STATE OF
NORTH CAROLINA

MARTIN COMMUNITY COLLEGE

WILLIAMSTON, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2007

OFFICE OF THE STATE AUDITOR

LESLIE W. MERRITT, JR., CPA, CFP

STATE AUDITOR

MARTIN COMMUNITY COLLEGE

WILLIAMSTON, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2007

STATE OF NORTH CAROLINA
Office of the State Auditor

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State Auditor

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AUDITOR'S TRANSMITTAL

The Honorable Michael F. Easley, Governor
The General Assembly of North Carolina
Board of Trustees, Martin Community College

We have completed a financial statement audit of Martin Community College for the year ended June 30, 2007, 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.

Our consideration of internal control over financial reporting and compliance and other matters based on an audit of the financial statements disclosed a deficiency that is detailed in the Audit Finding and Response section of this report. The College's response is included following the finding.

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.

Leslie W. Merritt, Jr.

Leslie W. Merritt, Jr., CPA, CFP
State Auditor

March 13, 2008

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Martin Community College
Williamston, North Carolina

We have audited the accompanying financial statements of Martin Community College, a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 2007, which collectively comprise the College's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of Martin Community College's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Martin Community College Foundation Inc., the College's discretely presented component unit. Those financial statements were audited by another auditor whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for this entity, is based on the report of the other auditor.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of Martin Community College Foundation, Inc. were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of the other auditor provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of the other auditor, the financial statements referred to above present fairly, in all material respects, the respective financial position of Martin Community College and its discretely presented component unit as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 5, 2008, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis, as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Leslie W. Merritt, Jr.

Leslie W. Merritt, Jr., CPA, CFP
State Auditor

March 5, 2008

MARTIN COMMUNITY COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS

Introduction

This section of Martin Community College's Financial Statements presents Management's Discussion and Analysis of the College's financial activity during the fiscal year ended June 30, 2007. 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. Responsibility for the completeness and fairness of this information rests with the College.

Using This Annual Report

Martin Community College's discussion and analysis provides a summary of the College's financial statements and a comparison of prior year information. 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 Colleges and Universities. 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 are recognized when earned, and expenses are recognized when an obligation has been incurred. 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 statements are featured below with brief descriptions of each financial focus.

The Statement of Net Assets is designed to be a snapshot of financial condition at a point in time. This statement combines and consolidates current financial resources with capital assets. The Statement of Net Assets includes all assets and liabilities. Over time, increases or decreases in net assets are indictors of the improvement or erosion of the College's financial health.

The Statement of Revenues, Expenses, and Changes in Net Assets focuses on both the gross costs, and the net costs of College activities which are supported by State, local, federal, and other revenues. This statement presents the revenues earned and expenses incurred during the year. 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 and local 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.

The Statement of Cash Flows presents information related to cash inflows and outflows summarized by operating, noncapital financing, capital financing, and related investing activities, and helps measure the ability to meet financial obligations as they mature. The direct method is used to present the Statement of Cash Flows.

The Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided.

Financial Analysis of Statement of Net Assets

The following condensed Statement of Net Assets compares the current year information with the prior year and indicates the monetary and percentage increase or decrease between years.

Condensed Statement of Net Assets
(in thousands)

	2007	2006 (as restated)	Increase (Decrease)	Percent Change
Assets				
Current Assets	$ 1,776.36	$ 1,458.07	$ 318.29	22%
Capital Assets	5,214.07	5,457.03	(242.96)	-4%
Other Assets	2,451.94	601.82	1,850.12	307%
Total Assets	9,442.37	7,516.92	1,925.45	26%
Liabilities				
Current Liabilities	244.39	292.47	(48.08)	-16%
Long-Term Liabilities	415.23	259.79	155.44	60%
Total Liabilities	659.62	552.26	107.36	19%
Net Assets				
Invested in Capital Assets	5,214.07	5,457.03	(242.96)	-4%
Restricted	2,785.15	809.41	1,975.74	244%
Unrestricted	783.53	698.22	85.31	12%
Total Net Assets	$ 8,782.75	$ 6,964.66	$ 1,818.09	26%

As of June 30, 2007, the College's total assets were $9.44 million. This is an overall increase of 26% from the last fiscal year. The largest increase occurred in the other assets caption due to a $1.75 million due from primary government for both a HVAC and a campus drainage construction project.

The $155 thousand increase in long-term liabilities was due to compensated absences which represent the unused portion of earned vacation leave and special annual leave bonuses. The College has no other sources of long-term debt.

