STATE OF NORTH CAROLINA

MARTIN COMMUNITY COLLEGE

WILLIAMSTON, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2011

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR

A Component Unit of the State of North Carolina

MARTIN COMMUNITY COLLEGE

WILLIAMSTON, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

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STATE OF NORTH CAROLINA
Office of the State Auditor

Beth A. Wood, CPA
State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601
Telephone: (919) 807-7500
Fax: (919) 807-7647
Internet
http://www.ncauditor.net

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, 2011, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

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

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

Beth A. Wood

Beth A. Wood, CPA
State Auditor

TABLE OF CONTENTS

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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, 2011, 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 they relate to the amounts included for 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 provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of the other auditor, the financial statements referred to above present fairly, in all material respects, the respective financial position of Martin Community College and its discretely presented component unit as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 1, 2012 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

Beth A. Wood, CPA
State Auditor

February 1, 2012

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, 2011, and June 30, 2010. 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 the net costs of College activities which are supported by State, local, federal, and other revenues. This statement presents the revenues earned, and expenses incurred during the year. Activities are reported as either operating or nonoperating. A community college's dependency on State aid and gifts could result in operating deficits because the financial reporting model classifies State and local appropriations and gifts as nonoperating revenues. The utilization of capital assets is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life.

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

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

Financial Analysis of Statement of Net Assets

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

Condensed Statement of Net Assets
(in thousands)

	2011	2010	Increase (Decrease)	Percent Change
Assets				
Current Assets	$ 1,963.09	$ 1,799.43	$ 163.66	9.1%
Capital Assets	7,646.32	7,747.68	(101.36)	-1.3%
Other Assets	726.71	750.34	(23.63)	-3.1%
Total Assets	10,336.12	10,297.45	38.67	0.4%
Liabilities				
Current Liabilities	241.91	233.01	8.90	3.8%
Long-Term Liabilities	259.67	232.55	27.12	11.7%
Total Liabilities	501.58	465.56	36.02	7.7%
Net Assets				
Invested in Capital Assets	7,646.32	7,747.68	(101.36)	-1.3%
Restricted	818.45	832.82	(14.37)	-1.7%
Unrestricted	1,369.77	1,251.39	118.38	9.5%
Total Net Assets	$ 9,834.54	$ 9,831.89	$ 2.65	0.0%

As of June 30, 2011, the College's total assets were $10.3 million. The largest increase was in the Current Assets caption. This was due mainly to increased cash at June 2011 because of higher equine patron fees, higher cosmetology fees, vending commissions received with no expenditure, and increased savings in telephone and utility expenses. Also included in Current Assets was an increase in receivables from vendors for returned bookstore items and an increase in inventory due mostly to more fuel on hand than in the prior year.

The Current Liabilities caption represents the College's accounts payable and current portion of compensated absences. With an increased student enrollment in curriculum programs in 2011, the college hired more part-time faculty to teach, which caused the increase in accrued payroll at year-end. The Long-term Liabilities caption represents the College's compensated absences, which is the noncurrent, unused portion of employees' earned vacation leave and special annual leave bonuses. The 12 % increase in Long-term Liabilities is due to employees earning more leave than they used. In fiscal year 2011 employees used $33 thousand less leave than they did in fiscal year 2010. Also, the College Board of Trustees approved adopting the State leave schedule which resulted in employees earning an additional $4 thousand. This was effective January 1, 2011. The College has no other sources of long-term debt.

The largest of the College's net assets, $7.65 million, are reflected in invested in capital assets (land, construction in progress, buildings, machinery and equipment, and general infrastructure). Activity in the accounts affecting this net asset balance remained relatively stable when compared to the 2010 year, since most of the construction occurred in 2010. Unrestricted net assets increased 9% which is mostly due to increased cash balances; addressed in paragraph 2 under Financial Analysis of Statement of Net Assets.

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 2011 and 2010 fiscal years.

