

STATE OF NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT OF

MITCHELL COMMUNITY COLLEGE

STATESVILLE, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2004

OFFICE OF THE STATE AUDITOR

LESLIE W. MERRITT, JR., CPA, CFP

STATE AUDITOR

FINANCIAL STATEMENT AUDIT REPORT OF

MITCHELL COMMUNITY COLLEGE

STATESVILLE, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2004

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THE NORTH CAROLINA COMMUNITY COLLEGE SYSTEM

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Leslie W. Merritt, Jr., CPA, CFP
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AUDITOR'S TRANSMITTAL

The Honorable Michael F. Easley, Governor
The General Assembly of North Carolina
Board of Trustees, Mitchell Community College

This report presents the results of our financial statement audit of Mitchell Community College, a component unit of the State of North Carolina, for the year ended June 30, 2004. Our audit was made by authority of Article 5A of Chapter 147 of the *North Carolina General Statutes*.

The accounts and operations of the College are an integral part of the State's reporting entity represented in the State's *Comprehensive Annual Financial Report (CAFR)* and the State's *Single Audit Report*. In those reports, the State Auditor expresses an opinion on the State's financial statements. In the *Single Audit Report*, the State Auditor also presents the audit results on the State's internal controls and on the State's compliance with laws, regulations, contracts, and grants applicable to the State's financial statements and to its federal financial assistance programs.

As part of the audit work necessary for the CAFR and the *Single Audit Report*, the accounts and operations of the College were subjected to audit procedures, as we considered necessary. In addition, we performed auditing procedures that we considered necessary for us to report on the accompanying financial statements that relate solely to Mitchell Community College. The audit procedures were conducted in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States.

The purpose of this report is to present the results of our audit on the accompanying financial statements that relate solely to Mitchell Community College. A summary of our reporting objectives and audit results is:

- 1. Objective** - To express an opinion on the accompanying financial statements that relate solely to Mitchell Community College.

Results - The accompanying financial statements present fairly, in all material respects, the amounts and disclosures made in accordance with accounting principles generally accepted in the United States of America. These matters are more fully described in the Independent Auditor's Report on the Financial Statements.

AUDITOR'S TRANSMITTAL (CONCLUDED)

2. **Objective** - To present significant deficiencies, if any, in internal control over financial reporting which could adversely affect the College's ability to record, process, summarize, and report financial data in the financial statements and present instances of noncompliance, if any, with laws, regulations, contracts, or grants.

Results - Our tests disclosed no significant deficiencies in internal control over financial reporting and no instances of noncompliance, which require disclosure herein under *Government Auditing Standards*. These matters are more fully described in the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters.

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.



Leslie W. Merritt, Jr., CPA, CFP
State Auditor

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STATE OF NORTH CAROLINA
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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Mitchell Community College
Statesville, North Carolina

We have audited the accompanying basic financial statements of Mitchell Community College, a component unit of the State of North Carolina, as of and for the year ended June 30, 2004, as listed in the table of contents. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of Mitchell Community College Endowment for Excellence, which represent 21 percent, 22 percent, and 3 percent, respectively, of the assets, net assets, and revenues of the College. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for Mitchell Community College Endowment for Excellence, is based on the report of the other auditors.

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

The financial statements referred to above include only Mitchell Community College and its blended component unit. The financial statements do not include financial data for Mitchell College Foundation, Inc., a legally separate component unit, which accounting principles generally accepted in the United States of America require to be reported with the financial data of Mitchell Community College. As a result, the College's financial statements do not purport to, and do not, present fairly the financial position of the reporting entity of Mitchell Community College, as of June 30, 2004, and the changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of Mitchell Community College and its blended component unit as of June 30, 2004, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 16 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, during the year ended June 30, 2004.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 10, 2005, 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 this report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis, as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. Schedule 1 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Leslie W. Merritt, Jr.

Leslie W. Merritt, Jr., CPA, CFP
State Auditor

June 10, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management Discussion and Analysis of Mitchell Community College's financial statements provides an overview of the College's financial activities for the year ended June 30, 2004. Please read it in conjunction with the financial statements and notes to the financial statements.

Public colleges and universities are required by GASB Statement No. 34 to include management's discussion and analysis as part of the financial statements. This section is intended to provide a narrative analysis that users need to interpret the basic financial statements. The discussion and analysis is required to include condensed financial information, comparing the current year to the prior year.

Institutional Financial Highlights

- During the year, the State of North Carolina again experienced budget and cash flow problems. This affected all State agencies, including the community colleges. As a result, Mitchell Community College had to revert \$221,888, or 3.0%, of its allocated State budget.
- Iredell County, despite the downturn in the economy, allocated the College \$1,689,840 for operational expenses, an additional 5.0%, or \$80,470, over the previous year. In addition, the College received \$624,986 in county capital funds.
- The College's financial position improved during the fiscal year ended June 30, 2004. Its combined net assets increased by \$3,847,529, or 24.0%, from the previous year. The change was largely due to increases in capital projects of \$2,420,185, and investment income of \$523,632, and noncapital gifts and grants of \$810,062 at June 30, 2004.
- The College experienced a 6.6% increase in full time equivalent curriculum students for the year ended June 30, 2004. Tuition remained at \$34.25 per semester hour for in-State students and \$190.75 per semester hour for out-of-State students with a maximum charge of \$548.00 and \$3,052.00 per semester, respectively.
- Mitchell Community College Endowment for Excellence (a blended component unit) received gifts for the year of \$229,623.

Overview of the Financial Statements

Three basic financial statements are included with this report along with the discussion and analysis and required supplementary information. The three basic financial reports include the Statement of Net Assets, the Statement of Revenues, Expenses, and Changes in Net Assets, and the Statement of Cash Flows, which provide information on the whole operation of the College.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

The Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets report information on the institution as a whole and on its activities. These two reports help the users of this report to analyze the current year's operations to determine if the institution is better or worse off than the prior year. When revenues and other support exceed expenses, the result is an increase in net assets. When expenses exceed revenues and support, the result is a decrease in net assets.

The College's net assets are the difference between assets and liabilities and are one of the measures on the financial health of the institution. Over a period of time, increases or decreases in the College's net assets are one of several indicators that determine if its financial situation is improving or deteriorating. The user will need to take into account other financial and nonfinancial factors to assess the complete health of the College. The age and condition of its buildings and grounds is just a couple of the nonfinancial factors that could have an impact on the total health of the institution.

The Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets use the accrual basis of accounting, which is similar to the accounting used by most private-sector institutions. Revenues and expenses of the current year are taken into account regardless when cash is received or paid.

The Statement of Net Assets

The total assets of the College increased by \$4,594,213 (\$594,283 increase in current assets and \$3,999,930 increase in noncurrent assets). This overall increase was primarily due to a \$691,375 increase in endowment investments, a \$2,370,065 increase in the receivable for "Restricted Due from Primary Government" in regards to the bond projects, and an \$891,202 increase in capital assets.

The total liabilities of the College increased by \$746,684 (\$706,483 in current liabilities and \$40,201 in noncurrent liabilities). The increase in current liabilities was primarily attributable to a \$672,595 increase in accounts payable and accrued liabilities. The increase in noncurrent liabilities was primarily attributable to a new capital lease addition of \$106,188 for telephone equipment, offset against the payments on capital leases of \$52,615 during the year.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Statement of Net Assets

	<u>6/30/04</u>	<u>6/30/03</u>
Current Assets	\$ 2,358,980	\$ 1,764,697
Noncurrent Assets	8,498,080	5,389,352
Capital Assets	<u>10,501,062</u>	<u>9,609,860</u>
Total Assets	<u>21,358,122</u>	<u>16,763,909</u>
Current Liabilities	1,134,333	427,850
Noncurrent Liabilities	<u>332,498</u>	<u>292,297</u>
Total Liabilities	<u>1,466,831</u>	<u>720,147</u>
Net Assets:		
Invested in Capital Assets, Net of Related Debt	10,323,805	9,456,176
Restricted	9,160,907	6,022,563
Unrestricted	<u>406,579</u>	<u>565,023</u>
Total Net Assets	<u>\$ 19,891,291</u>	<u>\$ 16,043,762</u>

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

The total net revenues of the College were \$19,587,317 for 2004, compared to \$16,041,974 for 2003, an increase of \$3,545,343. This change was primarily due to the increases in State aid and State capital aid of \$703,585 and \$2,533,332, respectively.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Statement of Revenues, Expenses, and Changes in Net Assets

	<u>6/30/04</u>	<u>6/30/03</u>
Operating Revenues		
Student Tuition and Fees, Net	\$ 1,666,356	\$ 1,642,207
Federal Grants and Contracts	2,174,090	1,888,717
State and Local Grants and Contracts	188,540	338,493
Sales and Services, Net	868,856	659,665
Other Operating Revenues	1,125	5,742
Total Operating Revenues	<u>4,898,967</u>	<u>4,534,824</u>
Total Operating Expenses	<u>15,739,788</u>	<u>14,577,010</u>
Operating Loss	<u>(10,840,821)</u>	<u>(10,042,186)</u>
Nonoperating Revenues (Expenses)		
State Aid	7,386,075	6,682,490
County Appropriations	1,689,840	1,609,370
Noncapital Grants	332,847	356,917
Noncapital Gifts	477,214	435,730
Investment Income, Net	523,632	188,918
Other Nonoperating Revenues (Expenses)	1,409	(99,593)
Net Nonoperating Revenues	<u>10,411,017</u>	<u>9,173,832</u>
Loss Before Other Revenues	(429,804)	(868,354)
State Capital Aid	3,150,107	616,775
County Capital Appropriations	624,986	22,460
Capital Grants	208,802	529,879
Capital Gifts	56,066	619,207
Additions to Endowments	237,372	544,997
Increase in Net Assets	<u>3,847,529</u>	<u>1,464,964</u>
Net Assets - Beginning of the Year	<u>16,043,762</u>	<u>14,578,798</u>
Net Assets - End of Year	<u>\$ 19,891,291</u>	<u>\$ 16,043,762</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

The Statement of Cash Flows

Another way to assess the financial health of an institution is to look at the Statement of Cash Flows. Its primary purpose is to provide relevant information about cash receipts and cash payments of an entity during a period. The \$589,994 increase in cash flow for the current fiscal year was primarily due to an increase in State aid and State capital aid received.

Cash Flow Statement

	<u>6/30/04</u>	<u>6/30/03</u>
Cash Provided (Used) By:		
Operating Activities	\$ (9,555,115)	\$ (9,653,619)
Noncapital Financing Activities	10,089,995	9,629,505
Capital and Related Financing Activities	224,499	199,850
Investing Activities	<u>(169,385)</u>	<u>591,686</u>
Net Increase in Cash	589,994	767,422
Cash - Beginning of Year	<u>4,088,864</u>	<u>3,321,442</u>
Cash - End of Year	<u><u>\$ 4,678,858</u></u>	<u><u>\$ 4,088,864</u></u>

Capital Assets

At June 30, 2004, the College's capital assets totaled \$10,501,062, net of accumulated depreciation of \$5,637,927, a net increase of \$891,202. The increase in capital assets was mainly due to an additional \$1,179,977 in construction in progress at the Continuing Education Center, an additional \$174,738 in machinery and equipment, and an offset of accumulated depreciation additions of \$463,513. There was also a \$1,007,339 adjustment from construction in progress to buildings due to the completion of the Mooresville Center Second Floor Addition project.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

Capital Assets

	<u>6/30/04</u>	<u>6/30/03</u>
Capital Assets, Nondepreciable		
Land	\$ 521,307	\$ 521,307
Construction in Progress	<u>1,482,291</u>	<u>1,309,652</u>
Total Capital Assets, Nondepreciable	<u>2,003,598</u>	<u>1,830,959</u>
Capital Assets, Depreciable		
Buildings	7,836,800	7,179,243
General Infrastructure	99,725	108,040
Machinery and Equipment	<u>560,939</u>	<u>491,618</u>
Total Capital Assets, Depreciable, Net	<u>8,497,464</u>	<u>7,778,901</u>
Total Capital Assets, Net	<u><u>\$ 10,501,062</u></u>	<u><u>\$ 9,609,860</u></u>

Economic Factors That Will Affect the Future

The economic position of the College is closely tied to that of the State and to a lesser degree to the county. The College received its 2004-2005 State budget allocation of \$10,543,172 in July 2004. This represented an increase of \$1,085,366 or 11.5% from the previous year.

