



STATE OF NORTH CAROLINA

MITCHELL COMMUNITY COLLEGE

STATESVILLE, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2007

OFFICE OF THE STATE AUDITOR

LESLIE W. MERRITT, JR., CPA, CFP

STATE AUDITOR

MITCHELL COMMUNITY COLLEGE

STATESVILLE, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2007

STATE BOARD OF COMMUNITY COLLEGES

THE NORTH CAROLINA COMMUNITY COLLEGE SYSTEM

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STATE OF NORTH CAROLINA
Office of the State Auditor

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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

We have completed a financial statement audit of Mitchell Community College for the year ended June 30, 2007, 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.

Our consideration of internal control over financial reporting and compliance and other matters based on an audit of the financial statements disclosed a deficiency that is detailed in the Audit Findings and Responses section of this report. The College's response is included following the finding.

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.

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

March 12, 2008

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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, 2007, 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 the Mitchell Community College Endowment for Excellence, which represent 36.1 percent, 35.6 percent, and 9.1 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 the 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 the 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinion.

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 as of June 30, 2007, 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.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

In accordance with *Government Auditing Standards*, we have also issued our report dated February 28, 2008, on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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.

Leslie W. Merritt, Jr.

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

February 28, 2008

MITCHELL COMMUNITY COLLEGE MANAGEMENT'S DISCUSSION AND ANALYSIS

This 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, 2007. Please read it in conjunction with the financial statements and notes to the financial statements.

Public colleges and universities are required to include the management's discussion and analysis as part of the financials 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

Mitchell Community College's State budget allocation increased \$761,284.00 or 6.9% over the 2006 State allocation. During the year, the North Carolina community colleges collected less than anticipated receipts for tuition and fees. As a result, Mitchell Community College had to revert \$84,728.00 or 0.7% of its allocated State budget.

Iredell County's financial situation continues to improve. As a result, the College received \$2,139,595.00 for operational expenses, an additional \$194,957.00 or 10.0% over the previous year. Up until last year, the College received increases for operational expenses between two and five percent each year. In addition, the College received \$886,274.00 in county capital aid for the 2007 fiscal year.

The College's financial position improved significantly during the fiscal year ended June 30, 2007. Its combined net assets increased \$4,959,608.76, or 16.7% from the previous year. The increase was largely due to the construction, purchase, or donation of building assets of \$2,106,741.36 in anticipation of the projected growth of the College, an increase in the receivable related to the State general obligation bond funds of \$1,059,651.70, and net realized and unrealized gains on noncurrent investments of \$1,281,236.93.

The College's full time equivalent (FTE) students increased by sixty-eight (68) or 3.2% for the year ended June 30, 2007. However, the tuition rates from the prior year remained constant into the 2007 fiscal year at \$39.50 per semester hour for in-state students and \$219.50 per semester hour for out-of-state students, with a maximum charge of \$632.00 and \$3,512.00 per semester, respectively.

Overview of the Financial Statements

Three basic financial statements are included with this report along with management's discussion and analysis. The three basic financial statements 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 operations of the College.

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 statements

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

help the users of this report 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 other 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 are 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.

Statement of Net Assets

Total assets of the College increased \$5,486,621.39 from the prior year. This change was primarily due to an increase in noncurrent investments of \$1,281,236.93, an increase of \$1,059,651.70 due from the State for construction bond projects, and an increase in depreciable capital assets of \$3,242,105.83. The increase in investments resulted from a positive rate of return on investments. The significant change in the depreciable capital assets was due to an increase in building assets of \$2,106,741.36 as a result of completed construction projects and building purchases/donations of \$1,504,582.93 and \$602,158.43, respectively. In addition, there was an increase of \$1,135,364.47 to capital assets due to the restatement of July 1, 2006, net assets to correct errors in establishing useful lives.

