



STATE OF NORTH CAROLINA

MAYLAND COMMUNITY COLLEGE

SPRUCE PINE, 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

MAYLAND COMMUNITY COLLEGE

SPRUCE PINE, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2007

STATE BOARD OF COMMUNITY COLLEGES

THE NORTH CAROLINA COMMUNITY COLLEGE SYSTEM

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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, Mayland Community College

We have completed a financial statement audit of Mayland 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 certain deficiencies and/or instances of noncompliance that are detailed in the Audit Findings and Responses 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.

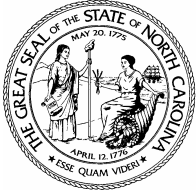
Leslie W. Merritt, Jr.

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

May 21, 2008

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Leslie W. Merritt, Jr., CPA, CFP
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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Mayland Community College
Spruce Pine, North Carolina

We have audited the accompanying financial statements of Mayland 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 Mayland 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 Mayland Community College Foundation, Inc., the College's discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinions, insofar as they relate to the amounts included for the Foundation, are based on the report of the other auditors.

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

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 respective financial position of Mayland 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.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

In accordance with *Government Auditing Standards*, we have also issued our report dated May 9, 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., CPA, CFP
State Auditor

May 9, 2008

MAYLAND COMMUNITY COLLEGE MANAGEMENT'S DISCUSSION AND ANALYSIS

Overview of the Financial Statements

Management's Discussion and Analysis of Mayland Community College, a component unit of the State of North Carolina, is presented to provide an overview of the College's financial activities for the fiscal year ended June 30, 2007. We encourage readers to consider this information in conjunction with the College's financial statements and the notes to the financial statements.

The College prepares financial statements using the economic resources measurement focus and the accrual basis of accounting.

Basic Financial Statements

The basic financial statements for the College include the following:

- Statement of Net Assets
- Statement of Revenues, Expenses, and Changes in Net Assets, and
- Statement of Cash Flows

The Statement of Net Assets as well as the Statement of Revenues, Expenses, and Changes in Net Assets are shown in classified format. This will show the distinction between current and noncurrent assets and liabilities as well as operating and nonoperating revenues and expenses. 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 complete understanding of the data provided in the statements.

Financial Information

The College's financial position may be significantly affected by the following:

- Fiscal year 2006-2007 tuition rates remained the same.
- The State budget was received in August 2006 with funds being reverted back to the State equaling \$77,301 or 1 %.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Condensed Statement of Net Assets

	<u>6/30/2007</u>	<u>6/30/2006</u>	<u>Difference</u>
Assets			
Current Assets	\$ 354,707.79	\$ 361,385.67	\$ (6,677.88)
Capital Assets, Net	11,941,866.37	15,306,994.84	(3,365,128.47)
Other Noncurrent Assets	<u>2,548,392.08</u>	<u>489,591.50</u>	<u>2,058,800.58</u>
Total Assets	<u>14,844,966.24</u>	<u>16,157,972.01</u>	<u>(1,313,005.77)</u>
Liabilities			
Current Liabilities	261,222.27	266,567.64	(5,345.37)
Noncurrent Liabilities	<u>613,048.92</u>	<u>548,948.78</u>	<u>64,100.14</u>
Total Liabilities	<u>874,271.19</u>	<u>815,516.42</u>	<u>58,754.77</u>
Net Assets			
Invested in Capital Assets	11,941,866.37	15,306,994.84	(3,365,128.47)
Restricted	2,632,706.18	558,061.92	2,074,644.26
Unrestricted	<u>(603,877.50)</u>	<u>(522,601.17)</u>	<u>(81,276.33)</u>
Total Net Assets	<u>\$ 13,970,695.05</u>	<u>\$ 15,342,455.59</u>	<u>\$ (1,371,760.54)</u>

Condensed Financial Statements

The total assets of the College decreased \$1,313,005.77 primarily due to a correction from the previous year's presentation of \$5,675,239.85 in capital assets, net, as a result of the sale of the Lexington Building. The increase of \$2,058,800.58 in other noncurrent assets was attributable to an increased allotment for the Applied Technology Building and Repairs and Renovation Project.