The largest of the College's net assets are reflected in invested in capital assets (land, buildings, machinery and equipment, and general infrastructure). The prior year capital assets were restated by $1.46 million due to a prior period adjustment to correct inadequate estimates of the useful lives of our assets. During the implementation of GASB Statement No. 34 and 35, we had no historical useful life experience upon which to base our original establishment of useful lives. Therefore, after careful reevaluation of our assets, a restatement was made to correct the error.

Financial Analysis of Statement of Revenues, Expenses, and Changes in Net Assets

Revenues

The following chart was prepared from the College's Statement of Revenues, Expenses, and Changes in Net Assets and compares the College's revenues for the 2007 and 2006 fiscal years.

Operating Results
(in thousands)

	2007	2006	Increase (Decrease)	Percent Change
Operating Revenues				
Student Tuition and Fees, Net	$ 368.63	$ 204.95	$ 163.68	80%
Federal Grants and Contracts	1,146.92	1,705.90	(558.98)	-33%
State and Local Grants and Contracts	75.26	126.07	(50.81)	-40%
Sales and Services, Net	226.89	525.31	(298.42)	-57%
Other	29.98	30.26	(0.28)	-1%
Total Operating Revenues	1,847.68	2,592.49	(744.81)	-29%
Less Operating Expenses	8,415.05	9,586.82	(1,171.77)	-12%
Operating Loss	(6,567.37)	(6,994.33)	426.96	-6%
Nonoperating and Other Revenues				
State Aid	4,945.95	4,755.82	190.13	4%
Capital Aid and Grants	2,055.91	581.52	1,474.39	254%
County Appropriations	892.31	875.81	16.50	2%
Other Nonoperating Revenues	491.28	516.60	(25.32)	-5%
Total Nonoperating and Other Revenues	8,385.45	6,729.75	1,655.70	25%
Change in Net Assets	1,818.08	(264.58)	2,082.66	-787%
Net Assets - Beginning of Year	6,964.67	5,765.30	1,199.37	21%
Net Assets - Restatement		1,463.94		
Net Assets - End of Year	$ 8,782.75	$ 6,964.66	$ 1,818.09	26%
Total Revenues	$ 10,233.13	$ 9,322.24	$ 910.89	10%

Operating revenues decreased by $745 thousand, the majority of which was a $559 thousand decrease in federal grants and contracts due to a decrease in enrollment. For the two years presented above, the College has an operating loss. Although State appropriations are used to cover operating expenses, GASB Statement No. 35 requires that these appropriations be reported as nonoperating revenues; therefore, the College will usually show an operating loss.

As noted in the table above, net assets increased over $1.8 million from the previous fiscal year. This increase is mainly attributed to the revenues from the due from primary government receivables for the HVAC and drainage construction projects. Those revenues are reflected in capital aid and grants nonoperating revenues.

Expenses

The following chart was prepared from the College's Statement of Revenues, Expenses, and Changes in Net Assets and compares the College's operating expenses for the 2007 and 2006 fiscal years.

Operating Expenses
(in thousands)

	2007	2006	Increase (Decrease)	Percent Change
Operating Expenses				
Personal Services	$ 4,914.05	$ 4,968.02	$ (53.97)	-1%
Supplies and Materials	982.81	1,646.87	(664.06)	-40%
Services	1,194.02	1,287.12	(93.10)	-7%
Scholarships and Fellowships	742.91	1,130.85	(387.94)	-34%
Utilities	298.77	258.27	40.50	16%
Depreciation	282.49	295.69	(13.20)	-4%
Total Operating Expenses	$ 8,415.05	$ 9,586.82	$ (1,171.77)	-12%

Total operating expenses were decreased by $1.2 million from the previous fiscal year with the most significant decrease of $664 thousand represented in the supplies and materials category. This decrease was attributed to large purchases of computers and instructional supplies in the 2006 fiscal year.

Financial Analysis of Capital Assets

At the end of fiscal year 2007, the Statement of Net Assets reflected $5.2 million, net of accumulated depreciation, as presented in the following table.

Capital Assets
(in thousands)

	2007	2006 (as restated)	Increase (Decrease)	Percent Change
Land	$ 100.00	$ 100.00	$ 0.00	0%
Buildings	3,568.90	3,705.98	(137.08)	-4%
Machinery and Equipment	736.38	821.30	(84.92)	-10%
General Infrastructure	808.79	829.75	(20.96)	-3%
Total Capital Assets, Net	$ 5,214.07	$ 5,457.03	$ (242.96)	-4%

As previously mentioned, the College had a $1.46 million restatement due to re-estimating the useful lives of the College's depreciable assets. Total depreciation expense for the 2007 fiscal year totaled $282 thousand.