Operating Results
(in thousands)

	2011	2010	Increase (Decrease)	Percent Change
Operating Revenues				
Student Tuition and Fees, Net	$ 382.56	$ 427.21	$ (44.65)	-10.5%
Sales and Services, Net	203.56	202.01	1.55	0.8%
Other Operating Revenues	34.66	25.73	8.93	34.7%
Total Operating Revenues	620.78	654.95	(34.17)	-5.2%
Less Operating Expenses	9,272.77	9,300.29	(27.52)	-0.3%
Operating Loss	(8,651.99)	(8,645.34)	(6.65)	0.1%
Nonoperating and Other Revenues				
State Aid	4,461.97	4,591.30	(129.33)	-2.8%
County Appropriations	966.68	965.79	0.89	0.1%
Noncapital Grants-Fed Student Financial Aid	2,346.39	1,885.21	461.18	24.5%
Noncapital Grants	514.31	626.16	(111.85)	-17.9%
Other Nonoperating Revenues	24.08	36.08	(12.00)	-33.3%
Capital Aid and Grants	359.59	537.43	(177.84)	-33.1%
Capital Gifts	-	835.30	(835.30)	-100.0%
Additions to Endowments	-	3.02	(3.02)	-100.0%
Total Nonoperating and Other Revenues	8,673.02	9,480.29	(807.27)	-8.5%
Less Nonoperating Expenses	18.37	16.79	1.58	9.4%
Change in Net Assets	2.66	818.16	(815.50)	-99.7%
Net Assets - Beginning of Year	9,831.88	9,013.72	818.16	9.1%
Net Assets - End of Year	$ 9,834.54	$ 9,831.88	$ 2.66	0.0%

Overall, total operating revenues decreased by $34.17 thousand. Student tuition and fees decreased by approximately 10% due to several different factors. There was an increase in student financial aid which increases nonoperating revenues but reduces operating revenues. We also had an increase in tuition discounts in continuing education along with a drop in continuing education FTE's in 2011. Other operating revenues increased by $8.9 thousand because more revenue was collected by the Equine facility for boarding horses in 2011.

State Aid decreased by approximately 3% mostly due to required budget reversions during the 2011 fiscal year. Noncapital Grants-Federal Student Financial Aid went up because of an increase in the number of students who received Federal Pell awards. Since so many more students were eligible for the full amount of Pell, fewer students qualified for the North Carolina Education Lottery Grant, which reduced the 2011 Noncapital Grants. In addition, during 2010 the Noncapital Grants included $72.0 thousand from the Education Access Reward North Carolina (EARN) for student scholarships compared to zero in 2011. The decrease in Other Nonoperating Revenues is mostly attributed to a reduction in interest income earned during the 2011 fiscal year. Capital aid and grants decreased by $177.84 thousand primarily due to a reduction in House Bill 275 funds available to spend for equipment purchases in 2011. Capital Gifts is higher in 2010 because the College received a donation of the Hamilton Baptist Home and another residence from the Baptist Homes of North Carolina in 2010 but no similar capital donations were received in 2011. In relation to Endowments, during 2010 the College received an additional $3 thousand donation to the Hardy Endowment, but no such donations were received in 2011.

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 2011 and 2010 fiscal years.

(in thousands)

	2011	2010	Increase (Decrease)	Percent Change
Operating Expenses				
Salaries & Benefits	$ 5,333.28	$ 5,276.12	$ 57.16	1.1%
Supplies and Materials	1,080.32	1,169.99	(89.67)	-7.7%
Services	899.15	932.55	(33.40)	-3.6%
Scholarships and Fellowships	1,351.06	1,323.05	28.01	2.1%
Utilities	325.05	320.13	4.92	1.5%
Depreciation	283.91	278.45	5.46	2.0%
Total Operating Expenses	$ 9,272.77	$ 9,300.29	$ (27.52)	-0.3%

Total operating expenses decreased by $27.52 thousand from the previous fiscal year. During 2011, the College was under budget restrictions mandated by the governor. These restrictions caused decreased spending in both Supplies and Materials and Services, which was accomplished in part by re-evaluating copier lease agreements. Salaries and Benefits increased slightly due to hiring additional part-time instructors and filling vacant positions.

The increase in Scholarships and Fellowships expense was attributed to increased Pell Awards.

Financial Analysis of Capital Assets

At the end of fiscal year 2011, the Statement of Net Assets reflected $7.65 million of Capital Assets, net of accumulated depreciation, as presented in the following table.