The total change in net assets was a decrease of \$1,371,760.54, which included a \$2,356,693.37 restatement of the beginning balance for reassessment of capital assets' useful lives.

Total liabilities of the College increased \$58,754.77 for the year. This increase is directly related to an increase in Long-Term Liabilities of \$64,100.14.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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

	<u>6/30/2007</u>	<u>Restated 6/30/2006</u>	<u>Difference</u>
Operating Revenues:			
Student Tuition and Fees, Net	\$ 514,130.41	\$ 563,388.23	\$ (49,257.82)
Federal Grants and Contracts	1,142,861.42	902,841.89	240,019.53
State and Local Grants and Contracts	22,592.00	3,305.00	19,287.00
Sales and Services, Net	1,019,656.89	781,372.76	238,284.13
Other Operating Revenues	45,448.68	38,603.38	6,845.30
Total Operating Revenues	<u>2,744,689.40</u>	<u>2,289,511.26</u>	<u>455,178.14</u>
Operating Expenses:	<u>14,305,527.68</u>	<u>13,597,815.64</u>	<u>707,712.04</u>
Operating Loss	(11,560,838.28)	(11,308,304.38)	(252,533.90)
Nonoperating Revenues (Expenses)			
State Aid	8,986,937.23	7,424,248.95	1,562,688.28
County Appropriations	666,200.00	599,400.00	66,800.00
Noncapital Grants	1,014,250.04	1,639,479.64	(625,229.60)
Other Nonoperating Revenues (Expenses)	199,672.56	(264,138.02)	463,810.58
Net Nonoperating Revenue	<u>10,867,059.83</u>	<u>9,398,990.57</u>	<u>1,468,069.26</u>
Loss Before Other Revenues	(693,778.45)	(1,909,313.81)	1,215,535.36
Capital Contributions	<u>2,455,964.39</u>	<u>478,639.35</u>	<u>1,977,325.04</u>
Increase (Decrease) in Net Assets	1,762,185.94	(1,430,674.46)	3,192,860.40
Net Assets, Beginning	15,342,455.59	16,773,130.05	(1,430,674.46)
Restatement	<u>(3,133,946.48)</u>	<u></u>	<u>(3,133,946.48)</u>
Net Assets, Ending	<u>\$ 13,970,695.05</u>	<u>\$ 15,342,455.59</u>	<u>\$ (1,371,760.54)</u>

Operating revenues amounted to \$2,744,689.40, which increased \$455,178.14 over last year's total revenue of \$2,289,511.26. This is a combination of an increase in federal grants and contracts of \$240,019.53 and an increase of \$238,284.13 in sales and services.

The increase in federal contracts and grants of \$240,019.53 is primarily due to the reclassification of the SOAR Grant from noncapital grants to federal contracts and grants. The revenue recognized for the SOAR Grant for the current year was \$289,738.83.

The increase in sales and services of \$238,284.13 was primarily attributable to the reclassification of Daycare Scholarship Fees. In prior years, this was classified under noncapital gifts rather than sales and services. The amount of Daycare Scholarship Fees recognized in the current year was \$170,693.31. In addition, the second Lexington Building was leased for \$50,000.00 and classified under sales and services.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

Operating expenses amounted to \$14,305,527.68, which increased \$707,712.04 over the 2006 year. There were significant increases in purchases for utility equipment and furniture as well as expenditures for the Workforce Investment Act grant and operations and maintenance.

Nonoperating revenues amounted to \$10,867,059.83, which increased \$1,468,069.26 over last year's total nonoperating revenue of \$9,398,990.57. This is mainly attributable to the increase of \$1,562,688.28 in State aid due to increases in funding over the prior year. The increase of \$1,977,325.04 in capital contributions was primarily due to the allotment of funds for the Applied Technology Building of \$1,594,810.00 and the Repairs and Renovation Project of \$241,545.00.

