



# STATE OF NORTH CAROLINA

**MAYLAND COMMUNITY COLLEGE**

**SPRUCE PINE, 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

**MAYLAND COMMUNITY COLLEGE**

**SPRUCE PINE, NORTH CAROLINA**

**FINANCIAL STATEMENT AUDIT REPORT**

**FOR THE YEAR ENDED JUNE 30, 2011**

**STATE BOARD OF COMMUNITY COLLEGES**

**THE NORTH CAROLINA COMMUNITY COLLEGE SYSTEM**

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**BOARD OF TRUSTEES**

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**Beth A. Wood, CPA**  
State Auditor

STATE OF NORTH CAROLINA

# Office of the State Auditor

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## AUDITOR'S TRANSMITTAL

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The Honorable Beverly Eaves Perdue, Governor  
The General Assembly of North Carolina  
Board of Trustees, Mayland Community College

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

A handwritten signature in cursive script that reads "Beth A. Wood".

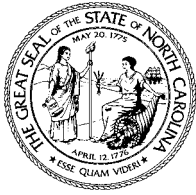
Beth A. Wood, CPA  
State Auditor

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## INDEPENDENT AUDITOR'S REPORT

---

Board of Trustees  
Mayland Community College  
Spruce Pine, North Carolina

We have audited the accompanying financial statements of Mayland Community College, a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 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 Mayland Community College Foundation, Inc., the College's discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinions, insofar as they relate to the amounts included for this entity, are based on the report of the other auditors.

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

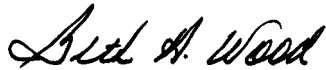
In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of Mayland Community College and its discretely presented component unit as of June 30, 2011, and the respective 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.

## INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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In accordance with *Government Auditing Standards*, we have also issued our report dated March 26, 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, CPA  
State Auditor

March 26, 2012

## **MAYLAND COMMUNITY COLLEGE MANAGEMENT'S DISCUSSION AND ANALYSIS**

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### **Overview of the Financial Statements**

Management's Discussion and Analysis of Mayland Community College, a component unit of the State of North Carolina, is presented to provide an overview of the College's financial activities for the fiscal year ended June 30, 2011. We encourage readers to consider this information in conjunction with the College's financial statements and the notes to the financial statements.

### **Basic Financial Statements**

The basic financial statements for the College include the following:

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

The Statement of Net Assets is presented in the classified format which reports assets and liabilities as current and noncurrent. The Statement of Revenues, Expenses, and Changes in Net Assets presents revenues and expenses as operating or nonoperating. The direct method is used to present the Statement of Cash Flows. The notes to the financial statements provide additional information that is essential to a complete understanding of the data provided in the statements and schedules.

### **Financial Information**

The College's financial position has been affected by the following:

- In fiscal year 2010-2011, there was a 13% tuition increase over 2009-2010. However, tuition and fee revenues remained flat due to a decrease in enrollment in 2010-2011 due in part to changes in the type and number of classes the College is authorized to offer in Corrections Education and high school programs.
- The State budget was received in August 2010, however immediate mandatory reversions of funds back to the State totaled \$370,954 or 3.17%. The College had to also revert an additional 2% in January 2011 totaling \$195,608.
- The College reduced the extent of services offered in the Child Development Center in the 2011 fiscal year. Declining revenues from child care services and the need for space in the Phillip-Gwaltney Center for the Early College Program prompted the change.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

### Condensed Statement of Net Assets:

	<u>6/30/2011</u>	<u>Unaudited 6/30/2010</u>	<u>Change</u>
<b>Assets</b>			
Current Assets	\$ 1,027,797.13	\$ 1,011,766.47	\$ 16,030.66
Noncurrent Capital Assets, Net of Accumulated Depreciation	14,449,479.20	14,575,710.27	(126,231.07)
Other Noncurrent Assets	<u>533,954.20</u>	<u>470,298.50</u>	<u>63,655.70</u>
Total Assets	<u>16,011,230.53</u>	<u>16,057,775.24</u>	<u>(46,544.71)</u>
<b>Liabilities</b>			
Current Liabilities	462,782.63	330,107.06	132,675.57
Noncurrent Liabilities	<u>474,793.97</u>	<u>616,003.41</u>	<u>(141,209.44)</u>
Total Liabilities	<u>937,576.60</u>	<u>946,110.47</u>	<u>(8,533.87)</u>
<b>Net Assets</b>			
Invested in Capital Assets	14,449,479.20	14,575,710.27	(126,231.07)
Restricted	742,250.95	642,389.79	99,861.16
Unrestricted	<u>(118,076.22)</u>	<u>(106,435.29)</u>	<u>(11,640.93)</u>
Total Net Assets	<u>\$ 15,073,653.93</u>	<u>\$ 15,111,664.77</u>	<u>\$ (38,010.84)</u>