Condensed Statement of Net Assets

	6/30/07	6/30/06	Increase (Decrease)
Assets			
Current Assets	\$ 4,616,389.69	\$ 3,992,568.82	\$ 623,820.87
Noncurrent Assets	14,230,666.73	11,716,438.14	2,514,228.59
Capital Assets	17,696,871.49	15,348,299.56	2,348,571.93
Total Assets	36,543,927.91	31,057,306.52	5,486,621.39
Liabilities			
Current Liabilities	1,267,650.62	942,814.10	324,836.52
Noncurrent Long-Term Liabilities	574,545.18	372,369.07	202,176.11
Total Liabilities	1,842,195.80	1,315,183.17	527,012.63
Net Assets			
Invested in Capital Assets, Net	17,419,979.15	15,274,620.14	2,145,359.01
Restricted	4,281,115.75	3,254,665.67	1,026,450.08
Unrestricted	13,000,637.21	11,212,837.54	1,787,799.67
Total Net Assets	\$ 34,701,732.11	\$ 29,742,123.35	\$ 4,959,608.76

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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

Total net assets of the College increased \$4,959,608.76 from the prior year. This change was primarily due to increases in total nonoperating revenues, capital contributions, and beginning balance restatements in net assets of \$1,758,954.74, \$920,596.23, and \$1,191,182.11, respectively. In regards to nonoperating revenues, investment income increased \$1,123,971.63 over the prior year primarily due to earnings for the full year from a gift of approximately \$6 million received in December 2005, from the former Mitchell College Foundation, Inc. Also, State and county appropriations increased by \$873,526.92 and \$194,957.00, respectively due to increased funding for enrollment growth and favorable economic conditions. Capital contributions from State, county, and private sources increased by \$920,596.23 for use in capital expenditures, and the increase in beginning balance restatements was mainly to correct errors in establishing useful lives of capital assets of \$1,135,364.47.

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

	6/30/07	6/30/06	Increase (Decrease)
Operating Revenues			
Student Tuition and Fees, Net	\$ 1,878,405.85	\$ 1,713,115.73	\$ 165,290.12
Grants and Contracts	2,153,137.35	2,080,607.77	72,529.58
Sales and Services, Net	1,089,360.30	1,107,800.91	(18,440.61)
Other	1,050.00	1,095.00	(45.00)
Total Operating Revenue	<u>5,121,953.50</u>	<u>4,902,619.41</u>	<u>219,334.09</u>
Total Operating Expenses	<u>19,276,559.41</u>	<u>18,728,629.59</u>	<u>547,929.82</u>
Operating Loss	<u>(14,154,605.91)</u>	<u>(13,826,010.18)</u>	<u>(328,595.73)</u>
Nonoperating Revenues			
State Aid	9,560,152.73	8,686,625.81	873,526.92
County Appropriations	2,139,595.00	1,944,638.00	194,957.00
Other Nonoperating Revenues	<u>3,195,298.99</u>	<u>2,504,828.17</u>	<u>690,470.82</u>
Total Nonoperating Revenues	<u>14,895,046.72</u>	<u>13,136,091.98</u>	<u>1,758,954.74</u>
Income (Loss) Before Other Revenues	740,440.81	(689,918.20)	1,430,359.01
Capital Contributions	3,010,800.76	2,090,204.53	920,596.23
Additions to Endowments	<u>14,651.33</u>	<u>33,030.00</u>	<u>(18,378.67)</u>
Increase in Net Assets	<u>3,765,892.90</u>	<u>1,433,316.33</u>	<u>2,332,576.57</u>
Net Assets Beginning of Year	29,742,123.35	28,306,273.27	1,435,850.08
Restatement of Net Assets (Note 15)	<u>1,193,715.86</u>	<u>2,533.75</u>	<u>1,191,182.11</u>
Net Assets End of Year	<u>\$ 34,701,732.11</u>	<u>\$ 29,742,123.35</u>	<u>\$ 4,959,608.76</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Capital Assets

On June 30, 2007, the College's capital assets totaled \$17,696,871.49 net of accumulated depreciation of \$5,911,641.74, a net increase of \$2,348,571.93 from the previous year. The increase in capital assets was mainly due to beginning balance restatements of \$1,165,046.66 and a net increase in the 2006-2007 capital assets of \$1,183,525.27. The most significant of the beginning balance restatements resulted from the useful lives reevaluation to buildings, machinery and equipment, and general infrastructure for \$901,757.00, \$29,127.47, and \$204,480.00, respectively. The most significant capital asset increases for the 2006-2007 fiscal year occurred in land and buildings, with a net increase of \$399,654.67 and \$1,424,313.80, respectively. The building increases were as a result of completed construction projects and building purchases and donations.

