



STATE OF NORTH CAROLINA

MITCHELL COMMUNITY COLLEGE

STATESVILLE, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2009

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR

MITCHELL COMMUNITY COLLEGE

STATESVILLE, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2009

STATE BOARD OF COMMUNITY COLLEGES

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Beth A. Wood, CPA
State Auditor

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AUDITOR'S TRANSMITTAL

The Honorable Beverly Eaves Perdue, 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, 2009, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

The results of our tests disclosed no deficiencies in internal control over financial reporting that we consider to be material weaknesses in relation to our audit scope or any instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

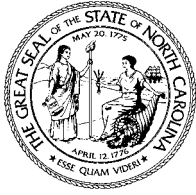
North Carolina General Statutes require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.

A handwritten signature in black ink that reads "Beth A. Wood".

Beth A. Wood, CPA
State Auditor

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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, 2009, 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 23 percent and 24 percent, respectively, of the assets and net assets 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.

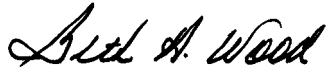
In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of Mitchell Community College as of June 30, 2009, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 15 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* and Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*, during the year ended June 30, 2009.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

In accordance with *Government Auditing Standards*, we have also issued our report dated June 25, 2010 on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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



Beth A. Wood, CPA
State Auditor

June 25, 2010

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, 2009. 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 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

Mitchell Community College's state aid and state aid - federal recovery funds increased by \$732,006.72 or 7.4% from the prior year due to increased enrollment, of which \$557,250.82 represented state aid - federal recovery funds. The College's full time equivalent students in curriculum programs increased by 107 or 4.8% for the year ended June 30, 2008.

Iredell County's financial situation was strong in the 2007-2008 fiscal year, which allowed for increased funding in the subsequent year. As a result, the College was appropriated \$2,689,665.00 for operational expenses in the 2008-2009 fiscal year, which represented an additional \$297,505.00 or 12.4% over the previous year.

County capital aid increased from 2008 by \$2,682,485.83 or 159.0% due to the near completion of the new Student Services Center.

The College had an investment loss of \$2,063,534.19 for the current year compared to an investment loss of \$841,626.48 for 2008, resulting in an increase from the prior year of \$1,221,907.71. The investment losses were caused by the global drop in financial markets.

The College's financial position improved during the fiscal year ended June 30, 2009. Its combined net assets increased \$3,124,438.91 or 8.9% from the previous year. The change in net assets was mainly caused by increases of \$3,526,911.15, \$1,065,009.90 and \$1,010,315.50 in capital assets, cash and cash equivalents, and restricted due from primary government, respectively. These increases were partially offset by decreases of \$2,604,009.64 for investments and \$450,601.15 in current receivables.

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. For the purpose of this discussion, we will address the Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets.

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 statements 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 Statement of Cash Flows is prepared using the direct method. This statement reports the net changes in cash resulting from operating, investing, and financing activities.

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

For the year, the total assets of the College increased by \$2,849,470.94. This change was primarily due to an increase of \$1,160,519.41 in current assets, an increase of \$3,526,911.15 in capital assets and a decrease of \$1,837,959.62 in noncurrent assets. The increase in current assets was primarily caused by a \$1,501,878.09 increase in current cash. Current cash increased in part due to county appropriations of approximately \$165,000 that remained unspent at year end. Due to the State of North Carolina's cash flow problems, the College made diligent efforts to monitor and reduce expenses which resulted in an increase to cash on hand of approximately \$350,000. The Mitchell Community College Endowment for Excellence, a blended component unit of the College, had an additional \$289,489 of cash on hand at year end compared to the 2008 fiscal year. In addition, cash on hand increased due to the receipt of approximately \$200,000 in grant monies that had not been expended at year end. Also, \$100,000 of the increase is due to reclassification entries from noncurrent to current cash to cover current plant liabilities, as there were more current plant liabilities in the 2009 fiscal year. The increase in capital assets is due primarily to costs incurred during the construction of the Student Services Center. At June 30, 2009, \$3,659,969.27 of these costs were included in construction in progress, which is part of capital assets nondepreciable. The decrease in noncurrent assets was primarily due to the loss in the market value of investments.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Condensed Statement of Net Assets

	6/30/2009	6/30/2008	Increase (Decrease)
Assets			
Current Assets	\$ 4,638,808.95	\$ 3,478,289.54	\$ 1,160,519.41
Noncurrent Assets	12,125,607.95	13,963,567.57	(1,837,959.62)
Capital Assets	22,969,639.84	19,442,728.69	3,526,911.15
Total Assets	39,734,056.74	36,884,585.80	2,849,470.94
Liabilities			
Current Liabilities	1,200,907.96	1,440,241.15	(239,333.19)
Long-Term Liabilities	468,215.05	503,849.83	(35,634.78)
Total Liabilities	1,669,123.01	1,944,090.98	(274,967.97)
Net Assets			
Invested in Capital Assets, Net	22,933,139.49	19,255,889.22	3,677,250.27
Restricted	5,011,670.76	4,381,418.60	630,252.16
Unrestricted	10,120,123.48	11,303,187.00	(1,183,063.52)
Total Net Assets	\$ 38,064,933.73	\$ 34,940,494.82	\$ 3,124,438.91