Capital Assets
(in thousands)

	2011	2010	Increase (Decrease)	Percent Change
Land	$ 166.28	$ 166.28	$ 0.00	0.0%
Construction in Progress	1,190.49	1,295.40	(104.91)	-8.1%
Buildings	3,766.41	3,916.73	(150.32)	-3.8%
Machinery and Equipment	1,113.66	924.54	189.12	20.5%
General Infrastructure	1,409.48	1,444.73	(35.25)	-2.4%
Total Capital Assets, Net	$ 7,646.32	$ 7,747.68	$ (101.36)	-1.3%

Overall, Capital Assets decreased approximately 1%. Construction in progress for 2011 consisted of the HVAC Project Upgrade ($1.09 million) and the Administrative Classroom Planning ($95.0 thousand). In 2011 the College reclassified a $170.4 thousand Phone System on the Bertie County and Martin County campuses from construction in progress to equipment. At year end, the College had $74.57 thousand in construction contract commitments. These commitments consisted of contracts on the HVAC Project totaling $31.33 thousand and Administrative Classroom for $43.24 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 2011 and 2010 fiscal years.

Condensed Statement of Cash Flows
(in thousands)

	2011	2010	Increase (Decrease)	Percent Change
Cash Provided (Used) By:				
Operating Activities	$ (8,418.49)	$ (8,358.56)	$ (59.93)	0.7%
Noncapital Financing Activities	8,291.85	8,073.27	218.58	2.7%
Capital Financing Activities	237.07	155.03	82.04	52.9%
Investing Activities	21.90	34.28	(12.38)	-36.1%
Net Change in Cash and Cash Equivalents	132.33	(95.98)	228.31	237.9%
Cash/Cash Equivalents, Beginning of Year	2,133.63	2,229.61	(95.98)	-4.3%
Cash/Cash Equivalents, End of Year	$ 2,265.96	$ 2,133.63	$ 132.33	6.2%

As indicated by the table above, cash provided and used by the College remained comparable except cash provided by capital financing and investing activities. The increase in cash provided for capital financing activities was attributed to the College receiving an additional $25.2 thousand in Perkins funds and to a decrease in payments on acquisition and construction of capital assets in 2011. The decrease in cash provided by investing activities was due to a lower interest rate on the State Treasurer Investment Fund in 2011.

Economic Forecast

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 2012. However, 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.

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 continues to seek opportunities for growth by promoting enrollment. The College has a Curriculum Committee that reviews programs each year with input from an Advisory Committee made up of community citizens. The College will continue to offer continuing education courses at the Bertie Correctional Institute. These classes focus on job training and provide students with an opportunity to learn various practical job skills.

In 2010, Martin Community College was among eight community colleges in the nation to be selected as a "Leader College" by *Achieving the Dream: Community Colleges Count*, a multi-year national initiative to help more community college students succeed. Achieving the Dream institutions that have met high standards of practice and performance are recognized as "Achieving the Dream Leader Colleges." Achieving the Dream Leader Colleges have demonstrated commitment to and made progress on the four principles of Achieving the Dream: committed leadership, use of evidence to improve programs and services, broad engagement, and systemic institutional improvement. They have also shown three years of sustained student success improvement. The organization expects these colleges to serve as mentors within the Achieving the Dream community of learners, as well as advocates for the principles of Achieving the Dream.

Martin Community College along with Guilford Community College, the managing college, Central Piedmont Community College, Davidson County Community College and Wake Technical Community College are among a cadre of schools chosen for Completion by Design. It aims to build on proven, existing practices already underway at a number of forward-thinking community colleges. Completion by Design is a five-year program funded by the Bill and Melinda Gates Foundation to significantly increase completion and graduation rates for low-income students ages 18 to 26. The North Carolina community colleges were selected after a rigorous competition announced last October at the White House Summit on Community Colleges. The Bill and Melinda Gates Foundation established the Completion by

Design project to proceed in three phases beginning June 2011: The first phase will be a one-year planning period in which the participating colleges will examine their own data to identify loss points and design strategies to address them. Phase two will be an implementation period, during which the colleges will implement the strategies. The final stage will focus on policy implications and changes, and scaling up the project for national impact.

As a result of these strategies Martin Community College should continue to grow in student enrollment.