	Capital Assets		
	6/30/07	6/30/06	Increase (Decrease)
Capital Assets, Nondepreciable			
Land	\$ 1,644,018.22	\$ 1,238,513.55	\$ 405,504.67
Construction in Progress	728,130.16	1,229,331.69	(501,201.53)
Total Capital Assets, Nondepreciable	<u>2,372,148.38</u>	<u>2,467,845.24</u>	<u>(95,696.86)</u>
Capital Assets, Depreciable, Net			
Buildings	14,191,718.74	11,844,486.24	2,347,232.50
Machinery and Equipment	571,151.70	654,370.30	(83,218.60)
General Infrastructure	561,852.67	381,597.78	180,254.89
Total Capital Assets, Depreciable	<u>15,324,723.11</u>	<u>12,880,454.32</u>	<u>2,444,268.79</u>
Total Capital Assets, Net	<u>\$ 17,696,871.49</u>	<u>\$ 15,348,299.56</u>	<u>\$ 2,348,571.93</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 2007-2008 State budget allocation of \$12,718,362.00 in August 2007. This represented an increase of \$997,306.00 or 8.5% from the previous year. Mitchell Community College experienced enrollment growth of 3.2% for the 2006-2007 academic year. The 2007-2008 State allocation reflects this increase in enrollment. In addition, the increase in State funding for the 2007-2008 academic year includes a 4.0% to 5.0% salary increase for all full time employees, which represents salary increases of \$400,012.00.

The North Carolina Community College System has recommended that all community colleges establish a 2007-2008 reserve of 0.75% for possible reversion. This reserve is estimated to be approximately \$85,000.00 for Mitchell Community College.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

The College received county appropriations of \$2,392,160.00 for fiscal year's 2007-2008 current operations. This increase amounted to an additional \$252,565.00 or 11.8% from the 2006-2007 fiscal year. This increase was largely due to the county revising their allocation formula to better reflect the increased enrollment costs incurred by the College during periods of population growth by the county.

Mitchell Community College
Statement of Net Assets
June 30, 2007

Exhibit A-1

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 1,534,563.83
Restricted Cash and Cash Equivalents	690,271.06
Short-Term Investments	818,941.08
Restricted Short-Term Investments	960,929.49
Receivables, Net (Note 4)	335,298.91
Inventories	254,387.79
Prepaid Items	21,997.53
	<hr/>
Total Current Assets	4,616,389.69

Noncurrent Assets:

Restricted Cash and Cash Equivalents	611,950.83
Restricted Due from Primary Government	1,246,350.99
Endowment Investments	1,112,268.19
Other Investments	11,260,096.72
Capital Assets - Nondepreciable (Note 5)	2,372,148.38
Capital Assets - Depreciable, Net (Note 5)	15,324,723.11
	<hr/>
Total Noncurrent Assets	31,927,538.22

Total Assets	<hr/> <hr/> 36,543,927.91
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LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 6)	924,166.13
Unearned Revenue	73,555.30
Funds Held for Others	63,815.63
Long-Term Liabilities - Current Portion (Note 7)	206,113.56
	<hr/>
Total Current Liabilities	1,267,650.62

Noncurrent Liabilities:

Long-Term Liabilities (Note 7)	574,545.18
	<hr/>
Total Liabilities	1,842,195.80

***Mitchell Community College
Statement of Revenues, Expenses, and
Changes in Net Assets
For the Fiscal Year Ended June 30, 2007***

Exhibit A-2

REVENUES

Operating Revenues:	
Student Tuition and Fees, Net (Note 9)	\$ 1,878,405.85
Federal Grants and Contracts	2,035,292.21
State and Local Grants and Contracts	117,845.14
Sales and Services, Net (Note 9)	1,089,360.30
Other Operating Revenues	1,050.00
	<hr/>
Total Operating Revenues	5,121,953.50

EXPENSES

Operating Expenses:	
Personal Services	12,873,897.45
Supplies and Materials	2,086,712.49
Services	1,729,372.74
Scholarships and Fellowships	1,382,457.52
Utilities	482,976.87
Depreciation	721,142.34
	<hr/>
Total Operating Expenses	19,276,559.41
	<hr/>
Operating Loss	(14,154,605.91)

NONOPERATING REVENUES (EXPENSES)

State Aid	9,560,152.73
County Appropriations	2,139,595.00
Noncapital Grants	542,704.32
Noncapital Gifts	700,724.96
Investment Income	1,895,014.30
Interest and Fees on Debt	(2,717.37)
Other Nonoperating Revenues	59,572.78
	<hr/>
Net Nonoperating Revenues	14,895,046.72

Income Before Other Revenues	740,440.81
State Capital Aid	1,742,536.30
County Capital Aid	886,274.00
Capital Gifts	381,990.46
Additions to Endowments	14,651.33
	<hr/>
Increase in Net Assets	3,765,892.90