Total revenues amounted to \$16,067,713.62, which increased \$3,255,654.31 over last year's total revenue of \$12,812,059.31. Operating revenues decreased \$189,739.99 along with a decrease in operating expenses of \$62,793.91 for a combined decrease in net operating loss of \$252,533.90.

Economic Factors and Next Year's Budgets

At fiscal year ended June 30, 2007, the College had not received any official information on the 2007-2008 budget.

Mayland Community College
Statement of Net Assets
June 30, 2007

Exhibit A-1

ASSETS

Current Assets:

Restricted Cash and Cash Equivalents	\$ 72,183.28
Receivables (Note 3)	196,682.83
Inventories	84,673.49
Notes Receivable (Note 3)	1,168.19
	<hr/>
Total Current Assets	354,707.79
	<hr/>

Noncurrent Assets:

Restricted Cash and Cash Equivalents	431,083.53
Restricted Due from Primary Government	2,117,308.55
Capital Assets - Nondepreciable (Note 4)	656,717.52
Capital Assets - Depreciable, Net (Note 4)	11,285,148.85
	<hr/>
Total Noncurrent Assets	14,490,258.45
	<hr/>

Total Assets	14,844,966.24
	<hr/>

LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 5)	152,846.34
Unearned Revenue	36,961.94
Funds Held for Others	3,977.85
Long-Term Liabilities - Current Portion (Note 6)	67,436.14
	<hr/>
Total Current Liabilities	261,222.27
	<hr/>

Noncurrent Liabilities:

Long-Term Liabilities (Note 6)	613,048.92
	<hr/>
Total Liabilities	874,271.19
	<hr/>

NET ASSETS

Invested in Capital Assets	11,941,866.37
Restricted for:	
Expendable:	
Loans	2,344.38
Capital Projects	2,545,474.89
Other	84,886.91
Unrestricted	(603,877.50)
	<hr/>
Total Net Assets	\$ 13,970,695.05
	<hr/> <hr/>

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

Mayland 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 8)	\$ 514,130.41
Federal Grants and Contracts	1,142,861.42
State and Local Grants and Contracts	22,592.00
Sales and Services, Net (Note 8)	1,019,656.89
Other Operating Revenues	45,448.68
	<hr/>
Total Operating Revenues	2,744,689.40
	<hr/>

EXPENSES

Operating Expenses:	
Personal Services	9,934,780.62
Supplies and Materials	1,595,023.40
Services	1,823,858.63
Scholarships and Fellowships	462,292.93
Utilities	237,293.06
Depreciation	252,279.04
	<hr/>
Total Operating Expenses	14,305,527.68
	<hr/>
Operating Loss	(11,560,838.28)
	<hr/>

NONOPERATING REVENUES (EXPENSES)

State Aid	8,986,937.23
County Appropriations	666,200.00
Noncapital Grants	1,014,250.04
Noncapital Gifts	186,295.12
Investment Income	13,377.44
	<hr/>
Net Nonoperating Revenues	10,867,059.83
	<hr/>
Loss Before Other Revenues	(693,778.45)
	<hr/>
State Capital Aid	2,309,631.67
County Capital Appropriations	83,200.00
Capital Grants	63,132.72
	<hr/>
Increase in Net Assets	1,762,185.94
	<hr/>

NET ASSETS

Net Assets, July 1, 2006 as Restated (Note 14)	<hr/>
	12,208,509.11
Net Assets, June 30, 2007	\$ <hr/> <hr/>
	13,970,695.05

