

# **STATE OF NORTH CAROLINA**

**MAYLAND COMMUNITY COLLEGE**

**SPRUCE PINE, NORTH CAROLINA**

**FINANCIAL STATEMENT AUDIT REPORT**

**FOR THE YEAR ENDED JUNE 30, 2013**

**OFFICE OF THE STATE AUDITOR**

**BETH A. WOOD, CPA**

**STATE AUDITOR**

**MAYLAND COMMUNITY COLLEGE**

**SPRUCE PINE, NORTH CAROLINA**

**FINANCIAL STATEMENT AUDIT REPORT**

**FOR THE YEAR ENDED JUNE 30, 2013**

**STATE BOARD OF COMMUNITY COLLEGES**

**THE NORTH CAROLINA COMMUNITY COLLEGE SYSTEM**

**DR. R. SCOTT RALLS, PRESIDENT**

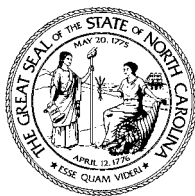
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**Beth A. Wood, CPA**  
State Auditor

STATE OF NORTH CAROLINA  
**Office of the State Auditor**

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**AUDITOR'S TRANSMITTAL**

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The Honorable Pat McCrory, 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, 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.

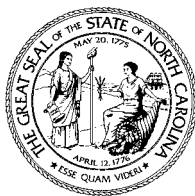
A handwritten signature in cursive script that reads "Beth A. Wood".

Beth A. Wood, CPA  
State Auditor

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

STATE OF NORTH CAROLINA

## Office of the State Auditor

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### INDEPENDENT AUDITOR'S REPORT

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Board of Trustees  
Mayland Community College  
Spruce Pine, North Carolina

#### Report on the Financial Statements

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, 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 Mayland 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 Mayland 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

## **INDEPENDENT AUDITOR'S REPORT (CONTINUED)**

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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 opinion.

### 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 Mayland 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.

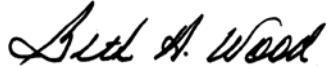
### Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2013 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

## INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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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.

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

Beth A. Wood, CPA  
State Auditor

Raleigh, North Carolina

December 17, 2013

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## **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, 2013. We encourage readers to consider this information in conjunction with the College's financial statements and the notes to the financial statements. The financial statements also include component unit Statement of Financial Position, and Statement of Activities. Comparative information for the prior fiscal year is also presented in the condensed financial statements. The following discussion and analysis provides an overview of the financial position and activities only for Mayland Community College (the "College") for the years ended June 30, 2013 and 2012 and not its component unit.

### **Basic Financial Statements**

The basic financial statements for the College include the following:

- Statement of Net Position
- Statement of Revenues, Expenses, and Changes in Net Position
- Statement of Cash Flows
- Notes to the Financial Statements

The Statement of Net Position is presented in the classified format which reports assets and liabilities as current and noncurrent. The Statement of Revenues, Expenses, and Changes in Net Position presents revenues and expenditures 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.

### **Financial Information**

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

- In fiscal year 2012-2013, there was a 3.76% tuition increase over 2011-2012. As a result, tuition and fee revenues increased before financial aid was awarded to students.
- The State budget was received in July 2012, however immediate mandatory reversions of funds back to the State totaled \$745,863.00 or 6.87%.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

### Condensed Statement of Net Position:

	6/30/2013	6/30/2012	Difference
<b>Assets</b>			
Current Assets	\$ 961,299.75	\$ 1,115,882.29	\$ (154,582.54)
Capital Assets, Net	13,407,564.01	14,729,150.74	(1,321,586.73)
Other Noncurrent Assets	727,188.83	853,926.32	(126,737.49)
Total Assets	15,096,052.59	16,698,959.35	(1,602,906.76)
<b>Liabilities</b>			
Current Liabilities	494,820.16	411,327.91	83,492.25
Noncurrent Liabilities	542,266.22	520,268.12	21,998.10
Total Liabilities	1,037,086.38	931,596.03	105,490.35
<b>Net Position</b>			
Net Investment in Capital Assets	13,407,564.01	14,729,150.74	(1,321,586.73)
Restricted	580,478.39	1,031,539.26	(451,060.87)
Unrestricted	70,923.81	6,673.32	64,250.49
Total Net Position	\$ 14,058,966.21	\$ 15,767,363.32	\$ (1,708,397.11)

