



STATE OF NORTH CAROLINA

MARTIN COMMUNITY COLLEGE

WILLIAMSTON, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2009

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR

MARTIN COMMUNITY COLLEGE

WILLIAMSTON, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2009

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THE NORTH CAROLINA COMMUNITY COLLEGE SYSTEM

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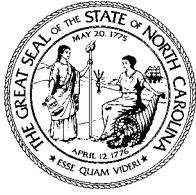
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Beth A. Wood, CPA
State Auditor

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AUDITOR'S TRANSMITTAL

The Honorable Beverly E. Perdue, 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, 2009 and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

The results of our tests disclosed no deficiencies in internal control over financial reporting that we consider to be material weaknesses in relation to our audit scope or any instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

North Carolina General Statutes require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.

A handwritten signature in black ink that reads "Beth A. Wood". The signature is written in a cursive, flowing style.

Beth A. Wood, CPA
State Auditor

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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, 2009, which collectively comprise the College's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the 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 opinions, insofar as they relate to the amounts included for the this entity, are 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 provides a reasonable basis for our opinions.

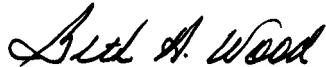
In our opinion, based on our audit and the report of the other auditor, the financial statements referred to above present fairly, in all material respects, the respective financial position of Martin Community College and its discretely presented component unit as of June 30, 2009, and the respective 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.

As discussed in Note 15 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* and Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments* during the year ended June 30, 2009.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

In accordance with *Government Auditing Standards*, we have also issued our report dated April 8, 2010 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, 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 required supplementary information. However, we did not audit the information and express no opinion on it.



Beth A. Wood, CPA
State Auditor

April 8, 2010

MARTIN COMMUNITY COLLEGE MANAGEMENT'S DISCUSSION AND ANALYSIS

Introduction

This section of Martin Community College's Financial Statement Audit Report presents Management's Discussion and Analysis of the College's financial activity during the fiscal years ended June 30, 2009 and June 30, 2008. 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 similar to bottom line results for the College. 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 indicators 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 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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)				
	2009	2008 (restated)	Increase (Decrease)	Percent Change
Assets				
Current Assets	\$ 1,879.42	\$ 1,903.51	\$ (24.09)	-1%
Capital Assets	5,980.95	5,313.02	667.93	13%
Other Assets	1,842.94	2,351.67	(508.73)	-22%
Total Assets	9,703.31	9,568.20	135.11	1%
Liabilities				
Current Liabilities	438.85	180.19	258.66	144%
Long-Term Liabilities	250.74	267.66	(16.92)	-6%
Total Liabilities	689.59	447.85	241.74	54%
Net Assets				
Invested in Capital Assets	5,980.95	5,313.02	667.93	13%
Restricted	1,932.60	2,715.50	(782.90)	-29%
Unrestricted	1,100.17	1,091.83	8.34	1%
Total Net Assets	\$ 9,013.72	\$ 9,120.35	\$ (106.63)	-1%

As of June 30, 2009, the College's total assets were \$9.70 million, representing a 1% increase from the prior year. The increase in capital assets is mostly attributed to the completion of a drainage project totaling \$714.30 thousand. Other assets decreased by \$508.73 thousand due to funds received for construction projects during 2009, thereby, reducing the associated receivable.

The current liabilities caption represents the College's accounts payable and accrued liabilities and the current portion of compensated absences. In 2009, accounts payable increased due to contract and retainage accruals for the HVAC Project Upgrade and Drainage Project. The long-term liabilities caption represents the College's compensated absences, which is the noncurrent, unused portion of earned vacation leave and special annual leave bonuses. The prior year current and long-term compensated absences were restated by \$24.62 thousand and \$217.01 thousand, respectively, due to a calculation error. The College has no other sources of long-term debt.

The largest of the College's net assets, \$5.98 million, is reflected in invested in capital assets (land, construction in progress, buildings, machinery and equipment, and general infrastructure). The prior year capital assets were restated by \$29.78 thousand due to an error

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

in establishing useful lives of capital assets. Restricted net assets decreased 29%, which is mostly due to a reduction in receivables associated with capital projects.

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 2009 and 2008 fiscal years.