Statement of Revenues, Expenses, and Changes in Net Assets

Total net assets of the College increased from the prior year by \$3,124,438.91. Total operating revenues increased \$153,679.30 primarily due to an increase in student tuition and fees of \$121,847.47. The College's full time equivalent students increased 326 or 14.1% for the year ended June 30, 2009.

Total operating expenses were \$972,286.61 or 4.5% above last year primarily due to increases in personal services, scholarships and fellowships, and depreciation of \$570,984.70, \$723,748.89 and \$51,492.30, respectively. These increases were partially offset by decreases in supplies and materials of \$224,186.50 and services of \$153,133.90. Personal services increased primarily due to a 3% Legislative mandated pay increase for college employees. Scholarships and fellowships increased mainly due to the College receiving additional Pell funding. The additional Pell funding was partly due to increased student enrollment and partly due to a \$421 increase in the maximum Pell award students are eligible to receive. Depreciation expense increased due to purchases of machinery and equipment during 2009. Supplies and materials and services expenditures decreased as a result of spending restrictions imposed by the State.

Net nonoperating revenues increased by \$528,888.16 or 3.4% from 2008. Increases in state aid and state aid - federal recovery funds, county appropriations and noncapital grants of \$732,006.72, \$297,505.00 and \$1,226,128.89, respectively, were offset by an increase of \$1,221,907.71 in investment losses and a decrease of \$504,844.74 in other nonoperating revenues. The College received \$557,250.82 in state aid - federal recovery funds in the 2008-2009 fiscal year. These funds were received from the federal government as part of the American Recovery and Reinvestment Act, and they were not applicable per the prior year.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

The overall increase in the state aid/state aid – federal recovery fund accounts is attributed to increased student enrollment over the prior year. County appropriations increased slightly due to increased funding from Iredell County in the 2008-2009 fiscal year. Noncapital grant revenue from federal student aid was reported differently in 2009 than in 2008. Beginning in 2009, colleges were required to report federal student aid as nonoperating revenue due to a clarification in the *GASB Comprehensive Implementation Guide*. In previous years, federal student aid was reported as operating revenues. The 2008 amounts have been restated such that the amounts are comparable. Approximately \$700,000 of the increase in noncapital grants was due to increased Pell funding as a result of increased enrollment. The remainder of the increase in noncapital grants resulted from the College obtaining new grants. The \$1,221,907.71 change in the investment loss is contributed to the downturn in the financial market as previously mentioned. The \$504,844.74 decrease in other nonoperating revenue is mainly contributed to a \$373,640.50 gain on the sale of fixed assets that was reported in the 2007-2008 fiscal year. Similar transactions did not occur in 2009; therefore, other nonoperating revenues decreased.

Capital contributions increased by \$3,282,662.17 primarily due to state and county capital aid increasing by \$672,769.21 and \$2,682,485.83, respectively related to funding for the Mooresville Building Project and the Student Services Center Project.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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

	6/30/2009	(as Restated) 6/30/2008	Increase (Decrease)
Operating Revenues			
Student Tuition and Fees, Net	\$ 2,115,072.00	\$ 1,993,224.53	\$ 121,847.47
Sales and Services, Net	1,220,991.39	1,189,159.56	31,831.83
Total Operating Revenues	<u>3,336,063.39</u>	<u>3,182,384.09</u>	<u>153,679.30</u>
Operating Expenses			
Personal Services	14,329,139.26	13,758,154.56	570,984.70
Supplies and Materials	2,487,410.85	2,711,597.35	(224,186.50)
Services	1,683,924.68	1,837,058.58	(153,133.90)
Scholarships and Fellowships	2,521,000.88	1,797,251.99	723,748.89
Utilities	582,110.07	578,728.95	3,381.12
Depreciation	747,470.68	695,978.38	51,492.30
Total Operating Expenses	<u>22,351,056.42</u>	<u>21,378,769.81</u>	<u>972,286.61</u>
Operating Loss	<u>(19,014,993.03)</u>	<u>(18,196,385.72)</u>	<u>(818,607.31)</u>
Nonoperating Revenues (Expenses)			
State Aid and State Aid - Federal Recovery Funds	10,641,281.63	9,909,274.91	732,006.72
County Appropriations	2,689,665.00	2,392,160.00	297,505.00
Noncapital Grants	4,560,749.83	3,334,620.94	1,226,128.89
Investment Loss	(2,063,534.19)	(841,626.48)	(1,221,907.71)
Other Nonoperating Revenues	350,789.29	855,634.03	(504,844.74)
Net Nonoperating Revenues	<u>16,178,951.56</u>	<u>15,650,063.40</u>	<u>528,888.16</u>
Loss Before Other Revenues	(2,836,041.47)	(2,546,322.32)	(289,719.15)
Other Revenues			
Capital Contributions	5,943,184.11	2,660,521.94	3,282,662.17
Additions to Endowment	11,525.00	19,215.90	(7,690.90)
Increase in Net Assets	<u>3,118,667.64</u>	<u>133,415.52</u>	<u>2,985,252.12</u>
Net Assets Beginning of Year	<u>34,940,494.82</u>	<u>34,701,732.11</u>	<u>238,762.71</u>
Restatement of Net Assets (Note 16)	<u>5,771.27</u>	<u>105,347.19</u>	<u>(99,575.92)</u>
Net Assets End of Year	<u>\$ 38,064,933.73</u>	<u>\$ 34,940,494.82</u>	<u>\$ 3,124,438.91</u>

