good or service in return.

The SRECNP consists of total revenues of $9,100,414.50, a decrease of $111,653.14 from the prior year total revenues of $9,212,067.64 and total expenses of $8,794,503.68, a decrease of $7,996.64 from the prior year total expenses of $8,802,500.32.

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

	June 30, 2016	June 30, 2015	Variance
Operating Revenues			
Student Tuition and Fees, Net	$ 762,952.19	$ 671,460.13	$ 91,492.06
Sales and Services	80,198.48	110,788.75	(30,590.27)
Other Operating Revenues	614.30	22,787.34	(22,173.04)
Total Operating Revenues	843,764.97	805,036.22	38,728.75
Nonoperating Revenues (Expenses)			
State Aid	5,835,442.36	5,471,787.52	363,654.84
County Appropriations	736,080.00	728,792.00	7,288.00
Noncapital Grants - Student Financial Aid	1,380,964.04	1,649,612.70	(268,648.66)
Noncapital Grants	122,554.05	103,101.65	19,452.40
Investment Income	1,487.51	1,011.30	476.21
Other Nonoperating Expenses	(10,877.27)	(22,275.44)	11,398.17
Net Nonoperating Revenues	8,065,650.69	7,932,029.73	133,620.96
Total Revenues	8,909,415.66	8,737,065.95	172,349.71
Operating Expenses			
Salaries and Benefits	6,126,076.62	6,114,346.97	11,729.65
Supplies and Materials	822,891.27	653,774.21	169,117.06
Services	563,716.73	524,996.11	38,720.62
Scholarships and Fellowships	850,057.85	1,023,633.60	(173,575.75)
Utilities	225,693.05	251,301.92	(25,608.87)
Depreciation	195,190.89	212,172.07	(16,981.18)
Total Operating Expenses	8,783,626.41	8,780,224.88	3,401.53
Income (Loss) Before Other Revenues	125,789.25	(43,158.93)	168,948.18
Capital Contribution	180,121.57	452,726.25	(272,604.68)
Change in Net Position	305,910.82	409,567.32	(103,656.50)
Net Position, Beginning	7,283,124.62	6,873,557.30	409,567.32
Net Position, Ending	$ 7,589,035.44	$ 7,283,124.62	$ 305,910.82

As shown above, the College's financial operations in 2016 were similar to 2015. State aid increased $363,654.84 as a result of a net increase in the base allotment and a reduction in the percentage of state funds that were required to be reverted at year end from 2.0% to 0.75%. There was an increase in student tuition and fees of $91,492.06 due to a reduction in scholarship discount allowances related to decreased enrollment and increased tuition rates. As mentioned above, in 2015, the College received a Duke Energy Equipment Grant of $250,000.00 that was used in 2016. As a result, supplies and materials expenditures increased $169,117.06, and capital contributions decreased $272,604.68 from the previous year. Noncapital grants – student financial aid decreased by $268,648.66 and scholarships and fellowships decreased by $173,575.75 in 2016 due to decreased enrollment and fewer students attending the College who were eligible for financial aid.

Analysis of Financial Position

Based on the comparative data presented above, the College's management concluded that the College's financial position has increased when compared to the previous fiscal year due primarily to the net effect of changes in net pension liability and deferred inflows of resources because of the prior year's implementation of *GASB Statement No. 68 – Accounting and Financial Reporting for Pensions* mentioned above.

The College continues to implement sound fiscal management to cope with the decrease in local funding.

Capital Assets

Montgomery Community College's investment in capital assets as of June 30, 2016, was $7,791,109.41, net of accumulated depreciation. This investment in capital assets includes land, art, buildings, infrastructure, equipment, and vehicles. The total increase in the College's investment in capital assets was $184,989.69, net of depreciation. This increase was primarily due to net effect of the additions and deletions of 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. Refer to Note 5 of the Notes to the Financial Statements for additional details of the College's capital asset holdings.

