STATE OF NORTH CAROLINA

MARTIN COMMUNITY COLLEGE

WILLIAMSTON, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2013

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

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Office of the State Auditor

Beth A. Wood, CPA
State Auditor

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AUDITOR'S TRANSMITTAL

The Honorable Pat McCrory, 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, 2013, 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

Report on the Financial Statements

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, 2013, and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 statements were audited by other auditors, whose report has been furnished to us, and our opinions, insofar as they relate to the amounts included for the discretely presented component unit, are based solely 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 from material misstatement. The financial statements of Martin Community College Foundation, Inc. were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the College's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of Martin Community College, as of June 30, 2013, and the changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters – Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 11, 2014, on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control over financial reporting and compliance.

Beth A. Wood

Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

June 11, 2014

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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, 2013. 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. The three statements are featured below with brief descriptions of each financial focus.

The Statement of Net Position 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 Position includes all assets and liabilities. Over time, increases or decreases in net position are indicators of the improvement or erosion of the College's financial health.

The Statement of Revenues, Expenses, and Changes in Net Position 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 Position

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

Condensed Statement of Net Position
(in thousands)

	2013	2012	Increase (Decrease)	Percent Change
Assets				
Current Assets	$ 2,342.12	$ 2,147.39	$ 194.73	9%
Capital Assets	7,335.56	7,388.47	(52.91)	-1%
Other Assets	946.41	1,089.09	(142.69)	-13%
Total Assets	10,624.09	10,624.95	(0.86)	0%
Liabilities				
Current Liabilities	194.70	295.15	(100.45)	-34%
Long-Term Liabilities	253.55	231.83	21.72	9%
Total Liabilities	448.25	526.98	(78.73)	-15%
Net Position				
Invested in Capital Assets	7,335.56	7,388.47	(52.91)	-1%
Restricted	1,111.34	1,195.10	(83.76)	-7%
Unrestricted	1,728.94	1,514.40	214.54	14%
Total Net Position	$ 10,175.84	$ 10,097.97	$ 77.87	1%

As of June 30, 2013, the College's total assets were $10.6 million. The largest increase was in the current assets caption mostly due to a $194.73 thousand increase in current cash and cash equivalents. The county fund balance increased $138.33 thousand and cosmetology and equine departments revenues collected exceed expenses. Restricted cash decreased $46.7 thousand due to Completion By Design Initiative grant changing the reimbursement process. Martin Community College received $20.0 thousand from Scholarship America for Dreamkeeper Scholarships which is recorded in restricted cash. Student gross receivables were flat but allowance for doubtful accounts was higher; therefore net receivables were $9.4 thousand less. Bookstore receivables were $6.3 thousand less due to less bookstore credits at year end. Inventories increased by $27.4 thousand in the bookstore and county increased by $10.1 thousand because of more heating oil on hand.

Other Assets caption decreased by 13% which is mostly attributed to funds being appropriated by the County in 2012 for roof replacement and the actual expense was incurred in 2013.

The current liabilities caption represents the College's accounts payable and current portion of compensated absences. Current liabilities caption decreased by 34% which was attributed to a reduction in payroll accruals for faculty working on the Completion By Design Project, which is funded by the Bill & Melinda Gates Foundation and there was a $51.8 thousand decrease in accrued contract retainage due to the HVAC project being closed in 2013. The long-term liabilities caption represents the College's compensated absences, which is the noncurrent, unused portion of earned vacation leave and special annual leave bonuses. In 2013 the long-term liabilities increased by 9% due to employees earning more leave than used. The College has no other sources of long-term debt.

The largest of the College's net position, $7.34 million, are reflected in invested in capital assets (land, construction in progress, buildings, machinery and equipment, and general infrastructure). Unrestricted net position increased 14% which is mostly due to an increase in inventories and revenues in cosmetology and equine as discussed in paragraph 2 under Financial Analysis of Statement of Net Position.

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

The following chart was prepared from the College's Statement of Revenues, Expenses, and Changes in Net Position and compares the College's revenues for the 2013 and 2012 fiscal years.

