McDOWELL TECHNICAL COMMUNITY COLLEGE

FINANCIAL STATEMENTS

For the Year Ended June 30, 2013

And Independent Auditor's Report

Cherry Bekaert LLP

CPAs & Advisors

TABLE OF CONTENTS

Independent Auditor's Report

Members of the Board of Trustees
McDowell Technical Community College
Marion, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of McDowell Technical Community College (the "College"), a component unit of the State of North Carolina, as of and for the year ended June 30, 2013, 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 an opinion on these financial statements based on our audit. We did not audit the financial statements of McDowell Technical Community College Foundation, Inc. (the "Foundation"), a blended component unit, which statements reflect total assets of $290,785.54 as of June 30, 2013, and total revenues of $14,968.21 for the year then ended. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Foundation, is 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. 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 the Foundation 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 opinion.

Opinion

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the College and the Foundation as of June 30, 2013, 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, 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 February 12, 2014 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.

Cherry Bekaert LLP

Charlotte, North Carolina
February 12, 2014

This section of McDowell Technical Community College's Financial Report presents Management's Discussion and Analysis of the College's financial activity during the fiscal year ended June 30, 2013. Since Management's Discussion and Analysis is designed to focus on current activities, resulting changes and currently known facts, please read it in conjunction with the College's basic financial statements which includes the notes to the financial statements. Responsibility for the completeness and fairness of this information rests with the College.

Using This Report

This annual report consists of financial statements, prepared in accordance with Governmental Accounting Standards Board (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 College and Universities.* These financial statements focus on the financial condition of the College, results of operations, and cash flows of the College as a whole. The College's basic financial statements are designed to emulate corporate presentation models whereby all College activities are consolidated into one total. They are prepared under the accrual basis of accounting, whereby revenues and assets are recognized when the service is provided and expenses and liabilities are recognized when others provide the service, regardless of when cash is exchanged. In summary, the reporting format is intended to condense and simplify the user's analysis of costs of various College services to students and the public. The three financial statements are featured below with brief descriptions of each financial focus.

> <u>Statement of Net Position:</u> The Statement of Net Position is designed to be similar to a financial snapshot at a point in time for the College. This Statement combines and consolidates current financial resources (short-term consumable resources) with capital assets. The Statement of Net Position includes all assets and liabilities. Over time, increases or decreases in net position (the difference between assets and liabilities) are one indicator of the improvement or erosion of the College's financial health when considered with non-financial facts such as enrollment levels and the condition of facilities. (Exhibit A-1)
>
> <u>Statement of Revenues, Expenses and Changes in Net Position:</u> The Statement of Revenues, Expenses, and Changes in Net Position presents the revenues earned and expenses incurred during the year, which are supported mainly by State, local, federal and other revenues. Activities are reported as either operating or nonoperating. A Community College's dependency on State aid and gifts could result in operating deficits because the financial reporting model classifies State appropriations and gifts as nonoperating revenues. The utilization of capital assets is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life. (Exhibit A-2)
>
> <u>Statement of Cash Flows:</u> The Statement of Cash Flows presents information related to cash inflows and outflows summarized by operating, noncapital financing, capital and related financing, and investing activities, and helps measure the ability to meet

financial obligations as they mature. The direct method is used to present the Cash Flow Statement. (Exhibit A-3)

Notes to the Financial Statements: The notes to the financial statements are an integral part of the basic financial statements. The notes to the financial statements communicate information essential for the fair presentation of the financial statements that is not displayed on the face of the financial statements.

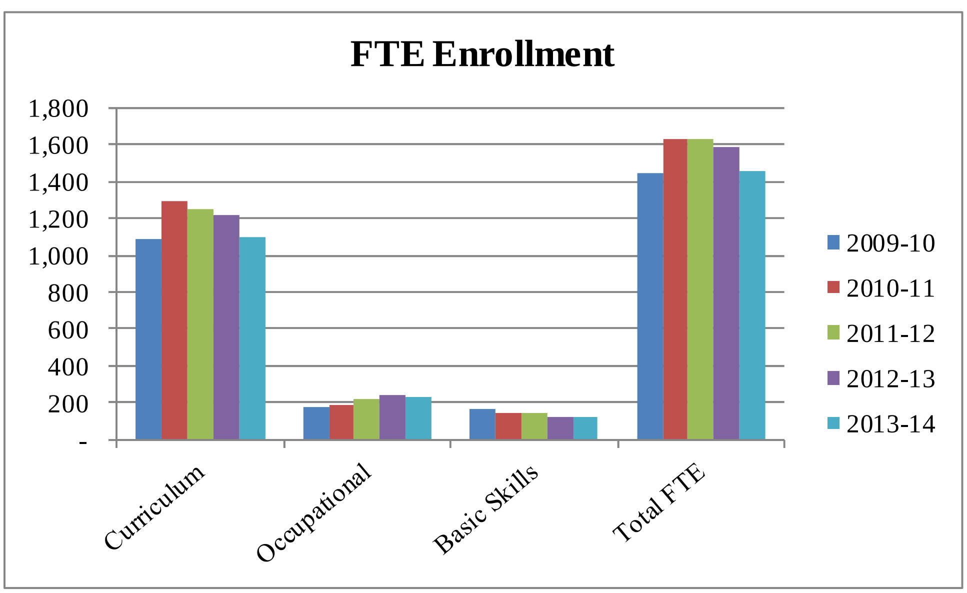
Financial Highlights

For the 2013 fiscal year, total enrollment and FTE decreased slightly when compared to the previous year by approximately 3%. Total FTE was just slightly below the 3 year average. Enrollment levels are beginning to approximate pre-recession levels.

Annual FTE (budget year)	**2012-13**	**2011-12**	**Change** FTE	**Change** Percent
Curriculum	1,218	1,251	(33)	-3%
Occupational	239	225	14	6%
Basic Skills	124	149	(25)	-17%
Total FTE	1,581	1,625	(44)	-3%

This year's FTE enrollment (curriculum portion), for which next year's budget will be based, is down over last year and near the 2009-10 level as shown in the chart below. Expenditures from servicing student enrollment are similar this year to last due to the lag funding of NC Community Colleges.