Financial Analysis of Cash Flow

The following chart was prepared from the College's Statement of Cash Flows and compares the College's cash inflows and outflows for the 2007 and 2006 fiscal years.

Condensed Statement of Cash Flows
(in thousands)

	2007	2006	Increase (Decrease)	Percent Change
Cash Provided (Used) By:				
Operating Activities	$ (6,217.58)	$ (6,201.45)	$ (16.13)	0%
Noncapital Financing Activities	6,248.17	6,181.74	66.43	1%
Capital Financing Activities	409.21	245.85	163.36	66%
Investing Activities	84.33	49.47	34.86	70%
Net Change in Cash and Cash Equivalents	524.13	275.61	248.52	90%
Cash/Cash Equivalents, Beginning of Year	1,680.07	1,404.46	275.61	20%
Cash/Cash Equivalents, End of Year	$ 2,204.20	$ 1,680.07	$ 524.13	31%

As indicated by the table above, cash provided and used by the College remained comparable to the prior year except cash provided by capital financing activities. The College received approximately $206 thousand in matching funds from Martin County for the Drainage repair and renovation project.

Economic Forecast

The economic future of Martin Community College looks positive. The College has managed to control rising costs with fewer funds and progress toward improvement. Forecasts from the Office of State Budget and Management indicate that the State's economy is slowly improving and that this should allow increased funding initiatives for the State.

Martin Community College, with focus on the development of its citizens, will continue the strong commitment to its community, small businesses, new and expanding industry training, and professional service training. The College continues to seek opportunities for growth such as the development of a Nursing Diploma Program with a goal of classes beginning in the Fall, 2008 semester. This program is contingent upon approval from the North Carolina Nursing Board. The College has also begun offering continuing education courses and adult basic education courses at the Bertie County Correctional Facility. These classes focus on job training and provide students with an opportunity to learn various practical job skills. Beginning the Fall, 2007 semester, curriculum courses such as Air, Heating, and Refrigeration Systems, Computer Information Technology, Electrical Electronics, and Industrial Technology, will also be offered at the Bertie County Correctional Facility. These courses will lead to Certificate, Diploma, and Associates Degree.

Martin Community College
Statement of Net Assets
June 30, 2007 ***Exhibit A-1***

ASSETS		
Current Assets:		
Cash and Cash Equivalents	$	1,151,543.70
Restricted Cash and Cash Equivalents		350,296.22
Receivables (Note 4)		106,596.48
Inventories		164,980.22
Notes Receivable (Note 4)		2,950.08
Total Current Assets		1,776,366.70
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		702,372.36
Restricted Due from Primary Government		1,749,566.30
Capital Assets - Nondepreciable (Note 5)		100,000.00
Capital Assets - Depreciable, Net (Note 5)		5,114,066.87
Total Noncurrent Assets		7,666,005.53
Total Assets		9,442,372.23
LIABILITIES		
Current Liabilities:		
Accounts Payable and Accrued Liabilities (Note 6)		162,675.59
Unearned Revenue		31,090.46
Long-Term Liabilities - Current Portion (Note 7)		50,623.08
Total Current Liabilities		244,389.13
Noncurrent Liabilities:		
Funds Held for Others		17,471.29
Long-Term Liabilities (Note 7)		397,765.53
Total Noncurrent Liabilities		415,236.82
Total Liabilities		659,625.95
NET ASSETS		
Invested in Capital Assets		5,214,066.87
Restricted for:		
Nonexpendable:		
Scholarships and Fellowships		32,715.87
Expendable:		
Scholarships and Fellowships		301,472.28
Loans		9,942.96
Capital Projects		2,401,790.58
Other		39,229.48
Unrestricted		783,528.24
Total Net Assets	$	8,782,746.28

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

Martin Community College
Statement of Revenues, Expenses, and Changes in Net Assets
For the Fiscal Year Ended June 30, 2007 — *Exhibit A-2*

REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net (Note 9)	$	368,627.29
Federal Grants and Contracts		1,146,923.34
State and Local Grants and Contracts		75,259.26
Sales and Services, Net (Note 9)		226,892.27
Other Operating Revenues		29,981.57
Total Operating Revenues		1,847,683.73
EXPENSES		
Operating Expenses:		
Personal Services		4,914,050.72
Supplies and Materials		982,816.08
Services		1,194,015.75
Scholarships and Fellowships		742,911.45
Utilities		298,767.49
Depreciation		282,495.61
Total Operating Expenses		8,415,057.10
Operating Loss		(6,567,373.37)
NONOPERATING REVENUES		
State Aid		4,945,946.97
County Appropriations		892,314.00
Noncapital Grants		314,660.55
Noncapital Gifts		92,046.69
Investment Income		84,330.43
Other Nonoperating Revenues		243.49
Nonoperating Revenues		6,329,542.13
Loss Before Other Revenues		(237,831.24)
State Capital Aid		1,796,177.35
County Capital Aid		16,650.00
Capital Grants		243,084.13
Increase in Net Assets		1,818,080.24
NET ASSETS		
Net Assets, July 1, 2006 as Restated (Note 15)		6,964,666.04
Net Assets, June 30, 2007	$	8,782,746.28

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

Martin Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2007 ***Exhibit A-3***

CASH FLOWS FROM OPERATING ACTIVITIES	
Received from Customers	$ 1,804,832.36
Payments to Employees and Fringe Benefits	(4,847,115.03)
Payments to Vendors and Suppliers	(2,449,306.50)
Payments for Scholarships and Fellowships	(734,265.68)
Other Receipts	8,279.79
Net Cash Used by Operating Activities	(6,217,575.06)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Aid Received	4,945,946.97
County Appropriations	892,314.00
Noncapital Grants Received	317,863.00
Noncapital Gifts	92,046.69
Cash Provided by Noncapital Financing Activities	6,248,170.66
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
State Capital Aid Received	194,129.80
County Capital Aid	16,650.00
Capital Grants Received	243,084.13
Acquisition and Construction of Capital Assets	(44,652.00)
Net Cash Provided by Capital and Related Financing Activities	409,211.93
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment Income	84,330.43
Cash Provided by Investing Activities	84,330.43
Net Increase in Cash and Cash Equivalents	524,137.96
Cash and Cash Equivalents, July 1, 2006	1,680,074.32
Cash and Cash Equivalents, June 30, 2007	$ 2,204,212.28
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES	
Operating Loss	$ (6,567,373.37)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	282,495.61
Miscellaneous Nonoperating Income	5,360.84
Changes in Assets and Liabilities:	
Receivables	(40,203.83)
Inventories	(2,143.64)
Accounts Payable and Accrued Liabilities	39,656.15
Unearned Revenue	8,068.23
Funds Held for Others	848.95
Compensated Absences	55,716.00
Net Cash Used by Operating Activities	$ (6,217,575.06)

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:		
Cash and Cash Equivalents	$	1,151,543.70
Restricted Cash and Cash Equivalents		350,296.22
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		702,372.36
Total Cash and Cash Equivalents - June 30, 2007	$	2,204,212.28

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Increase in Receivables Related to Nonoperating Income	$	1,602,047.55
Capital Asset Write-Offs		55,141.78

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

Martin Community College Foundation, Inc.
Statement of Financial Position
December 31, 2006 ***Exhibit B-1***

Assets:			
Current Assets:			
Cash and Cash Equivalents:			
Cash in Bank		$	152,594.76
Cash with State Treasurer			134,433.81
Total Cash and Cash Equivalents			287,028.57
Other Current Assets:			
Accounts Receivable			2,300.00
Total Current Assets			289,328.57
Fixed Assets:			
Horse Stock	398,364.00		
Less: Accumulated Depreciation	(119,413.00)		278,951.00
Equipment	43,765.49		
Less: Accumulated Depreciation	(25,621.98)		18,143.51
Net Fixed Assets			297,094.51
Total Assets			586,423.08
Net Assets:			
Unrestricted			458,340.24
Temporarily Restricted			3,630.47
Permanently Restricted			124,452.37
Total Net Assets		$	586,423.08

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

Martin Community College Foundation, Inc.
Statement of Activities
For the Year Ended December 31, 2006

Exhibit B-2

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and Revenue				
Support:				
Contributions - Cash	$ 300.00	$ 0.00	$ 1,350.00	$ 1,650.00
Contributions - Horses	85,368.00			85,368.00
Revenue:				
Income Earned on Investments	4,660.11			4,660.11
Fund Raising Income	61,698.40			61,698.40
Sale/Death of Horses - (Loss)	(47,576.02)			(47,576.02)
Total Support and Revenue	104,450.49		1,350.00	105,800.49
Expenses				
Contributions to Martin Community College for:				
Scholarships	10,605.50			10,605.50
Depreciation of Horses	52,958.93			52,958.93
Fund Raising	46,312.93			46,312.93
Management and General	11,016.14			11,016.14
Total Expenses	120,893.50			120,893.50
Support and Revenue over Expenses	(16,443.01)		1,350.00	(15,093.01)
Net Assets at Beginning of Year	474,783.25	3,630.47	123,102.37	601,516.09
Net Assets at End of Year	$ 458,340.24	$ 3,630.47	$ 124,452.37	$ 586,423.08

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, 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. Martin Community College is a component unit of the State of North Carolina and an integral part of the State's *Comprehensive Annual Financial Report*.