Condensed Statement of Revenues, Expenses, and Changes in Net Position
(in thousands)

	2013	2012	Increase (Decrease)	Percent Change
Operating Revenues				
Student Tuition and Fees, Net	$ 426.84	$ 474.74	$ (47.90)	-10%
Sales and Services, Net	264.57	264.58	(0.01)	0%
Other Operating Revenues	15.76	23.16	(7.40)	-32%
Total Operating Revenues	707.17	762.48	(55.31)	-7%
Less Operating Expenses	8,984.62	9,038.61	(53.99)	-1%
Operating Loss	(8,277.45)	(8,276.13)	1.32	0%
Nonoperating and Other Revenues				
State Aid	4,362.23	4,386.81	(24.58)	-1%
County Appropriations	1,012.46	998.00	14.46	1%
Noncapital Grants-Fed Student Financial Aid	1,930.20	2,158.04	(227.84)	-11%
Noncapital Grants	448.63	428.04	20.59	5%
Other Nonoperating Revenues	41.13	19.04	22.09	116%
Capital Aid and Grants	565.52	563.48	2.04	0%
Total Nonoperating and Other Revenues	8,360.17	8,553.41	(193.24)	-2%
Less Nonoperating Expenses	4.85	13.85	(9.00)	
Change in Net Position	77.87	263.43	(185.56)	-70%
Net Position - Beginning of Year	10,097.97	9,834.54	263.43	3%
Net Position - End of Year	$ 10,175.84	$ 10,097.97	$ 77.87	1%
Total Revenues	$ 9,067.34	9,315.89	(248.55)	-3%

Revenues

Overall, total operating revenues decreased by $55.31 thousand. Student tuition and fees decreased by approximately 10%. This is mostly attributed to a drop in Full-Time Equivalents (FTE) for curriculum and occupational classes. The tuition discount remained at approximately 61% of the gross tuition. Other operating revenues decreased by $7.4 thousand mostly due to less revenue collected for boarded horses.

Nonoperating and Other Revenues decreased by approximately 2%. Noncapital Grants - Federal Financial Aid decreased by $227.84 thousand which is attributed to students not being eligible for Pell awards because the Department of Education made changes to the Satisfactory Academic Progress rules. Also the regulations changed from 16 full time semesters to 12 full time semesters that a student can receive Pell funds. Other Nonoperating Revenues increased by $22.09 thousand which is mostly attributed to a donation for $10.0 thousand from Dallas & Angela Silverthorne, a grant for $20.0 thousand from Scholarship of America for Dreamkeeper Scholarships and a decrease of $5.4 thousand in interest income.

Expenses

The following chart was prepared from the College's Statement of Revenues, Expenses, and Changes in Net Position and compares the College's operating expenses for the 2013 and 2012 fiscal years.

Operating Expenses
(in thousands)

	2013	2012	Increase (Decrease)	Percent Change
Operating Expenses				
Personal Services	$ 5,330.92	$ 5,421.38	$ (90.46)	-2%
Supplies and Materials	1,364.26	997.64	366.62	37%
Services	729.65	944.94	(215.29)	-23%
Scholarships and Fellowships	941.58	1,089.05	(147.47)	-14%
Utilities	317.33	286.56	30.77	11%
Depreciation	300.88	299.04	1.84	1%
Total Operating Expenses	$ 8,984.62	$ 9,038.61	$ (53.99)	-1%

Total operating expenses were decreased by $53.99 thousand from the previous fiscal year. Personal services decreased by 2% due to vacant positions. Supplies and Materials increased by $366.62 thousand which is mostly attributed to the replacement of the Cooling Tower and upgrade of the Placement Testing area, which is going to be used for placement testing, new student orientation and Career Counseling. Services decreased by 23%. During 2013 contracted security was reduced by $15.8 thousand due to schedule changes. In 2012 Martin Community College received an Energy Grant and expended $57.8 thousand to contracted services. This was a onetime expense. In 2013 the reversal of the contract retainage fee for the HVAC reduced the Operation/Maintenance category in services. Scholarships and fellowships expense had a 14% decrease, which is attributed to fewer students receiving Pell awards as discussed in Nonoperating Revenues. Utility expense increased by 11% which is mostly attributed to an increase in heating fuel usage and an increase of inventory of fuel oil on hand.

Financial Analysis of Capital Assets

At the end of fiscal year 2013, the Statement of Net Position reflected $7.34 million, net of accumulated depreciation, as presented in the following table.