Annual FTE (budget year)	**2009-10**	**2010-11**	**2011-12**	**2012-13**	**2013-14**
Curriculum	1,090	1,296	1,251	1,218	1,096
Occupational	182	185	225	239	234
Basic Skills	168	145	149	124	124
Total FTE	1,440	1,626	1,625	1,581	1,454



Financial Information

In this year's report, a comparative analysis is presented showing prior year information. This analysis includes condensed Statements of Net Position and of Revenues, Expenses, and Changes in Net Position.

Condensed Statement of Net Position
June 30, 2013
With Comparative Data as of June 30, 2012

	2013	2012	Difference
Assets			
Current Assets	$ 1,519,459.59	$ 1,408,065.63	$ 111,393.96
Noncurrent Assets			
Other	513,088.84	705,959.28	(192,870.44)
Capital Assets, Net	8,914,889.63	9,155,417.82	(240,528.19)
Total Assets	10,947,438.06	11,269,442.73	(322,004.67)
Liabilities			
Current Liabilities	508,120.29	538,984.33	(30,864.04)
Noncurrent Liabilities	903,017.82	935,836.73	(32,818.91)
Total Liabilities	1,411,138.11	1,474,821.06	(63,682.95)
Net Position			
Net Investment in Capital Assets	8,914,889.63	9,155,417.82	(240,528.19)
Restricted	836,269.90	944,593.84	(108,323.94)
Unrestricted	(214,859.58)	(305,389.99)	90,530.41
Total Net Position	$ 9,536,299.95	$ 9,794,621.67	$ (258,321.72)

Analysis of Assets

The assets of the College are divided between current and noncurrent assets.

Current assets primarily include cash and cash equivalents, receivables, inventories and notes receivable for student loans.

Noncurrent assets consist of cash, receivables and capital assets. Capital assets are defined as land, construction in progress, buildings, infrastructure, and equipment with a cost of $5,000 or more and a useful life of more than one year. The College's capital assets are stated at historical cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 75 years for general infrastructure, 28 to 58 years for buildings, and 5 to 25 years for equipment.

As of June 30, 2013, the College's current assets experienced an increase of $111,393.96. This was primarily due to legislative action applicable to 2012 that allowed the College to transfer budgeted funds into a capital improvement fund at the NCCCS System Office. The College transferred $300,000 of budget into this fund thereby reducing the 2012 State Aid certification. Therefore, for 2012, Cash and Cash Equivalents were smaller as a result of this money not being received. In addition, net receivables were down slightly due to the decline in enrollment. The change in depreciable capital assets reflects the systematic depreciation of plant and equipment in excess of purchases.

The College's noncurrent assets, other than capital assets, decreased $192,870.44 primarily due to the collection of receivables related to FY 2012 capital projects.

As a result, total assets decreased by $322,004.67 for the fiscal year ended June 30, 2013. Additional detail regarding the composition of assets is available in Exhibit A-1.

Analysis of Liabilities

The College's liabilities are divided between current liabilities payable within twelve months and noncurrent liabilities that extend beyond a year.

Current liabilities consist primarily of amounts due to vendors for goods and services, unearned tuition revenue, funds held for others and the current portion of compensated absences. Noncurrent liabilities is the noncurrent portion of compensated absences.

Current liabilities decreased by $30,864.04 during fiscal year 2013 mostly attributable to a decrease in unearned revenue. Unearned revenue was calculated manually this year and includes only that revenue that represents actual cash collected for Summer term and earned in this fiscal year. In the previous fiscal year, unearned revenue was calculated automatically by the Datatel system based upon accounts receivable. The method used this year is a more commonly used method for calculating unearned revenue.

The College's only long-term liability is employee compensated absences. The noncurrent portion of compensated absences decreased by $32,818.91 due to a slight decline in full time equivalent employees. As a result, total liabilities decreased by $63,682.95 for the year ended June 30, 2013.

Analysis of Net Position

Net position is a measure of the value of the College's assets less the liabilities. The College's net position is summarily categorized as Net Investment in Capital Assets, Restricted, and Unrestricted. Net Investment in Capital Assets represents the College's investment in capital assets less accumulated depreciation. Restricted net position includes resources which must be spent in accordance with restrictions imposed by external parties. Restricted assets generally include capital, endowment, grant, and gift funds. Net Investment in Capital Assets decreased by $240,528.19 due to the systematic depreciation of plant and equipment in excess of purchases. Restricted net position decreased by $108,323.94 primarily due to the decrease in capital aid and capital grants and gifts received by the College. Unrestricted net position increased by $90,530.41 primarily due to the increase in state aid received by the College. See the analysis of revenues, expenses, and changes in net position below for more information.

Condensed Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2013
With Comparative Data for the Year Ended June 30, 2012

	2013	2012	Change Amount	Change Percent
Operating Revenues	$ 1,163,665.66	$ 1,332,255.63	$ (168,589.97)	-12.65%
Operating Expenses	(14,024,504.32)	(14,100,892.39)	76,388.07	-0.54%
Nonoperating Revenues	12,344,051.04	12,121,648.56	222,402.48	1.83%
Capital Contributions	258,465.90	777,990.81	(519,524.91)	-66.78%
Change in Net Position	$ (258,321.72)	$ 131,002.61	$ (389,324.33)	-297.19%

Analysis of Revenues, Expenses and Changes in Net Position

Above is a condensed comparative analysis of the June 30, 2013 Statement of Revenues, Expenses, and Changes in Net Position (Exhibit A-2) contained herein and the year ended June 30, 2012, followed by discussion on changes in revenues and expenses.