Capital Assets

On June 30, 2009, the College's capital assets, net of accumulated depreciation of \$7,006,363.07, totaled \$22,969,639.84. This represents an increase of \$3,526,911.15 from the prior year. The near completion of the Student Services Center contributed to the increased construction in progress of \$3,814,117.43. Additional net increases in machinery and equipment and general infrastructure of \$182,298.87 and \$58,974.34, respectively were due to the purchase of the West End Avenue parking lot for \$89,392.00 and purchase of instructional equipment.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

	Capital Assets		Increase (Decrease)
	6/30/2009	6/30/2008	
Capital Assets, Nondepreciable			
Land	\$ 1,771,333.02	\$ 1,771,333.02	\$ 0.00
Construction in Progress	4,579,155.96	765,038.53	3,814,117.43
Total Capital Assets, Nondepreciable	6,350,488.98	2,536,371.55	3,814,117.43
Capital Assets, Depreciable, Net			
Buildings	14,678,601.98	15,207,081.47	(528,479.49)
Machinery and Equipment	943,150.28	760,851.41	182,298.87
General Infrastructure	997,398.60	938,424.26	58,974.34
Total Capital Assets, Depreciable	16,619,150.86	16,906,357.14	(287,206.28)
Total Capital Assets, Net	\$ 22,969,639.84	\$ 19,442,728.69	\$ 3,526,911.15

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 2009-2010 state budget allocation of \$15,009,710 in August 2009, which represented an increase of \$1,440,304 or 10.6% from the previous year. Mitchell Community College (MCC) experienced enrollment growth of 326 or 14.1 % for the 2008-2009 academic year. The 2009-2010 state allocation reflects this increase in enrollment. The increase in state funding for the 2009-2010 academic year included no salary increases and a \$361,734 or 2.4% Management Flexibility Reduction. In addition, the North Carolina Community System instructed all community colleges to revert 5.0% of their 2009-2010 general fund appropriation to the state by October 1, 2009, and for Mitchell Community College that represents \$596,721. The North Carolina Community College System has also advised all community colleges to reserve another 1% for possible further reversion. This represents another \$119,344 that the College can not allocate.

The College received county operational appropriations of \$2,443,025 for fiscal year 2009-2010 operations. This amounted to a reduction of \$163,475 or 6.27% from the 2008-2009 fiscal year. The county also reduced its capital allocation to the College for the 2009-2010 fiscal year by \$205,675 or 24.73%.

The last two fiscal years the Mitchell Community College Endowment for Excellence (MCCEE), the endowment that provides financial support to MCC, has had \$2,671,109.07 in investment losses. Due to these losses the MCCEE will not be making any distributions to the College for the 2009-2010 academic year. The affect of this loss on the College's 2009-2010 operations will be lessened by the fact that the College has at its disposal approximately \$400,000 in unspent MCCEE allocation accumulated over the years.

Mitchell Community College
Statement of Net Assets
June 30, 2009

Exhibit A-1

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 2,933,508.41
Restricted Cash and Cash Equivalents	1,155,721.48
Receivables, Net (Note 4)	172,653.41
Due from State of North Carolina Component Units	15,045.04
Inventories	283,156.42
Prepaid Items	78,724.19
	<hr/>
Total Current Assets	4,638,808.95

Noncurrent Assets:

Restricted Cash and Cash Equivalents	1,634,668.01
Receivables (Note 4)	192,602.71
Restricted Due from Primary Government	1,197,142.49
Restricted Investments	1,355,335.81
Other Investments	7,745,858.93
Capital Assets - Nondepreciable (Note 5)	6,350,488.98
Capital Assets - Depreciable, Net (Note 5)	16,619,150.86
	<hr/>
Total Noncurrent Assets	35,095,247.79