The North Carolina System of Community Colleges has recommended that all community colleges establish a reserve of 1.0% for a possible reversion for the 2004-2005 fiscal year. This reserve request represents approximately \$90,000 for Mitchell Community College.

Mitchell Community College, like many other community colleges in the State, experienced enrollment growth over the last several years, while at the same time the State funding was reduced. The State allocation for the 2004-2005 fiscal year is a tremendous improvement from the immediate past years, and it is hoped that the State will continue to make improvements in future years so that the number and the quality of classes offered at the College will be able to continue to grow and improve.

The two percent (2.0%) increase or \$33,797, in the county's 2004-2005 operational appropriation is of great concern to the College. With the costs of utilities, security, insurance, and labor costs rising at a higher rate, the likelihood of the College requesting additional funds for the 2004-2005 year from the county is likely. The county appropriated \$653,005 for capital projects for 2004-2005, an increase of \$23,210 over the prior year's capital allocation of \$629,795.

Mitchell Community College
Statement of Net Assets
June 30, 2004

Exhibit A-1

ASSETS

Current Assets:	
Cash and Cash Equivalents	\$ 716,193.52
Restricted Cash and Cash Equivalents	831,904.48
Short-Term Investments	219,838.39
Restricted Short-Term Investments	65,019.36
Receivables, Net (Note 4)	355,790.79
Inventories	150,316.66
Prepaid Items	19,878.45
Notes Receivable, Net (Note 4)	<u>38.24</u>
Total Current Assets	<u>2,358,979.89</u>
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	3,130,760.46
Restricted Due from Primary Government	2,401,158.35
Endowment Investments	2,743,232.76
Other Long-Term Investments	222,928.82
Capital Assets - Nondepreciable (Note 5)	2,003,597.61
Capital Assets - Depreciable, Net (Note 5)	<u>8,497,464.20</u>
Total Noncurrent Assets	<u>18,999,142.20</u>
Total Assets	<u>21,358,122.09</u>

LIABILITIES

Current Liabilities:	
Accounts Payable and Accrued Liabilities (Note 6)	972,363.99
Deferred Revenue	5,875.00
Funds Held for Others	38,391.05
Long-Term Liabilities - Current Portion (Note 7)	<u>117,703.44</u>
Total Current Liabilities	1,134,333.48
Noncurrent Liabilities:	
Long-Term Liabilities (Note 7)	<u>332,497.49</u>
Total Liabilities	<u>1,466,830.97</u>

NET ASSETS

Invested in Capital Assets, Net of Related Debt	10,323,804.75
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	1,098,476.32
Other	3,939,754.83
Expendable:	
Scholarships and Fellowships	160,141.94
Loans	18,758.74
Capital Projects	3,429,556.36
Other	514,218.88
Unrestricted	<u>406,579.30</u>
Total Net Assets	<u>\$ 19,891,291.12</u>

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

***Mitchell Community College
Statement of Revenues, Expenses, and
Changes in Net Assets
For the Fiscal Year Ended June 30, 2004***

Exhibit A-2

REVENUES

Operating Revenues:	
Student Tuition and Fees, Net (Note 9)	\$ 1,666,356.22
Federal Grants and Contracts	2,174,090.31
State and Local Grants and Contracts	188,539.26
Sales and Services, Net (Note 9)	868,856.35
Other Operating Revenues	1,125.00
	<hr/>
Total Operating Revenues	4,898,967.14
	<hr/>

EXPENSES

Operating Expenses:	
Salaries and Benefits	10,272,147.79
Supplies and Materials	1,822,530.71
Services	1,332,794.77
Scholarships and Fellowships	1,429,622.18
Utilities	419,180.39
Depreciation	463,512.73
	<hr/>
Total Operating Expenses	15,739,788.57
	<hr/>
Operating Loss	(10,840,821.43)
	<hr/>

NONOPERATING REVENUES

State Aid	7,386,075.39
County Appropriations	1,689,840.00
Noncapital Grants	332,847.67
Noncapital Gifts	477,213.90
Investment Income, Net	523,631.87
Other Nonoperating Revenues	1,408.63
	<hr/>
Net Nonoperating Revenues	10,411,017.46
	<hr/>
Loss Before Other Revenues	(429,803.97)
	<hr/>
State Capital Aid	3,150,107.20
County Capital Appropriations	624,986.00
Capital Grants	208,801.90
Capital Gifts	56,066.00
Additions to Endowments	237,371.82
	<hr/>
Increase in Net Assets	3,847,528.95
	<hr/>

NET ASSETS

Net Assets, July 1, 2003	16,043,762.17
	<hr/>
Net Assets, June 30, 2004	\$ 19,891,291.12
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The accompanying notes to the financial statements are an integral part of this statement.

***Mitchell Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2004***

Exhibit A-3

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 4,858,864.00
Payments to Employees and Fringe Benefits	(9,978,076.27)
Payments to Vendors and Suppliers	(3,042,647.50)
Payments for Scholarships and Fellowships	(1,429,622.18)
Loans Issued to Students	(798.50)
Collection of Loans to Students	1,094.06
Other Receipts	36,071.45
	<u>36,071.45</u>
Net Cash Used by Operating Activities	<u>(9,555,114.94)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Aid Received	7,386,075.39
County Appropriations	1,689,840.00
Noncapital Grants Received	299,494.31
Noncapital Gifts and Endowments Received	714,585.72
	<u>714,585.72</u>
Net Cash Provided by Noncapital Financing Activities	<u>10,089,995.42</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

State Capital Aid Received	780,042.60
County Capital Appropriations	624,986.00
Capital Grants Received	208,801.90
Capital Gifts Received	56,066.00
Acquisition and Construction of Capital Assets	(1,362,783.01)
Principal Paid on Capital Debt and Leases	(82,614.55)
	<u>(82,614.55)</u>
Net Cash Provided by Capital and Related Financing Activities	<u>224,498.94</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from Sales and Maturities of Investments	20,729.31
Investment Income	127,152.01
Purchase of Investments and Related Fees	(317,266.34)
	<u>(317,266.34)</u>
Net Cash Used by Investing Activities	<u>(169,385.02)</u>