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Martin Community College
Statement of Net Assets
June 30, 2011 ***Exhibit A-1***

ASSETS	
Current Assets:	
Cash and Cash Equivalents	$ 1,547,709.74
Restricted Cash and Cash Equivalents	172,848.24
Receivables, Net (Note 4)	66,937.01
Inventories	175,315.94
Notes Receivable	282.50
Total Current Assets	1,963,093.43
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	545,407.38
Restricted Due from Primary Government	181,301.64
Capital Assets - Nondepreciable (Note 5)	1,356,765.92
Capital Assets - Depreciable, Net (Note 5)	6,289,555.82
Total Noncurrent Assets	8,373,030.76
Total Assets	10,336,124.19
LIABILITIES	
Current Liabilities:	
Accounts Payable and Accrued Liabilities (Note 6)	207,501.09
Unearned Revenue	8,691.25
Long-Term Liabilities - Current Portion (Note 7)	25,716.72
Total Current Liabilities	241,909.06
Noncurrent Liabilities:	
Funds Held for Others	15,541.45
Long-Term Liabilities (Note 7)	244,133.40
Total Noncurrent Liabilities	259,674.85
Total Liabilities	501,583.91
NET ASSETS	
Invested in Capital Assets	7,646,321.74
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	49,870.76
Other	600.10
Expendable:	
Scholarships and Fellowships	8,932.13
Loans	71,604.99
Capital Projects	609,449.76
Other	77,989.07
Unrestricted	1,369,771.73
Total Net Assets	$ 9,834,540.28

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

Martin Community College
Statement of Revenues, Expenses, and
Changes in Net Assets
For the Fiscal Year Ended June 30, 2011 *Exhibit A-2*

REVENUES	
Operating Revenues:	
Student Tuition and Fees, Net (Note 9)	$ 382,556.29
Sales and Services, Net (Note 9)	203,557.68
Other Operating Revenues	34,662.00
Total Operating Revenues	620,775.97
EXPENSES	
Operating Expenses:	
Salaries and Benefits	5,333,281.93
Supplies and Materials	1,080,321.21
Services	899,151.52
Scholarships and Fellowships	1,351,054.19
Utilities	325,045.37
Depreciation	283,911.89
Total Operating Expenses	9,272,766.11
Operating Loss	(8,651,990.14)
NONOPERATING REVENUES (EXPENSES)	
State Aid	4,461,973.76
County Appropriations	966,684.00
Noncapital Grants - Federal Student Financial Aid	2,346,385.83
Noncapital Grants	514,307.33
Noncapital Gifts	2,175.00
Investment Income	21,903.42
Other Nonoperating Expenses	(18,366.69)
Net Nonoperating Revenues	8,295,062.65
Loss Before Other Revenues	(356,927.49)
State Capital Aid	276,910.17
County Capital Aid	25,000.00
Capital Grants	57,676.69
Increase in Net Assets	2,659.37
NET ASSETS	
Net Assets, July 1, 2010	9,831,880.91
Net Assets, June 30, 2011	$ 9,834,540.28

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

Martin Community College
Statement of Cash Flows — *Exhibit A-3*
For the Fiscal Year Ended June 30, 2011 —

CASH FLOWS FROM OPERATING ACTIVITIES	
Received from Customers	$ 601,717.14
Payments to Employees and Fringe Benefits	(5,289,807.04)
Payments to Vendors and Suppliers	(2,379,999.37)
Payments for Scholarships and Fellowships	(1,350,906.05)
Loans Issued to Students	(2,282.50)
Collection of Loans to Students	2,000.00
Other Receipts	785.15
Net Cash Used by Operating Activities	(8,418,492.67)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Aid Received	4,461,973.76
County Appropriations	966,684.00
Noncapital Grants - Federal Student Financial Aid	2,346,713.17
Noncapital Grants Received	514,307.33
Noncapital Gifts and Endowments Received	2,175.00
Net Cash Provided by Noncapital Financing Activities	8,291,853.26
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
State Capital Aid Received	307,273.12
County Capital Aid	25,000.00
Capital Grants Received	57,676.69
Acquisition and Construction of Capital Assets	(152,877.45)
Net Cash Provided by Capital and Related Financing Activities	237,072.36
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment Income	21,903.42
Net Cash Provided by Investing Activities	21,903.42
Net Increase in Cash and Cash Equivalents	132,336.37
Cash and Cash Equivalents, July 1, 2010	2,133,628.99
Cash and Cash Equivalents, June 30, 2011	$ 2,265,965.36

RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES

Operating Loss	$	(8,651,990.14)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense		283,911.89
Changes in Assets and Liabilities:		
Receivables, Net		(12,839.53)
Inventories		(25,262.25)
Notes Receivable		(282.50)
Accounts Payable and Accrued Liabilities		(23,691.70)
Unearned Revenue		(3,823.96)
Funds Held for Others		(1,462.05)
Compensated Absences		16,947.57
Net Cash Used by Operating Activities	$	(8,418,492.67)

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:		
Cash and Cash Equivalents	$	1,547,709.74
Restricted Cash and Cash Equivalents		172,848.24
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		545,407.38
Total Cash and Cash Equivalents - June 30, 2011	$	2,265,965.36

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through Assumption of a Liability	$	51,847.05
Loss on Disposal of Capital Assets		18,366.69

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

Martin Community College Foundation, Inc.
Statement of Financial Position
For the Fiscal Year Ended June 30, 2011

Exhibit B-1

ASSETS				
Current Assets				
Cash in Bank			$	56,638.69
Cash with State Treasurer				154,111.41
Prepaid Insurance				1,506.00
Prepaid Rent				1,600.00
Total Current Assets				213,856.10
Capital Assets				
Horse Stock	$	414,889.00		
Less: Accumulated Depreciation		(199,637.16)		215,251.84
Furniture and Equipment		45,199.19		
Less: Accumulated Depreciation		(40,656.78)		4,542.41
Total Assets				433,650.35
NET ASSETS				
Unrestricted				433,650.35
Total Net Assets			$	433,650.35

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

Martin Community College Foundation, Inc.
Statement of Activities
For the Fiscal Year Ended June 30, 2011 — *Exhibit B-2*

CHANGES IN UNRESTRICTED NET ASSETS

Support and Revenues:		
Contributions - Cash	$	250.00
Contributions - Horses		91,249.00
Contributions - Other In-Kind		1,434.00
Investment Income		1,572.39
Fund Raising Income		48,653.60
Total Support and Revenues		143,158.99
Expenses and Losses:		
Contributions to Martin Community College for Scholarships		6,412.50
Administration		61,471.39
Fund Raising Expense		39,989.67
Total Expenses		107,873.56
Loss on Sale of Horses		11,300.60
Total Expenses and Losses		119,174.16
Increase in Unrestricted Net Assets		23,984.83
Increase in Net Assets		23,984.83
Net Assets at Beginning of Year (Note 15)		409,665.52
Net Assets at End of Year	$	433,650.35

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

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity - The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their constituents for their actions. As required by accounting principles generally accepted in the United States of America (GAAP), the financial reporting entity includes both the primary government and all of its component units. An organization other than a primary government serves as a nucleus for a reporting entity when it issues separate financial statements. 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 unit's financial data is reported in separate financial statements because of its use of different GAAP reporting models and to emphasize its legal separateness.

Discretely Presented Component Unit – Martin Community College Foundation, Inc. (the Foundation), is a legally separate not-for-profit corporation and is reported as a discretely presented component unit based on the nature and significance of its relationship to the College. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the College in support of its programs. The Foundation board consists of 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 is restricted to the activities of the College by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of the College, the Foundation is considered a component unit of the College and is reported in separate financial statements because of the difference in its reporting model, as described below.

Martin Community College Foundation, Inc., is a private not-for-profit organization that reports its financial results under Financial Accounting Standards Board (FASB) Statements. As such, certain revenue recognition criteria and presentation features are different from the Governmental Accounting Standards Board (GASB) revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information in the College's financial reporting entity for these differences.

During the year ended June 30, 2011, the Foundation distributed $6,412.50 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, savings accounts, and deposits held by the State Treasurer in the short-term investment fund. The short-term investment fund maintained by the State

Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.

E. **Receivables** - Receivables consist of tuition and fees charged to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from the federal government, State and local governments, 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 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 of $5,000 or greater 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 100 years for buildings, and 5 to 30 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 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 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 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 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 and (2) sales and services of auxiliary enterprises. 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. 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.

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

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 $878.00, and deposits in private financial institutions with a carrying value of $1,542.78 and a bank balance of $90,001.95.