Total current assets increased \$16,030.66 due to an increase of cash of \$214,704.68 combined with a \$194,747.86 decrease in receivables and a slight decrease in inventory of \$3,926.16. The decrease in receivables and increase in cash over the prior year is mainly attributable to the completion of the Applied Technology Building. In the prior year, \$181,348.00 was due from the Economic Development Administration (EDA) for the final reimbursement request for the costs of the construction of the Applied Technology Building. This receivable was collected in the current year.

Noncurrent capital assets, net of depreciation, decreased by \$126,231.07. Capital equipment purchases totaled \$215,165.50. This increase was offset by the disposal of equipment with a net value of \$21,282.32 and by depreciation expense of \$320,114.04. While the College did not have any capital construction projects in 2010-2011, a number of repair and renovation projects were ongoing as of June 30, 2011. This resulted in outstanding construction commitments in the amount of \$53,925.00 as discussed in Note 13 to the financial statements.

Other noncurrent assets increased by \$63,655.70. This is directly related to an increase of \$86,195.44 in restricted cash, and a \$17,460.26 increase in restricted due from primary government for construction projects. These increases were offset by a \$40,000.00 decrease in receivables for Golden Leaf funding received in the current year. The \$86,195.44 cash increase was mainly attributable to \$137,380.58 received at year end for renovations to the Phillips-Gwaltney Center and the HVAC system in the Vocational building on the main campus. In addition, there was an increase of \$27,362.80 held in restricted cash for county capital funds at year-end. These increases in noncurrent restricted cash were partially offset by a decrease of \$80,000.00 due to the fact that the College received grant funds from the Phillips Grant in fiscal year 2010 that were spent in fiscal year 2011.



## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Total current liabilities of the college increased \$132,675.57. This is directly related to an increase of payroll accruals of \$168,834.84. The College changed the structure of pay for full-time faculty in 2011. Full-time faculty on nine-month contracts are now paid over twelve months. This increase was partially offset by a decrease of \$37,616.60 in accounts payable due to an overall decrease in operating expenses.

Noncurrent liabilities decreased by \$141,209.44 due to a decrease of leave balances at year end. This decrease occurred as the College reduced staff for daycare operations and other areas. In addition, a number of long-term employees retired or left the College as of June 30, 2011. Leave balances for vacation are paid to employees upon termination of employment.

The items described above resulted in a decrease in total assets of \$38,010.84.

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

	<u>6/30/2011</u>	<u>Unaudited 6/30/2010</u>	<u>Difference</u>
Operating Revenues:			
Student Tuition and Fees, Net	\$ 653,807.06	\$ 658,761.82	\$ (4,954.76)
Sales and Services, Net	389,713.06	808,965.20	(419,252.14)
Other Operating Revenues	4,581.00	23,159.08	(18,578.08)
	<u>1,048,101.12</u>	<u>1,490,886.10</u>	<u>(442,784.98)</u>
Total Operating Revenues			
Operating Expenses:			
Personal Services	10,563,267.03	11,042,188.18	(478,921.15)
Supplies and Materials	2,049,500.88	2,286,424.18	(236,923.30)
Services	1,303,559.94	1,593,637.39	(290,077.45)
Scholarships and Fellowships	1,461,571.43	1,571,963.64	(110,392.21)
Utilities	309,552.88	318,422.06	(8,869.18)
Depreciation	320,114.04	283,277.36	36,836.68
	<u>16,007,566.20</u>	<u>17,095,912.81</u>	<u>(1,088,346.61)</u>
Total Operating Expenses			
Operating Loss	(14,959,465.08)	(15,605,026.71)	645,561.63
Nonoperating Revenues (Expenses)			
State Aid	8,587,085.99	9,169,280.75	(582,194.76)
County Appropriations	823,416.04	778,460.04	44,956.00
Noncapital Grants and Gifts	4,370,232.16	4,628,258.58	(258,026.42)
Other Nonoperating Expenses (Net)	(4,691.80)	(76,933.90)	72,242.10
	<u>13,776,042.39</u>	<u>14,499,065.47</u>	<u>(723,023.08)</u>
Net Nonoperating Revenue			
Loss Before Other Revenues	(1,183,422.69)	(1,105,961.24)	(77,461.45)
Capital Aid, Grants, and Gifts	1,145,411.85	1,072,388.70	73,023.15
Decrease in Net Assets	(38,010.84)	(33,572.54)	(4,438.30)
Net Assets, Beginning of Year	15,111,664.77	15,145,237.31	(33,572.54)
Net Assets, End of Year	<u>\$ 15,073,653.93</u>	<u>\$ 15,111,664.77</u>	<u>\$ (38,010.84)</u>