Total Assets	<hr/> <hr/> 39,734,056.74
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LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 6)	926,129.85
Unearned Revenue	108,197.30
Funds Held for Others	70,744.02
Long-Term Liabilities - Current Portion (Note 7)	95,836.79
	<hr/>
Total Current Liabilities	1,200,907.96

Noncurrent Liabilities:

Long-Term Liabilities (Note 7)	<hr/> 468,215.05
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Total Liabilities	<hr/> <hr/> 1,669,123.01
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Mitchell Community College
Statement of Net Assets
June 30, 2009

Exhibit A-1
Page 2

NET ASSETS

Invested in Capital Assets, Net of Related Debt	\$	22,933,139.49
Restricted for:		
Nonexpendable:		
Scholarships and Fellowships		1,298,776.09
Instructional Programs		21,085.00
Faculty and Staff Awards		20,645.00
Campus Beautification		10,035.00
Expendable:		
Scholarships and Fellowships		679,525.37
Loans		41.43
Capital Projects		2,373,975.92
Instructional Programs		312,471.31
Student Support		31,914.31
Grants		31,376.95
Other		231,824.38
Unrestricted		<u>10,120,123.48</u>
Total Net Assets	\$	<u><u>38,064,933.73</u></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, 2009***

Exhibit A-2

REVENUES

Operating Revenues:	
Student Tuition and Fees, Net (Note 9)	\$ 2,115,072.00
Sales and Services, Net (Note 9)	1,220,991.39
	<hr/>
Total Operating Revenues	3,336,063.39
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EXPENSES

Operating Expenses:	
Personal Services	14,329,139.26
Supplies and Materials	2,487,410.85
Services	1,683,924.68
Scholarships and Fellowships	2,521,000.88
Utilities	582,110.07
Depreciation	747,470.68
	<hr/>
Total Operating Expenses	22,351,056.42
	<hr/>
Operating Loss	(19,014,993.03)
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NONOPERATING REVENUES (EXPENSES)

State Aid	10,084,030.81
State Aid - Federal Recovery Funds	557,250.82
County Appropriations	2,689,665.00
Noncapital Grants - Federal Student Financial Aid	3,160,213.28
Noncapital Grants	1,400,536.55
Noncapital Gifts	350,722.08
Investment Loss	(2,063,534.19)
Interest and Fees on Debt	(1,178.07)
Other Nonoperating Revenues	1,245.28
	<hr/>
Net Nonoperating Revenues	16,178,951.56
	<hr/>
Loss Before Other Revenues	(2,836,041.47)
	<hr/>
State Capital Aid	1,501,814.82
County Capital Aid	4,369,575.64
Capital Gifts	71,793.65
Additions to Endowments	11,525.00
	<hr/>
Increase in Net Assets	3,118,667.64

NET ASSETS

Net Assets, July 1, 2008 as Restated (Note 16)	34,946,266.09
	<hr/>
Net Assets, June 30, 2009	\$ 38,064,933.73
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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, 2009

Exhibit A-3

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 3,379,116.27
Payments to Employees and Fringe Benefits	(14,317,181.90)
Payments to Vendors and Suppliers	(5,188,832.79)
Payments for Scholarships and Fellowships	(2,521,000.88)
Other Receipts	52,784.77
	<hr/>
Net Cash Used by Operating Activities	(18,595,114.53)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Aid Received	10,084,030.81
State Aid - Federal Recovery Funds	557,250.82
County Appropriations	2,689,665.00
Noncapital Grants- Federal Student Financial Aid	3,160,213.28
Noncapital Grants Received	1,403,821.73
Noncapital Gifts and Endowments Received	362,247.08
	<hr/>
Cash Provided by Noncapital Financing Activities	18,257,228.72

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

State Capital Aid Received	491,499.32
County Capital Aid	4,588,887.89
Capital Gifts Received	60,793.65
Proceeds from Sale of Capital Assets	1,066.00
Acquisition and Construction of Capital Assets	(4,128,309.41)
Principal Paid on Capital Debt and Leases	(150,339.12)
Interest Paid on Capital Debt and Leases	(1,178.07)
	<hr/>
Net Cash Provided by Capital and Related Financing Activities	862,420.26

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from Sales and Maturities of Investments	856,716.88
Investment Income	545,418.20
Purchase of Investments and Related Fees	(861,659.63)
	<hr/>
Net Cash Provided by Investing Activities	540,475.45

Net Increase in Cash and Cash Equivalents	1,065,009.90
Cash and Cash Equivalents, July 1, 2008	4,658,888.00
	<hr/>
Cash and Cash Equivalents, June 30, 2009	\$ 5,723,897.90