The \$154,582.54 decrease in current assets is attributable to a decrease of cash of \$147,279.75 combined with an increase of \$20,162.33 in receivables and a decrease in inventory of \$27,465.12.

The \$147,279.75 decrease in cash is mainly attributed to monies spent on repair and renovation projects. The projects consisted of Gwaltney Hall controls, Entrance Repairs, Paving Project, Vocational Building Roofing Project, and Bathroom Renovations.

Noncurrent capital assets, net of depreciation, decreased by \$1,321,586.73. The main contributing factor to this decrease was the razing of three buildings during the current fiscal year. The buildings were the Lexington Building #2 and two buildings at the Bridge Facility. The deletion of the buildings net of depreciation totaled \$1,241,045.12.

Other noncurrent assets decreased by \$126,737.49. This is directly related to a \$125,000.40 decrease in restricted due from primary government due to the completion of several construction projects.

Total current liabilities of the college increased \$83,492.25. This is primarily due to an increase of payroll accruals of \$75,843.03 relating to an increase in part-time instructors for Basic Skills.

The items described above resulted in a decrease in total net position of \$1,708,397.11.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

### Condensed Statement of Revenues, Expenses, and Changes in Net Position

	6/30/2013	6/30/2012	Difference
Operating Revenues:			
Student Tuition and Fees, Net	\$ 617,791.49	\$ 687,951.35	\$ (70,159.86)
Sales and Services, Net	194,974.22	231,185.20	(36,210.98)
Other Operating Revenues	809.79	31,614.48	(30,804.69)
Total Operating Revenues	<u>813,575.50</u>	<u>950,751.03</u>	<u>(137,175.53)</u>
Operating Expenses:			
Personal Services	9,839,414.62	9,913,914.70	(74,500.08)
Supplies and Materials	2,105,231.46	1,559,595.37	545,636.09
Services	1,263,888.23	1,293,373.05	(29,484.82)
Scholarships and Fellowships	1,266,697.13	1,269,156.21	(2,459.08)
Utilities	298,599.97	282,947.39	15,652.58
Depreciation	340,987.24	299,541.37	41,445.87
Total Operating Expenses	15,114,818.65	14,618,528.09	496,290.56
Operating Loss	(14,301,243.15)	(13,667,777.06)	(633,466.09)
Nonoperating Revenues (Expenses)			
State Aid	7,708,651.82	7,822,437.66	(113,785.84)
County Appropriations	898,956.96	825,833.00	73,123.96
Noncapital Grants and Gifts	4,284,079.03	4,199,035.48	85,043.55
Other Nonoperating Expenses	(1,260,670.79)	(127,229.39)	(1,133,441.40)
Net Nonoperating Revenue	<u>11,631,017.02</u>	<u>12,720,076.75</u>	<u>(1,089,059.73)</u>
Loss Before Other Revenues	(2,670,226.13)	(947,700.31)	(1,722,525.82)
Capital Aid, Grants, and Gifts	961,829.02	1,641,409.70	(679,580.68)
Increase (Decrease) in Net Assets	(1,708,397.11)	693,709.39	(2,402,106.50)
Net Position, Beginning of Year	<u>15,767,363.32</u>	<u>15,073,653.93</u>	<u>693,709.39</u>
Net Position, End of Year	<u>\$ 14,058,966.21</u>	<u>\$ 15,767,363.32</u>	<u>\$ (1,708,397.11)</u>

Operating revenues totaled \$813,575.50, which decreased by \$137,175.53 over last year's total operating revenue of \$950,751.03. The differences are noted in the following:

- Student tuition and fees decreased \$70,159.86. Although tuition rates increased 3.76%, the overall decrease is the result of an offset of scholarship discounts due to an increase in financial aid awards.
- The \$36,210.98 decrease in sales and services was mainly attributable to a decrease in bookstore sales of \$44,022.81. The decrease was directly related to an increase of scholarship discounts from the previous year due to an increase in financial aid awards.