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 evaluating programs offered and re-evaluating current positions, the College has worked hard to ensure that the results of budget cuts will not negatively impact instruction in the classroom or the quality of its educational benefits.

FINANCIAL STATEMENTS

Montgomery Community College
Statement of Net Position
June 30, 2016 *Exhibit A-1*

ASSETS		
Current Assets:		
Cash and Cash Equivalents	$	518,389.91
Restricted Cash and Cash Equivalents		290,909.75
Receivables, Net (Note 4)		75,566.68
Inventories		111,091.31
Total Current Assets		995,957.65
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		2,089.08
Restricted Due from Primary Government		20,675.71
Capital Assets - Nondepreciable (Note 5)		516,930.40
Capital Assets - Depreciable, Net (Note 5)		7,274,179.01
Total Noncurrent Assets		7,813,874.20
Total Assets		8,809,831.85
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Outflows Related to Pensions		437,443.00
LIABILITIES		
Current Liabilities:		
Accounts Payable and Accrued Liabilities (Note 6)		167,536.12
Unearned Revenue		24,237.37
Funds Held for Others		50,985.05
Long-Term Liabilities - Current Portion (Note 7)		60,048.16
Total Current Liabilities		302,806.70
Noncurrent Liabilities:		
Long-Term Liabilities (Note 7)		1,141,783.71
Total Liabilities		1,444,590.41
DEFERRED INFLOWS OF RESOURCES		
Deferred Inflows Related to Pensions		213,649.00
NET POSITION		
Investment in Capital Assets		7,791,109.41
Restricted for Expendable:		
Capital Projects		22,764.79
Restricted for Specific Programs		231,166.93
Unrestricted		(456,005.69)
Total Net Position	$	7,589,035.44

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, 2016

Exhibit A-2

REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net (Note 8)	$	762,952.19
Sales and Services		80,198.48
Other Operating Revenues		614.30
Total Operating Revenues		843,764.97
EXPENSES		
Operating Expenses:		
Salaries and Benefits		6,126,076.62
Supplies and Materials		822,891.27
Services		563,716.73
Scholarships and Fellowships		850,057.85
Utilities		225,693.05
Depreciation		195,190.89
Total Operating Expenses		8,783,626.41
Operating Loss		(7,939,861.44)
NONOPERATING REVENUES (EXPENSES)		
State Aid		5,835,442.36
County Appropriations		736,080.00
Noncapital Grants - Student Financial Aid		1,380,964.04
Noncapital Grants		122,554.05
Investment Income		1,487.51
Other Nonoperating Expenses		(10,877.27)
Net Nonoperating Revenues		8,065,650.69
Income Before Other Revenues		125,789.25
State Capital Aid		180,121.57
Increase in Net Position		305,910.82
NET POSITION		
Net Position, July 1, 2015		7,283,124.62
Net Position, June 30, 2016	$	7,589,035.44

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

Montgomery Community College
Statement of Cash Flows **_Exhibit A-3_**
For the Fiscal Year Ended June 30, 2016

CASH FLOWS FROM OPERATING ACTIVITIES	
Received from Customers	$ 812,161.74
Payments to Employees and Fringe Benefits	(6,422,514.54)
Payments to Vendors and Suppliers	(1,601,187.50)
Payments for Scholarships and Fellowships	(850,057.85)
Other Payments	(2,112.02)
Net Cash Used by Operating Activities	(8,063,710.17)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Aid Received	5,835,442.36
County Appropriations	736,080.00
Noncapital Grants - Student Financial Aid	1,380,964.04
Noncapital Grants	122,554.05
Total Cash Provided by Noncapital Financing Activities	8,075,040.45
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
State Capital Aid Received	180,121.57
Acquisition and Construction of Capital Assets	(391,057.85)
Net Cash Used by Capital and Related Financing Activities	(210,936.28)
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment Income	1,487.51
Net Decrease in Cash and Cash Equivalents	(198,118.49)
Cash and Cash Equivalents, July 1, 2015	1,009,507.23
Cash and Cash Equivalents, June 30, 2016	$ 811,388.74

RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES

Operating Loss	$	(7,939,861.44)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense		195,190.89
Pension Expense		116,292.00
Miscellaneous Pension Adjustments		380.91
Changes in Assets, Liabilities, and Deferred Outflows of Resources:		
Receivables, Net		(29,480.94)
Inventories		11,339.52
Accounts Payable and Accrued Liabilities		(225.97)
Unearned Revenue		(2,122.29)
Funds Held for Others		(2,112.02)
Deferred Outflows for Contributions Subsequent to the Measurement Date		(365,098.91)
Compensated Absences		(48,011.92)
Net Cash Used by Operating Activities	$	(8,063,710.17)

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:		
Cash and Cash Equivalents	$	518,389.91
Restricted Cash and Cash Equivalents		290,909.75
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		2,089.08
Total Cash and Cash Equivalents - June 30, 2016	$	811,388.74

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Loss on Disposal of Capital Assets	$	(10,877.27)

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, 2016 — *Exhibit B-1*

ASSETS		
Cash and Cash Equivalents	$	359,751
Investments Held by Fiscal Agent		2,742,628
Pledges Receivable		25,983
Total Assets	$	3,128,362
LIABILITIES		
Total Liabilities	$	0
NET ASSETS		
Unrestricted		17,613
Temporarily Restricted		347,976
Permanently Restricted		2,762,773
Total Net Assets		3,128,362
Total Liabilities and Net Assets	$	3,128,362

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, 2016

Exhibit B-2

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, Gains, and Other Support:				
Contributions	$ 800	$ 139,936	$ 117,787	$ 258,523
Fundraising Events	43,081			43,081
Income Earned on Investments			69,433	69,433
Net Realized and Unrealized Losses on Investments			(123,837)	(123,837)
Transfers	121,308		(121,308)	
Net Assets Released from Restrictions:				
Satisfaction of Program Restrictions	58,553	(58,553)		
Total Revenues, Gains, and Other Support	223,742	81,383	(57,925)	247,200
Expenses:				
Contributions to Montgomery Community College for:				
Scholarships	133,162			133,162
Support of Various College Programs	42,697			42,697
Fundraising	13,162			13,162
Operating	36,757			36,757
Total Expenses	225,778			225,778
Change in Net Assets	(2,036)	81,383	(57,925)	21,422
Net Assets - Beginning of Year	19,649	266,593	2,820,698	3,106,940
Net Assets - End of Year	$ 17,613	$ 347,976	$ 2,762,773	$ 3,128,362

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

NOTES TO THE FINANCIAL STATEMENTS

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 (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, tax-exempt, 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 17 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 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 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, 2016, the Foundation distributed $175,859.00 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. The College's equity position in the STIF is recorded at fair value. Additional information regarding the fair value measurement of deposits held by the State Treasurer in the STIF is disclosed in Note 3.

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

F. **Inventories** - Inventories, consisting of expendable supplies, fuel oil held for consumption, and merchandise for resale are valued at cost using the first-in, first-out method.

G. **Capital Assets** - Capital assets are stated at cost at date of acquisition or acquisition value at date of donation in the case of gifts. Donated capital assets acquired prior to July 1, 2015 are stated at fair value as of the date of donation. The value of assets constructed includes all material direct and indirect construction costs. Interest costs incurred are capitalized during the period of construction.

The College capitalizes assets that have a value or cost of $5,000 or greater at the date of acquisition and an estimated useful life of more than one year.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets in the following manner:

Asset Class	Estimated Useful Life
Buildings	50-75 years
Machinery & Equipment	15-50 years
General Infrastructure	50-75 years

The pottery collection is capitalized at cost or fair value at the date of donation. Donated capital assets acquired prior to July 1, 2015 are stated at fair value as of the date of donation. This collection is considered inexhaustible and is therefore not depreciated.