NET ASSETS

Net Assets, July 1, 2006 as Restated (Note 15)	<hr/> 30,935,839.21
Net Assets, June 30, 2007	<hr/> <hr/> \$ 34,701,732.11

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

Mitchell Community College
Statement of Net Assets
June 30, 2007

Exhibit A-1
Page 2

NET ASSETS

Invested in Capital Assets, Net of Related Debt	17,419,979.15
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	958,666.04
Instructional Programs	21,085.00
Faculty and Staff Awards	20,395.00
Campus Beautification	10,035.00
Expendable:	
Scholarships and Fellowships	469,351.43
Loans	18,590.95
Capital Projects	2,357,434.34
Instructional Programs	318,672.16
Student Support	58,514.45
Grants	45,119.23
Other	3,252.15
Unrestricted	<u>13,000,637.21</u>
Total Net Assets	<u>\$ 34,701,732.11</u>

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, 2007

Exhibit A-3

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 5,230,146.82
Payments to Employees and Fringe Benefits	(12,702,256.44)
Payments to Vendors and Suppliers	(4,199,613.03)
Payments for Scholarships and Fellowships	(1,382,457.52)
Other Receipts	24,010.05
	<hr/>
Net Cash Used by Operating Activities	(13,030,170.12)
	<hr/>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Aid Received	9,560,152.73
County Appropriations	2,139,595.00
Noncapital Grants Received	542,704.32
Noncapital Gifts and Endowments Received	627,716.16
	<hr/>
Cash Provided by Noncapital Financing Activities	12,870,168.21
	<hr/>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

State Capital Aid Received	682,884.60
County Capital Aid	780,336.00
Capital Gifts Received	171,490.46
Proceeds from Sale of Capital Assets	214,005.48
Acquisition and Construction of Capital Assets	(1,612,072.52)
Principal Paid on Capital Debt and Leases	(59,224.87)
Interest Paid on Capital Debt and Leases	(2,717.37)
	<hr/>
Net Cash Provided by Capital and Related Financing Activities	174,701.78
	<hr/>

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from Sales and Maturities of Investments	7,293,241.72
Investment Income	520,149.90
Purchase of Investments and Related Fees	(7,939,253.46)
	<hr/>
Net Cash Used by Investing Activities	(125,861.84)
	<hr/>

Net Decrease in Cash and Cash Equivalents	(111,161.97)
Cash and Cash Equivalents, July 1, 2006	2,947,947.69
	<hr/>
Cash and Cash Equivalents, June 30, 2007	<u>\$ 2,836,785.72</u>

Mitchell Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2007

Exhibit A-3
Page 2

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

Operating Loss	\$ (14,154,605.91)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	721,142.34
Miscellaneous Nonoperating Income	20,995.88
Changes in Assets and Liabilities:	
Receivables, Net	111,141.58
Inventories	(85,587.57)
Prepaid Items	(639.38)
Accounts Payable and Accrued Liabilities	273,602.30
Unearned Revenue	(2,948.26)
Funds Held for Others	3,014.17
Compensated Absences	83,714.73
Net Cash Used by Operating Activities	<u>\$ (13,030,170.12)</u>

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	\$ 1,534,563.83
Restricted Cash and Cash Equivalents	690,271.06
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	<u>611,950.83</u>
Total Cash and Cash Equivalents - June 30, 2007	<u>\$ 2,836,785.72</u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through Assumption of a Liability	\$ 32,937.79
Assets Acquired through a Gift	298,160.13
Change in Fair Value of Investments	900,024.89
Increase in Receivables Related to Nonoperating Income	1,193,328.56
Capital Asset Write-Offs	1,206.31

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

MITCHELL COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2007

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. 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 of the College and its component unit for which the College's Board of Trustees is financially accountable. The College's component unit is blended in the financial statements. The blended component unit, although legally separate, is, in substance, part of the College's operations and therefore, is reported as if it were part of the College.

Blended Component Unit – The Mitchell Community College Endowment for Excellence (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.

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).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the College does not apply Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, 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 fund. The short-term investment fund maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.
- E. **Investments** – This classification includes fixed income investments, equity investments, mutual funds, a certificate of deposit, real estate investment trusts, and mutual bond funds. Except for the certificate of deposit, investments are accounted for at fair value, as determined by quoted market prices, or an amount determined by management if quoted market prices are not available. The net increase in the fair value of investments is recognized as a component of investment income.