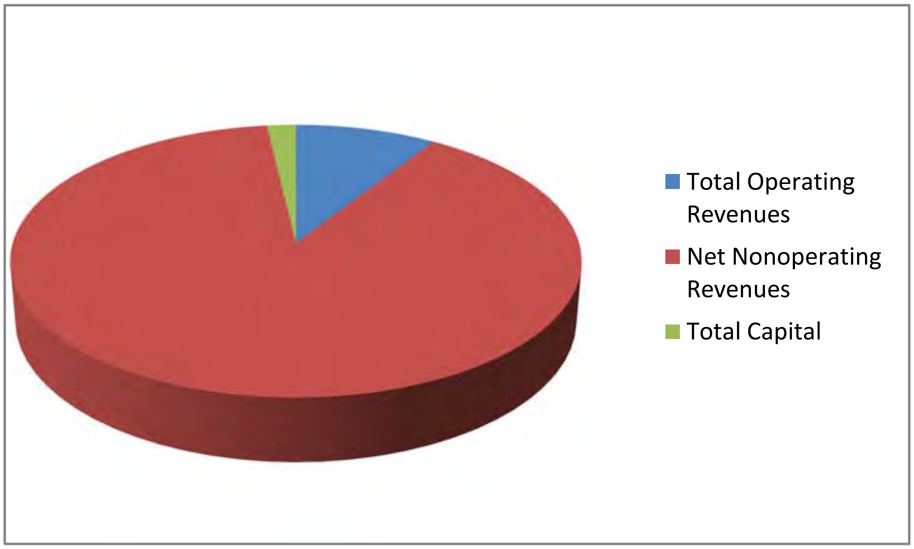
The College's revenues are classified as operating, non-operating, and capital. Operating revenues are derived from activities that are necessary and essential to the mission of the College.

Non-operating revenues include activities that have non-exchange characteristics; that is, the College received revenue without providing a good or service. Capital contributions consist of state and county appropriations, as well as grants for equipment, construction, building improvements, and infrastructure.

The following table and chart illustrates the composition of the College's revenues for the years ended June 30. 2013 and 2012:

	2013	2012	Change
Operating Revenues:			
Student Tuition and Fees, Net	$ 770,106.77	$ 855,741.66	$ (85,634.89)
Sales and Services, Net	389,324.86	471,698.50	(82,373.64)
Other Operating Revenues	4,234.03	4,815.47	(581.44)
Total Operating Revenues	$ 1,163,665.66	$ 1,332,255.63	$ (168,589.97)
Nonoperating Revenues (Expenses):			
Government Appropriations	$ 8,597,135.01	$ 8,147,802.61	$ 449,332.40
Noncapital Grants and Gifts	3,743,812.64	4,001,181.37	(257,368.73)
Investment Income, Net	3,103.39	2,171.03	932.36
Other Nonoperating Revenues (Expense)	-	(29,506.45)	29,506.45
Net Nonoperating Revenues	$ 12,344,051.04	$ 12,121,648.56	$ 222,402.48
Capital Contributions:			
Government Appropriations	$ 258,465.90	$ 597,420.48	$ (338,954.58)
Capital Grants and Gifts	-	$ 180,570.33	$ (180,570.33)
Total Capital	$ 258,465.90	$ 777,990.81	$ (519,524.91)

Fiscal Year 2013 Revenues



The revenue composition chart above illustrates the revenue effect of the enrollment change from 2012 to 2013 as indicated by the budget FTE table at the beginning of this report. Revenues from tuition and fees decreased slightly due the slight decline in enrollment and the increase in the allowance for uncollectibles. Revenues from sales and services were down $82,373.64 from the previous year reflecting the decrease in student enrollment.

The most significant change affecting net position was the increase in nonoperating revenues attributable a lower State certification in the previous year resulting from the transfer of funds into a capital project fund in that year.

Noncapital contributions decreased due to a lower number of students qualifying for Pell grants. In addition, this was the second year of the Federal Direct Student Loan program; so, these numbers tend to reflect more students qualifying for loans rather than Pell grants. County appropriations remained comparable to the previous year.

Capital contributions decreased by $519,524.91. This is primarily due to the reduction in state capital aid received by the College.

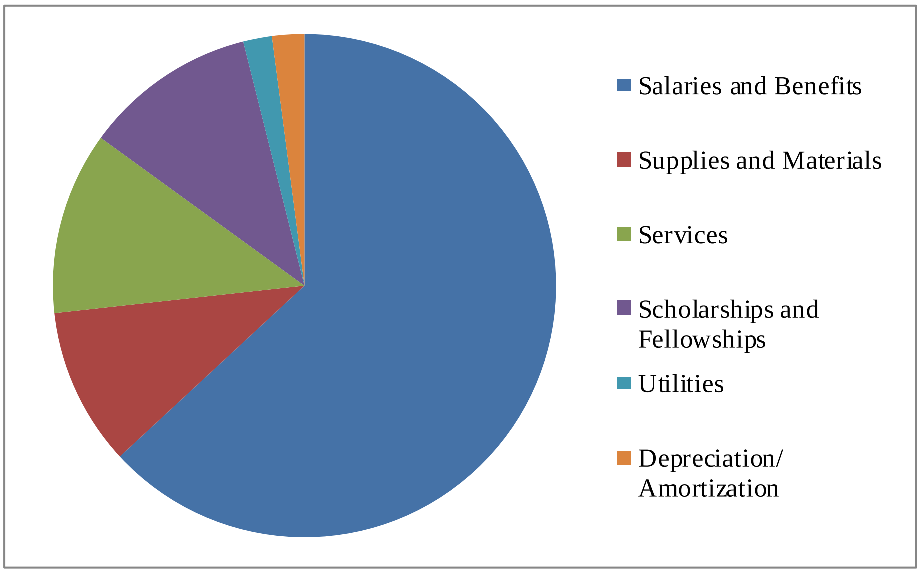
Expenses

Operating expenses are those that are necessary and essential to the mission of the College; these do not include expenses related to investing, capital and related financing and noncapital financing activities. Depreciation is recognized as an operating expense in accordance with generally accepted accounting principles.