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

I. **Noncurrent Long-Term Liabilities** - Noncurrent long-term liabilities include net pension liability and compensated absences that will not be paid within the next fiscal year.

The net pension liability represents the College's proportionate share of the collective net pension liability reported in the State of North Carolina's 2015 *Comprehensive Annual Financial Report.* This liability represents the College's portion of the collective total pension liability less the fiduciary net position of the Teachers' and State Employees' Retirement System. See Note 10 for further information regarding the College's policies for recognizing liabilities, expenses, and deferred outflows and inflows related to pensions.

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.

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 outflows and inflows 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 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 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 are reverted back to the county.

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 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 $624,271.79 and a bank balance of $673,703.81.

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, 2016, 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 (STIF); obligations of or fully guaranteed by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain nonguaranteed federal agencies; prime quality commercial paper bearing specified ratings; specified bills of exchange; certain savings certificates; The North Carolina Capital Management Trust, an SEC registered mutual fund; repurchase agreements; and evidences of ownership of, or fractional undivided interests in, future interest and principal payments on either direct obligations of or fully guaranteed by the United States government, which are held by a specified bank or trust company or any state in the capacity of custodian.

At June 30, 2016, the amount shown on the Statement of Net Position as cash and cash equivalents includes $186,616.95 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 or subject to any other regulatory oversight and does not have a credit rating) had a weighted average maturity of 1.5 years as of June 30, 2016. Assets and shares of the STIF are valued at 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 on the North Carolina Office of the State Controller's website at http://www.osc.nc.gov/ or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

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

Investments	Cost	Carrying Value
Cash & Cash Equivalents	$ 58,654	$ 58,654
Equity Mutual Funds	1,256,599	1,272,751
Fixed Income Funds	1,344,059	1,327,341
Real Estate Investments	54,985	83,882
Total Investments Held by Fiscal Agent	$ 2,714,297	$ 2,742,628

NOTE 3 - FAIR VALUE MEASUREMENTS

College - To the extent available, the College's investments are recorded at fair value as of June 30, 2016. GASB Statement No. 72 - *Fair Value Measurement and Application*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Inputs are used in applying the various valuation techniques and take into account the assumptions that market participants use to make valuation decisions. Inputs may include price information, credit data, interest and yield curve data, and other factors specific to the financial instrument. Observable inputs reflect market data obtained from independent sources. In contrast, unobservable inputs reflect the entity's assumptions about how market participants would value the financial instrument. Valuation techniques should maximize the use of observable inputs to the extent available.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used for financial instruments measured at fair value on a recurring basis:

Level 1 Investments whose values are based on quoted prices (unadjusted) for identical assets in active markets that a government can access at the measurement date.

Level 2 Investments with inputs - other than quoted prices included within Level 1 - that are observable for an asset, either directly or indirectly.

Level 3 Investments classified as Level 3 have unobservable inputs and may require a degree of professional judgment.

Short-Term Investment Fund - At year-end, all of the College's investments valued at $186,616.95 were held in the STIF which is a Level 2 investment. Ownership interest of the STIF is determined on a fair market valuation basis as of fiscal year end in accordance with the STIF operating procedures. Valuation of the underlying assets is performed by the custodian.

Component Unit - The Foundation considers all highly liquid short-term investments to be cash equivalents. Short-term investments include amounts on deposit in a short-term investment account with the State Treasurer and cash held by a fiscal agent. All investments are valued in the financial statements at fair value based on publically available trading value. The following is the fair value of the investments held by the fiscal agent at June 30, 2016:

		Fair Value Measurement Using		
Investments	Fair Value	Level 1	Level 2	Level 3
Cash & Cash Equivalents	$ 58,654	$ 58,654	$ 0	$ 0
Equity Mutual Funds	1,272,751	1,272,751		
Fixed Income Funds	1,327,341	1,327,341		
Real Estate Investments	83,882	83,882		
Total Investments by Fair Value Level	$ 2,742,628	$ 2,742,628	$ 0	$ 0