## **MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)**

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Operating revenues totaled \$1,048,101.12, which decreased by \$442,784.98 over last year's total operating revenue of \$1,490,886.10. This is primarily due to a \$419,252.14 decrease in sales and services. The Child Development Center had a decrease in sales and services of \$322,593.99 due to a reduction in the services offered, reduced staff and a change in the usage of space in the Phillips-Gwaltney Center. The College moved the Early College program to the Phillips-Gwaltney Center in 2010-2011. The College also moved from providing on-campus dining services to a vending system during the 2011 fiscal year. In addition, bookstore sales for the year decreased \$65,129.69. During the summer semester, bookstore sales dropped \$39,484.55 from the prior year due to the reduction in the number of classes being offered. Another factor contributing to the decrease in bookstore revenues is that more students are choosing non-traditional methods of obtaining textbooks such as ebooks, rentals and other available options.

Net nonoperating revenues totaled \$13,776,042.39, which decreased \$723,023.08 over last year's total net nonoperating revenue of \$14,499,065.47. This is due to a decrease in noncapital grants and State aid. Noncapital grants decreased \$348,887.78 due primarily to a decrease in Workforce Investment Act (WIA) grant funding of \$282,987.64. The WIA grants were funded by the American Recovery and Reinvestment Act of 2009 (ARRA). Funding received through this grant in 2011 was greatly reduced from 2010. In addition, the North Carolina EARN scholarship funding that amounted to \$60,000.00 in the prior year was discontinued in 2011. State Aid decreased by \$582,194.76, or 6%, compared to the previous year primarily due to budget reversions.

Capital aid, grants, and gifts had a slight increase of \$73,023.15 from the prior year. Increases in capital aid from State and county sources for repair and renovation projects were offset by a reduction in capital grants as the construction of the Applied Technology building was completed in 2010.

Operating expenses totaled \$16,007,566.20, which decreased by \$1,088,346.61 in comparison to the 2009-2010 fiscal year. This decrease is mainly attributable to a reduction in personnel expenses of \$478,921.15, primarily due to the termination of employees and the retirement of a number of long-term employees as noted above. Decreases in expenditures for supplies and materials and services also contributed to the overall decrease in operating expenses as funding from State and federal sources decreased as noted above in the discussion of nonoperating revenues.

### **Economic Factors and Next Year's Budgets**

The College relies heavily on State and local support to fund its operations and meet the needs of students and the communities it serves. State aid and county appropriations constituted 59% of total revenues for the College in 2011. The College anticipates reverting State funds in the 2011-2012 fiscal year due to economic factors plaguing the State. The reversions could be as high as seven to ten percent. Continued economic uncertainty may result in difficulty in maintaining levels of federal, State and local support.

**Mayland Community College**  
**Statement of Net Assets**  
**June 30, 2011**

**Exhibit A-1**

**ASSETS**

Current Assets:

Cash and Cash Equivalents	\$ 511,971.12
Restricted Cash and Cash Equivalents	221,029.72
Receivables, Net (Note 3)	164,463.10
Inventories	130,333.19
	<hr/>
Total Current Assets	1,027,797.13

Noncurrent Assets:

Restricted Cash and Cash Equivalents	395,881.85
Restricted Due from Primary Government	138,072.35
Capital Assets - Nondepreciable (Note 4)	574,563.92
Capital Assets - Depreciable, Net (Note 4)	13,874,915.28
	<hr/>
Total Noncurrent Assets	14,983,433.40