	Operating Results			
	(in thousands)			
	2009	2008 (restated)	Increase (Decrease)	Percent Change
Operating Revenues				
Student Tuition and Fees, Net	\$ 300.15	\$ 287.08	\$ 13.07	5%
Sales and Services, Net	185.99	166.93	19.06	11%
Other Operating Revenues	7.63	25.05	(17.42)	-70%
Total Operating Revenues	<u>493.77</u>	<u>479.06</u>	<u>14.71</u>	3%
Less Operating Expenses	<u>9,174.49</u>	<u>8,821.76</u>	<u>352.73</u>	4%
Operating Loss	<u>(8,680.72)</u>	<u>(8,342.70)</u>	<u>(338.02)</u>	4%
Nonoperating and Other Revenues				
State Aid	5,396.03	5,521.43	(125.40)	-2%
County Appropriations	980.24	1,000.43	(20.19)	-2%
Noncapital Grants-Federal Student Financial Aid	1,194.93	1,030.92	164.01	16%
Noncapital Grants	453.27	565.59	(112.32)	-20%
Other Nonoperating Revenues	91.49	126.41	(34.92)	-28%
Capital Aid and Grants	446.13	416.82	29.31	7%
Additions to Endowments	12.00	0.20	11.80	5900%
Total Nonoperating and Other Revenues	<u>8,574.09</u>	<u>8,661.80</u>	<u>(87.71)</u>	-1%
Change in Net Assets	(106.63)	319.10	(425.73)	-133%
Net Assets - Beginning of Year	<u>9,120.35</u>	<u>8,801.25</u>	<u>319.10</u>	4%
Net Assets - End of Year	<u><u>\$ 9,013.72</u></u>	<u><u>\$ 9,120.35</u></u>	<u><u>\$ (106.63)</u></u>	-1%

Overall, total operating revenues increased by \$14.71 thousand. Student tuition and fees increased by approximately 5% due to a decrease in tuition waivers during the 2009 academic year. Sales and services increased by approximately 11% due to an increase in bookstore sales. Other operating revenues decreased by \$17.42 thousand due to decreased collections of loans issued to students in the current year. 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.

State Aid decreased by approximately 2% mostly due to required budget reversions and spending restrictions during the 2009 fiscal year. County appropriations decreased by

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

\$20.19 thousand due to the College's efforts to reduce operating expenditures. Noncapital Grants-Federal Student Financial Aid increased by \$164.01 thousand because of an increase in the annual Federal Pell student awards amount. Noncapital grants decreased by \$112.32 thousand due to \$200 thousand received in 2008 for the final year of the Achieving the Dream Grant; however, the College did receive \$70 thousand in funding for Education Access Reward North Carolina (EARN) for student scholarships and \$25 thousand for the Energy Efficiency Reserve Fund Grant awarded by the State Energy Office during the 2009 fiscal year. Other nonoperating revenues decreased by approximately 28%, which was mostly attributed to a \$33.57 thousand reduction in interest income earned in the 2009 fiscal year. Capital aid and grants increased by \$29.31 thousand. In 2009, county capital aid was decreased by \$277.47 thousand due to additional funds appropriated in the 2008 fiscal year for the purchase of a new chiller. State capital aid increased by \$325.65 thousand during 2009 due to computer and instructional equipment purchases.

The variance in Additions to Endowments is due to the establishment of the Bennett Endowment during 2009 with a beginning balance of \$12 thousand.

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 2009 and 2008 fiscal years.

<u>Operating Expenses</u>				
(in thousands)				
	<u>2009</u>	<u>2008</u>	<u>Increase</u>	<u>Percent</u>
		(restated)	(Decrease)	Change
Operating Expenses				
Personal Services	\$ 5,761.09	\$ 5,232.93	\$ 528.16	10%
Supplies and Materials	867.06	983.57	(116.51)	-12%
Services	1,067.04	1,264.50	(197.46)	-16%
Scholarships and Fellowships	889.71	724.05	165.66	23%
Utilities	300.63	301.45	(0.82)	0%
Depreciation	288.96	315.26	(26.30)	-8%
Total Operating Expenses	<u>\$ 9,174.49</u>	<u>\$ 8,821.76</u>	<u>\$ 352.73</u>	4%

Total operating expenses increased by \$352.73 thousand from the previous fiscal year. Personal services increased by 10% due to legislative salary increases and filled vacant positions. Supplies and Materials and Services were reduced by \$313.97 thousand due to budget restraints during the 2009 fiscal year. Scholarships and fellowships expense had a 23% increase, mostly due to increased Pell Awards.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Financial Analysis of Capital Assets

At the end of fiscal year 2009, the Statement of Net Assets reflected \$5.98 million of invested in capital assets, net of accumulated depreciation, as presented in the following table.