The following table illustrates the composition of the College's operating expenses by natural classification for the years ended June 30, 2013 and 2012:

	2013	2012	Change
Operating Expenses:			
Salaries and Benefits	$ 8,851,740.32	$ 8,695,455.30	$ 156,285.02
Supplies and Materials	1,421,952.94	1,707,077.93	(285,124.99)
Services	1,646,181.54	1,386,279.39	259,902.15
Scholarships and Fellowships	1,555,225.71	1,889,804.82	(334,579.11)
Utilities	259,532.39	197,866.43	61,665.96
Depreciation/ Amortization	289,871.42	224,408.52	65,462.90
Total Operating Expenses	$ 14,024,504.32	$ 14,100,892.39	$ (76,388.07)

Fiscal Year 2013 Expenses by Natural Classification



Total Operating Expenses were down $76,388.07 over the previous year. Following is an analysis of the major contributors to this change.

Supplies and Materials cost decreased by $285,124.99 from the previous year. This was due to the fact that fewer purchases were made this year due to budgetary restrictions and the College transferred equipment funds into a capital renovation project fund to be used for future renovation projects.

Scholarships and Fellowships decreased by $334,579.11 from the previous year. As noted above, this decrease is primarily due to change in the number of students qualifying for Pell grants. In addition, this was the second year of the Federal Direct Student Loan program; so, these numbers tend to reflect more students qualifying for loans rather than Pell grants. The College also made the decision to stop participating in the Federal Direct Student Loan program due to the expected effect of loan defaults by students.

The following table illustrates the composition of the College's operating expenses by functional classification for the year ended June 30, 2013.

Operating Expenses:	
Instruction	$ 6,430,047.04
Public Service	269,561.03
Academic Support	797,962.51
Student Services	790,376.08
Institutional Support	2,236,403.90
Operations and Maintenance of Plant	818,848.46
Student Financial Aid	1,554,270.45
Auxiliary Enterprises	837,163.43
Depreciation/ Amortization	289,871.42
Total Operating Expenses	$ 14,024,504.32

Change in Net Position

The change in net position is the difference between total revenues and total expenses. This change as presented in Exhibit A-2, is a decrease of $258,321.72, bringing the College's total net position to $9,536,299.95.

Future Operations

The economic position of McDowell Technical Community College is closely tied to that of the State of North Carolina and McDowell County. State and county funding for the College comprised a significant portion of revenues for the fiscal year ending June 30, 2013. State and local funding for the College has remained constricted and is not expected to improve significantly in the foreseeable future. The specific impact on the College is uncertain at this time.

Summary

In summary, this annual report is designed to provide our community, students, donors, and creditors with a general overview of the College's finances and to demonstrate the College's accountability for the funding it receives through grants, donations, and tuition revenues.

McDowell Technical Community College
Statement of Net Position
June 30, 2013 ***Exhibit A-1***

ASSETS	
Current Assets:	
Cash and Cash Equivalents	$ 770,934.94
Restricted Cash and Cash Equivalents	266,496.76
Restricted Short-Term Investments	8,581.42
Receivables, Net (Note 4)	253,251.83
Inventories	220,194.64
Total Current Assets	1,519,459.59
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	266,235.12
Restricted Due from Primary Government	16,100.63
Restricted Investments	230,753.09
Capital Assets - Nondepreciable (Note 5)	428,154.79
Capital Assets - Depreciable, Net (Note 5)	8,486,734.84
Total Noncurrent Assets	9,427,978.47
Total Assets	10,947,438.06
LIABILITIES	
Current Liabilities:	
Accounts Payable and Accrued Liabilities (Note 6)	376,886.78
Unearned Revenue	27,284.95
Funds Held for Others	16,023.59
Long-Term Liabilities - Current Portion (Note 7)	87,924.97
Total Current Liabilities	508,120.29
Noncurrent Liabilities:	
Long-Term Liabilities (Note 7)	903,017.82
Total Liabilities	1,411,138.11
NET POSITION	
Net Investment in Capital Assets	8,914,889.63
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	242,703.48
Expendable:	
Scholarships and Fellowships	48,706.93
Loans	3,683.57
Capital Projects	328,468.67
Restricted for Specific Programs	212,707.25
Unrestricted	(214,859.58)
Total Net Position	$ 9,536,299.95

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

McDowell Technical Community College
Statement of Revenues, Expenses, and Changes in Net Position
For the Fiscal Year Ended June 30, 2013

Exhibit A-2

REVENUES	
Operating Revenues:	
Student Tuition and Fees, Net (Note 9)	$ 770,106.77
Sales and Services, Net (Note 9)	389,324.86
Other Operating Revenues	4,234.03
Total Operating Revenues	1,163,665.66
EXPENSES	
Operating Expenses:	
Salaries and Benefits	8,851,740.32
Supplies and Materials	1,421,952.94
Services	1,646,181.54
Scholarships and Fellowships	1,555,225.71
Utilities	259,532.39
Depreciation/ Amortization	289,871.42
Total Operating Expenses	14,024,504.32
Operating Loss	(12,860,838.66)
NONOPERATING REVENUES	
State Aid	7,774,537.01
County Appropriations	822,598.00
Noncapital Grants - Student Financial Aid	3,097,969.22
Noncapital Grants	618,848.42
Noncapital Gifts (Note 9)	26,995.00
Investment Income, Net	3,103.39
Net Nonoperating Revenues	12,344,051.04
Loss Before Other Revenues, Expenses, Gains, and Losses	(516,787.62)
State Capital Aid	159,467.90
County Capital Aid	98,998.00
Decrease in Net Position	(258,321.72)
NET POSITION	
Net Position, July 1, 2012	9,794,621.67
Net Position, June 30, 2013	$ 9,536,299.95