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

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- Net nonoperating revenues totaled \$11,631,017.02, which decreased \$1,089,059.73 over last year's total net nonoperating revenue of \$12,720,076.75. This is primarily due to the razing of the three buildings previously mentioned.
- The counties awarded \$73,124.00 more than last year's current general expense county appropriations.
- The increase of noncapital gifts and grants is mainly attributable to a \$267,497.51 increase in Pell awards.
- Capital aid, grants, and gifts had a decrease of \$679,580.68 from the prior year. State certification decreased \$175,923.91. Capital gifts and grants decreased \$483,498.77, which is attributable to the transfer of property from the NC Department of Corrections and a phone system that was installed with grant funds in the previous year.
- Operating expenses totaled \$15,114,818.65, which increased by \$496,290.56 in comparison to the 2011-2012 fiscal year. Supplies and materials increased \$545,636.09 due to the expenses for repairs and renovation projects.

### **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 69% of total revenues for the College in 2013. The College anticipates reverting State funds in the 2013-2014 fiscal year due to economic factors plaguing the State. The reversions should not be more than 1% of the college's State appropriations. Continued economic uncertainty may result in difficulty in maintaining levels of federal, State and local support.

**Mayland Community College**  
**Statement of Net Position**  
**June 30, 2013**

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

**ASSETS**

Current Assets:

Cash and Cash Equivalents	\$ 274,655.70
Restricted Cash and Cash Equivalents	294,931.19
Receivables, Net (Note 3)	265,167.94
Inventories	126,544.92

Total Current Assets	961,299.75
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Noncurrent Assets:

Restricted Cash and Cash Equivalents	252,505.88
Restricted Due from Primary Government	374,682.95
Restricted Due from State of North Carolina Component Units	100,000.00
Capital Assets - Nondepreciable (Note 4)	712,295.42
Capital Assets - Depreciable, Net (Note 4)	12,695,268.59

Total Noncurrent Assets	14,134,752.84
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Total Assets	15,096,052.59
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**DEFERRED OUTFLOWS OF RESOURCES**

Deferred Outflows of Resources	0.00
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**LIABILITIES**

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 5)	319,393.70
Due to Primary Government	1,117.39
Unearned Revenue	19,591.62
Funds Held for Others	53,878.57
Long-Term Liabilities - Current Portion (Note 6)	100,838.88

Total Current Liabilities	494,820.16
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Noncurrent Liabilities:

Long-Term Liabilities (Note 6)	542,266.22
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Total Liabilities	1,037,086.38
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**DEFERRED INFLOWS OF RESOURCES**

Deferred Inflows of Resources	0.00
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***Mayland Community College***  
***Statement of Net Position***  
***June 30, 2013***

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

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**NET POSITION**

Net Investment in Capital Assets	13,407,564.01
Restricted for:	
Expendable:	
Loans	1,415.42
Capital Projects	403,356.60
Restricted for Specific Programs	104,931.70
Other	70,774.67
Unrestricted	<u>70,923.81</u>
Total Net Position	<u><u>\$ 14,058,966.21</u></u>

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 Position  
For the Fiscal Year Ended June 30, 2013***

***Exhibit A-2***

**REVENUES**

Operating Revenues:

Student Tuition and Fees, Net (Note 8)	\$ 617,791.49
Sales and Services, Net (Note 8)	194,974.22
Other Operating Revenues	809.79