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

Discretely Presented Component Unit – Martin Community College Foundation, Inc. (the Foundation) is a legally separate not-for-profit corporation and is reported as a discretely presented component unit based on the nature and significance of its relationship to the College.

The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the College in support of its programs. The Foundation board consists of 12 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.

Martin Community College Foundation, Inc. is a private not-for-profit organization that reports its financial results under Financial Accounting Standards Board (FASB) Statements. As such, certain revenue recognition criteria and presentation features are different from 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.

Financial statements for the College are presented as of and for the fiscal year ended June 30, 2007. Financial statements for the College's discretely presented component unit, Martin Community College Foundation, Inc., are presented as of and for the fiscal year ended December 31, 2006.

During the year ended December 31, 2006, the Foundation distributed $10,605.50 to the College for unrestricted purposes. Complete financial statements for the Foundation can be obtained from Martin Community College Foundation, Inc., 1161 Kehukee Park Road, Williamston, NC 27892.

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 Governmental Accounting Standards Board (GASB).

Pursuant to the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as amended by GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*, the full scope of the College's activities is considered to be a single business-type activity and accordingly, is reported within a single column in the basic financial statements.

In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the College does not apply Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, for proprietary activities, unless the GASB amends its pronouncements to specifically adopt FASB pronouncements issued after that date.

C. Basis of Accounting – The financial statements of the College have been prepared using the economic resource measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

D. **Cash and Cash Equivalents –** This classification includes undeposited receipts, petty cash, cash on deposit with private bank accounts, and deposits held by the State Treasurer in the short-term investment fund. The short-term investment fund maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.

E. **Receivables –** Receivables consist of tuition and fees charged to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from the federal government, State and local governments, and private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants that are verifiable, measurable, and expected to be collected and available for expenditures for which the resource provider's conditions have been satisfied. No provision for doubtful accounts is considered necessary.

F. **Inventories –** Inventories, consisting of expendable supplies, are valued at cost using the first-in, first-out method. Merchandise for resale is valued at the lower of cost or market using the retail inventory method.

G. **Capital Assets –** Capital assets are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. The College capitalizes assets that have a value or cost in excess of $5,000 at the date of acquisition and an expected useful life of more than one year. Library books are generally not considered to have a useful life of more than one year unless part of a collection and are expensed in the year of acquisition.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 10 to 75 years for general infrastructure, 10 to 50 years for buildings, and 5 to 25 years for equipment.

H. **Restricted Assets –** Unexpended capital contributions are classified as restricted assets because their use is limited by donor/grantor agreements. Certain other assets are classified as restricted because their use is limited by external parties or statute.

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

J. **Compensated Absences –** The College's policy is to record the cost of vacation leave when earned. The policy provides for a maximum accumulation of unused vacation leave of 30 days which can be carried forward each July 1 or for which an employee can be paid upon termination of employment. Also, any accumulated vacation leave in excess of 30 days at year end is converted to sick leave. Under this policy, the accumulated vacation leave for each employee at June 30 equals the leave carried forward at the previous June 30 plus the leave earned, less the leave taken between July 1 and June 30.

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

When classifying compensated absences into current and noncurrent, leave is considered taken using a last-in, first-out method.

K. **Net Assets –** The College's net assets are classified as follows:

Invested in Capital Assets – This represents the College's total investment in capital assets.

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

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

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

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

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

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

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

N. 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. All internal sales activities to College departments from auxiliary operations have been eliminated in the accompanying financial statements. These eliminations are recorded by removing the revenue and expense in the auxiliary operations and, if significant, allocating any residual balances to those departments receiving the goods and services during the year.

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

NOTE 2 - DEPOSITS AND INVESTMENTS

All funds of the College 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 Assets as cash and cash equivalents includes cash on hand totaling $728.00, and deposits in private financial institutions with a carrying value of $942.58 and a bank balance of $11,319.07.

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, 2007, the College's bank balance was fully covered by FDIC insurance.

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 the form of investments pursuant to G.S. 159-30(c), as follows: a commingled investment pool established and administered by the State Treasurer pursuant to G.S. 147-69.3, obligations of or fully guaranteed by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain nonguaranteed federal agencies; prime quality commercial paper bearing specified ratings and banker's acceptances; The North Carolina Capital

Management Trust, an SEC registered mutual fund; repurchase agreements; and evidences of ownership of, or fractional undivided interests in, future interest and principal payments on either direct obligations of or fully guaranteed by the United States government, which are held by a specified bank or trust company or any state in the capacity.