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

McDowell Technical Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2013

CASH FLOWS FROM OPERATING ACTIVITIES	
Received from Customers	$ 1,153,614.83
Payments to Employees and Fringe Benefits	(8,873,787.08)
Payments to Vendors and Suppliers	(3,301,547.39)
Payments for Scholarships and Fellowships	(1,555,225.71)
Other Receipts (Payments)	(768.47)
Net Cash Used by Operating Activities	(12,577,713.82)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Aid Received	7,774,537.01
County Appropriations	822,598.00
Noncapital Grants - Student Financial Aid	3,097,969.22
Noncapital Grants Received	618,474.45
Noncapital Gifts and Endowments Received	26,995.00
William D. Ford Direct Lending Receipts	1,462,304.00
William D. Ford Direct Lending Disbursements	(1,462,304.00)
Net Cash Provided by Noncapital Financing Activities	12,340,573.68
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
State Capital Aid Received	337,804.36
County Capital Aid	98,998.00
Acquisition and Construction of Capital Assets	(49,343.23)
Net Cash Provided by Capital and Related Financing Activities	387,459.13
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from Sales and Maturities of Investments	307.25
Investment Income	2,383.75
Purchase of Investments and Related Fees	(200,841.84)
Net Cash Used by Investing Activities	(198,150.84)
Net Decrease in Cash and Cash Equivalents	(47,831.85)
Cash and Cash Equivalents, July 1, 2012	1,351,498.67
Cash and Cash Equivalents, June 30, 2013	$ 1,303,666.82

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

RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES

Operating Loss	$	(12,860,838.66)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation/ Amortization Expense		289,871.42
Changes in Assets and Liabilities:		
Receivables, Net		(83,572.20)
Inventories		(18,052.61)
Notes Receivable, Net		158,561.18
Accounts Payable and Accrued Liabilities		46,822.76
Unearned Revenue		(85,039.81)
Funds Held for Others		(768.47)
Compensated Absences		(24,697.43)
Net Cash Used by Operating Activities	$	(12,577,713.82)

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:		
Cash and Cash Equivalents	$	770,934.94
Restricted Cash and Cash Equivalents		266,496.76
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		266,235.12
Total Cash and Cash Equivalents - June 30, 2013	$	1,303,666.82

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Change in Fair Value of Investments	$	457.73
Increase in Receivables Related to Nonoperating Income	$	373.97

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

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. McDowell Technical 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 for which the College's Board of Trustees is financially accountable. Related foundations and similar nonprofit corporations for which the College is not financially accountable or for which the nature of their relationship is not considered significant to the College are not part of the accompanying financial statements.

Blended Component Unit - Although legally separate, McDowell Technical Community College Foundation, Inc. (the Foundation) is reported as if it was part of the College. The Foundation is governed by a 20-member board consisting of 12 members elected by the Foundation Board of Trustees, two members of the College's Board of Trustees, one student, and five ex officio members who are employees of the College. Because the College appointed all of the original Foundation Board members, new members appointed by the Foundation Board are considered to be indirectly appointed by the College. The Foundation's purpose is to aid, support, and promote teaching, research, and service in the various educational, scientific, scholarly, professional, artistic, and creative endeavors of the College. Because the elected directors of the Foundation are appointed by the members of the McDowell Technical Community College Board of Trustees and the Foundation's sole purpose is to benefit McDowell Technical Community College, its financial statements have been blended with those of the College.

Separate financial statements for the Foundation may be obtained from the College Controller's Office, 54 College Drive, Marion, NC 28752-8725**,** or by calling 828-652-0696. Other related foundations and similar nonprofit corporations for which the College is not financially accountable are not part of the accompanying financial statements.

Condensed combining information regarding blended component units is provided in Note 15.

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 and county appropriations, certain grants, and donations. Revenues are recognized, net of estimated uncollectible amounts, as soon as all eligibility requirements imposed by the provider have been met, if probable of collection.

D. Cash and Cash Equivalents - This classification includes undeposited receipts, petty cash, cash on deposit with private bank accounts, money market 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. Investments - Investments generally are reported at fair value, as determined by quoted market prices. The net increase (decrease) in the fair value of investments is recognized as a component of investment income.

F. **Receivables** - Receivables consist of tuition and fees charged to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from the federal government, state and local governments, private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants, and pledges that are verifiable, measurable, and expected to be collected and available for expenditures for which the resource provider's conditions have been satisfied. Receivables are recorded net of estimated uncollectible amounts.

G. **Inventories** - Inventories, consisting of expendable supplies and merchandise for resale, are valued at cost using the first-in, first-out, method.

H. **Capital Assets** - Capital assets are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. The value of assets constructed includes all material direct and indirect construction costs. 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, generally 75 years for general infrastructure, 28 to 58 years for buildings, and 5 to 25 years for equipment.

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

J. **Noncurrent Long-Term Liabilities** - Noncurrent long-term liabilities include compensated absences that will not be paid within the next fiscal year.

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

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

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

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

Net Investment in Capital Assets - This represents the College's total investment in capital assets, net of outstanding debt obligations related to those capital assets.

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

Restricted Net 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.

M. Scholarship Discounts - Student tuition and fees revenues and certain other revenues from College charges are reported net of scholarship discounts in the accompanying Statement of Revenues, Expenses, and Changes in Net 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.

N. Revenue and Expense Recognition - The College classifies its revenues and expenses as operating or nonoperating in the accompanying Statement of Revenues, Expenses, and Changes in Net 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.

O. Internal Sales Activities - Certain institutional auxiliary operations provide goods and services to College departments, as well as to its customers. These institutional auxiliary operations include activities such as the bookstore. These College units operated on either a reimbursement or charge basis. In addition, the College has other miscellaneous sales and service units that operated either on a reimbursement or charge basis. All internal sales activities to College departments from auxiliary operations and sales and service units have been eliminated in the accompanying financial statements. These eliminations are recorded by removing the revenue and expense in the auxiliary operations and sales and service units and, if significant, allocating any residual balances to those departments receiving the goods and services during the year.