Total Operating Revenues	813,575.50
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**EXPENSES**

Operating Expenses:

Salaries and Benefits	9,839,414.62
Supplies and Materials	2,105,231.46
Services	1,263,888.23
Scholarships and Fellowships	1,266,697.13
Utilities	298,599.97
Depreciation	340,987.24

Total Operating Expenses	15,114,818.65
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Operating Loss	(14,301,243.15)
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**NONOPERATING REVENUES (EXPENSES)**

State Aid	7,708,651.82
County Appropriations	898,956.96
Noncapital Grants - Student Financial Aid	2,723,395.10
Noncapital Grants	1,445,460.50
Noncapital Gifts	115,223.43
Investment Income, Net	2,743.07
Other Nonoperating Expenses	(1,263,413.86)

Net Nonoperating Revenues	11,631,017.02
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Loss Before Other Revenues	(2,670,226.13)
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State Capital Aid	721,694.25
County Capital Aid	33,300.00
Capital Grants	32,973.91
Capital Gifts	173,860.86

Decrease in Net Position	(1,708,397.11)
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**NET POSITION**

Net Position, July 1, 2012	15,767,363.32
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Net Position, June 30, 2013	\$ 14,058,966.21
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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, 2013***

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

**CASH FLOWS FROM OPERATING ACTIVITIES**

Received from Customers	\$ 789,774.34
Payments to Employees and Fringe Benefits	(9,739,317.57)
Payments to Vendors and Suppliers	(3,644,323.86)
Payments for Scholarships and Fellowships	(1,266,096.65)
Other Receipts	10,442.47
	<hr/>
Net Cash Used by Operating Activities	(13,849,521.27)

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

State Aid Received	7,708,651.82
County Appropriations	898,956.96
Noncapital Grants - Student Financial Aid	2,723,395.10
Noncapital Grants Received	1,445,632.96
Noncapital Gifts Received	115,223.43
William D. Ford Direct Lending Receipts	804,117.00
William D. Ford Direct Lending Disbursements	(804,117.00)
	<hr/>
Net Cash Provided by Noncapital Financing Activities	12,891,860.27

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

State Capital Aid Received	846,694.65
County Capital Aid	33,300.00
Capital Grants Received	47,064.68
Capital Gifts Received	173,860.86
Proceeds from Sale of Capital Assets	1,557.50
Acquisition and Construction of Capital Assets	(296,576.60)
	<hr/>
Net Cash Provided by Capital and Related Financing Activities	805,901.09

**CASH FLOWS FROM INVESTING ACTIVITIES**

Investment Income	2,743.07
	<hr/>
Net Cash Provided by Investing Activities	2,743.07

Net Decrease in Cash and Cash Equivalents	(149,016.84)
Cash and Cash Equivalents, July 1, 2012	971,109.61
	<hr/>
Cash and Cash Equivalents, June 30, 2013	\$ 822,092.77



***Mayland Community College***  
***Statement of Cash Flows***  
***For the Fiscal Year Ended June 30, 2013***

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

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

Operating Loss	\$ (14,301,243.15)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	340,987.24
Miscellaneous Nonoperating Income	1,111.60
Changes in Assets and Liabilities:	
Receivables, Net	(34,425.56)
Inventories	27,465.12
Accounts Payable and Accrued Liabilities	71,851.83
Due to Primary Government	(78.12)
Unearned Revenue	11,224.88
Funds Held for Others	9,330.87
Compensated Absences	24,254.02
Net Cash Used by Operating Activities	<u><u>\$ (13,849,521.27)</u></u>

**RECONCILIATION OF CASH AND CASH EQUIVALENTS**

Current Assets:	
Cash and Cash Equivalents	\$ 274,655.70
Restricted Cash and Cash Equivalents	294,931.19
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	<u>252,505.88</u>
Total Cash and Cash Equivalents - June 30, 2013	<u><u>\$ 822,092.77</u></u>