The certificate of deposit is reported at cost.

- F. **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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

allowable expenditures made pursuant to contracts and grants. Receivables are recorded net of estimated uncollectible amounts.

- G. Inventories** – Inventories, consisting of expendable supplies, are valued at cost using the last invoice cost method. Merchandise for resale is valued using the retail inventory method.
- 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 3 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 include 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 forward each July 1 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 include the accumulated unused portion of the special annual leave bonuses awarded by the North Carolina General Assembly. The bonus leave balance on June 30 is retained by employees and transferred into the next fiscal year. It is not subject to the limitation on annual leave carried forward described above and is not subject to conversion to sick leave.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 provide 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.

NOTE 2 - DEPOSITS AND INVESTMENTS

- A. Deposits** – All funds of the College are deposited in board-designated official depositories and are required to be collateralized in accordance with *North Carolina General Statute 115D-58.7*. Official depositories may be established with any bank or savings and loan association whose principal office is located in North Carolina. Also, the College may establish time deposit accounts, money market accounts, and certificates of deposit. The amount shown on the Statement of Net Assets as cash and cash equivalents includes cash on hand totaling \$3,370.00, and deposits in private financial institutions with a carrying value of \$1,628,833.00, and a bank balance of \$1,475,011.38. The amount shown on the Statement of

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Net Assets as Endowment Investments includes a \$50,000.00 certificate of deposit with a private financial institution.

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, 2007, the College's bank balance in excess of federal depository insurance coverage was covered under the pooling method.

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

Generally, funds belonging to the College may be invested in the form of investments pursuant to G.S. 159-30(c), as follows: a commingled investment pool established and administered by the State Treasurer pursuant to G.S. 147-69.3 (STIF), 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.

At June 30, 2007, the amount shown on the Statement of Net Assets as cash and cash equivalents includes \$1,204,582.72, which represents the College's equity position in the State Treasurer's Short-Term Investment Fund. The Short-Term Investment Fund (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission and does not

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

have a credit rating) had a weighted average maturity of 1.6 years as of June 30, 2007. Assets and shares of the Short-Term Investment Fund are valued at amortized cost, which approximates fair value. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's Short-Term Investment Fund) are included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.ncosc.net/> and clicking on "Financial Reports," or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

Except as specified by the donor, endowment funds belonging to the College may be invested pursuant to G.S. 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 G.S. 36B "Uniform Management of Institutional Funds Act" (UMIFA) and any requirements placed on them by contract or donor agreements.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The following table presents the fair value of investments by type and investments subject to interest rate risk at June 30, 2007, for the College's investments. Interest rate risk is defined by GASB Statement No. 40 as the risk a government may face should interest rate variances affect the fair value of investments. The College does not have a formal investment policy that addresses interest rate risk.

Investments

Investment Type	Fair Value	Investment Maturities (in Years)	
		Less Than 1	6 to 10
Debt Securities			
U.S. Treasuries	\$ 1,779,870.57	\$ 1,779,870.57	\$ 0.00
Mutual Bond Funds	2,446,461.60		2,446,461.60
		<u>\$ 1,779,870.57</u>	<u>\$ 2,446,461.60</u>
Other Securities			
Certificate of Deposit	50,000.00		
Mutual Funds	1,571,622.18		
Real Estate Investment Trust	47,702.30		
Domestic Stocks	7,592,267.62		
Foreign Stocks	664,311.21		
	<u>664,311.21</u>		
Total Investments	<u>\$ 14,152,235.48</u>		

A certificate of deposit reported as investments is also a component of the deposit totals reported in the deposits section of this note.

Credit Risk: The College does not have a formal policy that addresses credit risk. As of June 30, 2007, the College held investments in Mutual Bond Funds with a fair value of \$2,446,461.60 and rated AA+/Aa by Moody's.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

A reconciliation of deposits and investments for the College to the basic financial statements at June 30, 2007, is as follows:

Cash on Hand	\$ 3,370.00
Carrying Amount of Deposits with Private Financial Institutions	1,678,833.00
Investments in the Short Term Investment Fund	1,204,582.72
Other Investments	<u>14,102,235.48</u>
Total Deposits and Investments	<u>\$ 16,989,021.20</u>
Current:	
Cash and Cash Equivalents	\$ 1,534,563.83
Restricted Cash and Cash Equivalents	690,271.06
Short-Term Investments	818,941.08
Restricted Short-Term Investments	960,929.49
Noncurrent:	
Restricted Cash and Cash Equivalents	611,950.83
Endowment Investments	1,112,268.19
Other Investments	<u>11,260,096.72</u>
Total	<u>\$ 16,989,021.20</u>