P. 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 as approved by the County Commissioners.

NOTE 2 - DEPOSITS AND INVESTMENTS

A. Deposits - The College is required by *North Carolina General Statute* 147-77 to deposit any funds collected or received that belong to the State of North Carolina with the State Treasurer or with a depository institution in the name of the State Treasurer. All funds of the College, other than those required to be deposited with the State Treasurer, are deposited in board-designated official depositories and are required to be collateralized in accordance with *North Carolina General Statute* 115D-58.7. Official depositories may be established with any bank or savings and loan association whose principal office is located in North Carolina. Also, the College may establish time deposit accounts, money market accounts, and certificates of deposit. Cash on hand at June 30, 2013 was $900.00. The carrying amount of the College's deposits not with the State Treasurer, including certificates of deposit, was $1,302,766.82, and the bank balance was $1,359,702.92.

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, 2013, the College's bank balance in excess of federal depository insurance coverage was covered under the pooling method.

B. **Investments** - The College is authorized to invest idle funds as provided by G.S. 115D-58.6. In accordance with this statute, the College and the Board of Trustees manage investments to ensure they can be converted into cash when needed.

Generally, funds belonging to the College may be invested in any form of investment established or managed by certain investment advisors pursuant to G.S. 115D-58.6 (d1) or in the form of investments pursuant to G.S. 159-30(c), as follows: a commingled investment pool established and administered by the State Treasurer pursuant to G.S. 147-69.3 (STIF); obligations of or fully guaranteed by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain nonguaranteed federal agencies; prime quality commercial paper bearing specified ratings; specified bills of exchange; certain savings certificates; The North Carolina Capital Management Trust, an SEC registered mutual fund; repurchase agreements; and evidences of ownership of, or fractional undivided interests in, future interest and principal payments on either direct obligations of or fully guaranteed by the United States government, which are held by a specified bank or trust company or any state in the capacity of custodian.

At June 30, 2013, the amount shown on the Statement of Net Position as cash and cash equivalents includes $200,290.05, 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 1.5 years as of June 30, 2013. Assets and shares of the STIF are valued at amortized cost, which approximates fair value. Deposit and investment risks associated with the State Treasurer's Investment

Pool (which includes the State Treasurer's 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.

The following table presents the fair value of investments by type and investments subject to interest rate risk at June 30, 2013, for the College's investments. Interest rate risk is defined by GASB Statement No. 40 as the risk a government may face should interest rate variances affect the fair value of investments. The College does not have a formal investment policy that addresses interest rate risk.

		Investment Maturities (in Years)	
	Fair Value	Less Than 1	1 to 5
Investment Type			
Debt Securities			
Money Market Mutual Funds	$ 8,581.42	$ 8,581.42	$ -
Domestic Corporate Bonds	32,078.64	-	32,078.64
Total Debt Securities	$ 40,660.06	$ 8,581.42	$ 32,078.64
Other Securities			
Pooled Investments	198,674.45		
Total Investments	$ 239,334.51		

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The College does not have a formal policy that addresses credit risk. As of June 30, 2013, the College's investments were rated as follows:

	Fair Value	AAAm Aaa	AA Aa	A
Money Market Mutual Funds	$ 8,581.42	$ 8,581.42	$ -	$ -
Domestic Corporate Bonds	32,078.64	-	-	32,078.64
Totals	$ 40,660.06	$ 8,581.42	$ -	$ 32,078.64

Rating Agency: Standard and Poors

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributable to the magnitude of an investment in a single issuer. The College places no limit on the amount that may be invested in any one issuer. More than 5% of the College's investments are in HSBC. These investments are 78.8% of College's investments.

C. Reconciliation of Deposits and Investments - A reconciliation of deposits and investments for the College to the basic financial statements as of June 30, 2013, is as follows:

Cash on Hand	$	900.00
Carrying Amount of Deposits with Private Financial Institutions		1,102,476.77
Investments in the Short-Term Investment Fund		200,290.05
Money Market Mutual Funds		8,581.42
Corporate Bonds		32,078.64
Pooled Investments		198,674.45
Total Deposits and Investments	$	1,543,001.33
Current:		
Cash and Cash Equivalents	$	770,934.94
Restricted Cash and Cash Equivalents		266,496.76
Short-Term Investments		(2,022.58)
Restricted Short-Term Investments		8,581.42
Noncurrent:		
Restricted Cash and Cash Equivalents		266,235.12
Restricted Investments		232,775.67
Total Deposits and Investments	$	1,543,001.33

NOTE 3 - ENDOWMENT INVESTMENTS

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

Investment return of the College's endowment funds is predicated on the total return concept (yield plus appreciation). Annual payouts from the College's endowment funds are based on historic gift value. At June 30, 2013, net appreciation of $27,791.90 was available to be spent, of which

$18,860.49 was classified in net position as restricted: expendable: scholarships and fellowships as it is restricted for specific purposes. The remaining portion of net appreciation available to be spent is classified as unrestricted net position.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2013, were as follows:

	Gross Receivables	Less: Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	$ 307,184.27	$ 220,230.64	$ 86,953.63
Student Sponsors	21,252.35	-	21,252.35
Accounts	103,763.22	273.95	103,489.27
Intergovernmental	34,337.04	-	34,337.04
Other	7,219.54	-	7,219.54
Total Current Receivables	$ 473,756.42	$ 220,504.59	$ 253,251.83

NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2013, is presented as follows:

	Balance July 1, 2012	Increases	Decreases	Balance June 30, 2013
Capital Assets, Nondepreciable:				
Land and Permanent Easements	$ 428,154.79	$ -	$ -	$ 428,154.79
Total Capital Assets, Nondepreciable	428,154.79	-	-	428,154.79
Capital Assets, Depreciable:				
Buildings	11,294,443.38	-	-	11,294,443.38
Machinery and Equipment	1,617,586.95	49,343.23	-	1,666,930.18
General Infrastructure	653,107.06	-	-	653,107.06
Total Capital Assets, Depreciable	13,565,137.39	49,343.23	-	13,614,480.62
Less Accumulated Depreciation/Amortization for:				
Buildings	4,098,915.13	225,374.64	-	4,324,289.77
Machinery and Equipment	389,027.10	55,788.62	-	444,815.72
General Infrastructure	349,932.13	8,708.16	-	358,640.29
Total Accumulated Depreciation/Amortization	4,837,874.36	289,871.42	-	5,127,745.78
Total Capital Assets, Depreciable, Net	8,727,263.03	(240,528.19)	-	8,486,734.84
Capital Assets, Net	$ 9,155,417.82	$ (240,528.19)	$ -	$ 8,914,889.63

Note 6 - Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities at June 30, 2013, were as follows:

	Amount
Current Accounts Payable and Accrued Liabilities:	
Accounts Payable	$ 92,464.37
Accrued Payroll	284,422.41
Total	$ 376,886.78

NOTE 7 - LONG-TERM LIABILITIES

A. Changes in Long-Term Liabilities - A summary of changes in the long-term liabilities for the year ended June 30, 2013, is presented as follows:

	Balance July 1, 2012	Additions	Reductions	Balance June 30, 2013	Current Portion
Compensated Absences	$ 1,015,640.22	$ 563,303.31	$ 588,000.74	$ 990,942.79	$ 87,924.97
Total Long-Term Liabilities	$ 1,015,640.22	$ 563,303.31	$ 588,000.74	$ 990,942.79	$ 87,924.97

Note 8 - Lease Obligations

Operating Lease Obligations - The College entered into operating leases for copiers. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2013:

Fiscal Year	Amount
2014	$ 95,662.42
2015	95,662.42
2016	21,281.07
2017	861.00
Total Minimum Lease Payments	$ 213,466.91

Rental expense for all operating leases during the year was $99,303.37.

NOTE 9 - REVENUES

A summary of eliminations and allowances by revenue classification for the year ended June 30, 2013 is presented as follows:

	Gross Revenues	Internal Sales Eliminations	Less Scholarship Discounts	Less Allowance for Uncollectibles*	Net Revenues
Operating Revenues:					
Student Tuition and Fees	$ 1,971,036.06	$ -	$ 1,101,321.76	$ 99,607.53	$ 770,106.77
Sales and Services:					
Sales and Services of Auxiliary Enterprises:					
Bookstore	$ 717,721.14	$ 36,309.91	$ 485,170.44	$ (1,445.28)	$ 197,686.07
Child Development Center	152,628.97	-	-	(356.05)	152,985.02
Other	1,363.39	-	-	815.32	548.07
Sales and Services of Education and Related Activities	38,105.70	-	-	-	38,105.70
Total Sales and Services	$ 909,819.20	$ 36,309.91	$ 485,170.44	$ (986.01)	$ 389,324.86

* Note: The Allowance for Uncollectibles is equivalent to the change in the Allowance for Doubtful Accounts, excluding items such as direct write-offs.

NOTE 10 - OPERATING EXPENSES BY FUNCTION

The College's operating expenses by functional classification for the year ended June 30, 2013 are presented as follows:

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation/ Amortization	Total
Instruction	$ 5,360,728.55	$ 421,202.66	$ 648,115.83	$ -	$ -	$ -	$ 6,430,047.04
Public Service	99,175.71	3,701.20	166,684.12	-	-	-	269,561.03
Academic Support	755,849.11	28,242.93	13,870.47	-	-	-	797,962.51
Student Services	690,000.98	6,233.35	94,141.75	-	-	-	790,376.08
Institutional Support	1,564,001.95	98,551.42	573,850.53	-	-	-	2,236,403.90
Operations and Maintenance of Plant	157,518.95	282,961.91	118,835.21	-	259,532.39	-	818,848.46
Student Financial Aid	-	-	(955.26)	1,555,225.71	-	-	1,554,270.45
Auxiliary Enterprises	224,465.07	581,059.47	31,638.89	-	-	-	837,163.43
Depreciation/ Amortization	-	-	-	-	-	289,871.42	289,871.42
Total Operating Expenses	$ 8,851,740.32	$ 1,421,952.94	$ 1,646,181.54	$ 1,555,225.71	$ 259,532.39	$ 289,871.42	$ 14,024,504.32

NOTE 11 - PENSION PLANS

A. Retirement Plans - Each permanent full-time employee, as a condition of employment, is a member of the Teachers' and State Employees' Retirement System. The Teachers' and State Employees' Retirement System (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, 2013, these rates were set at 8.33% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the College had a total payroll of $7,006,225.79, of which $5,911,471.01 was covered under the TSERS. Total employer and employee contributions for pension benefits for the year were $492,425.54 and $354,688.16, respectively.

Required employer contribution rates for the years ended June 30, 2012, and 2011, were 7.44% and 4.93%, respectively, while employee contributions were 6% each year. The College made 100% of its annual required contributions for the years ended June 30, 2013, 2012, and 2011, which were $492,425.54, $432,499.08, and $295,339.96, respectively.

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.

B. Deferred Compensation and Supplemental Retirement Income Plans

Internal Revenue Code Section 401(k) Plan - All members of the Teachers' and State Employees' Retirement System are eligible to enroll in the Supplemental Retirement Income Plan, a defined contribution plan, created under Internal Revenue Code Section 401(k). All costs of administering the Plan are the responsibility of the Plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to $183,630.00 for the year ended June 30, 2013.

NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS

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

The Plan's benefit and contribution provisions are established by the State Treasurer and the Board of Trustees of the State Health Plan for Teachers and State Employees as authorized by Chapter 135, Article 3B, of the General Statutes. The Plan does not provide for automatic post-retirement benefit increases.