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, 2011, the College's bank balance in excess of federal depository insurance coverage was covered under 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; specified bills of exchange; certain savings certificates; The North Carolina Capital Management Trust, an SEC registered mutual fund; repurchase agreements; and evidences of ownership of, or fractional undivided interests in, future interest and principal payments on either direct obligations of or fully guaranteed by the United States government, which are held by a specified bank or trust company or any state in the capacity.

At June 30, 2011, the amount shown on the Statement of Net Assets as cash and cash equivalents includes $2,263,544.58 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 1.9 years as of June 30, 2011. 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.osc.nc.gov/ and clicking on "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, 2011, net appreciation of $10,771.68 was available to be spent, all of which was restricted to specific purposes.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2011, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	$ 51,094.03	$ 15,025.50	$ 36,068.53
Accounts	29,745.62		29,745.62
Intergovernmental	1,040.00		1,040.00
Other	82.86		82.86
Total Current Receivables	$ 81,962.51	$ 15,025.50	$ 66,937.01

NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2011, is presented as follows:

	Balance July 1, 2010	Increases	Decreases	Balance June 30, 2011
Capital Assets, Nondepreciable:				
Land	$ 166,280.00	$ 0.00	$ 0.00	$ 166,280.00
Construction in Progress	1,295,397.72	65,521.80	170,433.60	1,190,485.92
Total Capital Assets, Nondepreciable	1,461,677.72	65,521.80	170,433.60	1,356,765.92
Capital Assets, Depreciable:				
Buildings	7,623,485.08			7,623,485.08
Machinery and Equipment	1,778,432.06	305,836.30	84,947.82	1,999,320.54
General Infrastructure	1,762,359.43			1,762,359.43
Total Capital Assets, Depreciable	11,164,276.57	305,836.30	84,947.82	11,385,165.05
Less Accumulated Depreciation for:				
Buildings	3,706,757.39	150,314.04		3,857,071.43
Machinery and Equipment	853,891.21	98,350.61	66,581.13	885,660.69
General Infrastructure	317,629.87	35,247.24		352,877.11
Total Accumulated Depreciation	4,878,278.47	283,911.89	66,581.13	5,095,609.23
Total Capital Assets, Depreciable, Net	6,285,998.10	21,924.41	18,366.69	6,289,555.82
Capital Assets, Net	$ 7,747,675.82	$ 87,446.21	$ 188,800.29	$ 7,646,321.74

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2011, were as follows:

	Amount
Accounts Payable	$ 29,700.70
Accrued Payroll	124,786.24
Contract Retainage	51,847.05
Other	1,167.10
Total Accounts Payable and Accrued Liabilities	$ 207,501.09

NOTE 7 - LONG-TERM LIABILITIES

A summary of changes in the long-term liabilities for the year ended June 30, 2011, is presented as follows:

	Balance July 1, 2010	Additions	Reductions	Balance June 30, 2011	Current Portion
Compensated Absences	$ 252,902.55	$ 197,719.42	$ 180,771.85	$ 269,850.12	$ 25,716.72

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, 2011:

Fiscal Year	Amount
2012	$ 12,326.76
2013	7,952.76
2014	3,578.76
2015	2,222.61
2016	189.00
Total Minimum Lease Payments	$ 26,269.89

Rental expense for all operating leases during the year was $12,590.06.

NOTE 9 - REVENUES

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

	Gross Revenues	Internal Sales Eliminations	Less Scholarship Discounts	Less Allowance for Uncollectibles	Net Revenues
Operating Revenues:					
Student Tuition and Fees	$ 1,080,629.31	$ 0.00	$ 689,949.81	$ 8,123.21	$ 382,556.29
Sales and Services:					
Sales and Services of Auxiliary Enterprises:					
Café	$ 52,105.70	$ 0.00	$ 0.00	$ 0.00	$ 52,105.70
Bookstore	545,761.25	4,751.63	412,948.94	6,877.29	121,183.39
Other	30,268.59				30,268.59
Total Sales and Services	$ 628,135.54	$ 4,751.63	$ 412,948.94	$ 6,877.29	$ 203,557.68