NOTE 3 - ENDOWMENT INVESTMENTS

Investments of the College's endowment funds are 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 less 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. At June 30, 2007, net appreciation of \$148,263.23 was available to be spent for restricted purposes.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 4 - RECEIVABLES

Receivables at June 30, 2007, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	\$ 154,753.04	\$ 45,587.72	\$ 109,165.32
Accounts	59,072.84		59,072.84
Intergovernmental	119,853.34		119,853.34
Investment Earnings	28,057.36		28,057.36
Other	19,150.05		19,150.05
	\$ 380,886.63	\$ 45,587.72	\$ 335,298.91
Current Notes Receivable:			
Institutional Student Loan Programs	<u>\$ 1,340.42</u>	<u>\$ 1,340.42</u>	<u>\$ 0.00</u>

NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2007, is presented as follows:

	Balance July 1, 2006 (as restated)	Increases	Decreases	Balance June 30, 2007
Capital Assets, Nondepreciable:				
Land	\$ 1,244,363.55	\$ 416,430.67	\$ 16,776.00	\$ 1,644,018.22
Construction in Progress	<u>1,229,331.69</u>	<u>1,012,631.40</u>	<u>1,513,832.93</u>	<u>728,130.16</u>
Total Capital Assets, Nondepreciable	<u>2,473,695.24</u>	<u>1,429,062.07</u>	<u>1,530,608.93</u>	<u>2,372,148.38</u>
Capital Assets, Depreciable:				
Buildings	16,912,312.07	2,106,741.36	173,224.00	18,845,829.43
Machinery and Equipment	1,595,167.39	48,875.69	67,988.99	1,576,054.09
General Infrastructure	805,231.33	9,250.00		814,481.33
	<u>19,312,710.79</u>	<u>2,164,867.05</u>	<u>241,212.99</u>	<u>21,236,364.85</u>
Less Accumulated Depreciation:				
Buildings	4,144,907.13	530,495.56	21,292.00	4,654,110.69
Machinery and Equipment	908,999.13	157,171.67	61,268.41	1,004,902.39
General Infrastructure	219,153.55	33,475.11		252,628.66
	<u>5,273,059.81</u>	<u>721,142.34</u>	<u>82,560.41</u>	<u>5,911,641.74</u>
Total Capital Assets, Depreciable, Net	<u>14,039,650.98</u>	<u>1,443,724.71</u>	<u>158,652.58</u>	<u>15,324,723.11</u>
Capital Assets, Net	<u>\$ 16,513,346.22</u>	<u>\$ 2,872,786.78</u>	<u>\$ 1,689,261.51</u>	<u>\$ 17,696,871.49</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2007, were as follows:

	Amount
Accounts Payable	\$ 451,363.60
Accrued Payroll	421,346.40
Contract Retainage	43,935.91
Other	7,520.22
Total Accounts Payable and Accrued Liabilities	\$ 924,166.13

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, 2006	Additions	Reductions	Balance June 30, 2007	Current Portion
Notes Payable	\$ 0.00	\$ 229,500.00	\$ 0.00	\$ 229,500.00	\$ 114,750.00
Capital Leases Payable	73,679.42	32,937.79	59,224.87	47,392.34	29,620.63
Compensated Absences	420,051.67	94,038.04	10,323.31	503,766.40	61,742.93
Total Long-Term Liabilities	\$ 493,731.09	\$ 356,475.83	\$ 69,548.18	\$ 780,658.74	\$ 206,113.56

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

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

Purpose	Financial Institution	Interest Rate	Final Maturity Date	Original Amount of Issue	Principal Paid Through 06/30/2007	Principal Outstanding 06/30/2007
Property Purchase by the Mitchell Community College Endowment for Excellence	Sherrill Lumber Industries, Inc.	6.36%	7/31/2008	\$ 229,500.00	\$ 0.00	\$ 229,500.00

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The annual requirements to pay principal and interest on the notes payable at June 30, 2007, are as follows:

<u>Fiscal Year</u>	<u>Annual Requirements</u>	
	<u>Notes Payable</u>	
	<u>Principal</u>	<u>Interest</u>
2008	\$ 114,750.00	\$ 14,596.20
2009	114,750.00	7,298.10
Total Requirements	\$ 229,500.00	\$ 21,894.30

The interest is at the average LIBOR rate for the year preceding the due date of the loan plus 1%.