Mitchell Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2009

Exhibit A-3
Page 2

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

Operating Loss	\$ (19,014,993.03)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	747,470.68
Miscellaneous Nonoperating Income	47,456.89
Changes in Assets and Liabilities:	
Receivables, Net	36,133.52
Due from State of North Carolina Component Units	6,736.50
Inventories	(59,599.68)
Prepaid Items	(56,379.29)
Accounts Payable and Accrued Liabilities	(330,152.01)
Unearned Revenue	6,919.36
Funds Held for Others	5,327.88
Compensated Absences	15,964.65
Net Cash Used by Operating Activities	<u><u>\$ (18,595,114.53)</u></u>

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	\$ 2,933,508.41
Restricted Cash and Cash Equivalents	1,155,721.48
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	<u>1,634,668.01</u>
Total Cash and Cash Equivalents - June 30, 2009	<u><u>\$ 5,723,897.90</u></u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through Assumption of a Liability	\$ 196,568.18
Assets Acquired through a Gift	11,000.00
Change in Fair Value of Investments	(878,745.52)
Increase in Receivables Related to Nonoperating Income	1,010,315.50
Capital Asset Write-Offs, Net	47,277.61

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

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MITCHELL COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

- A. Financial Reporting Entity** - The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their constituents for their actions. As required by accounting principles generally accepted in the United States of America (GAAP), the financial reporting entity includes both the primary government and all of its component units. An organization other than a primary government serves as a nucleus for a reporting entity when it issues separate financial statements. 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 College's 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 was 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 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, unless the GASB amends its pronouncements to specifically adopt FASB pronouncements issued after that date.

- C. Basis of Accounting** - The financial statements of the College have been prepared using the economic resource measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred, regardless of the timing of the cash flows.

Nonexchange transactions, in which the College receives (or gives) value without directly giving (or receiving) equal value in exchange includes State appropriations, certain grants, and donations. Revenues are recognized, net of estimated uncollectible amounts, as soon as all eligibility requirements imposed by the provider have been met, if probable of collection.

- D. Cash and Cash Equivalents** - This classification includes petty cash, cash on deposit with private bank accounts, cash on deposit with fiscal agents, 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** - Investments generally are reported at fair value, as determined by quoted market prices. The net decrease in the fair value of investments is recognized as a component of investment income.
- 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 allowable expenditures made pursuant to contracts and grants. Receivables are recorded net of estimated uncollectible amounts.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- 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 value of assets constructed includes all material direct and indirect construction costs.

The College capitalizes assets that have a value or cost in excess of \$5,000 at the date of acquisition and an estimated useful life of more than one year. Library books are generally not considered to have a useful life of more than one year unless part of a collection and are expensed in the year of acquisition.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 15 to 50 years for general infrastructure, 15 to 50 years for buildings, and 3 to 27 years for equipment.

- I. Restricted Assets** - Certain resources are reported as restricted assets because restrictions on asset use change the nature or normal understanding of the availability of the asset. Resources that are not available for current operations and are reported as restricted include resources restricted or designated for the acquisition or construction of capital assets and resources whose use is limited by external parties or statute.
- J. Noncurrent Long-Term Liabilities** - Noncurrent long-term liabilities include compensated absences payable 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. When classifying compensated absences into current and noncurrent, leave is considered taken using a last-in, first-out (LIFO) method. Also, any accumulated vacation leave in excess of 30 days at year-end is converted to sick leave.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

There is no liability for unpaid accumulated sick leave because the College has no obligation to pay sick leave upon termination or retirement. However, additional service credit for retirement pension benefits is given for accumulated sick leave upon retirement.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

cash equivalents includes cash on hand totaling \$4,170.00, and deposits in private financial institutions with a carrying value of \$1,816,626.75, and a bank balance of \$2,035,365.72.

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.

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, 2009, 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, 2009, the amount shown on the Statement of Net Assets as cash and cash equivalents includes \$3,903,101.15, 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 1.8 years as of June 30, 2009. 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 "Proceed directly to OSC's index page," then "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 and corporate bonds/notes with specified ratings; general obligations of other states; and general obligations of North Carolina local governments.

Investments of the College's component unit, the Endowment, are subject to and restricted by G.S. 36E "Uniform Prudent Management of Institutional Funds Act" (UPMIFA) and any requirements placed on them by contract or donor agreements.

The following table presents the fair value of investments by type and investments subject to interest rate risk at June 30, 2009, 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Investments

Investment Type	Fair Value	Investment Maturities (In Years) 6 to 10
Debt Securities		
Mutual Bond Funds	\$ 2,778,456.65	\$ <u>2,778,456.65</u>
Other Securities		
Mutual Funds- International	2,515,301.09	
Real Estate Investment Trust	51,400.30	
Domestic Stocks	3,658,672.66	
Foreign Stocks	<u>97,364.04</u>	
Total Investments	<u>\$ 9,101,194.74</u>	

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The College does not have a formal policy that addresses credit risk. As of June 30, 2009, the College's investments in Mutual Bond Funds, with a fair value of \$2,778,456.65, were rated AA by Moody's.