Total Assets	<hr/> <hr/> 16,011,230.53
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**LIABILITIES**

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 5)	251,661.53
Due to Primary Government	3,149.36
Unearned Revenue	23,815.43
Funds Held for Others	24,538.24
Long-Term Liabilities - Current Portion (Note 6)	159,618.07
	<hr/>
Total Current Liabilities	462,782.63

Noncurrent Liabilities:

Long-Term Liabilities (Note 6)	474,793.97
	<hr/>
Total Noncurrent Liabilities	474,793.97

Total Liabilities	<hr/> <hr/> 937,576.60
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**NET ASSETS**

Invested in Capital Assets	14,449,479.20
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Restricted for:

Expendable:

Scholarships and Fellowships	604.40
Loans	1,333.52
Capital Projects	511,825.93
Restricted for Specific Programs	97,690.84
Instructional Technology Programs	87,895.56
Other	42,900.70

Unrestricted	<hr/> (118,076.22)
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Total Net Assets	<hr/> <hr/> \$ 15,073,653.93
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The accompanying notes to the financial statements are an integral part of this statement.

**Mayland Community College**  
**Statement of Revenues, Expenses, and**  
**Changes in Net Assets**  
**For the Fiscal Year Ended June 30, 2011**

**Exhibit A-2**

**REVENUES**

Operating Revenues:

Student Tuition and Fees, Net (Note 8)	\$ 653,807.06
Sales and Services, Net (Note 8)	389,713.06
Other Operating Revenues	4,581.00

Total Operating Revenues	1,048,101.12
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**EXPENSES**

Operating Expenses:

Salaries and Benefits	10,563,267.03
Supplies and Materials	2,049,500.88
Services	1,303,559.94
Scholarships and Fellowships	1,461,571.43
Utilities	309,552.88
Depreciation	320,114.04

Total Operating Expenses	16,007,566.20
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Operating Loss	(14,959,465.08)
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**NONOPERATING REVENUES (EXPENSES)**

State Aid	8,587,085.99
County Appropriations	823,416.04
Noncapital Grants - Federal Student Financial Aid	2,207,335.78
Noncapital Grants	1,861,679.02
Noncapital Gifts	301,217.36
Investment Income	6,363.74
Other Nonoperating Expenses	(11,055.54)

Net Nonoperating Revenues	13,776,042.39
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Loss Before Other Revenues	(1,183,422.69)
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State Capital Aid	761,997.47
County Capital Aid	154,491.00
Capital Grants	228,923.38

Decrease in Net Assets	(38,010.84)
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**NET ASSETS**

Net Assets, July 1, 2010	15,111,664.77
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Net Assets, June 30, 2011	\$ 15,073,653.93
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The accompanying notes to the financial statements are an integral part of this statement.

**Mayland Community College**  
**Statement of Cash Flows**  
**For the Fiscal Year Ended June 30, 2011**

**Exhibit A-3**  
**Page 1 of 2**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Received from Customers	\$ 991,012.11
Payments to Employees and Fringe Benefits	(10,476,886.69)
Payments to Vendors and Suppliers	(3,671,677.32)
Payments for Scholarships and Fellowships	(1,461,571.43)
Other Receipts	12,144.72
	<hr/>
Net Cash Used by Operating Activities	(14,606,978.61)

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

State Aid Received	8,587,085.99
County Appropriations	823,416.04
Noncapital Grants - Federal Student Financial Aid	2,208,004.78
Noncapital Grants Received	1,869,103.54
Noncapital Gifts	301,217.36
	<hr/>
Net Cash Provided by Noncapital Financing Activities	13,788,827.71

**CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES**

State Capital Aid Received	744,537.21
County Capital Aid	154,491.00
Capital Grants Received	450,271.38
Proceeds from Sale of Capital Assets	10,226.99
Acquisition and Construction of Capital Assets	(246,839.30)
	<hr/>
Net Cash Provided by Capital and Related Financing Activities	1,112,687.28

**CASH FLOWS FROM INVESTING ACTIVITIES**

Investment Income	6,363.74
	<hr/>
Net Increase in Cash and Cash Equivalents	300,900.12
Cash and Cash Equivalents, July 1, 2010	827,982.57
	<hr/>
Cash and Cash Equivalents, June 30, 2011	\$ 1,128,882.69
	<hr/> <hr/>