<u>Capital Assets</u>				
(in thousands)				
	<u>2009</u>	<u>2008</u> <u>(restated)</u>	<u>Increase</u> <u>(Decrease)</u>	<u>Percent</u> <u>Change</u>
Land	\$ 100.00	\$ 100.00	\$ 0.00	0%
Construction in Progress	268.52	114.16	154.36	135%
Buildings	3,294.72	3,431.81	(137.09)	-4%
Machinery and Equipment	837.74	879.23	(41.49)	-5%
General Infrastructure	1,479.97	787.82	692.15	88%
 Total Capital Assets, Net	 <u>\$ 5,980.95</u>	 <u>\$ 5,313.02</u>	 <u>\$ 667.93</u>	 13%

As previously mentioned, the College had a \$29.8 thousand restatement due to re-estimating the useful lives of the College's depreciable assets. Construction in progress for 2009 totaled \$268.52 thousand, which is the HVAC Project Upgrade. At year end, the College also had \$586.93 thousand in construction contract commitments associated with the HVAC Project. General Infrastructure category increased by 88% due to the Drainage Project being capitalized. Total depreciation expense for the 2009 fiscal year totaled \$288.96 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 2009 and 2008 fiscal years.

<u>Condensed Statement of Cash Flows</u>				
(in thousands)				
	<u>2009</u>	<u>2008</u>	<u>Increase</u> <u>(Decrease)</u>	<u>Percent</u> <u>Change</u>
Cash Provided (Used) By:				
Operating Activities	\$ (8,349.57)	\$ (8,199.45)	\$ (150.12)	2%
Noncapital Financing Activities	8,089.62	8,083.00	6.62	0%
Capital and Related Financing Activities	102.36	105.42	(3.06)	-3%
Investing Activities	80.23	113.80	(33.57)	-29%
Net Change in Cash and Cash Equivalents	(77.36)	102.77	(180.13)	-175%
Cash/Cash Equivalents, Beginning of Year	2,306.97	2,204.20	102.77	5%
Cash/Cash Equivalents, End of Year	<u>\$ 2,229.61</u>	<u>\$ 2,306.97</u>	<u>\$ (77.36)</u>	-3%

Cash used by operating activities increased by 2% in 2009. This increase was mostly attributed to increased payments for salaries and fringe benefits due to legislative salary

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

increases and increased payments for student scholarships. Cash provided by investing activities decreased by approximately 29%. Interest income decreased by \$33.57 thousand due to a lower interest rate earned in the State Treasury Investment Fund.

Economic Forecast

The economic future of Martin Community College remains secure because the College has managed to control rising costs with fewer funds and progress toward improvement. The State's economy continues to be affected by the economic downturn causing the College to be faced with budget reductions and possible budget reversions during fiscal year 2010.

Martin Community College, with focus on the development of its citizens, will continue its strong commitment to the community, small businesses, new and expanding industry training, and professional service training. The College was reaffirmed by the Commission on Colleges of the Southern Association of Colleges and Schools (SACS) to award associate degrees. In addition to being reaccredited, the College was also approved to begin offering distance learning classes and off-campus classes at Bertie Correctional Institute (BCI).

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 2010 semester. This program is contingent upon approval from the North Carolina Nursing Board. This program has been approved by the North Carolina Community College System Office. The College will continue to offer continuing education courses and adult basic education courses at BCI. These classes focus on job training and provide students with an opportunity to learn various practical job skills. Curriculum courses such as Air, Heating and Refrigeration Systems, Computer Information Technology, Electrical Electronics, and Industrial System Technology are now being offered at the Bertie Correctional Institute. These courses will lead to a Certificate, Diploma, or Associates Degree.

The College will also offer healthcare and "green technology" training programs as part of a statewide "JobsNow! 12 in 6" initiative beginning in September 2009. "JobsNow! 12 in 6" is Governor Beverly Perdue's initiative that was developed and implemented by North Carolina Community Colleges to train displaced workers in six months or less with the skills that qualify them for jobs that are in demand locally and across the state. Funding for this initiative is supported by the American Recovery and Reinvestment Act (ARRA), the Department of Commerce, Division of Workforce Development, and the Region Q Workforce Development Board.