Net Increase in Cash and Cash Equivalents	589,994.40
Cash and Cash Equivalents, July 1, 2003	4,088,864.06
	<u>4,088,864.06</u>
Cash and Cash Equivalents, June 30, 2004	<u>\$ 4,678,858.46</u>

Mitchell Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2004

Exhibit A-3

Page 2

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

Operating Loss	\$ (10,840,821.43)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	463,512.73
Provision for Uncollectible Loans and Write-Offs	(201.98)
Miscellaneous Nonoperating Income	1,408.63
Changes in Assets and Liabilities:	
Receivables, Net	(17,324.27)
Inventories	(1,450.08)
Prepaid Items	2,099.05
Notes Receivable, Net	295.56
Accounts Payable and Accrued Liabilities	786,850.63
Deferred Revenue	5,875.00
Funds Held for Others	5,078.25
Compensated Absences	39,562.97
	<hr/>
Net Cash Used by Operating Activities	<u>\$ (9,555,114.94)</u>

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	\$ 716,193.52
Restricted Cash and Cash Equivalents	831,904.48
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	3,130,760.46
	<hr/>
Total Cash and Cash Equivalents - June 30, 2004	<u>\$ 4,678,858.46</u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through Assumption of a Liability	\$ 106,187.61
Change in Fair Value of Investments	390,989.24
Increase in Receivables Related to Nonoperating Income	2,403,417.96
Capital Asset Write-Offs	18,566.96

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

MITCHELL COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004

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, the financial reporting entity includes both the primary government and all of its component units, either blended with the primary government or discretely presented. An organization other than a primary government serves as a nucleus for a reporting entity when it issues separate financial statements. Mitchell 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 for which the College's Board of Trustees is financially accountable but does not include the Mitchell College Foundation, Inc., a component unit requiring discrete presentation. The implementation of Governmental Accounting Standards Board Statement No. 39, *Determining Whether Certain Organizations are Component Units*, as described in Note 16, required inclusion of certain affiliated organizations that previously were not a required component unit of the College's financial statements. Financial statements in accordance with accounting principles generally accepted in the United States of America were not available for the Mitchell College Foundation, Inc., for the current fiscal year. As described in Note 17, the Mitchell College Foundation, Inc., subsequently was dissolved and the assets transferred to the Mitchell Community College Endowment for Excellence, a blended component unit of the College.

Blended Component Unit - Although legally separate, Mitchell Community College Endowment for Excellence (Endowment) is reported as if it were part of the College. The Endowment is governed by a minimum of 25 elected directors. The Endowment's purpose is to aid, support, and promote the educational endeavors of the College. Because the elected directors of the Endowment must first be nominated by the Executive Committee of the Mitchell Community College Board of Trustees and the Endowment's sole purpose is to benefit Mitchell Community College, its financial statements have been blended with those of the College.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Separate financial statements for the Endowment may be obtained from the office of the Vice President for Finance and Administration of the College at 500 West Broad Street, Statesville, NC 28677, or by calling (704) 878-3202. Other related foundations and similar nonprofit corporations for which the College is not financially accountable are not part of the accompanying financial statements.

- B. Basis of Presentation** - The accompanying financial statements are presented in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

Pursuant to the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, as amended by GASB Statement No. 35, *Basic Financial Statements – and Management’s Discussion and Analysis – for Public Colleges and Universities*, the full scope of the College’s activities is considered to be a single business-type activity (BTA) and accordingly, is reported within a single column in the basic financial statements.

In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the College does not apply Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, for proprietary activities, unless the GASB amends its pronouncements to specifically adopt FASB pronouncements issued after that date.

- C. Basis of Accounting** - The financial statements of the College have been prepared using the economic resource measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.
- D. Cash and Cash Equivalents** - This classification includes petty cash, cash on deposit with private bank accounts, and deposits held by the State Treasurer in the short-term investment portfolio. The short-term investment portfolio 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. Investments** - This classification includes mutual funds, money market funds, certificates of deposit, and real estate holdings by the College. Mutual Fund investments are accounted for at fair value, as determined by quoted market prices, or an amount determined by management if quoted

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

market prices are not available. The net increase (decrease) in the fair value of investments is recognized as a component of investment income.

Money market funds, certificates of deposit, and real estate not held by a governmental external investment pool are reported at cost, if purchased, or at fair value or appraised value at date of gift, if donated.

- F. Receivables** - Receivables consist of tuition and fees charges 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.
- G. Inventories** - Inventories, consisting of expendable supplies and postage, are valued at cost using either the first-in, first-out, last invoice cost, or average cost method. The Point-of-Sale System installed by the bookstore during the summer of 2001 uses a perpetual inventory system with a weighted average method of calculating cost of inventory for merchandise for resale.
- H. 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 College capitalizes assets that have a value or cost in excess of \$5,000 at the date of acquisition and an expected useful life of more than one year. Library books are generally not considered to have a useful life of more than one year unless part of a collection and are expensed in the year of acquisition.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 15 to 40 years for general infrastructure, 10 to 50 years for buildings, and three to 15 years for equipment.

- I. Restricted Assets** - Unexpended capital contributions are classified as restricted assets because their use is limited by donor/grantor agreements. Certain other assets are classified as restricted because their use is limited by external parties or statute.
- J. Noncurrent Long-Term Liabilities** - Noncurrent long-term liabilities includes notes payable, capital lease obligations, and compensated absences that will not be paid within the next fiscal year.
- K. 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

forward each July 1st or for which an employee can be paid upon termination of employment. Also, any accumulated vacation leave in excess of 30 days at year end is converted to sick leave.

In addition to the vacation leave described above, compensated absences includes the accumulated unused portion of the special annual leave bonuses awarded by the College to all full-time permanent employees as of July 1, 2003. The unused portion of this leave remains available until used, notwithstanding the limitation on annual leave carried forward described above.

When classifying compensated absences into current and noncurrent, leave is considered taken using a last-in, first-out method.

L. Net Assets - The College's net assets are classified as follows:

Invested in Capital Assets, Net of Related Debt - This represents the College's total investment in capital assets, net of outstanding debt obligations related to those capital assets.

Restricted Net Assets - Nonexpendable - Nonexpendable restricted net assets include endowments and similar type assets whose use is limited by donors or other outside sources, and, as a condition of the gift, the principal is to be maintained in perpetuity.