***Mayland Community College***  
***Statement of Cash Flows***  
***For the Fiscal Year Ended June 30, 2011***

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

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

Operating Loss	\$ (14,959,465.08)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	320,114.04
Changes in Assets and Liabilities:	
Receivables, Net	4,688.34
Inventories	3,926.16
Accounts Payable and Accrued Liabilities	153,827.06
Due to Primary Government	2,018.00
Unearned Revenue	(61,777.35)
Funds Held for Others	12,144.72
Compensated Absences	(82,454.50)
	<hr/>
Net Cash Used by Operating Activities	<u><u>\$ (14,606,978.61)</u></u>

**RECONCILIATION OF CASH AND CASH EQUIVALENTS**

Current Assets:	
Cash and Cash Equivalents	\$ 511,971.12
Restricted Cash and Cash Equivalents	221,029.72
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	395,881.85
	<hr/>
Total Cash and Cash Equivalents - June 30, 2011	<u><u>\$ 1,128,882.69</u></u>

**NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES**

Increase in Receivables Related to Nonoperating Income	17,460.26
Loss from Disposal of Capital Assets	(11,055.54)

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

***Mayland Community College Foundation, Inc.***  
***Statement of Financial Position***  
***June 30, 2011***

***Exhibit B-1***

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 124,822	\$ 182,731	\$ 6,379	\$ 313,932
Property and Equipment, Net	17,114			17,114
Marketable Securities	(310,627)		1,367,780	1,057,153
Total Assets	<u>\$ (168,691)</u>	<u>\$ 182,731</u>	<u>\$ 1,374,159</u>	<u>\$ 1,388,199</u>
<b>NET ASSETS</b>	<u>\$ (168,691)</u>	<u>\$ 182,731</u>	<u>\$ 1,374,159</u>	<u>\$ 1,388,199</u>

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

**Mayland Community College Foundation, Inc.**  
**Statement of Activities**  
**For the Fiscal Year Ended June 30, 2011**

**Exhibit B-2**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>Public Support, Revenues and Reclassifications</b>				
Contributions	\$ 41,783	\$ 207,796	\$ 32,376	\$ 281,955
Fundraisers and Related Events	32,985			32,985
Miscellaneous		2,486		2,486
Investment and Interest Income	57,738	272		58,010
Net Assets Released From Restrictions:				
Satisfaction of Program Restrictions	221,360	(221,360)		0
<b>Total Public Support, Revenues and Reclassifications</b>	<u>353,866</u>	<u>(10,806)</u>	<u>32,376</u>	<u>375,436</u>
<b>Expenses</b>				
Programs Services	245,076			245,076
Management and General	49,352			49,352
<b>Total Expenses</b>	<u>294,428</u>			<u>294,428</u>
Change in Net Assets	59,438	(10,806)	32,376	81,008
Net Assets as of Beginning of Year	<u>(228,129)</u>	<u>193,537</u>	<u>1,341,783</u>	<u>1,307,191</u>
Net Assets as of End of Year	<u>\$ (168,691)</u>	<u>\$ 182,731</u>	<u>\$ 1,374,159</u>	<u>\$ 1,388,199</u>

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



**MAYLAND COMMUNITY COLLEGE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

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

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

**Discretely Presented Component Unit** – Mayland Community College Foundation, Inc. (Foundation) 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 17 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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 \$245,076.00 to the College for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from the Foundation Office by calling (828)765-7351, Ext. 401.

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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- 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 and merchandise for resale, are valued at the lower of cost or market value using the first-in, first-out 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.

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 50 to 75 years for general infrastructure, 30 to 75 years for buildings, and 5 to 40 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 January 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 December 31 plus the leave earned, less the leave taken between January 1 and June 30.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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In addition to the vacation leave described above, compensated absences include the accumulated unused portion of the special annual leave bonuses awarded by the North Carolina General Assembly. The bonus leave balance on December 31 is retained by employees and transferred into the next calendar year. It is not subject to the limitation on annual leave carried forward described above and is not subject to conversion to sick leave.