Foreign Currency Risk: Foreign currency risk is defined by GASB Statement No. 40 as the risk that changes in exchange rates will adversely affect the fair value of an investment. The College does not have a formal policy for foreign currency risk. The foreign stocks held by the College are traded in currency of the United States, and thus, there is no foreign currency risk for these investments.

A reconciliation of deposits and investments for the College to the basic financial statements at June 30, 2009, is as follows:

Cash on Hand	\$ 4,170.00
Carrying Amount of Deposits with Private Financial Institutions	1,816,626.75
Investments in the Short Term Investment Fund	3,903,101.15
Other Investments	<u>9,101,194.74</u>
Total Deposits and Investments	<u>\$ 14,825,092.64</u>
Current:	
Cash and Cash Equivalents	\$ 2,933,508.41
Restricted Cash and Cash Equivalents	1,155,721.48
Noncurrent:	
Restricted Cash and Cash Equivalents	1,634,668.01
Restricted Investments	1,355,335.81
Other Investments	<u>7,745,858.93</u>
Total	<u>\$ 14,825,092.64</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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. Due to the decline in market value, no appreciation was available at June 30, 2009, to be spent for restricted purposes.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2009, were as follows:

	<u>Gross Receivables</u>	<u>Less Allowance for Doubtful Accounts</u>	<u>Net Receivables</u>
Current Receivables:			
Students	\$ 103,360.36	\$ 1,012.30	\$ 102,348.06
Accounts	43,141.12		43,141.12
Intergovernmental	6,588.85		6,588.85
Other	<u>20,575.38</u>		<u>20,575.38</u>
Total Current Receivables	<u><u>\$ 173,665.71</u></u>	<u><u>\$ 1,012.30</u></u>	<u><u>\$ 172,653.41</u></u>
Noncurrent Receivables:			
Intergovernmental	<u><u>\$ 192,602.71</u></u>	<u><u>\$ 0.00</u></u>	<u><u>\$ 192,602.71</u></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, 2009, is presented as follows:

	Balance July 1, 2008 (as restated)	Increases	Decreases	Balance June 30, 2009
Capital Assets, Nondepreciable:				
Land	\$ 1,771,333.02	\$ 0.00	\$ 0.00	\$ 1,771,333.02
Construction in Progress	716,147.19	3,863,008.77		4,579,155.96
Total Capital Assets, Nondepreciable	2,487,480.21	3,863,008.77		6,350,488.98
Capital Assets, Depreciable:				
Buildings	20,307,070.05		60,000.00	20,247,070.05
Machinery and Equipment	1,757,127.83	387,977.63	41,208.48	2,103,896.98
General Infrastructure	1,185,154.90	89,392.00		1,274,546.90
Total Capital Assets, Depreciable	23,249,352.78	477,369.63	101,208.48	23,625,513.93
Less Accumulated Depreciation for:				
Buildings	5,099,988.58	481,201.88	12,722.39	5,568,468.07
Machinery and Equipment	966,104.04	235,851.14	41,208.48	1,160,746.70
General Infrastructure	246,730.64	30,417.66		277,148.30
Total Accumulated Depreciation	6,312,823.26	747,470.68	53,930.87	7,006,363.07
Total Capital Assets, Depreciable, Net	16,936,529.52	(270,101.05)	47,277.61	16,619,150.86
Capital Assets, Net	\$ 19,424,009.73	\$ 3,592,907.72	\$ 47,277.61	\$ 22,969,639.84

The capital assets schedule above includes construction in progress of \$253,000 that pertains to the Mooresville Center Office and Classroom Building Project. For more information about the College's lease agreement with the County regarding this project refer to Note 17 of the Notes to the Financial Statements.

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2009, were as follows:

	Amount
Accounts Payable	\$ 240,939.18
Accrued Payroll	485,838.63
Contract Retainage	196,568.18
Other	2,783.86
Total Accounts Payable and Accrued Liabilities	\$ 926,129.85

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 7 - LONG-TERM LIABILITIES

A summary of changes in the long-term liabilities for the year ended June 30, 2009, is presented as follows:

	Balance July 1, 2008	Additions	Reductions	Balance June 30, 2009	Current Portion
Notes Payable	\$ 114,750.00	\$ 0.00	\$ 114,750.00	\$ 0.00	\$ 0.00
Capital Leases Payable	72,089.47		35,589.12	36,500.35	36,500.35
Compensated Absences	511,586.84	49,783.86	33,819.21	527,551.49	59,336.44
Total Long-Term Liabilities	\$ 698,426.31	\$ 49,783.86	\$ 184,158.33	\$ 564,051.84	\$ 95,836.79

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

NOTE 8 - CAPITAL LEASE OBLIGATIONS

Capital lease obligations relating to computers 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, 2009:

<u>Fiscal Year</u>	<u>Amount</u>
2010	\$ 37,471.24
Total Minimum Lease Payments	37,471.24
Amount Representing Interest (7.66% and 8.25% Rate of Interest)	970.89
Present Value of Future Lease Payments	<u>\$ 36,500.35</u>

Computers and land acquired under capital lease amounted to \$128,309.61 at June 30, 2009.