NOTE 4 - RECEIVABLES

Receivables at June 30, 2016, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	$ 107,336.05	$ 42,097.68	$ 65,238.37
Student Sponsors	7,375.86		7,375.86
Intergovernmental	2,952.45		2,952.45
Total Current Receivables	$ 117,664.36	$ 42,097.68	$ 75,566.68

NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2016, is presented as follows:

	Balance July 1, 2015	Increases	Decreases	Balance June 30, 2016
Capital Assets, Nondepreciable:				
Land	$ 442,186.24	$ 0.00	$ 0.00	$ 442,186.24
Art, Literature, and Artifacts	74,744.16			74,744.16
Total Capital Assets, Nondepreciable	516,930.40			516,930.40
Capital Assets, Depreciable:				
Buildings	9,549,779.24			9,549,779.24
Machinery and Equipment	2,307,021.57	385,957.85	107,290.60	2,585,688.82
General Infrastructure	786,263.73	5,100.00		791,363.73
Total Capital Assets, Depreciable	12,643,064.54	391,057.85	107,290.60	12,926,831.79
Less Accumulated Depreciation for:				
Buildings	4,066,975.23	109,482.84		4,176,458.07
Machinery and Equipment	1,318,283.33	72,888.17	96,413.33	1,294,758.17
General Infrastructure	168,616.66	12,819.88		181,436.54
Total Accumulated Depreciation	5,553,875.22	195,190.89	96,413.33	5,652,652.78
Total Capital Assets, Depreciable, Net	7,089,189.32	195,866.96	10,877.27	7,274,179.01
Capital Assets, Net	$ 7,606,119.72	$ 195,866.96	$ 10,877.27	$ 7,791,109.41

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2016, were as follows:

	Amount
Current Accounts Payable and Accrued Liabilities:	
Accounts Payable	$ 19,098.25
Accrued Payroll	148,242.25
Intergovernmental Payables	195.62
Total Current Accounts Payable and Accrued Liabilities	$ 167,536.12

NOTE 7 - LONG-TERM LIABILITIES

A summary of changes in the long-term liabilities for the year ended June 30, 2016, is presented as follows:

	Balance July 1, 2015	Additions	Reductions	Balance June 30, 2016	Current Portion
Net Pension Liability	$ 298,498.00	$ 663,707.00	$ 0.00	$ 962,205.00	$ 0.00
Compensated Absences	287,638.79	193,270.82	241,282.74	239,626.87	60,048.16
Total Long-Term Liabilities	$ 586,136.79	$ 856,977.82	$ 241,282.74	$ 1,201,831.87	$ 60,048.16

Additional information regarding the net pension liability is included in Note 10.

NOTE 8 - REVENUES

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

	Gross Revenues	Less Scholarship Discounts	Less Allowance for Uncollectibles	Net Revenues
Operating Revenues:				
Student Tuition and Fees, Net	$ 1,332,675.76	$ 527,625.89	$ 42,097.68	$ 762,952.19

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	Total
Instruction	$ 3,407,832.35	$ 494,080.42	$ 170,298.82	$ 0.00	$ 0.00	$ 0.00	$ 4,072,211.59
Academic Support	610,986.42	68,943.09	19,079.14				699,008.65
Student Services	514,829.93	11,547.55	30,839.61				557,217.09
Institutional Support	1,241,748.69	184,118.63	257,660.13				1,683,527.45
Operations and Maintenance of Plant	338,104.90	41,315.57	72,758.55		225,693.05		677,872.07
Student Financial Aid				850,057.85			850,057.85
Auxiliary Enterprises	12,574.33	22,886.01	13,080.48				48,540.82
Depreciation						195,190.89	195,190.89
Total Operating Expenses	$ 6,126,076.62	$ 822,891.27	$ 563,716.73	$ 850,057.85	$ 225,693.05	$ 195,190.89	$ 8,783,626.41