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

Assets Acquired through Assumption of a Liability	\$ 17,630.00
Increase in Receivables Related to Nonoperating Income	37,308.90
Loss on Disposal of Capital Assets	(1,264,525.46)

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, 2013***

***Exhibit B-1***

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 146,653	\$ 340,659	\$ 0.00	\$ 487,312
Student Loans Receivable	1,500			1,500
Accounts Receivable		705		705
Property and Equipment, Net of Accumulated Depreciation of \$28,832	18,507			18,507
Marketable Securities	(266,065)		1,528,045	1,261,980
Total Assets	(99,405)	341,364	1,528,045	1,770,004
<b>NET ASSETS</b>	<b>\$ (99,405)</b>	<b>\$ 341,364</b>	<b>\$ 1,528,045</b>	<b>\$ 1,770,004</b>

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, 2013***

***Exhibit B-2***

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
<b>Support and Revenue:</b>				
Contributions	\$ 23,531	\$ 470,843	\$ 76,515	\$ 570,889
Fundraisers and Related Events	28,486			28,486
Miscellaneous		1,554		1,554
Investment Income	118,143	258		118,401
Satisfaction of Program Restrictions	296,331	(296,331)		
Total Support and Revenue	<u>466,491</u>	<u>176,324</u>	<u>76,515</u>	<u>719,330</u>
<b>Expenses:</b>				
Program Services	334,455			334,455
Management and General	41,938			41,938
Total Expenses	<u>376,393</u>			<u>376,393</u>
Change in Net Assets	90,098	176,324	76,515	342,937
Net Assets, Beginning of Year	<u>(189,503)</u>	<u>165,040</u>	<u>1,451,530</u>	<u>1,427,067</u>
Net Assets, End of Year	<u>\$ (99,405)</u>	<u>\$ 341,364</u>	<u>\$ 1,528,045</u>	<u>\$ 1,770,004</u>

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

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**MAYLAND COMMUNITY COLLEGE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

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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 is reported in separate financial statements because of their use of different GAAP reporting models and to emphasize their legal separateness.

**Discretely Presented Component Unit** – Mayland Community College Foundation, Inc. (Foundation) is a legally separate not-for-profit corporation and is reported as a discretely presented component unit based on the nature and significance of 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 19 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 the Financial Accounting Standards Board (FASB) Codification. As such, certain revenue recognition criteria and presentation features are different from the Governmental Accounting Standards Board (GASB) revenue recognition criteria and presentation

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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 \$334,455.00 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)766-1271.

- 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, 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, and private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants. Receivables are recorded net of estimated uncollectible amounts.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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**F. Inventories** - Inventories, consisting of expendable supplies and merchandise for resale, are valued at the lower of cost or market 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.

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.

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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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:

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

**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 (1) student tuition



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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and fees, and (2) sales and services of auxiliary enterprises. Operating expenses are all expense transactions incurred other than those related to capital and noncapital financing or investing activities as defined by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*.

Nonoperating revenues include activities that have the characteristics of nonexchange transactions. Revenues from nonexchange transactions and state aid that represent subsidies or gifts to the College, as well as investment income, are considered nonoperating since these are either investing, capital, or noncapital financing activities. Capital contributions are presented separately after nonoperating revenues and expenses.

- N. **Internal Sales Activities** – The College bookstore, an institutional auxiliary operation provides goods and services to College departments, as well as to its customers. All internal sales activities to College departments from the auxiliary operations 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 AND INVESTMENTS

- A. **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, other than those required to be deposited with the State Treasurer, 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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hand totaling \$1,454.00, and deposits in private financial institutions with a carrying value of \$703,518.52 and a bank balance of \$1,054,934.29.