At June 30, 2007, the amount shown on the Statement of Net Assets as cash and cash equivalents includes $2,202,541.70 which represents the College's equity position in the State Treasurer's Short-Term Investment Fund. The Short-Term Investment Fund (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission and does not have a credit rating) had a weighted average maturity of 1.6 years as of June 30, 2007. Assets and shares of the Short-Term Investment Fund are valued at amortized cost, which approximates fair value. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's Short-Term Investment Fund) are included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page http://www.ncosc.net/ and clicking on "Financial Reports", or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

NOTE 3 - DONOR RESTRICTED ENDOWMENTS

The College's endowment assets are pooled with State agencies and similar institutions in short-term investments with the State Treasurer's Cash and Investment Pool and are reported as restricted cash and cash equivalents – noncurrent on the accompanying financial statements. 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 assets of the endowment funds. Annual payouts from the College's endowment funds are based on an adopted spending policy, which limits spending to 100% of the interest earnings unless the donor has stipulated otherwise. At June 30, 2007, net appreciation of $6,552.55 was available to be spent, all of which was restricted to specific purposes.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2007, were as follows:

	Amount
Current Receivables:	
Students	$ 55,868.69
Accounts	46,050.90
Intergovernmental	4,676.89
Total Current Receivables	$ 106,596.48
Notes Receivable - Current:	
Institutional Student Loan Programs	$ 2,950.08

NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2007, is presented as follows:

	Balance July 1, 2006 (as restated)	Increases	Decreases	Balance June 30, 2007
Capital Assets, Nondepreciable:				
Land	$ 100,000.00	$ 0.00	$ 0.00	$ 100,000.00
Total Capital Assets, Nondepreciable	100,000.00			100,000.00
Capital Assets, Depreciable:				
Buildings	6,854,465.08			6,854,465.08
Machinery and Equipment	1,494,332.55	44,652.00	55,141.78	1,483,842.77
General Infrastructure	1,048,055.65			1,048,055.65
Total Capital Assets, Depreciable	9,396,853.28	44,652.00	55,141.78	9,386,363.50
Less Accumulated Depreciation:				
Buildings	3,148,481.18	137,089.44		3,285,570.62
Machinery and Equipment	673,035.55	124,445.01	50,024.43	747,456.13
General Infrastructure	218,308.72	20,961.16		239,269.88
Total Accumulated Depreciation	4,039,825.45	282,495.61	50,024.43	4,272,296.63
Total Capital Assets, Depreciable, Net	5,357,027.83	(237,843.61)	5,117.35	5,114,066.87
Capital Assets, Net	$ 5,457,027.83	$ (237,843.61)	$ 5,117.35	$ 5,214,066.87

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2007, were as follows:

	Amount
Accounts Payable	$ 35,059.26
Accrued Payroll	120,842.36
Intergovernmental Payables	3,098.78
Other	3,675.19
Total Accounts Payable and Accrued Liabilities	$ 162,675.59

NOTE 7 - LONG-TERM LIABILITIES

A summary of changes in the long-term liabilities is presented as follows:

	Balance July 1, 2006	Additions	Reductions	Balance June 30, 2007	Current Portion
Compensated Absences	$ 392,672.61	$ 256,575.30	$ 200,859.30	$ 448,388.61	$ 50,623.08

NOTE 8 - OPERATING LEASE OBLIGATIONS

Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2007:

Fiscal Year	Amount
2008	$ 13,978.32
2009	6,523.32
2010	4,892.49
Total Minimum Lease Payments	$ 25,394.13

Rental expense for all operating leases during the year was $31,450.83.

NOTE 9 - REVENUES

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

	Gross Revenues	Internal Sales Eliminations	Less Scholarship Discounts	Net Revenues
Operating Revenues:				
Student Tuition and Fees	$ 638,831.97	$ 0.00	$ 270,204.68	$ 368,627.29
Sales and Services:				
Sales and Services of Auxiliary Enterprises:				
Bookstore	$ 364,046.88	$ 2,652.27	$ 161,858.98	$ 199,535.63
Other	27,356.64			27,356.64
Total Sales and Services	$ 391,403.52	$ 2,652.27	$ 161,858.98	$ 226,892.27

NOTE 10 - OPERATING EXPENSES BY FUNCTION

The College's operating expenses by functional classification are presented as follows:

	Personal Services	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	$ 2,910,238.96	$ 442,661.79	$ 468,486.68	$ 0.00	$ 0.00	$ 0.00	$ 3,821,387.43
Academic Support	496,751.80	44,897.58	19,383.24				561,032.62
Student Services	273,381.43	26,402.79	149,531.90				449,316.12
Institutional Support	878,350.40	136,467.72	419,622.89				1,434,441.01
Operations and Maintenance of Plant	291,278.23	38,245.20	107,645.28		298,767.49		735,936.20
Student Financial Aid				742,911.45			742,911.45
Auxiliary Enterprises	64,049.90	294,141.00	29,345.76				387,536.66
Depreciation						282,495.61	282,495.61
Total Operating Expenses	$ 4,914,050.72	$ 982,816.08	$ 1,194,015.75	$ 742,911.45	$ 298,767.49	$ 282,495.61	$ 8,415,057.10

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 (System) is a cost sharing multiple-employer defined benefit pension plan administered by the North Carolina State Treasurer.

Benefit and contribution provisions for the Teachers' and State Employees' Retirement System are established by *North Carolina General Statutes* 135-5 and 135-8 and may be amended only by the North

Carolina General Assembly. Employer and member contribution rates are set each year by the North Carolina General Assembly based on annual actuarial valuations. For the year ended June 30, 2007, these rates were set at 2.66% of covered payroll for employers and 6% of covered payroll for members.

For the year ended June 30, 2007, the College had a total payroll of $4,357,654.62, of which $3,022,560.15 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were $181,353.77 and $80,400.10, respectively. The College made 100% of its annual required contributions for the years ended June 30, 2007, 2006, and 2005, which were $80,400.10, $65,270.47, and $63,257.48, respectively.

The Teachers' and State Employees' Retirement System's financial information is included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page http://www.osc.state.nc.us/ and clicking on "Financial Reports", or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

B. Supplemental Retirement Income Plans – IRC 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 $58,827.00 for the year ended June 30, 2007.

IRC Section 403(b) and 403(b)(7) Plans – Eligible College employees can participate in tax sheltered annuity plans created under Internal Revenue Code Sections 403(b) and 403(b)(7). The employee's eligible contributions, made through salary reduction agreements, are exempt from federal and State income taxes until the annuity is received or the contributions are withdrawn. These plans are exclusively for employees of colleges and certain charitable and other nonprofit institutions. All costs of administering and funding these plans are the responsibility of the Plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to $28,627.98 for the year ended June 30, 2007.

NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS

A. **Health Care for Long-Term Disability Beneficiaries and Retirees –** The College participates in State-administered programs which provide 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. These benefits were established by Chapter 135, Article 3, Part 3, of the General Statutes and may be amended only by the North Carolina General Assembly. Funding for the health care benefit for long-term disability beneficiaries and retirees is financed on a pay-as-you-go basis. The College contributed 3.8% of the covered payroll under the Teachers' and State Employees' Retirement System for these health care benefits. For the fiscal year ended June 30, 2007, the College's total contribution to the Plan was $114,857.29. 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*.

B. **Disability Income –** The College participates in the Disability Income Plan of North Carolina (DIPNC). Established by Chapter 135, Article 6, of the General Statutes, DIPNC provides short-term and long-term disability benefits to eligible members of the Teachers' and State Employees' Retirement System. Long-term disability income benefits are advance funded on an actuarially determined basis using the one-year term cost method. The College contributes .52% of covered payroll under the Teachers' and State Employees' Retirement System to the DIPNC. For the year ended June 30, 2007, the College's total contribution to the DIPNC was $15,717.31. 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, and can include 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.

Tort claims of up to $500,000 are self-insured under the authority of the State Tort Claims Act. In addition, the State provides excess public officers' and employees' liability insurance up to $5,000,000 via contract with a private insurance company. The premium, based on a composite rate, is paid by the North Carolina Community College System Office directly to the private insurer.

Fire and other property losses are covered by the Public School Insurance Fund, a State-administered public entity risk pool. This fund is financed by premiums and interest and incurs a $10 million self-insured deductible per occurrence. Reinsurance is purchased by the fund to cover catastrophic events in excess of the $10 million deductible. 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 used for instructional purposes are covered by liability insurance handled by the State Department of Insurance. 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. The blanket honesty bond is with a private insurance company and is handled by the North Carolina Department of Insurance with coverage of $5,000,000 per occurrence and a $75,000 deductible. Losses from county and institutional funds paid employees are covered by a separate policy with a private insurance company.