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

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

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

M. Scholarship Discounts - Student tuition and fees revenues and certain other revenues from College charges are reported net of scholarship discounts in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. The scholarship discount is the difference

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

- N. Revenue and Expense Recognition** - The College classifies its revenues and expenses as operating or nonoperating in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the College's principal ongoing operations. Operating revenues include activities that have characteristics of exchange transactions, such as (1) student tuition and fees, (2) sales and services of auxiliary enterprises, and (3) certain federal, State and local grants and contracts. Operating expenses are all expense transactions incurred other than those related to capital and noncapital financing or investing activities as defined by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*.

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

- O. Internal Sales Activities** - The College bookstore provides goods and services to College departments, as well as to its customers. All internal sales activities to College departments from the College bookstore have been eliminated in the accompanying financial statements. These eliminations are recorded by removing the revenue and expense in the College bookstore and, if significant, allocating any residual balances to those departments receiving the goods and services during the year.
- P. County Appropriations** - County appropriations are provided to the College primarily to fund its plant operation and maintenance function and to fund construction projects, motor vehicle purchases, and maintenance of equipment. Unexpended county current appropriation and county capital appropriation do not revert and are available for future use by the College.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 2 - DEPOSITS AND INVESTMENTS

A. Deposits - All funds of the College are deposited in board-designated official depositories and are required to be collateralized in accordance with 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 or with the State Treasurer’s Investment Pool. Also, the College may establish time deposit accounts, money market accounts, and certificates of deposit. At year end, cash on hand was \$126,004.00. The carrying amount of cash on deposit was \$4,602,854.46 and the bank balance was \$4,900,811.72.

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.

Cash on deposit at year end consisted of the following:

	Book Balance	Bank Balance
Cash on Deposit with State Treasurer	\$ 3,728,585.38	\$ 3,728,585.38
Cash on Deposit with Private Financial Institutions	874,269.08	1,172,226.34
	\$ 4,602,854.46	\$ 4,900,811.72

The cash on deposit with the State Treasurer is pooled with State agencies and similar institutions in short-term investments with the State Treasurer’s Investment Pool. These moneys are invested in accordance with General Statutes 147-69.1(c) and 147-69.2, and as required by law are “readily convertible into cash.” All investments of the fund are held either by the Department of State Treasurer or agent in the State’s name. The fund’s uninvested cash is either covered by federal depository insurance or, pursuant to 20 NCAC 7, is collateralized under either the dedicated or pooling method.

The financial statements and disclosures for the State Treasurer’s Investment Pool are included in the State of North Carolina’s *Comprehensive Annual Financial Report*. An electronic version of this

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.state.nc.us/> and clicking on "Financial Reports", or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

Of the cash on deposit with private financial institutions at June 30, 2004, \$150,000.00 of the bank balance was covered by federal depository insurance, and \$1,022,226.34 was covered by collateral held by an authorized escrow agent in the name of the State Treasurer (pooling method).

- B. Investments** - In addition to donated real estate held by the College, the College is authorized to invest idle funds as provided by General Statute 115D-58.6. In accordance with this statute, the College and the Board of Trustees manage investments to ensure they can be converted into cash when needed.

Generally, funds belonging to the College may be invested in the form of investments pursuant to General Statute 159-30(c), as follows: 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 and banker's acceptances; The North Carolina Capital Management Trust, an SEC registered mutual fund; repurchase agreements; and evidences of ownership of, or fractional undivided interests in, future interest and principal payments on either direct obligations of or fully guaranteed by the United States government, which are held by a specified bank or trust company or any state in the capacity.

Except as specified by the donor, endowment funds belonging to the College may be invested pursuant to General Statute 147-69.2. This statute authorizes investments for special funds held by the State Treasurer and includes the following investments: obligations of or fully guaranteed by the United States; obligations of certain federal agencies; repurchase agreements; obligations of the State of North Carolina; certificates of deposit of specified institutions; prime quality commercial paper; specified bills of exchange; asset-backed securities, corporate bonds and notes with specified ratings; general obligations of other states; general obligations of North Carolina local governments; certain venture capital limited partnerships; and the obligations or securities of the North Carolina Enterprise Corporation.

Investments of the College's component unit, the Endowment, are subject to and restricted by General Statute 36B "Uniform Management of

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Institutional Funds Act” (UMIFA) and any requirements placed on them by contract or donor agreements.

Long-Term Investment Pool - This is an internal investment pool that is utilized for the investment of various institutional and endowment funds. Fund ownership is based on the equity interest that each fund holds in the internal investment pool. The investment strategy, including the selection of investments managers, is based on the directives of the College’s Board of Trustees.

The College’s investments are categorized to give an indication of the level of risk assumed by the College. The credit risk categories are concerned with custodial credit risk, which is the risk that a government will not be able to recover the value of investment or collateral securities that are in possession of an outside party if the counterparty to the investment transaction fails. Category 1 includes investments that are insured or registered or for which the securities are held by the College or agent in the College’s name. Category 2 includes uninsured and unregistered investments for which the securities are held by a counterparty’s trust department or agent in the College’s name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by a counterparty’s trust department or agent, but not in the College’s name. None of the College’s investments at June 30, 2004, met the reporting requirements of either of these categories.

A summary of the College’s investments at June 30, 2004, is presented below:

	Fair Value		
	Pooled Investments	Nonpooled Investments	Total
Investments Not Categorized:			
Certificates of Deposit	\$ 0.00	\$ 50,000.00	\$ 50,000.00
Mutual Funds	578,896.23	1,782,106.53	2,361,002.76
Money Market Funds	507,786.57		507,786.57
Real Estate		332,230.00	332,230.00
Total Investments Not Categorized	\$ 1,086,682.80	\$ 2,164,336.53	\$ 3,251,019.33

The above certificates of deposit are a component of the deposit totals reported in the deposits section of this note.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 3 - ENDOWMENT INVESTMENTS

Investments of the College's endowment funds are separately invested or pooled, unless required to be separately invested by the donor. 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 investments of the endowment funds.