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 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 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 \$117,120.25 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

- 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 Foundation reports under the FASB reporting model, disclosures of the various investment risks are not required. The following is an analysis of investments by type:

	<u>Fair Value</u>
Money Market Funds	\$ 3,226
Domestic Equities	946,762
Domestic Fixed Income	262,060
International Equities	<u>49,932</u>
Total Investments	<u>\$ 1,261,980</u>

### NOTE 3 - RECEIVABLES

Receivables at June 30, 2013, were as follows:

	<u>Gross Receivables</u>	<u>Less Allowance for Doubtful Accounts</u>	<u>Net Receivables</u>
<b>Current Receivables:</b>			
Students	\$ 102,496.57	\$ 38,788.40	\$ 63,708.17
Student Sponsors	20,125.52	6,203.61	13,921.91
Accounts	21,731.75		21,731.75
Intergovernmental	114,406.44		114,406.44
Other	<u>51,399.67</u>		<u>51,399.67</u>
<b>Total Current Receivables</b>	<u>\$ 310,159.95</u>	<u>\$ 44,992.01</u>	<u>\$ 265,167.94</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, 2013, is presented as follows:

	Balance July 1, 2012	Increases	Decreases	Balance June 30, 2013
Capital Assets, Nondepreciable:				
Land	\$ 576,545.42	\$ 0.00	\$ 0.00	\$ 576,545.42
Construction in Progress	0.00	135,750.00		135,750.00
<b>Total Capital Assets, Nondepreciable</b>	<b>576,545.42</b>	<b>135,750.00</b>	<b>0.00</b>	<b>712,295.42</b>
Capital Assets, Depreciable:				
Buildings	16,055,515.39		1,574,610.64	14,480,904.75
Machinery and Equipment	1,651,290.24	149,733.47	86,235.14	1,714,788.57
General Infrastructure	483,650.87			483,650.87
<b>Total Capital Assets, Depreciable</b>	<b>18,190,456.50</b>	<b>149,733.47</b>	<b>1,660,845.78</b>	<b>16,679,344.19</b>
Less Accumulated Depreciation for:				
Buildings	3,260,746.99	216,604.32	333,565.52	3,143,785.79
Machinery and Equipment	549,890.92	117,896.56	61,197.30	606,590.18
General Infrastructure	227,213.27	6,486.36		233,699.63
<b>Total Accumulated Depreciation</b>	<b>4,037,851.18</b>	<b>340,987.24</b>	<b>394,762.82</b>	<b>3,984,075.60</b>
<b>Total Capital Assets, Depreciable, Net</b>	<b>14,152,605.32</b>	<b>(191,253.77)</b>	<b>1,266,082.96</b>	<b>12,695,268.59</b>
<b>Capital Assets, Net</b>	<b>\$ 14,729,150.74</b>	<b>\$ (55,503.77)</b>	<b>\$ 1,266,082.96</b>	<b>\$ 13,407,564.01</b>

### NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	Amount
<b>Accounts Payable and Accrued Liabilities:</b>	
Accounts Payable	\$ 44,320.20
Accrued Payroll	257,443.50
Contract Payable	3,670.00
Contract Retainage	13,960.00
<b>Total Accounts Payable and Accrued Liabilities</b>	<b>\$ 319,393.70</b>

### NOTE 6 - 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	\$ 618,851.08	\$ 360,165.70	\$ 335,911.68	\$ 643,105.10	\$ 100,838.88

## 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, 2013:

<u>Fiscal Year</u>	<u>Amount</u>
2014	\$ 42,533.20
2015	26,251.00
2016	4,752.00
<b>Total Minimum Lease Payments</b>	<b>\$ 73,536.20</b>

Rental expense for all operating leases during the year was \$41,419.20.