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

Mayland 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	\$ 2,763,919.08
Payments to Employees and Fringe Benefits	(9,930,111.40)
Payments to Vendors and Suppliers	(3,642,956.67)
Payments for Scholarships and Fellowships	(453,773.44)
Loans Issued to Students	(837.86)
Other Receipts	169,530.75
	<hr/>
Net Cash Used by Operating Activities	(11,094,229.54)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Aid Received	8,986,937.23
County Appropriations	666,200.00
Noncapital Grants Received	1,017,702.07
Noncapital Gifts Received	186,295.12
	<hr/>
Cash Provided by Noncapital Financing Activities	10,857,134.42

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

State Capital Aid Received	487,648.68
County Capital Aid	83,200.00
Capital Grants Received	63,132.72
Acquisition and Construction of Capital Assets	(205,697.05)
	<hr/>
Net Cash Provided by Capital and Related Financing Activities	428,284.35

CASH FLOWS FROM INVESTING ACTIVITIES

Investment Income	13,775.92
	<hr/>

Net Increase in Cash and Cash Equivalents	204,965.15
Cash and Cash Equivalents, July 1, 2006	298,301.66
	<hr/>
Cash and Cash Equivalents, June 30, 2007	\$ 503,266.81
	<hr/> <hr/>

Mayland Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2007

Exhibit A-3
Page 2

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

Operating Loss	\$ (11,560,838.28)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	252,279.04
Changes in Assets and Liabilities:	
Receivables	167,180.13
Inventories	(7,315.31)
Notes Receivable	(837.86)
Accounts Payable and Accrued Liabilities	(31,476.61)
Unearned Revenue	36,961.94
Funds Held for Others	(6,862.15)
Compensated Absences	56,679.56
Net Cash Used by Operating Activities	<u>\$ (11,094,229.54)</u>

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Restricted Cash and Cash Equivalents	\$ 72,183.28
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	<u>431,083.53</u>
Total Cash and Cash Equivalents - June 30, 2007	<u>\$ 503,266.81</u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Increase in Receivables Related to Nonoperating Income	\$ 1,821,982.99
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The accompanying notes to the financial statements are an integral part of this statement.

Mayland Community College Foundation, Inc.
Statement of Financial Position
June 30, 2007

Exhibit B-1

ASSETS

Cash and Cash Equivalents	\$	330,386
Property and Equipment, Net		34,896
Investments in Beneficial Trusts		<u>975,064</u>
Total Assets		<u>1,340,346</u>

LIABILITIES

Endowment Funds Payable to Community Foundation		<u>1,277</u>
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NET ASSETS

Unrestricted		65,366
Temporarily Restricted		298,639
Permanently Restricted		<u>975,064</u>
Total Net Assets	\$	<u><u>1,339,069</u></u>

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

Mayland Community College Foundation, Inc.
Statement of Activities
For the Fiscal Year Ended June 30, 2007

Exhibit B-2

CHANGES IN UNRESTRICTED NET ASSETS

Support and Revenues:	
Contributions	\$ 64,800
Fundraisers and Related Events	3,617
Investment and Interest Income	10,695
	<hr/>
Total Unrestricted Revenues and Gains	79,112
	<hr/>
Net Assets Released from Restrictions	211,926
	<hr/>
Expenses and Losses:	
Program Services	222,316
Management and General	59,120
	<hr/>
Total Expenses	281,436
	<hr/>
Increase in Unrestricted Net Assets	9,602
	<hr/>

CHANGES IN TEMPORARILY RESTRICTED NET ASSETS

Contributions	122,852
Fundraisers and Related Events	1,791
Investment and Interest Income	24,603
	<hr/>
Total Temporarily Restricted Revenues and Gains	149,246
	<hr/>
Net Assets Released from Restrictions	(211,926)
	<hr/>
Decrease in Temporarily Restricted Net Assets	(62,680)
	<hr/>

CHANGES IN PERMANENTLY RESTRICTED NET ASSETS

Contributions	130,595
	<hr/>
Increase in Net Assets	77,517
Net Assets, Beginning of Year	1,261,552
	<hr/>
Net Assets, End of Year	\$ 1,339,069
	<hr/> <hr/>

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

MAYLAND COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2007

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 its component unit. An organization other than a primary government serves as a nucleus for a reporting entity when it issues separate financial statements. Mayland 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 are reported in separate financial statements because of its use of different GAAP reporting models and to emphasize its legal separateness.