Investment return of the College's endowment funds is predicated on the total return concept (yield plus appreciation). Annual payouts from the College's endowment funds are based on an adopted spending policy, which limits spending to no more than 5% of the endowment principal's market value. If current year earnings do not meet the payout requirements, the College uses accumulated income and appreciation from restricted, expendable net asset endowment balances to make up the difference.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2004, were as follows:

	<u>Gross Receivables</u>	<u>Less Allowance for Doubtful Accounts</u>	<u>Net Receivables</u>
Current Receivables:			
Students	\$ 146,708.72	\$ 14,084.29	\$ 132,624.43
Intergovernmental	184,264.46		184,264.46
Investment Earnings	129.99		129.99
Other	40,703.89	1,931.98	38,771.91
Total Current Receivables	<u>\$ 371,807.06</u>	<u>\$ 16,016.27</u>	<u>\$ 355,790.79</u>
Notes Receivable - Current:			
Institutional Student Loan Programs	<u>\$ 776.74</u>	<u>\$ 738.50</u>	<u>\$ 38.24</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2004, is presented as follows:

	Balance July 1, 2003	Adjustments	Increases	Decreases	Balance June 30, 2004
Capital Assets, Nondepreciable:					
Land	\$ 521,306.89	\$ 0.00	\$ 0.00	\$ 0.00	\$ 521,306.89
Construction in Progress	1,309,652.00	(1,007,338.54)	1,179,977.26		1,482,290.72
Total Capital Assets, Nondepreciable	1,830,958.89	(1,007,338.54)	1,179,977.26		2,003,597.61
Capital Assets, Depreciable:					
Buildings	11,194,599.42	1,007,338.54			12,201,937.96
Machinery and Equipment	1,270,554.90		174,737.54	18,566.96	1,426,725.48
General Infrastructure	506,728.07				506,728.07
Total Capital Assets, Depreciable	12,971,882.39	1,007,338.54	174,737.54	18,566.96	14,135,391.51
Less Accumulated Depreciation:					
Buildings	4,015,356.38		349,781.52		4,365,137.90
Machinery and Equipment	778,937.14		105,416.00	18,566.96	865,786.18
General Infrastructure	398,688.02		8,315.21		407,003.23
Total Accumulated Depreciation	5,192,981.54		463,512.73	18,566.96	5,637,927.31
Total Capital Assets, Depreciable, Net	7,778,900.85	1,007,338.54	(288,775.19)		8,497,464.20
Capital Assets, Net	\$ 9,609,859.74	\$ 0.00	\$ 891,202.07	\$ 0.00	\$ 10,501,061.81

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2004, were as follows:

	Amount
Accounts Payable	\$ 561,868.47
Accrued Payroll	362,733.77
Contract Retainage	47,761.75
Total Accounts Payable and Accrued Liabilities	\$ 972,363.99

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 7 - LONG-TERM LIABILITIES

A. Changes in Long-Term Liabilities - A summary of changes in the long-term liabilities is presented as follows:

	Balance July 1, 2003	Additions	Reductions	Balance June 30, 2004	Current Portion
Notes Payable	\$ 90,000.00	\$ 0.00	\$ 30,000.00	\$ 60,000.00	\$ 30,000.00
Capital Leases Payable	63,684.00	106,187.61	52,614.55	117,257.06	53,568.59
Compensated Absences	233,380.90	39,562.97		272,943.87	34,134.85
Total Long-Term Liabilities	<u>\$ 387,064.90</u>	<u>\$ 145,750.58</u>	<u>\$ 82,614.55</u>	<u>\$ 450,200.93</u>	<u>\$ 117,703.44</u>

Additional information regarding capital lease obligations is included in Note 8.

B. Notes Payable - The College was indebted for notes payable for the purposes shown in the following table:

Purpose	Note Holder	Interest Rate	Final Maturity Date	Original Amount of Issue	Principal Paid Through 06/30/2004	Principal Outstanding 06/30/2004
Evans House	Individual	6%	01/30/2006	<u>\$ 120,000.00</u>	<u>\$ 60,000.00</u>	<u>\$ 60,000.00</u>

The annual requirements to pay principal and interest on the notes payable at June 30, 2004, are as follows:

Fiscal Year	Annual Requirements	
	Notes Payable	
	Principal	Interest
2005	\$ 30,000.00	\$ 3,600.00
2006	<u>30,000.00</u>	<u>1,800.00</u>
Total Requirements	<u>\$ 60,000.00</u>	<u>\$ 5,400.00</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 8 - CAPITAL LEASE OBLIGATIONS

Capital lease obligations relating to cosmetology and telephone equipment are recorded at the present value of the minimum lease payments. Future minimum lease payments under capital lease obligations consist of the following at June 30, 2004:

<u>Fiscal Year</u>	<u>Amount</u>
2005	\$ 58,861.20
2006	22,261.20
2007	22,261.20
2008	<u>22,261.20</u>
Total Minimum Lease Payments	125,644.80
Amount Representing Interest (2.41% - 9.81% Rate of Interest)	<u>8,387.74</u>
Present Value of Future Lease Payments	<u><u>\$ 117,257.06</u></u>

Machinery and equipment acquired under capital lease amounted to \$201,353.22 at June 30, 2004.

NOTE 9 - 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>
Operating Revenues:					
Student Tuition and Fees	<u>\$ 2,134,528.93</u>	<u>\$ 0.00</u>	<u>\$ 467,786.71</u>	<u>\$ 386.00</u>	<u>\$ 1,666,356.22</u>
Sales and Services:					
Sales and Services of Auxiliary Enterprises:					
Bookstore	\$ 980,039.08	\$ 2,320.62	\$ 348,362.09	\$ 650.04	\$ 628,706.33
Vending	29,784.18				29,784.18
Other	156,762.95				156,762.95
Sales and Services of Education and Related Activities	<u>53,602.89</u>				<u>53,602.89</u>
Total Sales and Services	<u>\$ 1,220,189.10</u>	<u>\$ 2,320.62</u>	<u>\$ 348,362.09</u>	<u>\$ 650.04</u>	<u>\$ 868,856.35</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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	\$ 6,248,485.42	\$ 336,361.96	\$ 489,608.25	\$ 1,000.00	\$ 1,800.00	\$ 0.00	\$ 7,077,255.63
Academic Support	834,957.67	44,356.56	65,409.98				944,724.21
Student Services	744,829.79	31,632.56	35,241.09				811,703.44
Institutional Support	1,946,028.71	122,274.34	350,049.10	1,200.00			2,419,552.15
Operations and Maintenance of Plant	411,019.31	453,511.73	327,702.82		417,380.39		1,609,614.25
Student Financial Aid			3,809.66	1,427,422.18			1,431,231.84
Auxiliary Enterprises	86,826.89	834,393.56	60,973.87				982,194.32
Depreciation						463,512.73	463,512.73
Total Operating Expenses	<u>\$ 10,272,147.79</u>	<u>\$ 1,822,530.71</u>	<u>\$ 1,332,794.77</u>	<u>\$ 1,429,622.18</u>	<u>\$ 419,180.39</u>	<u>\$ 463,512.73</u>	<u>\$ 15,739,788.57</u>

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 (System) is a cost sharing multiple-employer defined benefit pension plan administered by the North Carolina State Treasurer.