NOTE 10 - PENSION PLANS

Defined Benefit Plan

Plan Administration: The State of North Carolina administers the Teachers' and State Employees' Retirement System (TSERS) plan. This plan is a cost-sharing, multiple-employer, defined benefit pension plan established by the State to provide pension benefits for general employees and law enforcement officers (LEOs) of the State, general employees and LEOs of its component units, and employees of Local Education Agencies (LEAs) and charter schools not in the reporting entity. Membership is comprised of employees of the State (state agencies and institutions), universities, community colleges, and certain proprietary component units along with the LEAs and charter schools. Benefit provisions are established by General Statute 135-5 and may be amended only by the North Carolina General Assembly.

Benefits Provided: TSERS provides retirement and survivor benefits. Retirement benefits are determined as 1.82% of the member's average final compensation times the member's years of creditable service. A member's average final compensation is calculated as the average of a member's four highest consecutive years of compensation. General employee plan members are eligible to retire with full retirement benefits at age 65 with five years of creditable service, at age 60 with 25 years of creditable service, or at any age with 30 years of creditable service. General employee plan members are eligible to retire with partial retirement benefits at age 50 with 20 years of creditable service or at age 60 with five years of creditable service. Survivor benefits are available to eligible beneficiaries of general members who die while in active service or within 180 days of their last day of service and who also have either completed 20 years of creditable service regardless of age, or have completed five years of service and have reached age 60. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions. The plan does not provide for automatic post-retirement benefit increases. Increases are contingent upon actuarial gains of the plan.

Contributions: Contribution provisions are established by General Statute 135-8 and may be amended only by the North Carolina General Assembly. Employees are required to contribute 6% of their compensation. The contribution rate for employers is set each year by the NC General Assembly in the Appropriations Act based on the actuarially-determined rate recommended by the actuary. The College's contractually-required contribution rate for the year ended June 30, 2016 was 9.15% of covered payroll. The College's contributions to the pension plan were $365,098.91, and employee contributions were $239,409.12 for the year ended June 30, 2016.

The TSERS plan's financial information, including all information about the plan's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fiduciary net position, is included in the State of North Carolina's fiscal year 2015 *Comprehensive Annual Financial Report*. An electronic version of this report is available on the North Carolina Office of the State Controller's website at http://www.osc.nc.gov/ or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

TSERS Basis of Accounting: The financial statements of the TSERS plan were prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has a legal requirement to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan. The plan's fiduciary net position was determined on the same basis used by the pension plan.

Methods Used to Value TSERS Investment: Pursuant to *North Carolina General Statutes*, the State Treasurer is the custodian and administrator of the retirement systems. The State Treasurer maintains various investment portfolios in its Investment Pool. The pension trust funds are the primary participants in the Long-term Investment portfolio and the sole participants in the External Fixed Income Investment, Equity Investment, Real Estate Investment, Alternative Investment, Credit Investment, and Inflation Protection Investment portfolios. The investment balance of each pension trust fund represents its share of the fair market value of the net position of the various portfolios within the pool. Detailed descriptions of the methods and significant assumptions regarding investments of the State Treasurer are provided in the 2015 *Comprehensive Annual Financial Report*.

Net Pension Liability: At June 30, 2016, the College reported a liability of $962,205.00 for its proportionate share of the collective net pension liability. The net pension liability was measured as of June 30, 2015. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2014, and update procedures were used to roll forward the total pension liability to June 30, 2015. The College's proportion of the net pension liability was based on the present value of future salaries for the College relative to the present value of future salaries for all participating employers, actuarially-determined. As of June 30, 2015, the College's proportion was 0.02611%, which was an increase of 0.00065 from its proportion measured as of June 30, 2014.