Martin Community College
Statement of Net Assets
June 30, 2009

Exhibit A-1

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 1,127,221.17
Restricted Cash and Cash Equivalents	521,662.60
Receivables, Net (Note 4)	54,297.38
Inventories	176,153.99
Notes Receivable, Net (Note 4)	85.47
	<hr/>
Total Current Assets	1,879,420.61

Noncurrent Assets:

Restricted Cash and Cash Equivalents	580,721.33
Restricted Due from Primary Government	1,262,218.95
Capital Assets - Nondepreciable (Note 5)	368,517.97
Capital Assets - Depreciable, Net (Note 5)	5,612,430.25
	<hr/>
Total Noncurrent Assets	7,823,888.50
	<hr/>
Total Assets	9,703,309.11

LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 6)	376,881.18
Unearned Revenue	22,007.70
Long-Term Liabilities - Current Portion (Note 7)	39,956.21
	<hr/>
Total Current Liabilities	438,845.09

Noncurrent Liabilities:

Funds Held for Others	17,957.88
Long-Term Liabilities (Note 7)	232,782.42
	<hr/>
Total Noncurrent Liabilities	250,740.30
	<hr/>
Total Liabilities	689,585.39

NET ASSETS

Invested in Capital Assets	\$ 5,980,948.22
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	44,915.87
Expendable:	
Scholarships and Fellowships	80,053.98
Loans	4,626.84
Capital Projects	1,582,686.06
Other	220,325.96
Unrestricted	1,100,166.79
	<hr/>
Total Net Assets	\$ 9,013,723.72

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, 2009***

Exhibit A-2

REVENUES

Operating Revenues:	
Student Tuition and Fees, Net (Note 9)	\$ 300,150.44
Sales and Services, Net (Note 9)	185,989.46
Other Operating Revenues	7,634.51
	<hr/>
Total Operating Revenues	493,774.41
	<hr/>

EXPENSES

Operating Expenses:	
Personal Services	5,761,085.66
Supplies and Materials	867,055.30
Services	1,067,043.99
Scholarships and Fellowships	889,709.43
Utilities	300,633.30
Depreciation	288,958.10
	<hr/>
Total Operating Expenses	9,174,485.78
	<hr/>
Operating Loss	(8,680,711.37)
	<hr/>

NONOPERATING REVENUES

State Aid	5,210,239.73
State Aid - Federal Recovery Funds	185,793.12
County Appropriations	980,238.00
Noncapital Grants - Federal Student Financial Aid	1,194,926.68
Noncapital Grants	453,274.92
Noncapital Gifts	11,260.47
Investment Income	80,225.04
	<hr/>
Net Nonoperating Revenues	8,115,957.96
	<hr/>
Loss Before Other Revenues	(564,753.41)
	<hr/>
State Capital Aid	373,431.27
County Capital Aid	24,999.90
Capital Grants	47,699.49
Additions to Endowments	12,000.00
	<hr/>
Decrease in Net Assets	(106,622.75)
	<hr/>

NET ASSETS

Net Assets, July 1, 2008 as Restated (Note 16)	9,120,346.47
	<hr/>
Net Assets, June 30, 2009	\$ 9,013,723.72
	<hr/> <hr/>

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, 2009***

Exhibit A-3

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 487,858.58
Payments to Employees and Fringe Benefits	(5,727,028.64)
Payments to Vendors and Suppliers	(2,211,026.72)
Payments for Scholarships and Fellowships	(878,458.31)
Loans Issued to Students	(1,063.96)
Collection of Loans to Students	1,511.49
Other Payments	(21,360.77)
	<hr/>
Net Cash Used by Operating Activities	(8,349,568.33)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Aid Received	5,210,239.73
State Aid - Federal Recovery Funds	185,793.12
County Appropriations	980,238.00
Noncapital Grants - Federal Student Financial Aid	1,194,926.68
Noncapital Grants Received	495,159.61
Noncapital Gifts and Endowments Received	23,260.47
	<hr/>
Cash Provided by Noncapital Financing Activities	8,089,617.61

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

State Capital Aid Received	782,448.62
County Capital Aid	24,999.90
Capital Grants Received	47,699.49
Acquisition and Construction of Capital Assets	(752,791.05)
	<hr/>
Net Cash Provided by Capital and Related Financing Activities	102,356.96

CASH FLOWS FROM INVESTING ACTIVITIES

Investment Income	80,225.04
	<hr/>
Cash Provided by Investing Activities	80,225.04