Discretely Presented Component Unit - Mayland Community College Foundation, Inc. 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 Mayland Community College Foundation, Inc. is a legally separate, tax-exempt component unit of the College. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the College in support of its programs. The Foundation board consists of 18 members. Although the College does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, that the Foundation holds and invests are restricted to the activities of the College by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of the College, the Foundation is considered a component unit of the College and is reported in separate financial statements because of the difference in its reporting model, as described below.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The Foundation 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.

During the year ended June 30, 2007, the Foundation distributed \$222,316.00 to the College for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from the Foundation Office by calling (828) 765-7351 Ext. 311.

- 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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** - The College does not hold any investments. Note 2B includes investments in beneficial trusts held by the Mayland Community College Foundation, Inc.
- F. Receivables** - Receivables consist of tuition and fees charged to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from the federal government, State and local governments, and private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants. Receivables are recorded at book value with no provision for doubtful accounts considered necessary.
- G. Inventories** - Inventories, consisting of expendable supplies and merchandise for resale, are valued at the lower of cost or market value 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 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 2 to 25 years for equipment.

- I. 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.
- 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 January 1 or for which an employee can be paid upon

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 December 31 plus the leave earned, less the leave taken between January 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 December 31 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.

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

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

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

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

M. Scholarship Discounts - Student tuition and fees revenues and certain other revenues from College charges are reported net of scholarship discounts in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. The scholarship discount is the difference between the actual charge for goods and services provided by the College and the amount that is paid by students or by third parties on the students' behalf. Student financial assistance grants, such as Pell grants, and other

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

county capital appropriation do not revert and are available for future use by the College.

NOTE 2 - DEPOSITS AND INVESTMENTS

- A. **Deposits** - 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 \$1,500.00, and deposits in private financial institutions with a carrying value of \$202,982.84 and a bank balance of \$437,840.01.

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 in excess of federal depository insurance coverage was covered under the pooling method.

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

Generally, funds belonging to the College may be invested in 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 \$298,783.97 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.

B. Component Unit Investments - The Mayland Community College Foundation, Inc., has \$975,064 in Investments in Beneficial Trusts with Western Carolina Community Foundation Fund. These monies will retain their permanently restricted character and interest will be withdrawn periodically in order to fulfill donor requirements.

NOTE 3 - RECEIVABLES

Receivables at June 30, 2007, were as follows:

	<u>Receivables</u>
Current Receivables:	
Students	\$ 47,879.54
Accounts	52,990.99
Intergovernmental	<u>95,812.30</u>
Total Current Receivables	<u><u>\$ 196,682.83</u></u>
Notes Receivable:	
Notes Receivable - Current:	
Institutional Student Loan Programs	<u><u>\$ 1,168.19</u></u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 4 - 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	Balance June 30, 2007
Capital Assets, Nondepreciable:			
Land	\$ 559,428.48	\$ 0.00	\$ 559,428.48
Construction in Progress	82,917.14	14,371.90	97,289.04
Total Capital Assets, Nondepreciable	642,345.62	14,371.90	656,717.52
Capital Assets, Depreciable:			
Buildings	12,499,832.09		12,499,832.09
Machinery and Equipment	1,092,115.86	191,325.15	1,283,441.01
General Infrastructure	483,650.87		483,650.87
Total Capital Assets, Depreciable	14,075,598.82	191,325.15	14,266,923.97
Less Accumulated Depreciation:			
Buildings	1,936,021.08	166,664.16	2,102,685.24
Machinery and Equipment	605,179.87	79,128.54	684,308.41
General Infrastructure	188,295.13	6,486.34	194,781.47
Total Accumulated Depreciation	2,729,496.08	252,279.04	2,981,775.12
Total Capital Assets, Depreciable, Net	11,346,102.74	(60,953.89)	11,285,148.85
Capital Assets, Net	\$ 11,988,448.36	\$ (46,581.99)	\$ 11,941,866.37

NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	Amount
Accounts Payable	\$ 90,741.45
Accrued Payroll	57,276.05
Intergovernmental Payables	4,828.84
Total Accounts Payable and Accrued Liabilities	\$ 152,846.34

NOTE 6 - 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	\$ 623,805.50	\$ 308,492.73	\$ 251,813.17	\$ 680,485.06	\$ 67,436.14

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 7 - LEASE OBLIGATIONS

Rental expense for all operating leases during the year was \$44,241.75. There are no commitments for future lease payments.

NOTE 8 - 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	<u>\$ 799,917.36</u>	<u>\$ 0.00</u>	<u>\$ 285,786.95</u>	<u>\$ 514,130.41</u>
Sales and Services:				
Sales and Services of Auxiliary Enterprises:				
Dining	\$ 70,943.28	\$ 878.82	\$ 0.00	\$ 70,064.46
Bookstore	533,581.76	12,838.40	160,186.74	360,556.62
Child Development Center	518,657.81			518,657.81
Rent	55,117.54			55,117.54
Sales and Services of Education and Related Activities	<u>15,260.46</u>			<u>15,260.46</u>
Total Sales and Services	<u>\$ 1,193,560.85</u>	<u>\$ 13,717.22</u>	<u>\$ 160,186.74</u>	<u>\$ 1,019,656.89</u>

NOTE 9 - 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	\$ 5,825,010.01	\$ 679,221.27	\$ 1,097,709.67	\$ 0.00	\$ 0.00	\$ 0.00	\$ 7,601,940.95
Academic Support	807,361.66	42,699.98	35,356.58				885,418.22
Student Services	854,813.59	20,319.93	47,802.03				922,935.55
Institutional Support	1,670,431.47	251,584.21	403,265.14				2,325,280.82
Operations and Maintenance of Plant	168,241.66	94,221.73	207,410.28		221,146.57		691,020.24
Student Financial Aid				462,292.93			462,292.93
Auxiliary Enterprises	608,922.23	506,976.28	32,314.93		16,146.49		1,164,359.93
Depreciation						252,279.04	252,279.04
Total Operating Expenses	<u>\$ 9,934,780.62</u>	<u>\$ 1,595,023.40</u>	<u>\$ 1,823,858.63</u>	<u>\$ 462,292.93</u>	<u>\$ 237,293.06</u>	<u>\$ 252,279.04</u>	<u>\$ 14,305,527.68</u>

NOTE 10 - PENSION PLANS

A. Retirement Plans - Each permanent full-time employee, as a condition of employment, is a member of the Teachers' and State Employees' Retirement System. The Teachers' and State Employees' Retirement

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 \$8,165,011.19, of which \$7,149,833.73 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were \$428,990.02 and \$190,185.58, respectively. The College made 100% of its annual required contributions for the years ended June 30, 2007, 2006, and 2005, which were \$190,185.58, \$150,204.93, and \$134,698.55, 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. Deferred Compensation and Supplemental Retirement Income Plans** - IRC Section 457 Plan - The State of North Carolina offers its permanent employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 through the North Carolina Public Employee Deferred Compensation Plan (the Plan). The Plan permits each participating employee to defer a portion of his or her salary until future years. The deferred compensation is available to employees upon separation from service, death, disability, retirement, or financial hardships if approved by the Board of Trustees of the Plan. The Board, a part of the North Carolina Department of Administration, maintains a separate fund for the exclusive benefit of the participating employees and their beneficiaries, *the North Carolina Public Employee Deferred Compensation Trust Fund*. The Board also contracts with an external third party to perform certain administrative requirements and to manage the trust fund's assets. All costs of administering and funding the Plan are the responsibility of the Plan participants. No costs are incurred by the

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

College. The voluntary contributions by employees amounted to \$16,479.00 for the year ended June 30, 2007.