Actuarial Assumptions: The following table presents the actuarial assumptions used to determine the total pension liability for the TSERS plan at the actuarial valuation date:

Valuation Date	12/31/2014
Inflation	3%
Salary Increases*	4.25% - 9.10%
Investment Rate of Return**	7.25%

* Salary increases include 3.5% inflation and productivity factor.
** Investment rate of return is net of pension plan investment expense, including inflation.

TSERS currently uses mortality tables that vary by age, gender, employee group (i.e. teacher, general, law enforcement officer) and health status (i.e. disabled and healthy). The current mortality rates are based on published tables and based on studies that cover significant portions of the U.S. population. The healthy mortality rates also contain a provision to reflect future mortality improvements.

The actuarial assumptions used in the December 31, 2014 valuations were based on the results of an actuarial experience study for the period January 1, 2005 through December 31, 2009.

Future ad hoc Cost of Living Adjustment (COLA) amounts are not considered to be substantively automatic and are therefore not included in the measurement.

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections.

Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2015 (the valuation date) are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return
Fixed Income	2.2%
Global Equity	5.8%
Real Estate	5.2%
Alternatives	9.8%
Credit	6.8%
Inflation Protection	3.4%

The information above is based on 30-year expectations developed with the consulting actuary for the 2014 asset, liability, and investment policy study for the North Carolina Retirement Systems. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.19%. All rates of return and inflation are annualized.

Discount Rate: The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate: The following presents the net pension liability of the plan calculated using the discount rate of 7.25%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.25%) or 1-percentage point higher (8.25%) than the current rate:

	Net Pension Liability (Asset)	
1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
$ 2,895,972.00	$ 962,205.00	$ (678,819.00)

Deferred Inflows of Resources and Deferred Outflows of Resources Related to Pensions: For the year ended June 30, 2016, the College recognized pension expense of $116,292.00. At June 30, 2016, the College reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Employer Balances of Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions by Classification:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Actual and Expected Experience	$ 0.00	$ 109,403.00
Changes of Assumptions		
Net Difference Between Projected and Actual Earnings on Pension Plan Investments		104,246.00
Change in Proportion and Differences Between Agency's Contributions and Proportionate Share of Contributions	72,344.09	
Contributions Subsequent to the Measurement Date	365,098.91	
Total	$ 437,443.00	$ 213,649.00

The amount of $365,098.91 reported as deferred outflows of resources related to pensions will be included as a reduction of the net pension liability in the fiscal year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Schedule of the Net Amount of the Employer's Balances of Deferred Outflows of Resources and Deferred Inflows of Resources That will be Recognized in Pension Expense:

Year ended June 30:	Amount
2017	$ (102,750.00)
2018	(102,750.00)
2019	(101,103.00)
2020	165,298.09
Total	$ (141,304.91)

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 (TSERS).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 TSERS 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 5.60% of the covered payroll under TSERS to the Fund. Required contribution rates for the years ended June 30, 2015, and 2014, were 5.49% and 5.4%, respectively. The College made 100% of its annual required contributions to the Plan for the years ended June 30, 2016, 2015, and 2014, which were $223,448.51, $208,872.17, and $211,133.71, 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 on the North Carolina Office of the State Controller's website at http://www.osc.nc.gov/ 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 TSERS. 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, 2016, the College made a statutory contribution of

.41% of covered payroll under TSERS to the DIPNC. Required contribution rates for the years ended June 30, 2015, and 2014, were .41% and .44%, respectively. The College made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2016, 2015, and 2014, which were $16,359.62, $15,598.83, and $17,203.49, 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.

A. Public Entity Risk Pool

Public School Insurance Fund

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.

B. Employee Benefit Plans

1. State Health Plan

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.

2. Death Benefit Plan of North Carolina

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.

C. Other Risk Management and Insurance Activities

1. Automobile Insurance

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.

2. Public Officers' and Employees' Liability Insurance

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.

3. Employee Dishonesty and Computer Fraud

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 $100,000 deductible. The College is protected for losses from employee and computer fraud for employees paid from county and institutional funds through a policy with a private insurance company.