Net Decrease in Cash and Cash Equivalents	(77,368.72)
Cash and Cash Equivalents, July 1, 2008	2,306,973.82
	<hr/>
Cash and Cash Equivalents, June 30, 2009	\$ 2,229,605.10

***Martin Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2009***

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

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

Operating Loss	\$ (8,680,711.37)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	288,958.10
Provision for Uncollectible Loans and Write-Offs	4,003.16
Changes in Assets and Liabilities:	
Receivables, Net	(11,566.70)
Inventories	8,937.61
Notes Receivable, Net	447.53
Accounts Payable and Accrued Liabilities	36,255.80
Unearned Revenue	2,784.45
Funds Held for Others	(7,243.23)
Compensated Absences	8,566.32
	<hr/>
Net Cash Used by Operating Activities	<u>\$ (8,349,568.33)</u>

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	\$ 1,127,221.17
Restricted Cash and Cash Equivalents	521,662.60
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	<hr/> 580,721.33
Total Cash and Cash Equivalents - June 30, 2009	<u>\$ 2,229,605.10</u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through Assumption of a Liability	\$ 204,092.14
Capital Asset Write-Offs	(15,885.06)

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, 2008

Exhibit B-1

ASSETS

Current Assets		
Cash in Bank		\$ 66,179.75
Cash with State Treasurer		148,015.04
		<hr/>
Total Current Assets		214,194.79
Capital Assets		
Horse Stock	\$ 286,864.00	
Less: Accumulated Depreciation	(126,437.34)	160,426.66
	<hr/>	
Furniture & Equipment	43,765.19	
Less: Accumulated Depreciation	(33,821.13)	9,944.06
	<hr/>	<hr/>
Total Assets		384,565.51
NET ASSETS		
Unrestricted		335,214.50
Temporarily Restricted		3,755.47
Permanently Restricted		45,595.54
		<hr/>
Total Net Assets		\$ 384,565.51
		<hr/> <hr/>

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, 2008

Exhibit B-2

CHANGES IN UNRESTRICTED NET ASSETS

Support and Revenues:	
Contributions - Cash	\$ 500.00
Contributions - Horses	68,898.00
Fund Raising Income	51,355.27
Horse Sale Proceeds	12,975.00
Net Assets Released from Restrictions	<u>6,839.41</u>
Total Support and Revenues	<u>140,567.68</u>
Expenses and Losses:	
Contributions to Martin Community College for Scholarships	5,474.50
Administration	171,788.36
Fund Raising	<u>39,499.34</u>
Total Expenses	<u>216,762.20</u>
Decrease in Unrestricted Net Assets	<u>(76,194.52)</u>

CHANGES IN TEMPORARILY RESTRICTED NET ASSETS

Contributions - Cash	125.00
Investment Income	6,839.41
Net Assets Released from Restrictions	<u>(6,839.41)</u>
Increase in Temporarily Restricted Net Assets	<u>125.00</u>
Decrease in Net Assets	(76,069.52)
Net Assets at Beginning of Year	<u>460,635.03</u>
Net Assets at End of Year	<u><u>\$ 384,565.51</u></u>

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

MARTIN COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

- A. Financial Reporting Entity** - The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their constituents for their actions. As required by accounting principles generally accepted in the United States of America (GAAP), the financial reporting entity includes both the primary government and all of its component units. An organization other than a primary government serves as a nucleus for a reporting entity when it issues separate financial statements. 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 College's financial statements. The discretely presented component units' 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 - Martin Community College Foundation, Inc. (the Foundation), 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 13 members. Although the College does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, that the Foundation holds and invests are restricted to the activities of the College by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of the College, the Foundation is considered a component unit of the College and is reported in separate financial statements because of the difference in its reporting model, as described below.

The Foundation is a private 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 the Governmental Accounting Standards Board (GASB) revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information in the College's financial reporting entity for these differences.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Financial statements for the College are presented as of and for the fiscal year ended June 30, 2009. 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, 2008. During the year ended December 31, 2008, the Foundation distributed \$5,474.50 to the College for restricted 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, 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, regardless of the timing of the cash flows.

Nonexchange transactions, in which the College receives (or gives) value without directly giving (or receiving) equal value in exchange includes State appropriations, certain grants, and donations. Revenues are recognized, net of estimated uncollectible amounts, as soon as all eligibility requirements imposed by the provider have been met, if probable of collection.