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

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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**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 College 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 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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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### NOTE 2 - DEPOSITS AND INVESTMENTS

- A. **Deposits** - All funds of the College are deposited in board-designated official depositories and are required to be collateralized in accordance with *North Carolina General Statute 115D-58.7*. Official depositories may be established with any bank or savings and loan association whose principal office is located in North Carolina. Also, the College may establish time deposit accounts, money market accounts, and certificates of deposit. The amount shown on the Statement of Net Assets as cash and cash equivalents includes cash on hand totaling \$1,204.00, and deposits in private financial institutions with a carrying value of \$1,011,897.85 and a bank balance of \$1,335,084.70.

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 the pooling method.

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

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

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

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 \$115,780.84 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.

**B. Component Unit** - Investments of the College's discretely presented component unit, Mayland Community College Foundation, Inc. are subject to and restricted by G.S. 36E "Uniform Prudent Management of Institutional Funds Act" (UPMIFA) and any requirements placed on them by contract or donor agreements. Because the Mayland Community College Foundation, Inc. reports under the FASB reporting model, disclosures of the various investment risks are not required. Investments are carried at fair value on the statement of financial position. The fair value of the Foundation's investments at June 30, 2011 was \$1,057,153.00.

**NOTE 3 - RECEIVABLES**

Receivables at June 30, 2011, were as follows:

	<u>Gross Receivables</u>	<u>Less Allowance for Doubtful Accounts</u>	<u>Net Receivables</u>
<b>Current Receivables:</b>			
Students	\$ 65,423.43	\$ 28,833.95	\$ 36,589.48
Accounts	27,102.24	869.93	26,232.31
Intergovernmental	<u>101,641.31</u>		<u>101,641.31</u>
<b>Total Current Receivables</b>	<u>\$ 194,166.98</u>	<u>\$ 29,703.88</u>	<u>\$ 164,463.10</u>
<b>Notes Receivable:</b>			
<b>Notes Receivable - Current:</b>			
Institutional Student Loan Programs	<u>\$ 4,769.41</u>	<u>\$ 4,769.41</u>	<u>\$ 0.00</u>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 4 - CAPITAL ASSETS

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

	Balance July 1, 2010	Increases	Decreases	Balance June 30, 2011
Capital Assets, Nondepreciable:				
Land	\$ 574,563.92	\$ 0.00	\$ 0.00	\$ 574,563.92
<b>Total Capital Assets, Nondepreciable</b>	<u>574,563.92</u>	<u>0.00</u>	<u>0.00</u>	<u>574,563.92</u>
Capital Assets, Depreciable:				
Buildings	15,585,135.75			15,585,135.75
Machinery and Equipment	1,374,560.70	215,165.50	65,389.41	1,524,336.79
General Infrastructure	483,650.87			483,650.87
Total Capital Assets, Depreciable	<u>17,443,347.32</u>	<u>215,165.50</u>	<u>65,389.41</u>	<u>17,593,123.41</u>
Less Accumulated Depreciation for:				
Buildings	2,646,836.96	210,862.32		2,857,699.28
Machinery and Equipment	581,123.46	102,765.36	44,106.88	639,781.94
General Infrastructure	214,240.55	6,486.36		220,726.91
Total Accumulated Depreciation	<u>3,442,200.97</u>	<u>320,114.04</u>	<u>44,106.88</u>	<u>3,718,208.13</u>
<b>Total Capital Assets, Depreciable, Net</b>	<u>14,001,146.35</u>	<u>(104,948.54)</u>	<u>21,282.53</u>	<u>13,874,915.28</u>
<b>Capital Assets, Net</b>	<u>\$ 14,575,710.27</u>	<u>\$ (104,948.54)</u>	<u>\$ 21,282.53</u>	<u>\$ 14,449,479.20</u>

### NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	Amount
Accounts Payable	\$ 24,529.55
Accrued Payroll	<u>227,131.98</u>
<b>Total Accounts Payable and Accrued Liabilities</b>	<u>\$ 251,661.53</u>

### NOTE 6 - 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	<u>\$ 716,866.52</u>	<u>\$ 368,884.56</u>	<u>\$ 451,339.04</u>	<u>\$ 634,412.04</u>	<u>\$ 159,618.07</u>



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 7 - OPERATING LEASE OBLIGATIONS

The College entered into operating leases for copiers. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2011:

Fiscal Year	Amount
2012	\$ 37,767.56
2013	18,476.16
2014	14,236.80
2015	3,239.52
Total Minimum Lease Payments	\$ 73,720.04

Rental expense for all operating leases during the year was \$44,418.88.