4. Statewide Workers' Compensation Program

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.

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.

5. **Other Insurance Held by the College**

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.

NOTE 13 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2016, the College implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 72 - *Fair Value Measurement and Application*

GASB Statement No. 76 - *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*

GASB Statement No. 72 provides guidance for determining a fair value measurement for financial reporting purposes. This statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

GASB Statement No. 76 reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP.

Required Supplementary Information

Montgomery Community College
Required Supplementary Information
Schedule of the Proportionate Net Pension Liability
Teachers' and State Employees' Retirement System
Last Three Fiscal Years

Exhibit C-1

	2015	2014	2013
Proportionate Share Percentage of Collective Net Pension Liability	0.02611%	0.02546%	0.02530%
Proportionate Share of TSERS Collective Net Pension Liability	$ 962,205.00	$ 298,498.00	$ 1,535,968.00
Covered-Employee Payroll	$ 3,804,593.23	$ 3,909,883.49	$ 4,113,315.62
Net Pension Liability as a Percentage of Covered-Employee Payroll	25.29%	7.63%	37.34%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	94.64%	98.24%	90.60%

Montgomery Community College
Required Supplementary Information
Schedule of College Contributions
Teachers' and State Employees' Retirement System
Last Ten Fiscal Years

Exhibit C-2

	2016	2015	2014	2013	2012
Contractually Required Contribution	$ 365,098.91	$ 348,120.28	$ 339,768.88	$ 342,639.19	$ 298,258.99
Contributions in Relation to the Contractually Determined Contribution	365,098.91	348,120.28	339,768.88	342,639.19	298,258.99
Contribution Deficiency (Excess)	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Covered-Employee Payroll	$ 3,990,152.03	$ 3,804,593.23	$ 3,909,883.49	$ 4,113,315.62	$ 4,008,857.33
Contributions as a Percentage of Covered-Employee Payroll	9.15%	9.15%	8.69%	8.33%	7.44%

	2011	2010	2009	2008	2007
Contractually Required Contribution	$ 201,371.00	$ 153,590.79	$ 148,677.56	$ 128,706.41	$ 106,437.52
Contributions in Relation to the Contractually Determined Contribution	201,371.00	153,590.79	148,677.56	128,706.41	106,437.52
Contribution Deficiency (Excess)	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Covered-Employee Payroll	$ 4,084,604.45	$ 4,302,262.95	$ 4,424,927.46	$ 4,219,882.27	$ 4,001,410.60
Contributions as a Percentage of Covered-Employee Payroll	4.93%	3.57%	3.36%	3.05%	2.66%

Montgomery Community College
Notes to Required Supplementary Information
Schedule of College Contributions
Teachers' and State Employees' Retirement System
Last Ten Fiscal Years

Changes of Benefit Terms:

Cost of Living Increase

2015*	2014	2013	2012	2011	2010	2009	2008	2007	2006
1.00%	N/A	1.00%	N/A	N/A	N/A	2.20%	2.20%	3.00%	2.00%

Changes of assumptions. In 2008, and again in 2012, the rates of withdrawal, mortality, service retirement and salary increase for active members and the rates of mortality for beneficiaries were adjusted to more closely reflect actual experience. Assumptions for leave conversions and loads were also revised in 2012.

*Per the 2015 State of North Carolina *Comprehensive Annual Financial Report* , the 1.00% cost of living adjustment applies to retirees whose retirement began on or before July 1, 2013.

INDEPENDENT AUDITOR’S REPORT

STATE OF NORTH CAROLINA
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*

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 (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, 2016, and the related notes to the financial statements, which collectively comprise the College's basic financial statements, and have issued our report thereon dated March 29, 2017. 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 opinions 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 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

March 29, 2017

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NC OSA
The Taxpayers' Watchdog

This audit required 428 audit hours at an approximate cost of $44,084.