Capital Assets
(in thousands)

	2013	2012	Increase (Decrease)	Percent Change
Land	$ 166.28	$ 166.28	$ 0.00	0%
Construction in Progress	95.00	1,190.49	(1,095.49)	-92%
Buildings	4,634.36	3,616.10	1,018.26	28%
Machinery and Equipment	844.41	889.40	(44.99)	-5%
General Infrastructure	1,595.51	1,526.20	69.31	5%
Total Capital Assets, Net	$ 7,335.56	$ 7,388.47	$ (52.91)	-1%

Overall, Capital Assets decreased 1%. During 2013 the HVAC Project was closed and $1.17 million was moved from Construction in progress to Buildings. The Administrative Classroom Planning Project is the balance of $95 thousand in Construction in Progress. During the year a new Cooling Tower was installed and $122 thousand was added to General Infrastructure. At year end, the College also had $337.57 thousand in construction contract commitments. These commitments consist of HVAC Project which totals $6.83 thousand, Administrative Classroom which totals $43.24 thousand, Repair and Renovations to Main Campus which totals $210 thousand and Replace Door Hardware and Fencing which totals $77.5 thousand.

Economic Forecast

Martin Community College's mission is to provide quality, affordable, and accessible learner-centered educational programs and services to citizens in the communities it serves. Inherent in its mission is the commitment to: (a) providing quality educational and training programs that lead to a marketable credential and/or provide a pathway to a university program of study, (b) actively participating as a partner in economic development, and (c) providing education and training for existing and new businesses and industries. The College is confident that it will continue to provide the services and programs that will ensure that it remains true to its mission in spite of societal and economic issues that impact critical resources.

The College's service area includes Martin County, specific geographic areas of Bertie County and specific programs and services in Washington County. It provides educational opportunities, including Career and College Promise, for high school students in Martin and Bertie County and collaborates in an Early College program at Bertie High School. The College also provides educational opportunities for private and charter schools in its service area.

The College also provides educational programs at the Bertie Correctional Institute (BCI). The Legislature eliminated all curriculum educational programs in prisons at the end of the 2011-2012 academic year. Continuing education programs were not eliminated. Therefore, the College has continued its continuing educational programs at BCI since that time. A new minimal custody facility has been added at BCI. The facility was scheduled to open before fall semester 2013 but the opening was delayed. The legislature reversed its decision to eliminate curriculum programs in prisons, and the College is currently working with BCI and the Department of Corrections to again offer curriculum courses/programs at BCI. January 2014 is the current anticipated start date for curriculum classes to begin at BCI. Start-up dollars will be available for the new medium care facility. The College anticipates an increase in Budget Full-Time Equivalents (BFTE) at BCI due to increased program offerings in curriculum and also in continuing education.

The Martin County Board of Education is planning in conjunction with the College a new initiative that will focus on first-generation college students and/or at risk students. The College anticipates that more high school students may take advantage of educational opportunities that will become available to them under this new initiative. This should positively impact budget FTE for the 2014-2015 academic year.

The College continues to benefit from funding from the Bill and Melinda Gates Foundation for its Completion by Design initiative (CBD). The College was fortunate that it was chosen to participate in the North Carolina Cadre of colleges in the CBD initiative. Martin Community College, Davidson County Community College, Wake Technical Community College, Central Piedmont Community College, and Guilford Technical Community College are the five colleges in the North Carolina Cadre. North Carolina and two other states, Ohio and Florida, were selected by the Gates Foundation from competitive applications from nine states as the national partners in the CBD initiative. Martin was selected as one of the members of the North Carolina Cadre because of its success and accomplishments that started with its selection for an Achieving the Dream (AtD) initiative funded by the Lumina Foundation in 2005. Two of the College's nationally recognized accomplishments resulting from work in the AtD initiative are recognition as 19th in student engagement in community colleges in the nation and status as an AtD Leader College. Equally important is the recognition of the College's achievement in improving student success.

The College's BFTE dropped by 35 (3.47%) from 2012-2013 to 2013-2014. The loss of curriculum programs at BCI due to the legislative mandate to eliminate curriculum programs at all prisons had an impact on the College's BFTE for 2013-2014. With the reversal of that decision, enrollment at BCI should increase for the last half of the 2013-2014 academic year. Also, the opening of the new medium security facility at BCI during this academic year should result in an increase in enrollment for the College.