### NOTE 8 - REVENUES

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

	Gross Revenues	Internal Sales Eliminations	Less Scholarship Discounts	Less Change in Uncollectibles	Net Revenues
<b>Operating Revenues:</b>					
<b>Student Tuition and Fees</b>	\$ 1,313,812.40	\$ 0.00	\$ 648,034.91	\$ 11,970.43	\$ 653,807.06
<b>Sales and Services:</b>					
Sales and Services of Auxiliary Enterprises:					
Dining	76,661.87	0.00	0.00	0.00	76,661.87
Bookstore	634,968.18	12,146.99	385,703.58	(351.91)	237,469.52
Child Development Center	34,953.77			(1,019.07)	35,972.84
Rent	13,616.75				13,616.75
Sales and Services of Education and Related Activities	26,067.08			75.00	25,992.08
<b>Total Sales and Services</b>	\$ 786,267.65	\$ 12,146.99	\$ 385,703.58	\$ (1,295.98)	\$ 389,713.06

### NOTE 9 - 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	\$ 6,171,292.90	\$ 819,922.68	\$ 631,269.57	\$ 0.00	\$ 0.00	\$ 0.00	\$ 7,622,485.15
Academic Support	1,159,179.47	53,100.11	16,829.61				1,229,109.19
Student Services	957,319.98	23,275.47	64,899.81	61,354.00			1,106,849.26
Institutional Support	1,854,344.01	276,582.18	332,483.27		168.28		2,463,577.74
Operations and Maintenance of Plant	193,563.02	346,989.76	241,786.03		309,384.60		1,091,723.41
Student Financial Aid				1,400,217.43			1,400,217.43
Auxiliary Enterprises	227,567.65	529,630.68	16,291.65				773,489.98
Depreciation						320,114.04	320,114.04
<b>Total Operating Expenses</b>	\$ 10,563,267.03	\$ 2,049,500.88	\$ 1,303,559.94	\$ 1,461,571.43	\$ 309,552.88	\$ 320,114.04	\$ 16,007,566.20

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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### NOTE 10 - PENSION PLANS

- A. Retirement Plans** - Each permanent full-time employee, as a condition of employment, is a member of the Teachers' and State Employees' Retirement System. The Teachers' and State Employees' Retirement 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 \$8,469,680.28, of which \$7,251,605.69 was covered under the Teachers' and State Employees' Retirement System. Total employer and employee contributions for pension benefits for the year were \$357,504.16 and \$435,096.34, 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 \$357,504.16, \$272,808.13, and \$262,244.74, 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. Deferred Compensation and 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 \$88,278.00 for the year ended June 30, 2011.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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### NOTE 11 - 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 \$355,328.68, \$343,875.80, and \$320,001.02, 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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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**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 \$37,708.35, \$39,736.76, and \$40,585.49, 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 12 - RISK MANAGEMENT

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

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

Fire and other property losses are covered by contracts with private insurance companies. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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.

Malpractice insurance is provided for instructors and students in high risk programs (cosmetology, medical assisting, nursing, emergency medical technician and phlebotomy). This insurance is provided through a private insurance company with coverage of \$1,000,000 per occurrence and no deductible.

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.

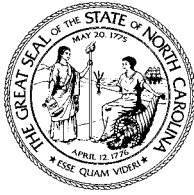
## NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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### NOTE 13 - COMMITMENTS AND CONTINGENCIES

- A. Commitments** - The College has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were \$53,925.00 at June 30, 2011.
- B. Pending Litigation and Claims** - The College is a party to litigation and claims in the ordinary course of its operations. Since it is not possible to predict the ultimate outcome of these matters, no provision for any liability has been made in the financial statements. College management is of the opinion that the liability, if any, for any of these matters will not have a material adverse effect on the financial.

# Office of the State Auditor



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

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Board of Trustees  
Mayland Community College  
Spruce Pine, North Carolina

We have audited the financial statements of Mayland Community College, a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 2011, which collectively comprise the College's basic financial statements and have issued our report thereon dated March 26, 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. Other auditors audited the financial statements of Mayland Community College Foundation, Inc., the discretely presented component unit, as described in our report on the College's financial statements. The financial statements of Mayland Community College Foundation, Inc. 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)**

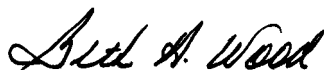
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Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be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

March 26, 2012



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