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

For the current fiscal year, the College contributed 5.30% of the covered payroll under the Teachers' and State Employees' Retirement System to the Fund. Required contribution rates for the years ended June 30, 2012, and 2011, were 5.0% and 4.9%, respectively. The College made 100% of its annual required contributions to the Plan for the years ended June 30, 2013, 2012, and 2011, which were $313,307.96, $290,657.98, and $293,542.76, respectively. The College assumes no liability for retiree health care benefits provided by the programs other than its required contribution.

Additional detailed information about these programs can be located in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page http://www.osc.nc.gov/ and clicking on "Reports" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

B. Disability Income - The College participates in the Disability Income Plan of North Carolina (DIPNC), a cost-sharing, multiple-employer defined benefit plan, to provide short-term and long-term disability benefits to eligible members of the Teachers' and State Employees' Retirement System. Benefit and contribution provisions are established 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, 2013, 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, 2012, and 2011, were .52% and .52%, respectively. The College made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2013, 2012, and 2011, which were $26,010.47, $30,228.43, and $31,151.48, 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 13 - RISK MANAGEMENT

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

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

Fire and other property losses are covered by the Public School Insurance Fund (Fund), a state-administered public entity risk pool. The Fund is financed by premiums and interest collected through membership participation and retains a $10 million deductible per occurrence. Reinsurance is purchased by the Fund to cover catastrophic events in excess of the $10 million deductible. Membership insured property is covered under an all risk coverage contract. Building and contents are valued under a replacement cost basis. No coinsurance penalties apply. There have been no significant reductions in 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. In addition, losses for all employees are covered on contracts with private insurance companies with coverage of $10,000 per occurrence and a $250 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. The Plan is funded by employer and employee contributions. The Plan has contracted with third parties to process claims.

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

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

Additional details on the state-administered risk management programs are disclosed in the State's *Comprehensive Annual Financial Report*, issued by the Office of the State Controller.

NOTE 14 - COMMITMENTS AND CONTINGENCIES

A. Commitments - The College has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on other purchases were $11,712.91 at June 30, 2013.

B. Contingencies - Federal funded financial aid programs are subject to special audits. Such audits could result in claims against the resources of the College.

NOTE 15 - BLENDED COMPONENT UNIT

Condensed combining information for the College's blended component unit for the year ended June 30, 2013, is presented as follows:

Condensed Statement of Net Position
June 30, 2013

	MTCC Foundation, Inc.
ASSETS	
Current Assets	$ 60,032.45
Other Noncurrent Assets	230,753.09
Total Assets	290,785.54
NET POSITION	
Restricted - Nonexpendable	242,704.00
Restricted - Expendable	45,508.00
Unrestricted	2,573.54
Total Net Position	$ 290,785.54

Condensed Statement of Revenues, Expenses, and Changes in Net Position
For the Fiscal Year Ended June 30, 2013

		MTCC Foundation, Inc.
OPERATING EXPENSES		
Program	$	10,944.57
Fundraising		23,603.06
Total Operating Expenses		34,547.63
Operating Loss		(34,547.63)
NONOPERATING REVENUES (EXPENSES)		
Donations		13,875.00
Interest and Investment earnings		2,804.20
Investment expenses		(45.34)
Unrealized gain (loss) on investments		(1,665.65)
Net Nonoperating Revenues (Expenses)		14,968.21
Decrease in Net Position		(19,579.42)
NET POSITION		
Net Position, July 1, 2012		310,364.96
Net Position, June 30, 2013	$	290,785.54

Condensed Statement of Cash Flows
For the Fiscal Year Ended June 30, 2013

		MTCC Founation, Inc.
Net Cash Used by Operating Activities	$	(34,547.63)
Net Cash Provided by Noncapital Financing Activities		13,875.00
Net Cash Used by Investing Activities		(198,700.92)
Net Decrease in Cash and Cash Equivalents		(219,373.55)
Cash and Cash Equivalents, July 1, 2012		279,406.00
Cash and Cash Equivalents, June 30, 2013	$	60,032.45

NOTE 16 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2013, the College implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 61, *The Financial Reporting Entity – Omnibus – An Amendment of GASB Statements No. 14 and No. 34*

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*

GASB Statement No. 61 sets forth additional requirements for identifying component units, blending identified component units, presenting condensed combining information for blended component units, and accounting for certain equity interests.

GASB Statement No. 62 does not propose any new guidance. The purpose of this statement is to incorporate into the GASB's authoritative literature certain guidance from Pre-November 1989 FASB Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins from the AICPA Committee on Accounting Procedure.

GASB Statement No. 63 required the College to present a Statement of Net Position, replacing previously presented Statement of Net Assets, in the College's basic financial statements. The College's implementation also required the Statement of Net Position to present deferred outflows and inflows of resources in separate sections following total assets and total liabilities sections, respectively. In the case of the College, the implementation of this standard was limited to presenting Net Position in place of Net Assets throughout the financial statements.

NOTE 17 - SUBSEQUENT EVENTS

The College has evaluated subsequent events through February 12, 2014, which is the date the financial statements were available to be issued.

NOTE 18 - AUDIT HOURS AND COST

The audit required 365 hours at an approximate cost of $27,000. The cost represents 0.24% of the College's total assets and 0.19% of total expenses subjected to audit.

Cherry Bekaert LLP
CPAs & Advisors

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*

Members of the Board of Trustees
McDowell Technical Community College
Marion, 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 McDowell Technical Community College ("the College") as of and for the years ended June 30, 2013, and the related notes to the financial statements, and have issued our report thereon dated February 12, 2014. Our report includes a reference to other auditors who audited the financial statements of McDowell Technical Community Foundation, Inc. (the "Foundation"), a blended component unit, as described in our report on the College's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters. The financial statements of the Foundation were not audited in accordance with *Government Auditing Standards.*

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 of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the College in a separate letter dated February 12, 2014.

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.

Cherry Bekaert LLP

Charlotte, North Carolina
February 12, 2014