The State's developmental math modules initiative (DMA) was implemented in fall semester 2013 at the College. Along with this initiative and the College's continuing work in CBD and AtD, the college anticipates an increase in student retention, success, and completion, which should affect enrollment.

Political rhetoric, economic reports, and economic forecast suggest that the country may have experienced the "worst of the recession." However, the unemployment rate for the College's service area continues to be higher than the unemployment rate for the State. The College, like many, if not most, community colleges in the State and/or the nation, recognizes that resources are diminishing because of the economic situation. It also recognizes that the national trend shows a decline in community college enrollment. As discussed above, the College anticipates some growth in enrollment with a corresponding increase in BFTE. In spite of its optimism, the College understands that it must continue to be prudent with scarce resources and must remain true to its mission even if fewer funds are available. The College realizes that faculty and staff understand that the economic situation is the reason they have had little or no salary increases in recent years. Because they understand the situation and because they are committed to the work the College is doing to improve the lives of citizens of the College's service area, they continue to be committed to the College's mission and to helping individuals have a better life. The College recognizes and appreciates its outstanding faculty and staff. Administration, faculty, and staff are optimistic and committed to providing educational opportunities to serve citizens in the College's service area.

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Martin Community College
Statement of Net Position
June 30, 2013 ***Exhibit A-1***

ASSETS		
Current Assets:		
Cash and Cash Equivalents	$	1,882,038.91
Restricted Cash and Cash Equivalents		200,659.84
Receivables, Net (Note 4)		71,297.77
Inventories		188,127.74
Total Current Assets		2,342,124.26
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		553,949.74
Restricted Due from Primary Government		392,454.59
Capital Assets - Nondepreciable (Note 5)		261,280.00
Capital Assets - Depreciable, Net (Note 5)		7,074,277.67
Total Noncurrent Assets		8,281,962.00
Total Assets		10,624,086.26
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Outflows of Resources		0.00
LIABILITIES		
Current Liabilities:		
Accounts Payable and Accrued Liabilities (Note 6)		152,750.16
Unearned Revenue		13,552.72
Long-Term Liabilities - Current Portion (Note 7)		28,394.62
Total Current Liabilities		194,697.50
Noncurrent Liabilities:		
Funds Held for Others		18,302.35
Long-Term Liabilities (Note 7)		235,250.92
Total Noncurrent Liabilities		253,553.27
Total Liabilities		448,250.77
DEFERRED INFLOWS OF RESOURCES		
Deferred Inflows of Resources		0.00
NET POSITION		
Investment in Capital Assets		7,335,557.67
Restricted for:		
Nonexpendable:		
Scholarships and Fellowships		49,870.76
Other		600.28
Expendable:		
Scholarships and Fellowships		36,085.93
Loans		73,409.09
Capital Projects		878,231.22
Other		73,137.39
Unrestricted		1,728,943.15
Total Net Position	$	10,175,835.49

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 Position
For the Fiscal Year Ended June 30, 2013 — ***Exhibit A-2***

REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net (Note 9)	$	426,835.54
Sales and Services, Net (Note 9)		264,567.30
Other Operating Revenues		15,764.59
Total Operating Revenues		707,167.43
EXPENSES		
Operating Expenses:		
Salaries and Benefits		5,330,919.92
Supplies and Materials		1,364,258.87
Services		729,649.80
Scholarships and Fellowships		941,585.15
Utilities		317,329.23
Depreciation		300,879.16
Total Operating Expenses		8,984,622.13
Operating Loss		(8,277,454.70)
NONOPERATING REVENUES (EXPENSES)		
State Aid		4,362,232.47
County Appropriations		1,012,457.00
Noncapital Grants - Student Financial Aid		1,930,199.19
Noncapital Grants		448,630.76
Noncapital Gifts		30,000.00
Investment Income		11,132.02
Other Nonoperating Expenses		(4,846.52)
Net Nonoperating Revenues		7,789,804.92
Income Before Other Revenues		(487,649.78)
State Capital Aid		316,437.73
County Capital Aid		200,512.00
Capital Grants		48,566.77
Increase in Net Position		77,866.72
NET POSITION		
Net Position, July 1, 2012		10,097,968.77
Net Position, June 30, 2013	$	10,175,835.49