Benefit and contribution provisions for the Teachers' and State Employees' Retirement System are established by *North Carolina General Statutes* 135-5 and 135-8 and may be amended only by the North Carolina General Assembly. Employer and member contribution rates are set each year by the North Carolina General Assembly based on annual actuarial valuations. For the year ended June 30, 2004, these rates were set at .22% of covered payroll for employers and 6% of covered payroll for members.

For the year ended June 30, 2004, the College had a total payroll of \$8,615,427.26, of which \$6,610,087.02 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were \$396,605.50 and \$14,542.19, respectively. The College made one hundred percent of its annual required contributions for the years ended June 30, 2004, 2003, and 2002, which were \$14,542.19, \$0.00, and \$115,313.12, respectively.

The Teachers' and State Employees' Retirement System's financial information is included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

home page <http://www.osc.state.nc.us/> and clicking on “Financial Reports”, or by calling the State Controller’s Financial Reporting Section at (919) 981-5454.

- B. Deferred Compensation and Supplemental Retirement Income Plans** - IRC Section 457 Plan - The State of North Carolina offers its permanent employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 through the North Carolina Public Employee Deferred Compensation Plan (the Plan). The Plan permits each participating employee to defer a portion of his or her salary until future years. The deferred compensation is available to employees upon separation from service, death, disability, retirement, or financial hardships if approved by the Board of Trustees of the Plan. The Board, a part of the North Carolina Department of Administration, maintains a separate fund for the exclusive benefit of the participating employees and their beneficiaries, *the North Carolina Public Employee Deferred Compensation Trust Fund*. The Board also contracts with an external third party to perform certain administrative requirements and to manage the trust fund’s assets. All costs of administering and funding the Plan are the responsibility of the Plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to \$2,988.84 for the year ended June 30, 2004.

IRC Section 401(k) Plan - All members of the Teachers’ and State Employees’ Retirement System are eligible to enroll in the Supplemental Retirement Income Plan, a defined contribution plan, created under Internal Revenue Code Section 401(k). All costs of administering the Plan are the responsibility of the Plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to \$32,037.00 for the year ended June 30, 2004.

IRC Section 403(b) and 403(b)(7) Plans - Eligible College employees can participate in tax sheltered annuity plans created under Internal Revenue Code Sections 403(b) and 403(b)(7). The employee’s eligible contributions, made through salary reduction agreements, are exempt from federal and State income taxes until the annuity is received or the contributions are withdrawn. These plans are exclusively for employees of colleges and certain charitable and other nonprofit institutions. All costs of administering and funding these plans are the responsibility of the Plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to \$70,181.00 for the year ended June 30, 2004.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS

- A. Health Care for Long-Term Disability Beneficiaries and Retirees -** The College participates in State-administered programs, which provide 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. These benefits were established by Chapter 135, Article 3, Part 3, of the General Statutes and may be amended only by the North Carolina General Assembly. Funding for the health care benefit for long-term disability beneficiaries and retirees is financed on a pay-as-you-go basis. The College contributed 3.2% of the covered payroll under the Teachers' and State Employees' Retirement System for these health care benefits. For the fiscal year ended June 30, 2004, the College's total contribution to the Plan was \$211,522.78. 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*.
- B. Long-Term Disability -** The College participates in the Disability Income Plan of North Carolina (DIPNC). Established by Chapter 135, Article 6, of the General Statutes, DIPNC provides short-term and long-term disability benefits to eligible members of the Teachers' and State Employees' Retirement System. Long-term disability income benefits are advance funded on an actuarially determined basis using the one-year term cost method. Employer contributions are established in the Appropriations Bill by the General Assembly. The College was not required to contribute to the DIPNC for the fiscal year ended June 30, 2004. 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. Except for a reduction in the public officers' and employees' liability insurance from \$11,000,000 to \$5,000,000, there have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Tort claims of up to \$500,000 are self-insured under the authority of the State Tort Claims Act. In addition, the State provides excess public officers' and employees' liability insurance up to \$5,000,000 via contract with a private insurance company. The premium, based on a composite rate, is paid by the North Carolina Community College System Office directly to the private insurer.

Fire and other property losses are covered by the Public School Insurance Fund, a State-administered public entity risk pool. This fund is financed by premiums and interest and incurs a \$10 million self-insured deductible per occurrence. Reinsurance is purchased by the fund to cover catastrophic events in excess of the \$10 million deductible. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

State-owned vehicles used for instructional purposes are covered by liability insurance handled by the State Department of Insurance. 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. The blanket honesty bond is with a private insurance company and is handled by the North Carolina Department of Insurance with coverage of \$5,000,000 per occurrence and a \$50,000 deductible. Losses for employees paid from county and institutional funds are covered through a contract with a private company with coverage of \$100,000 per occurrence and no deductible.

Employees and retirees are provided health care coverage by the Comprehensive Major Medical Plan (Plan), a component unit of the State. The Plan is funded by employer and employee contributions and is administered by a third-party contractor.