NOTE 8 - CAPITAL LEASE OBLIGATIONS

Capital lease obligations relating to telephone equipment and land 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, 2007:

<u>Fiscal Year</u>	<u>Amount</u>
2008	\$ 32,261.20
2009	10,000.00
2010	10,000.00
Total Minimum Lease Payments	52,261.20
Amount Representing Interest (2.41% and 8.25% Rates of Interest)	4,868.86
Present Value of Future Lease Payments	\$ 47,392.34

Machinery and equipment and land acquired under capital lease amounted to \$148,999.60 at June 30, 2007.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 9 - REVENUES

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

	Gross Revenues	Internal Sales Eliminations	Less Scholarship Discounts	Less Allowance for Uncollectibles	Net Revenues
Operating Revenues:					
Student Tuition and Fees	<u>\$ 2,453,694.96</u>	<u>\$ 0.00</u>	<u>\$ 564,333.33</u>	<u>\$ 10,955.78</u>	<u>\$ 1,878,405.85</u>
Sales and Services:					
Sales and Services of Auxiliary Enterprises:					
Bookstore	\$ 1,245,609.19	\$ 9,744.93	\$ 356,604.63	\$ 12,677.53	\$ 866,582.10
Vending	29,630.36				29,630.36
Rent	132,635.79				132,635.79
Other	<u>60,512.05</u>				<u>60,512.05</u>
Total Sales and Services	<u>\$ 1,468,387.39</u>	<u>\$ 9,744.93</u>	<u>\$ 356,604.63</u>	<u>\$ 12,677.53</u>	<u>\$ 1,089,360.30</u>

NOTE 10 - OPERATING EXPENSES BY FUNCTION

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

	Personal Services	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	\$ 7,190,128.27	\$ 727,147.03	\$ 653,146.80	\$ 0.00	\$ 1,650.00	\$ 0.00	\$ 8,572,072.10
Academic Support	1,345,984.90	63,215.51	61,460.16				1,470,660.57
Student Services	1,013,800.72	66,797.10	65,187.89				1,145,785.71
Institutional Support	2,695,470.72	207,252.77	541,028.42		11,680.63		3,455,432.54
Operations and Maintenance of Plant	517,103.94	108,091.75	331,686.33		469,646.24		1,426,528.26
Student Financial Aid			1,477.00	1,382,457.52			1,383,934.52
Auxiliary Enterprises	111,408.90	914,208.33	75,386.14				1,101,003.37
Depreciation						721,142.34	721,142.34
Total Operating Expenses	<u>\$ 12,873,897.45</u>	<u>\$ 2,086,712.49</u>	<u>\$ 1,729,372.74</u>	<u>\$ 1,382,457.52</u>	<u>\$ 482,976.87</u>	<u>\$ 721,142.34</u>	<u>\$ 19,276,559.41</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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 2007, these rates were set at 2.66% of covered payroll for employers and 6% of covered payroll for members.

For the year ended June 30, 2007, the College had a total payroll of \$10,721,636.15, of which \$8,205,194.39 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were \$492,311.67 and \$218,258.17, respectively. The College made 100% of its annual required contributions for the years ended June 30, 2007, 2006, and 2005, which were \$218,258.17, \$176,928.97, and \$157,104.66, respectively.

The Teachers' and State Employees' Retirement System's financial information is included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.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 \$21,604.30 for the year ended June 30, 2007.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Plan are the responsibility of the Plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to \$62,846.00 for the year ended June 30, 2007.

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 \$75,382.00 for the year ended June 30, 2007.

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 3.8% of the covered payroll under the Teachers' and State Employees' Retirement System for these health care benefits. For the fiscal year ended June 30, 2007, the College's total contribution to the Plan was \$311,797.39. 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. Disability Income –** 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. The College contributes .52% of covered payroll under the Teachers' and State Employees' Retirement System to the DIPNC.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended June 30, 2007, the College's total contribution to the DIPNC was \$42,667.01. 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, and can include 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.

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.

Liability insurance for 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 \$75,000 deductible. Losses for employees paid from county and

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

institutional funds are covered through a contract with a private company with coverage of \$100,000 per occurrence and a \$500 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. The employer contribution rate was .16% for the current fiscal year.