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, 2013 — *Page 1 of 2*

CASH FLOWS FROM OPERATING ACTIVITIES	
Received from Customers	$ 728,368.88
Payments to Employees and Fringe Benefits	(5,361,912.76)
Payments to Vendors and Suppliers	(2,446,158.56)
Payments for Scholarships and Fellowships	(940,908.56)
Loans Issued to Students	(1,256.57)
Collection of Loans to Students	1,256.57
Other Receipts	108.23
Net Cash Used by Operating Activities	(8,020,502.77)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Aid Received	4,362,232.47
County Appropriations	1,012,457.00
Noncapital Grants - Student Financial Aid	1,930,199.19
Noncapital Grants Received	448,630.76
Noncapital Gifts Received	30,000.00
Net Cash Provided by Noncapital Financing Activities	7,783,519.42
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
State Capital Aid Received	315,284.78
County Capital Aid	200,512.00
Capital Grants Received	48,566.77
Acquisition and Construction of Capital Assets	(305,007.14)
Net Cash Provided by Capital and Related Financing Activities	259,356.41
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment Income	11,132.02
Net Cash Provided by Investing Activities	11,132.02
Net Increase in Cash and Cash Equivalents	33,505.08
Cash and Cash Equivalents, July 1, 2012	2,603,143.41
Cash and Cash Equivalents, June 30, 2013	$ 2,636,648.49

Martin Community College
Statement of Cash Flows — *Exhibit A-3*
For the Fiscal Year Ended June 30, 2013 —

RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES

Operating Loss	$	(8,277,454.70)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense		300,879.16
Miscellaneous Nonoperating Income		347.50
Changes in Assets and Liabilities:		
Receivables, Net		15,843.15
Inventories		(33,238.34)
Accounts Payable and Accrued Liabilities		(42,017.72)
Unearned Revenue		5,505.07
Funds Held for Others		290.55
Compensated Absences		9,342.56
Net Cash Used by Operating Activities	$	(8,020,502.77)

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:		
Cash and Cash Equivalents	$	1,882,038.91
Restricted Cash and Cash Equivalents		200,659.84
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		553,949.74
Total Cash and Cash Equivalents - June 30, 2013	$	2,636,648.49

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Increase in Receivables Related to Nonoperating Income	1,152.95
Loss on Disposal of Capital Assets	(5,194.02)

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

Martin Community College Foundation, Inc.
Statement of Financial Position
June 30, 2013 ***Exhibit B-1***

ASSETS		
Cash and Cash Equivalents	$	211,161.66
Property and Equipment, Net		208,922.99
Total Assets		420,084.65
NET ASSETS		
Unrestricted		420,084.65
Total Net Assets	$	420,084.65

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, 2013 — *Exhibit B-2*

CHANGES IN UNRESTRICTED NET ASSETS		
Public Support and Revenues		
Support:		
In Kind Contributions - Horses	$	90,100.00
Revenue:		
Investment Income		688.67
Fundraising		49,382.68
Total Unrestricted Revenues and Gains		140,171.35
Expenses and Losses:		
Contributions to Martin Community College for Scholarships		2,647.00
Administration		64,225.79
Fund Raising Expenses		41,719.03
Total Expenses		108,591.82
Loss on Disposal of Assets		8,125.27
Total Expenses and Losses		116,717.09
Increase in Unrestricted Net Assets		23,454.26
Increase in Net Assets		23,454.26
Net Assets at Beginning of Year		396,630.39
Net Assets at End of Year	$	420,084.65

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 a different GAAP reporting model and to emphasize its legal separateness.

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

The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the College in support of its programs. The Foundation board consists of 12 members. Although the College does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, that the Foundation holds and invests are restricted to the activities of the College by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of the College, the Foundation is considered a component unit of the College and is reported in separate financial statements because of the difference in its reporting model, as described below.

Martin Community College Foundation, Inc., is a private not-for-profit organization that reports its financial results under Financial Accounting Standards Board (FASB) Statements. As such, certain revenue recognition criteria and presentation features are different from 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, 2013, the Foundation distributed $2,647 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 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.

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, include 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 (STIF). The STIF 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.

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.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 25 to 50 years for general infrastructure, 50 to 60 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 Position - The College's net position is classified as follows:

Investment in Capital Assets - This represents the College's total investment in capital assets.