Employees and retirees are provided health care coverage by the Comprehensive Major Medical Plan (Plan), a component unit of the State. The Plan is funded by employer and employee contributions and is administered by a third-party contractor.

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 of $25,000 to $50,000 is provided to eligible workers. This self-insured death benefit program 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

The College has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were $64,827.00 and on other purchases were $19,152.25 at June 30, 2007.

NOTE 15 - NET ASSET RESTATEMENT

As of July 1, 2006, net assets as previously reported were restated as follows:

	Amount
July 1, 2006 Net Assets as Previously Reported	$ 5,500,725.00
Restatements:	
Error in Establishing Useful Lives of Capital Assets When New Reporting Model Implemented	1,481,113.79
Correction of Errors in Capital Assets	(17,172.75)
July 1, 2006 Net Assets as Restated	$ 6,964,666.04

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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
Martin Community College
Williamston, North Carolina

We have audited the financial statements of Martin Community College, a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 2007, which collectively comprise the College's basic financial statements, and have issued our report thereon dated March 5, 2008. Our report was modified to include a reference to the other auditor.

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. Another auditor audited the financial statements of the discretely presented component unit, as described in our report on the College's financial statements. The financial statements of the discretely presented component unit were not audited in accordance with *Government Auditing Standards*.

<u>Internal Control Over Financial Reporting</u>

In planning and performing our audit, we considered the College's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the College's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the College's financial statements that is more than inconsequential will not be prevented or detected by the College's internal control. We consider the deficiency described in the Audit Finding and Response section of this report to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the College's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described above is not a material weakness.

Compliance and Other Matters

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

The College's response to the finding identified in our audit is described in the Audit Finding and Response section of this report. We did not audit the College's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management of the College the Board of Trustees, the State Board of Community Colleges, the Governor, the State Controller, and the General Assembly, and is not intended to be and should not be used by anyone other than these specified parties.

Leslie W. Merritt, Jr., CPA, CFP
State Auditor

March 5, 2008

AUDIT FINDING AND RESPONSE

Matters Related to Financial Reporting

The following finding was identified during the current audit and describes a condition that represents a significant deficiency in internal control. The finding was also reported in the prior year.

INADEQUATE SEGREGATION OF DUTIES

In our prior audit we noted a number of weaknesses in internal controls specifically relating to inadequate segregation of duties. These conditions continued to exist during the current audit period. The specific weaknesses and the areas impacted are as follows.

- Machinery and Equipment: The staff accountant had access to the general ledger and provided oversight to the annual inventory process. Specifically, the staff accountant entered assets into the accounting system, removed assets from the accounting system, disposed of assets, tagged assets, and performed the annual physical inventory. Management only reviewed and approved requisitions for machinery and equipment. Inadequate segregation of duties increases the risk that items could be lost or misappropriated without detection.

  The Office of State Controllers' revised Capital and Fixed Asset Policies require that the capital asset responsibilities be distributed among several positions and that physical inventory be taken by someone who does not have custody of the assets, nor responsibility for receiving, checking in, tagging, and recording the assets. Also, good internal control requires management to establish and maintain effective custodial accountability procedures, security over assets, and adequate segregation of duties.

- Payroll: The payroll clerk could enter employees into the payroll system and alter their pay. Management did not review any payroll exception reports that would have indicated any new employees or changes made to payroll until April 2007. The risk of errors being made and not detected increases when duties are not adequately segregated.

  Good internal controls require that changes made by the payroll clerk be reviewed by another person.

The College has taken the following corrective actions to provide improved segregation of duties:

- In October 2007, a purchasing and equipment coordinator was hired to record and tag assets.

- In September 2007, the payroll/personnel position was split into two positions (payroll and human resources).

Recommendation: The College should continue to strengthen internal control to ensure management oversight and proper segregation of duties.

College's Response: The College agrees with the finding and recommendation. As noted in the finding, the College has taken corrective action to separate duties relating to controls over machinery and equipment and the payroll process.

Management has implemented processes and procedures to strengthen internal controls and improve its accountability for reporting and safeguarding of assets. A new position, Purchasing/Equipment Coordinator, was created and filled to provide increased time and effort for asset accountability and tracking. The Purchasing/Equipment Coordinator does not have access to the general ledger. Management is reviewing all entries to the general ledger and reconciling the asset subsidiary ledger and general ledger.

Management has separated human resources and payroll duties into two positions to establish adequate segregation of duties in the payroll function. The Payroll Clerk is not able to enter new employees or alter rates of pay. Management is also reviewing payroll vouchers and registers to provide improved management oversight.

ORDERING INFORMATION

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

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