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 of \$25,000 to \$50,000 is provided to eligible workers. This self-insured death benefit program is administered by the State Treasurer and funded via employer contributions. There were no employer contributions required for the current fiscal year.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 AND CONTINGENCIES

- A. Commitments** - The College has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were \$2,794,111.78 and on other purchases were \$15,912.97 at June 30, 2004.
- B. Community College General Obligation Bonds** - The 1999-2000 Session of the General Assembly of North Carolina authorized the issuance of \$600 million of general obligation bonds of the State, as subsequently approved by a vote of qualified voters of the State, to provide funds for capital improvements for the North Carolina Community College System. The funds authorized are to be used solely to construct new buildings and to renovate and modernize existing buildings on the North Carolina Community College System campuses. The bond legislation specifies the amount of bond funding for each College campus as well as the intended amount for new construction and repair and replacement. The legislation further provides that the State Board of Community Colleges shall be responsible for the approval of projects in accordance with provisions of the legislation. The bonds were authorized for issuance over a six-year period beginning in 2001 at a level not to exceed amounts provided in the legislation. Using a cash flow financing approach, The Community College System's Office (CCSO) establishes annual amounts not to exceed for each approved project. The amounts not to exceed are subject to change due to actual cash availability and needs during the year. Subsequent to the bond sales and the availability of bond proceeds, CCSO notifies the Office of State Budget and Management (OSBM) of the amount not to exceed for the total of the approved projects. Within this amount, based on an official request of cash needs from the State Board of Community Colleges, OSBM authorizes allotments. These allotments are then recorded to specific community college allotment accounts by the CCSO. The College records the allotments as revenue on the accompanying financial statements. The College's remaining authorization of \$2,248,610.00 is contingent on future bond sales and CCSO allotment approval. Because of uncertainty and time restrictions the remaining authorization is not recorded as an asset or revenue on the accompanying financial statements.

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

NOTE 15 - MITCHELL COLLEGE FOUNDATION, INC.

The Mitchell College Foundation, Inc., is a separately incorporated nonprofit foundation associated with the College. This organization helps support the College and its programs through an annual gift. The College's financial statements do not include the assets, liabilities, net assets, or operational transactions of the Foundation, except for the distributions made and benefits provided by the Foundation. The distributions received and/or benefits provided approximated \$165,000.00 for the year ended June 30, 2004.

NOTE 16 - CHANGE IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2004, the College implemented Governmental Accounting Standards Board Statement No. 39, *Determining Whether Certain Organizations are Component Units*. This Statement amends GASB Statement No. 14, *The Financial Reporting Entity*, to provide additional guidance to determine whether certain organizations for which the College is not financially accountable should be reported as component units based on the nature and significance of their relationship to the College. As described in Note 1, the College's financial statements do not include the Mitchell College Foundation, Inc., which would be required for presentation under the guidance of GASB Statement No. 39.

NOTE 17 - SUBSEQUENT EVENTS

During the 2004-2005 fiscal year, the Mitchell College Foundation, Inc., was dissolved, and assets with a market value of \$6,057,613.00 were transferred to the Mitchell Community College Endowment for Excellence (a blended component unit of the College). The assets transferred shall be perpetually maintained and limited to the enrichment and development of existing and future programs offered by the College and for the enhancement of the College's operation and development.

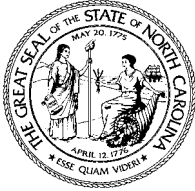
***Mitchell Community College
Schedule of General Obligation Bond Project Authorizations,
Budgets, and Expenditures
For Project-to-Date as of June 30, 2004***

Schedule 1

Capital Improvement Projects	Original Projected Start Date	Revised/ Actual Start Date	General Obligation Bonds Authorized	Other Sources	Total Project Budget	Amount Expended	Percent Completed	Original Expected Completion Date	Revised/ Actual Completion Date
<i>Projects Approved by the State Board</i>									
Mooreville Center Second Floor Addition	Nov 2000	Nov 2000	\$ 216,851.00	\$ 790,487.54	\$ 1,007,338.54	\$ 1,007,338.54	100.00%	Jul 2002	Jun 2004
Renovation of Continuing Education Center - HVAC, Restrooms, and Offices	Oct 2000	Sep 2001	250,000.00		250,000.00	125,817.35	50.33%	Sep 2001	Oct 2004
Advanced Technology Building	Apr 2001	Apr 2001	3,178,788.00	1,000,000.00	4,178,788.00	1,273,550.80	30.48%	Oct 2004	Jul 2005
Renovation of Continuing Education Center - General	Jul 2001	Mar 2004	142,562.00		142,562.00	22,700.00	15.92%	Jul 2002	Jul 2005
<i>Projects Pending Approval by the State Board</i>									
Renovation of Library	Sep 2003	Jul 2004	415,993.00		415,993.00				
Renovation of Student Center	Jan 2004	May 2006	153,604.00		153,604.00				
Renovation of Vocational Building	Jul 2005	Sep 2006	1,293,953.00		1,293,953.00				
Total All Projects			\$ 5,651,751.00	\$ 1,790,487.54	\$ 7,442,238.54	\$ 2,429,406.69			

Note: The 1999-2000 Session of the General Assembly of North Carolina authorized the issuance of \$600 million of general obligation bonds of the State, as subsequently approved by a vote of qualified voters of the State, to provide funds for capital improvements for the North Carolina Community College System. The projects listed on this schedule are those funded or to be funded by bond proceeds from the general obligation bonds authorized by Senate Bill 912.

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Leslie W. Merritt, Jr., CPA, CFP
State Auditor

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

Board of Trustees
Mitchell Community College
Statesville, North Carolina

We have audited the financial statements of Mitchell Community College, a component unit of the State of North Carolina, as of and for the year ended June 30, 2004, which collectively comprise the Mitchell Community College's basic financial statements, and have issued our report thereon dated June 10, 2005. We did not audit the financial statements of Mitchell Community College Endowment for Excellence, which represent 21 percent, 22 percent, and 3 percent, respectively, of the assets, net assets, and revenues of the College. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for Mitchell Community College Endowment for Excellence, is based on the report of the other auditors.

As discussed in Note 16 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, during the year ended June 30, 2004. This Statement amends GASB Statement No. 14, *The Financial Reporting Entity*, to provide additional guidance to determine whether certain organizations for which the College is not financially accountable should be reported as component units based on the nature and significance of their relationship to the College. As described in Note 1, the College's financial statements do not include the Mitchell College Foundation, Inc., which would be required for presentation under the guidance of GASB Statement No. 39.

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. The financial statements of Mitchell Community College Endowment for Excellence were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not extend to this blended component unit.

**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)**

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the College's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the College's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Trustees and the State Board of Community Colleges, management and staff of the College, the Governor, the State Controller, the General Assembly, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.



Leslie W. Merritt, Jr., CPA, CFP
State Auditor

June 10, 2005

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Director, Fiscal Research Division

June 30, 2005

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