- D. Cash and Cash Equivalents** - This classification includes undeposited receipts, petty cash, cash on deposit with private bank accounts, and deposits held by the State Treasurer in the short-term investment fund.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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. Receivables are recorded net of estimated uncollectible amounts.
- F. Inventories** - Inventories, consisting of expendable supplies, are valued at cost using the last invoice cost 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 value of assets constructed includes all material direct and indirect construction costs. Interest costs incurred are capitalized during the period of construction.

The College capitalizes assets that have a value or cost in excess of \$5,000 at the date of acquisition and an estimated 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** - Certain resources are reported as restricted assets because restrictions on asset use change the nature or normal understanding of the availability of the asset. Resources that are not available for current operations and are reported as restricted include resources restricted or designated for the acquisition or construction of capital assets and resources whose use is limited by external parties or statute.
- I. Noncurrent Long-Term Liabilities** - Noncurrent long-term liabilities include 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

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

K. Net 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 either 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. 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, if

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 \$778.00, and deposits in private financial institutions with a carrying value of \$86,320.11 and a bank balance of \$173,532.23.

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, 2009, all of the College's bank balance was covered by federal depository insurance (FDIC).

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 2009, the amount shown on the Statement of Net Assets as cash and cash equivalents includes \$2,142,506.99 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 1.8 years as of June 30, 2009. 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 "Proceed directly to OSC's index page," then "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, 2009, net appreciation of \$10,875.49 was available to be spent, all of which was restricted to specific purposes.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 4 - RECEIVABLES

Receivables at June 30, 2009 were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	\$ 44,263.10	\$ 10,290.49	\$ 33,972.61
Accounts	6,379.78		6,379.78
Intergovernmental	13,944.99		13,944.99
	<u>\$ 64,587.87</u>	<u>\$ 10,290.49</u>	<u>\$ 54,297.38</u>
Total Current Receivables			
	<u>\$ 64,587.87</u>	<u>\$ 10,290.49</u>	<u>\$ 54,297.38</u>
Notes Receivable - Current:			
Institutional Student Loan Programs	<u>\$ 131.50</u>	<u>\$ 46.03</u>	<u>\$ 85.47</u>

NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2009 is presented as follows:

	Balance July 1, 2008 (as restated)	Increases	Decreases	Balance June 30, 2009
Capital Assets, Nondepreciable:				
Land	\$ 100,000.00	\$ 0.00	\$ 0.00	\$ 100,000.00
Construction in Progress	114,159.21	868,662.54	714,303.78	268,517.97
	<u>214,159.21</u>	<u>868,662.54</u>	<u>714,303.78</u>	<u>368,517.97</u>
Total Capital Assets, Nondepreciable				
	<u>214,159.21</u>	<u>868,662.54</u>	<u>714,303.78</u>	<u>368,517.97</u>
Capital Assets, Depreciable:				
Buildings	6,854,465.08			6,854,465.08
Machinery and Equipment	1,778,680.39	88,220.65	15,885.06	1,851,015.98
General Infrastructure	1,048,055.65	714,303.78		1,762,359.43
	<u>9,681,201.12</u>	<u>802,524.43</u>	<u>15,885.06</u>	<u>10,467,840.49</u>
Total Capital Assets, Depreciable				
	<u>9,681,201.12</u>	<u>802,524.43</u>	<u>15,885.06</u>	<u>10,467,840.49</u>
Less Accumulated Depreciation for:				
Buildings	3,422,660.06	137,089.44		3,559,749.50
Machinery and Equipment	899,446.14	129,717.03	15,885.06	1,013,278.11
General Infrastructure	260,231.00	22,151.63		282,382.63
	<u>4,582,337.20</u>	<u>288,958.10</u>	<u>15,885.06</u>	<u>4,855,410.24</u>
Total Accumulated Depreciation				
	<u>4,582,337.20</u>	<u>288,958.10</u>	<u>15,885.06</u>	<u>4,855,410.24</u>
Total Capital Assets, Depreciable, Net				
	<u>5,098,863.92</u>	<u>513,566.33</u>		<u>5,612,430.25</u>
Capital Assets, Net				
	<u>\$ 5,313,023.13</u>	<u>\$ 1,382,228.87</u>	<u>\$ 714,303.78</u>	<u>\$ 5,980,948.22</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2009 were as follows:

	Amount
Accounts Payable	\$ 231,402.39
Accrued Payroll	133,710.04
Contract Retainage	10,428.75
Other	1,340.00
Total Accounts Payable and Accrued Liabilities	\$ 376,881.18

NOTE 7 - LONG-TERM LIABILITIES

A summary of changes in the long-term liabilities for the year ended June 30, 2009 is presented as follows:

	Balance July 1, 2008 (as restated)	Additions	Reductions	Balance June 30, 2009	Current Portion
Compensated Absences	\$ 264,172.31	\$ 193,151.78	\$ 184,585.46	\$ 272,738.63	\$ 39,956.21

NOTE 8 - OPERATING LEASE OBLIGATIONS

The College entered into operating leases for office equipment. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2009:

Fiscal Year	Amount
2010	\$ 12,992.49
2011	8,100.00
2012	8,100.00
2013	4,050.00
Total Minimum Lease Payments	\$ 33,242.49

Rental expense for all operating leases during the year was \$18,153.42.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 9 - REVENUES

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

	Gross Revenues	Less Internal Sales Eliminations	Less Scholarship Discounts	Less Allowance for Uncollectibles	Net Revenues
Operating Revenues:					
Student Tuition and Fees	\$ 604,079.14	\$ 0.00	\$ 298,415.05	\$ 5,513.65	\$ 300,150.44
Sales and Services:					
Sales and Services of Auxiliary Enterprises:					
Bookstore	\$ 367,663.78	\$ 2,965.83	\$ 200,646.04	\$ 1,274.57	\$ 162,777.34
Other	23,212.12				23,212.12
Total Sales and Services	\$ 390,875.90	\$ 2,965.83	\$ 200,646.04	\$ 1,274.57	\$ 185,989.46

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	\$ 3,158,555.27	\$ 333,480.64	\$ 538,523.80	\$ 0.00	\$ 0.00	\$ 0.00	\$ 4,030,559.71
Academic Support	557,715.97	65,245.17	59,842.49				682,803.63
Student Services	318,367.95	12,000.63	26,339.61				356,708.19
Institutional Support	1,323,247.09	95,056.24	264,801.79				1,683,105.12
Operations and Maintenance of Plant	336,199.79	53,791.97	156,807.62		300,633.30		847,432.68
Student Financial Aid				889,709.43			889,709.43
Auxiliary Enterprises	66,999.59	307,480.65	20,728.68				395,208.92
Depreciation						288,958.10	288,958.10
Total Operating Expenses	\$ 5,761,085.66	\$ 867,055.30	\$ 1,067,043.99	\$ 889,709.43	\$ 300,633.30	\$ 288,958.10	\$ 9,174,485.78

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 is a cost-sharing multiple-employer defined benefit pension plan established by the State to provide pension benefits for employees of the State, its component units and local boards of education. The plan is administered by 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

set each year by the North Carolina General Assembly based on annual actuarial valuations. For the year ended June 30, 2009, these rates were set at 3.36% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the College had a total payroll of \$4,470,238.43, of which \$3,701,801.71 was covered under the Teachers' and State Employees' Retirement System. Total employer and employee contributions for pension benefits for the year were \$124,380.54 and \$222,114.84, respectively.

Required employer contribution rates for the years ended June 30, 2008 and 2007 were 3.05% and 2.66%, respectively, while employee contributions were 6% each year. The College made 100% of its annual required contributions for the years ended June 30, 2009, 2008, and 2007 which were \$124,380.54, \$105,579.34, and \$80,400.10, 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.ncosc.net/> and clicking on "Proceed directly to OSC's index page," then "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 \$70,953.00 for the year ended June 30, 2009.

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 \$21,191.67 for the year ended June 30, 2009.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS

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

The Plan's benefit and contribution provisions are established by *North Carolina General Statute 135-7* and Chapter 135, Article 3A, of the General Statutes and may be amended only by the North Carolina General Assembly. The Plan does not provide for automatic post-retirement benefit increases.

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

For the current fiscal year, the College contributed 4.1% of the covered payroll under the Teachers' and State Employees' Retirement System to the Fund. Required contribution rates for the years ended June 30, 2008 and 2007 were 4.1% and 3.8%, respectively. The College made 100% of its annual required contributions to the Plan for the years ended June 30, 2009, 2008, and 2007 which were \$151,773.87, \$141,926.33, and \$114,857.29, respectively. The College assumes no liability for retiree health care benefits provided by the programs other than its required contribution.