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	\$ 2,985,284.89	\$ 0.00	\$ 869,726.39	\$ 486.50	\$ 2,115,072.00
Sales and Services:					
Sales and Services of Auxiliary Enterprises:					
Bookstore	\$ 1,678,250.64	\$ 4,881.70	\$ 619,178.48	\$ 370.24	\$ 1,053,820.22
Vending	45,722.12				45,722.12
Rent	62,190.26				62,190.26
Other	59,258.79				59,258.79
Total Sales and Services	\$ 1,845,421.81	\$ 4,881.70	\$ 619,178.48	\$ 370.24	\$ 1,220,991.39

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	\$ 8,171,206.76	\$ 721,874.48	\$ 469,267.32	\$ 0.00	\$ 0.00	\$ 0.00	\$ 9,362,348.56
Academic Support	1,554,851.44	95,827.65	90,221.41				1,740,900.50
Student Services	1,066,531.19	77,535.33	43,791.61				1,187,858.13
Institutional Support	2,819,920.32	205,419.76	480,966.03	1,206.00	11,127.34		3,518,639.45
Operations and Maintenance of Plant	577,196.42	117,915.61	539,905.79		570,982.73		1,806,000.55
Student Financial Aid			2,041.00	2,519,794.88			2,521,835.88
Auxiliary Enterprises	139,433.13	1,268,838.02	57,731.52				1,466,002.67
Depreciation						747,470.68	747,470.68
Total Operating Expenses	\$ 14,329,139.26	\$ 2,487,410.85	\$ 1,683,924.68	\$ 2,521,000.88	\$ 582,110.07	\$ 747,470.68	\$ 22,351,056.42

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 is a cost-sharing multiple-employer defined benefit pension plan established by the State to provide pension benefits for employees of the State, its component units and local boards of education. The plan is administered by the North Carolina State Treasurer.

Benefit and contribution provisions for the Teachers' and State Employees' Retirement System are established by *North Carolina*

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 2009, these rates were set at 3.36% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the College had a total payroll of \$12,011,157.55, of which \$9,461,858.44 was covered under the Teachers' and State Employees' Retirement System. Total employer and employee contributions for pension benefits for the year were \$317,918.44 and \$567,712.01, respectively.

Required employer contribution rates for the years ended June 30, 2008, and 2007, were 3.05% and 2.66%, respectively, while employee contributions were 6% each year. The College made 100% of its annual required contributions for the years ended June 30, 2009, 2008, and 2007, which were \$317,918.44, \$271,089.63, and \$218,258.17, 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.ncosc.net/> and clicking on "Proceed directly to OSC's index page," then "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 \$13,832.52 for the year ended June 30, 2009.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 \$100,237.00 for the year ended June 30, 2009.

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 \$42,426.00 for the year ended June 30, 2009.

NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS

- A. **Health Benefits** - The College participates in the Comprehensive Major Medical Plan (the Plan), a cost-sharing, multiple-employer defined benefit health care plan that provides postemployment health insurance to eligible former employees. Eligible former employees include long-term disability beneficiaries of the Disability Income Plan of North Carolina and retirees of the Teachers' and State Employees' Retirement System. Coverage eligibility varies depending on years of contributory membership service in their retirement system prior to disability or retirement.

The Plan's benefit and contribution provisions are established by *North Carolina General Statute 135-7* and Chapter 135, Article 3A, of the General Statutes and may be amended only by the North Carolina General Assembly. The Plan does not provide for automatic post-retirement benefit increases.

By General Statute, a Retiree Health Benefit Fund (the Fund) has been established as a fund in which accumulated contributions from employers and any earnings on those contributions shall be used to provide health benefits to retired and disabled employees and applicable beneficiaries. By statute, the Fund is administered by the Board of Trustees of the Teachers' and State Employees' Retirement System and contributions to the fund are irrevocable. Also by law, Fund assets are dedicated to

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

providing benefits to retired and disabled employees and applicable beneficiaries and are not subject to the claims of creditors of the employers making contributions to the Fund. Contribution rates to the Fund, which are intended to finance benefits and administrative expenses on a pay-as-you-go basis, are determined by the General Assembly in the Appropriations Bill.