NOTE 10 - OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	$ 2,966,815.00	$ 403,150.63	$ 510,751.68	$ 0.00	$ 0.00	$ 0.00	$ 3,880,717.31
Academic Support	478,187.88	37,301.95	58,468.80				573,958.63
Student Services	336,196.58	13,378.38	16,219.11				365,794.07
Institutional Support	1,133,009.91	112,615.11	194,710.95				1,440,335.97
Operations and Maintenance of Plant	308,020.81	42,207.34	96,634.95		325,045.37		771,908.47
Student Financial Aid				1,351,054.19			1,351,054.19
Auxiliary Enterprises	111,051.75	471,667.80	22,366.03				605,085.58
Depreciation						283,911.89	283,911.89
Total Operating Expenses	$ 5,333,281.93	$ 1,080,321.21	$ 899,151.52	$ 1,351,054.19	$ 325,045.37	$ 283,911.89	$ 9,272,766.11

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 set each year by the North Carolina General Assembly based on annual actuarial valuations. For the year ended June 30, 2011, these rates were set at 4.93% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the College had a total payroll of $4,281,149.07, of which $3,111,060.46 was covered under the Teachers' and State Employees' Retirement System. Total employer and employee contributions for pension benefits for the year were $153,375.28 and $186,663.70, respectively.

Required employer contribution rates for the years ended June 30, 2010, and 2009, were 3.57% and 3.36%, respectively, while employee contributions were 6% each year. The College made 100% of its annual required contributions for the years ended June 30, 2011, 2010, and 2009, which were $153,375.28, $117,873.72, and $124,380.54, 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.nc.gov/ and clicking on "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 $28,810.00 for the year ended June 30, 2011.

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 $23,441.67 for the year ended June 30, 2011.

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.

For the current fiscal year the College contributed 4.9% of the covered payroll under the Teachers' and State Employees' Retirement System to the Fund. Required contribution rates for the years ended June 30, 2010, and 2009, were 4.5% and 4.1%, respectively. The College made 100% of its annual required contributions to the Plan for the years ended June 30, 2011, 2010, and 2009, which were $152,441.96, $148,580.32, and $151,773.87, respectively. The College assumes no liability for retiree health care benefits provided by the programs other than its required contribution.

Additional detailed information about these programs can be located in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page http://www.osc.nc.gov/ and clicking on "Reports," or by calling the State Controller's Financial Reporting Section at (919) 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 by the General Assembly. For the fiscal year ended June 30, 2011, 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, 2010, and 2009, were .52% and .52%, respectively. The College made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2011, 2010, and 2009, which were

$16,177.51, $17,169.28, and $19,249.37, respectively. The College assumes no liability for long-term disability benefits under the Plan other than its contribution.

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

NOTE 13 - RISK MANAGEMENT

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

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

Fire and other property losses are covered by the Public School Insurance Fund, 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. Property is covered under an all risk coverage contract. Building and contents are valued under a replacement cost basis. No coinsurance penalties apply. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

State-owned vehicles are covered by liability insurance through a private insurance company and handled by the North Carolina Department of Insurance. The liability limits for losses are $1,000,000 per claim and $10,000,000 per occurrence. The 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 discretely presented component unit of the State of North Carolina. The Plan is funded by employer and employee contributions. The Plan has contracted with third parties to process claims.

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

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

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

NOTE 14 - COMMITMENTS

The College has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were $74,571.03 and on other purchases were $30,160.20 at June 30, 2011.

NOTE 15 - COMPONENT UNIT'S CHANGE IN FISCAL YEAR END

In November 2010, the Board of Directors of Martin Community College Foundation, Inc. (the Foundation) approved a change in the organization's fiscal year end from December 31 to June 30. This change was made to correlate the Foundation's year end with the College's year end. As a result, this report presents the Foundation's Beginning Net Assets balance as of July 1, 2010 as $409,665.52. This is a change from the College's prior financial statements, which reported a December 31, 2009 Ending Net Assets balance of $431,945.80.

STATE OF NORTH CAROLINA
Office of the State Auditor

Beth A. Wood, CPA
State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601
Telephone: (919) 807-7500
Fax: (919) 807-7647
Internet
http://www.ncauditor.net

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, 2011, which collectively comprise the College's basic financial statements and have issued our report thereon dated February 1, 2012. 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. 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 opinions 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 deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the College's financial statements will not be prevented, or detected and corrected on a timely basis.

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* (CONCLUDED)

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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

Beth A. Wood, CPA
State Auditor

February 1, 2012

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