Restricted Net Position - Nonexpendable - Nonexpendable restricted net position includes 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 Position - Expendable - Expendable restricted net position includes resources for which the College is legally or contractually obligated to spend in accordance with restrictions imposed by external parties.

Unrestricted Net Position - Unrestricted net position includes 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 Position. 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 Position. 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 Position. 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 student tuition and fees and 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 appropriations and county capital appropriations do not revert and are available for future use by the College.

NOTE 2 - DEPOSITS

The College is required by *North Carolina General Statute* 147-77 to deposit any funds collected or received that belong to the State of North Carolina with the State Treasurer or with a depository institution in the name of the State Treasurer. 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 Position as cash and cash equivalents includes cash on hand totaling $903, and deposits in private financial institutions with a carrying value of $1,542.96 and a bank balance of $1,542.96.

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, 2013, 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 any form of investment established or managed by certain investment advisors pursuant to G.S. 115D-58.6 (d1) or 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 of custodian.

At June 30, 2013, the amount shown on the Statement of Net Position as cash and cash equivalents includes $2,634,202.53 which represents the College's equity position in the State Treasurer's Short-Term Investment Fund (STIF). The STIF (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission and does not have a credit rating) had a weighted average maturity of 1.6 years as of June 30, 2013. Assets and shares of the STIF 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 STIF) 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) 707-0500.

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, 2013, net appreciation of $11,517.55 was available to be spent, all of which was classified in net position as restricted for specific purposes.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2013, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	$ 76,668.59	$ 42,096.86	$ 34,571.73
Student Sponsors	1,330.29		1,330.29
Accounts	35,312.89		35,312.89
Other	82.86		82.86
Total Current Receivables	$ 113,394.63	$ 42,096.86	$ 71,297.77

NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2013, is presented as follows:

	Balance July 1, 2012	Increases	Decreases	Balance June 30, 2013
Capital Assets, Nondepreciable:				
Land	$ 166,280.00	$ 0.00	$ 0.00	$ 166,280.00
Construction in Progress	1,190,485.92	76,347.05	1,171,832.97	95,000.00
Total Capital Assets, Nondepreciable	1,356,765.92	76,347.05	1,171,832.97	261,280.00
Capital Assets, Depreciable:				
Buildings	7,623,485.08	1,171,832.97		8,795,318.05
Machinery and Equipment	1,771,509.58	54,813.04	8,244.34	1,818,078.28
General Infrastructure	1,932,793.03	122,000.00		2,054,793.03
Total Capital Assets, Depreciable	11,327,787.69	1,348,646.01	8,244.34	12,668,189.36
Less Accumulated Depreciation for:				
Buildings	4,007,385.47	153,569.13		4,160,954.60
Machinery and Equipment	882,109.39	94,612.76	3,050.32	973,671.83
General Infrastructure	406,587.99	52,697.27		459,285.26
Total Accumulated Depreciation	5,296,082.85	300,879.16	3,050.32	5,593,911.69
Total Capital Assets, Depreciable, Net	6,031,704.84	1,047,766.85	5,194.02	7,074,277.67
Capital Assets, Net	$ 7,388,470.76	$ 1,124,113.90	$ 1,177,026.99	$ 7,335,557.67

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2013, were as follows:

	Amount
Current Accounts Payable and Accrued Liabilities:	
Accounts Payable	$ 30,883.01
Accrued Payroll	115,108.91
Other	6,758.24
Total	$ 152,750.16

NOTE 7 - CHANGES IN LONG-TERM LIABILITIES

A summary of changes in the long-term liabilities for the year ended June 30, 2013, is presented as follows:

	Balance July 1, 2012	Additions	Reductions	Balance June 30, 2013	Current Portion
Compensated Absences	$ 254,302.98	$ 189,307.91	$ 179,965.35	$ 263,645.54	$ 28,394.62

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, 2013:

Fiscal Year		Amount
2014	$	8,990.76
2015		7,634.61
2016		5,736.00
2017		5,736.00
2018	$	3,824.00
Total Minimum Lease Payments	$	31,921.37

Rental expense for all operating leases during the year was $11,269.94.