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

NOTE 14 - COMMITMENTS AND CONTINGENCIES

The College has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were \$1,087,034.00 and on other purchases were \$43,722.89 at June 30, 2007.

NOTE 15 - NET ASSET RESTATEMENTS

As of July 1, 2006, net assets as previously reported were restated as follows:

	<u>Amount</u>
July 1, 2006 Net Assets as Previously Reported	\$ 29,742,123.35
Restatements:	
Correct Errors in Establishing Useful Lives of Capital Assets	1,135,364.47
Correct Other Capital Asset Errors from 2006	29,682.19
Record Drake Street Capital Lease from 2006	9,874.20
Correct 2006 Expenses That Were Capitalized in 2007	<u>18,795.00</u>
July 1, 2006 Net Assets as Restated	<u>\$ 30,935,839.21</u>

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

NOTE 16 - SUBSEQUENT EVENT

The College sold approximately three acres of land with a rental house to Iredell Memorial Hospital for \$800,000 on July 11, 2007. Net proceeds from the sale of this property were used to establish an Endowed Scholarship fund with earnings awarded as scholarships to students in the Nursing or other Allied Health programs per instructions of the property donor.



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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, 2007, and have issued our report thereon dated February 28, 2008. Our report was modified to include a reference to other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the Mitchell Community College Endowment for Excellence as described in our report on the College's financial statements. The financial statements of the Mitchell Community College Endowment for Excellence were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the College's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control over financial reporting that we consider to be significant.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the College's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting

**INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
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principles such that there is more than a remote likelihood that a misstatement of the College's financial statements that is more than inconsequential will not be prevented or detected by the College's internal control. We consider the deficiency described in the finding in the Audit Findings and Responses section of this report to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the College's internal control.

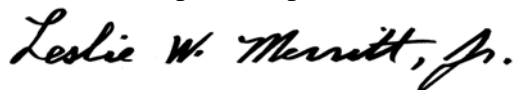
Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described above to be a material weakness.

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*.

The College's response to the finding identified in our audit is described in the Audit Findings and Responses section of this report. We did not audit the College's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management of the College, the Board of Trustees, the State Board of Community Colleges, the Governor, the State Controller, and the General Assembly, 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

February 28, 2008

AUDIT FINDINGS AND RESPONSES

Matter Related to Financial Reporting

The following finding was identified during the current audit and describes a condition that represents a significant deficiency in internal control. This finding was also reported in the prior year.

FINANCIAL STATEMENT PRESENTATION

The June 30, 2007, financial statements prepared by Mitchell Community College contained numerous misstatements that were corrected as a result of our audit. Without these corrections, the financial statements could have been misleading to readers.

During our audit of the June 30, 2007, financial statements, we noted the following misstatements:

- a. The College understated State Capital Aid and overstated State and local grants and contracts by \$1,360,655. The State general obligation bond funds were incorrectly classified.
- b. The College overstated cash and cash equivalents by \$1,130,395 and understated investments by the same amount.
- c. The College understated sales and services revenue and overstated capital gifts revenue by \$210,500 when inter-fund activity with its blended component unit was not eliminated.
- d. The College overstated interest and fees on debt revenue by \$215,035 and understated investment income and other nonoperating revenue by \$152,745 and \$62,290 respectively.
- e. The College did not properly report \$415,458 of current cash equal to the amount of current plant fund liabilities. This resulted in a \$415,458 understatement of current restricted cash and cash equivalents and an overstatement of noncurrent restricted cash and cash equivalents.
- f. Various other misstatements were made in the financial statement exhibits, notes to the financial statements, and management's discussion and analysis.

Recommendation: The College should place greater emphasis on financial reporting and otherwise improve controls to ensure the completeness and accuracy of the financial statements.

College's Response: The College concurs with the single finding in the audit report that identifies classification errors and various misstatements in the presentation of the financial statements. All reclassifications listed in the 2007 audit have been made.

AUDIT FINDINGS AND RESPONSES (CONCLUDED)

A strong internal control system is, and always has been, a top priority of the College. This is demonstrated by the fact that the College received no reportable audit findings or recommendations for the eight-year period from 1998 to 2005.

In response to this audit finding, the College has developed strategies to reduce the likelihood of errors in the presentation of the financial statements. The College is adjusting workloads during financial statement preparation to allow the Vice President for Finance and Administration, the Controller and Director of Financial Services, and the Financial Analyst more time to review and analyze the statements.

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