Additional detailed information about these programs can be located in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

<http://www.ncosc.net/> and clicking on “Proceed directly to OSC’s index page,” then “Reports,” or by calling the State Controller’s Financial Reporting Section at (919) 981-5454.

- B. Disability Income** - The College participates in the Disability Income Plan of North Carolina (DIPNC), a cost-sharing, multiple-employer defined benefit plan, to provide short-term and long-term disability benefits to eligible members of the Teachers’ and State Employees’ Retirement System. Benefit and contribution provisions are established by Chapter 135, Article 6, of the General Statutes, and may be amended only by the North Carolina General Assembly. The plan does not provide for automatic post-retirement benefit increases.

Disability income benefits are funded by actuarially determined employer contributions that are established in the Appropriations Bill by the General Assembly. For the fiscal year ended June 30, 2009, the College made a statutory contribution of .52% of covered payroll under the Teachers’ and State Employees’ Retirement System to the DIPNC. Required contribution rates for the years ended June 30, 2008, and 2007, were .52% and .52%, respectively. The College made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2009, 2008, and 2007, which were \$19,249.37, \$18,000.41, and \$15,717.31, respectively. The College assumes no liability for long-term disability benefits under the Plan other than its contribution.

Additional detailed information about the DIPNC is disclosed in the State of North Carolina’s *Comprehensive Annual Financial Report*.

NOTE 13 - RISK MANAGEMENT

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 retains the risk for the \$10 million 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 are covered by liability insurance through a private insurance company and handled by the North Carolina Department of Insurance. The liability limits for losses are \$1,000,000 per claim and \$10,000,000 per occurrence. The community college pays premiums to the North Carolina Department of Insurance for the coverage. Liability insurance for other College-owned vehicles is covered by contracts with private insurance companies.

The College is protected for losses from employee dishonesty and computer fraud for employees paid in whole or in part from State funds. This coverage is with a private insurance company and is handled by the North Carolina Department of Insurance. North Carolina Community College System Office is charged a premium by the private insurance company. Coverage limit is \$5,000,000 per occurrence. The private insurance company pays 90% of each loss less a \$75,000 deductible. Losses from county and institutional funds paid employees are covered by a separate policy with a private insurance company.

College employees and retirees are provided comprehensive major medical care benefits. Coverage is funded by contributions to the State Health Plan (Plan), a pension and other employee benefit trust fund of the State of North Carolina. The Plan is funded by employer and employee contributions. The Plan has contracted with third parties to process claims.

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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 \$586,925.00 and on other purchases were \$176,287.77 at June 30, 2009.

NOTE 15 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2009, the College implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*.

GASB Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*.

GASB Statement No. 49, requires reporting pollution remediation obligations, including reporting pollution remediation obligations that previously may not have been reported.

GASB Statement No. 52, requires reporting land and other real estate held as investments at fair value. This statement amends GASB Statement No. 31 which required endowments to report land and other real estate investments at historical cost.

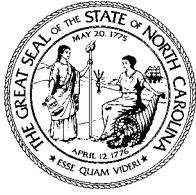
In addition, beginning with the year ended June 30, 2009, the College reports federal student aid as nonoperating revenue instead of operating revenue. This change was the result of a clarification in the GASB *Comprehensive Implementation Guide*.

NOTE 16 - NET ASSET RESTATEMENTS

As of July 1, 2008, net assets, as previously reported, were restated as follows:

July 1, 2008 Net Assets, as Previously Reported	\$ 8,908,503.36
Restatements:	
Error in Establishing Useful Lives of Capital Assets	(29,780.58)
Error in Calculation of Prior Year Compensated Absences	241,623.69
	<u>211,843.11</u>
July 1, 2008 Net Assets, as Restated	<u>\$ 9,120,346.47</u>

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Beth A. Wood, CPA
State Auditor

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

Board of Trustees
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, 2009, which collectively comprise the College's basic financial statements and have issued our report thereon dated April 8, 2010. Our report was modified to include a reference to other auditors.

As discussed in Note 15 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* and Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments* during the year ended June 30, 2009.

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*.

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.

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

**INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
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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.

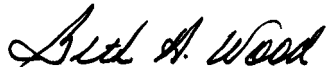
A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the College's internal control.

Our consideration of 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 internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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*.

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



Beth A. Wood, CPA
State Auditor

April 8, 2010

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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