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	$ 1,142,505.01	$ 0.00	$ 692,549.45	$ 23,120.02	$ 426,835.54
Sales and Services:					
Sales and Services of Auxiliary Enterprises:					
Café	$ 63,908.81	$ 0.00	$ 65.00	$ 30.36	$ 63,813.45
Bookstore	591,452.29	5,429.78	397,925.39	17,995.89	170,101.23
Other	30,652.62				30,652.62
Total Sales and Services	$ 686,013.72	$ 5,429.78	$ 397,990.39	$ 18,026.25	$ 264,567.30

* Note: The Allowance for Uncollectibles is equivalent to the change in the Allowance for Doubtful Accounts, excluding items such as direct write-offs.

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	$ 3,141,819.64	$ 371,639.54	$ 369,845.36	$ 0.00	$ 0.00	$ 0.00	$ 3,883,304.54
Academic Support	482,264.34	50,572.13	55,305.34				588,141.81
Student Services	402,277.88	80,065.36	28,076.81				510,420.05
Institutional Support	954,378.15	103,539.08	202,078.04				1,259,995.27
Operations and Maintenance of Plant	229,674.75	271,709.21	46,289.49		317,329.23		865,002.68
Student Financial Aid				941,585.15			941,585.15
Auxiliary Enterprises	120,505.16	486,733.55	28,054.76				635,293.47
Depreciation						300,879.16	300,879.16
Total Operating Expenses	$ 5,330,919.92	$ 1,364,258.87	$ 729,649.80	$ 941,585.15	$ 317,329.23	$ 300,879.16	$ 8,984,622.13

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 (TSERS) 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 a 14-member Board of Trustees, with the State Treasurer serving as Chairman of the Board.

Benefit and contribution provisions for the TSERS 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, 2013, these rates were set at 8.33% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the College had a total payroll of $4,162,439.09, of which $3,191,701.31 was covered under the TSERS. Total employer and employee contributions for pension benefits for the year were $265,868.72 and $191,502.08, respectively.

Required employer contribution rates for the years ended June 30, 2012, and 2011, were 7.44% and 4.93%, respectively, while employee contributions were 6% each year. The College made 100% of its annual required contributions for the years ended June 30, 2013, 2012, and 2011, which were $265,868.72, $236,058.87, and $153,375.28, respectively.

The TSERS 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) 707-0500.

B. Supplemental Retirement Income Plans - Internal Revenue Code 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 $25,080 for the year ended June 30, 2013.

Internal Revenue Code 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 $24,399.96 for the year ended June 30, 2013.

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 Chapter 135, Article 3B, 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 established by the North Carolina General Assembly.

For the current fiscal year the College contributed 5.30% of the covered payroll under the Teachers' and State Employees' Retirement System to the Fund. Required contribution rates for the years ended June 30, 2012, and 2011, were 5.0% and 4.9%, respectively. The College made 100% of its annual required contributions to the Plan for the years ended June 30, 2013, 2012, and 2011, which were $169,160.17, $158,641.71, and $152,441.96, 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) 707-0500.

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, 2013, the College made a statutory contribution of .44% of covered payroll under the Teachers' and State Employees' Retirement System to the DIPNC. Required contribution rates for the years ended June 30, 2012, and 2011, were .52% and .52%, respectively. The College made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2013, 2012, and 2011, which were

$14,043.49, $16,498.74, and $16,177.51, 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 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 the Public School Insurance Fund (Fund), a state-administered public entity risk pool. The Fund is financed by premiums and interest collected through membership participation and retains a $10 million deductible per occurrence. Reinsurance is purchased by the Fund to cover catastrophic events in excess of the $10 million deductible. Membership insured 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 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 $337,571.03 and on other purchases were $15,351.01 at June 30, 2013.

STATE OF NORTH CAROLINA

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

Board of Trustees
Martin Community College
Williamston, North Carolina

We have audited, in accordance with the 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, 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, 2013, and the related notes to the financial statements, which collectively comprise the College's basic financial statements, and have issued our report thereon dated June 11, 2014. Our report includes a reference to other auditors who audited the financial statements of Martin Community College Foundation, Inc., 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*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with the discretely presented component unit.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the College's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control. Accordingly, we do not express an opinion on the effectiveness of the College's internal control.

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

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)

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

<u>Compliance and Other Matters</u>

As part of obtaining reasonable assurance about whether the College's financial statements are free from 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.*

<u>Purpose of this Report</u>

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the College's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Beth A. Wood

Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

June 11, 2014

ORDERING INFORMATION

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This audit required 368 audit hours at an approximate cost of $27,968.