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 \$77,471.00 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 \$252.00 for the year ended June 30, 2007.

NOTE 11 - 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 \$271,693.68. 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*.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 \$37,179.14. The College assumes no liability for long-term disability benefits under the Plan other than its contribution. Additional detailed information about the DIPNC is disclosed in the State of North Carolina's *Comprehensive Annual Financial Report*.

NOTE 12 - RISK MANAGEMENT

The College is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These exposures to loss are handled via a combination of methods, 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 contracts with private insurance companies. 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

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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. In addition, all full-time employees are covered by contracts with private insurance companies with coverage of \$100,000 per occurrence and a \$1,000 deductible.

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 13 - COMMITMENTS

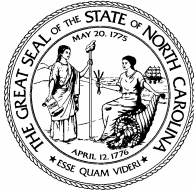
The College has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were \$40,828.10 at June 30, 2007.

NOTE 14 - NET ASSETS RESTATEMENT

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

	<u>Amount</u>
July 1, 2006 Net Assets as Previously Reported	\$ 15,342,455.59
Error in Establishing Useful Lives of Capital Assets	2,356,693.37
Error in Capitalizing Construction in Progress	(74,356.25)
Error in Recording Sale of Building	<u>(5,416,283.60)</u>
July 1, 2006 Net Assets as Restated	<u>\$ 12,208,509.11</u>

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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
Mayland Community College
Spruce Pine, North Carolina

We have audited the financial statements of Mayland 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 May 9, 2008. Our report was modified to include a reference to other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of 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*.

Internal Control Over Financial Reporting

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

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 certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

**INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
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GOVERNMENT AUDITING STANDARDS (CONCLUDED)**

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 deficiencies described in the Audit Findings and Responses 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, the significant deficiency described above is considered to be a material weakness.

The College's response to the finding identified in our audit is described in the Audit Findings and Responses 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

May 9, 2008

AUDIT FINDINGS AND RESPONSES

Matters Related to Financial Reporting or Federal Compliance Objectives

The following finding was identified during the current audit and describes conditions that represent significant deficiencies in internal control.

DEFICIENCIES IN FINANCIAL REPORTING

The financial statements prepared by Mayland Community College contained several misstatements and could be misleading to readers:

- a) Current unrestricted cash was overstated by \$72,183.28 and restricted cash was understated by the same amount. The College did not record the effect of borrowing unrestricted cash to cover deficit balances in restricted funds.
- b) The College's Capital Assets, Nondepreciable were overstated \$286,400.00 and Capital Assets, Depreciable were overstated \$5,314,483.60 due to failure to record the sale of land and a building.
- c) The College's machinery and equipment were understated \$128,696.24 and general infrastructure \$289,985.44 because the useful lives of these assets were not reasonably stated.

Recommendation: The College should place greater emphasis on the year-end financial reporting process and implement effective internal controls to ensure the completeness and accuracy of the financial statements.

College's Response:

- a) The College acknowledges the finding and has taken the necessary steps to ensure that a cash deficit between unrestricted and restricted funds will not occur in the future.
- b) The College acknowledges that the sale of a building and land should have been recognized in the previous fiscal year rather than the current audit year. Procedures have been implemented to evaluate the capital assets reported as part of the College's financial statements.
- c) The College also acknowledges that the financial statements contained misstatements involving the useful lives of capital assets. The College has completed a review of the appropriateness of the estimated useful lives of its capital assets and adjustments have been made accordingly. Procedures have been implemented to evaluate annually the appropriateness of the estimated useful lives.

Mayland Community College has made a thorough review of its process of completing the year-end financial statements and documentation of supporting schedules and has implemented internal controls to ensure that they are adequately prepared, reviewed, and maintained.

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