### NOTE 8 - REVENUES

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

	<u>Gross Revenues</u>	<u>Internal Sales Eliminations</u>	<u>Less Scholarship Discounts</u>	<u>Less Allowance for Uncollectibles*</u>	<u>Net Revenues</u>
<b>Operating Revenues:</b>					
<b>Student Tuition and Fees</b>	<u>\$ 1,682,500.68</u>	<u>\$ 0.00</u>	<u>\$ 1,049,290.69</u>	<u>\$ 15,418.50</u>	<u>\$ 617,791.49</u>
<b>Sales and Services:</b>					
Sales and Services of Auxiliary Enterprises:					
Bookstore	\$ 659,844.99	\$ 5,155.27	\$ 510,185.47	\$ 375.38	\$ 144,128.87
Vending	8,925.16				8,925.16
Rent	17,888.62				17,888.62
Sales and Services of Education and Related Activities	<u>24,031.57</u>				<u>24,031.57</u>
<b>Total Sales and Services</b>	<u>\$ 710,690.34</u>	<u>\$ 5,155.27</u>	<u>\$ 510,185.47</u>	<u>\$ 375.38</u>	<u>\$ 194,974.22</u>

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 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/ Amortization	Total
Instruction	\$ 5,810,417.67	\$ 465,059.33	\$ 559,322.56	\$ 0.00	\$ 0.00	\$ 0.00	\$ 6,834,799.56
Public Service		6,104.28	15,370.53				21,474.81
Academic Support	1,035,070.91	40,536.49	10,337.69				1,085,945.09
Student Services	984,559.09	24,484.52	50,377.26	48,400.09			1,107,820.96
Institutional Support	1,705,456.70	167,894.65	381,248.51				2,254,599.86
Operations and Maintenance of Plant	202,860.42	856,234.39	231,825.38		298,599.97		1,589,520.16
Student Financial Aid				1,218,297.04			1,218,297.04
Auxiliary Enterprises	101,049.83	544,917.80	15,406.30				661,373.93
Depreciation						340,987.24	340,987.24
<b>Total Operating Expenses</b>	<b>\$ 9,839,414.62</b>	<b>\$ 2,105,231.46</b>	<b>\$ 1,263,888.23</b>	<b>\$ 1,266,697.13</b>	<b>\$ 298,599.97</b>	<b>\$ 340,987.24</b>	<b>\$ 15,114,818.65</b>

### 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 (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 \$7,679,377.52, of which \$6,428,578.01 was covered under the TSERS. Total employer and employee contributions for pension benefits for the year were \$535,500.55 and \$385,714.68, 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 \$535,500.55, \$486,213.95, and \$357,504.16, respectively.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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 Plan** - 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 \$53,200.00 for the year ended June 30, 2013.

### 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 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 General Assembly.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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 \$340,714.63, \$326,756.69, and \$355,328.68, 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, was .52% for both years. The College made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2013, 2012, and 2011, which were \$28,285.74, \$33,982.70, and \$37,708.35, 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



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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.

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. 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

## NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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whose salaries or wages are paid by the Board entirely from county or institutional funds.

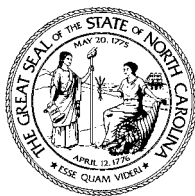
Malpractice insurance is provided for instructors and students in high risk programs (cosmetology, medical assisting, nursing, emergency medical technician and phlebotomy). This insurance is provided through a private insurance company with coverage of \$1,000,000 per occurrence and no deductible.

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.

### NOTE 13 - COMMITMENTS

The College has established an encumbrance system to track its outstanding commitments on construction projects. Outstanding commitments on construction contracts were \$92,867.70 at June 30, 2013.



**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, 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 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, 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 December 17, 2013. Our report includes a reference to other auditors who audited the financial statements of Mayland Community College Foundation, Inc., 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*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with Mayland Community College Foundation, Inc.

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 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,

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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.

Compliance and Other Matters

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*.

Purpose of this Report

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, CPA  
State Auditor

Raleigh, North Carolina

December 17, 2013

## ORDERING INFORMATION

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Copies of this report may be obtained by contacting the:

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For additional information contact:

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