For the current fiscal year the College contributed 4.1% of the covered payroll under the Teachers' and State Employees' Retirement System to the Fund. Required contribution rates for the years ended June 30, 2008, and 2007, were 4.1% and 3.8%, respectively. The College made 100% of its annual required contributions to the Plan for the years ended June 30, 2009, 2008, and 2007, which were \$387,936.19, \$364,415.58, and \$311,797.39, respectively. The College assumes no liability for retiree health care benefits provided by the programs other than its required contribution.

Additional detailed information about these programs can be located in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.ncosc.net/> and clicking on "Proceed directly to OSC's index page," then "Reports," or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

- B. Disability Income** - The College participates in the Disability Income Plan of North Carolina (DIPNC), a cost-sharing, multiple-employer defined benefit plan, to provide short-term and long-term disability benefits to eligible members of the Teachers' and State Employees' Retirement System. Benefit and contribution provisions are established by Chapter 135, Article 6, of the General Statutes, and may be amended only by the North Carolina General Assembly. The plan does not provide for automatic post-retirement benefit increases.

Disability income benefits are funded by actuarially determined employer contributions that are established in the Appropriations Bill by the General Assembly. For the fiscal year ended June 30, 2009, the College made a statutory contribution of .52% of covered payroll under the Teachers' and State Employees' Retirement System to the DIPNC. Required contribution rates for the years ended June 30, 2008, and 2007, were .52% and .52%, respectively. The College made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2009, 2008, and 2007, which were \$49,201.66, \$46,218.56, and \$42,667.01, respectively. The College assumes no liability for long-term disability benefits under the Plan other than its contribution.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Additional detailed information about the DIPNC is disclosed in the State of North Carolina's *Comprehensive Annual Financial Report*.

NOTE 13 - RISK MANAGEMENT

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

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

Fire and other property losses are covered by the Public School Insurance Fund, a State-administered public entity risk pool. This fund is financed by premiums and interest and retains the risk for the \$10 million 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. This coverage is with a private insurance company and is handled by the North Carolina Department of Insurance. North Carolina Community College System Office is charged a premium by the private insurance company. Coverage limit is \$5,000,000 per occurrence. The private insurance company pays 90% of each loss less a \$75,000 deductible.

College employees and retirees are provided comprehensive major medical care benefits. Coverage is funded by contributions to the State Health Plan (Plan), a pension and other employee benefit trust fund of the State of North Carolina. The Plan is funded by employer and employee contributions. The Plan has contracted with third parties to process claims.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 College entirely from county or institutional funds.

Term life insurance (death benefits) of \$25,000 to \$50,000 is provided to eligible workers. This Death Benefit Plan is administered by the State Treasurer and funded via employer contributions. The employer contribution rate was .16% for the current fiscal year.

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

NOTE 14 - COMMITMENTS

The College has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were \$241,971.24 and on other purchases were \$55,564.91 at June 30, 2009.

NOTE 15 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2009, the College implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*.

GASB Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*.

GASB Statement No. 49, requires reporting pollution remediation obligations, including reporting pollution remediation obligations that previously may not have been reported.

GASB Statement No. 52, requires reporting land and other real estate held as investments at fair value. This statement amends GASB Statement No. 31 which required endowments to report land and other real estate investments at historical cost.

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

In addition, beginning with the year ended June 30, 2009, the College reports federal student aid as nonoperating revenue instead of operating revenue. This change was the result of a clarification in the *GASB Comprehensive Implementation Guide*.

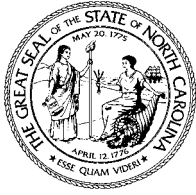
NOTE 16 - NET ASSET RESTATEMENTS

As of July 1, 2008, net assets as previously reported were restated as follows:

	<u>Amount</u>
July 1, 2008 Net Assets as Previously Reported	\$ 34,940,494.82
Restatements:	
Correct Errors in Establishing Useful Lives of Capital Assets	30,172.38
Correct Prior Year Maintenance Expenses Capitalized in Error	<u>(24,401.11)</u>
July 1, 2008 Net Assets as Restated	<u>\$ 34,946,266.09</u>

NOTE 17 - SUBSEQUENT EVENT

On December 18, 2009, with a modification date of May 7, 2010, the College entered into a lease agreement with Iredell County whereas the College deeded approximately 1.13 acres to the County valued at a cost of \$675,101.20, for the purpose of constructing the Mooresville Center Office and Classroom Building Project. In order for the County to obtain the financing needed to provide the resources to the College for this project, the College transferred title of the land, building, improvements and fixtures to the County for use as collateral until the debt is satisfied, at which time the land, building, improvements and fixtures will be transferred to the College. Until that time, the College will lease the property from the County for \$1 annually over a period of ten years, the County's financing term period.



Beth A. Wood, CPA
State Auditor

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

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, 2009, and have issued our report thereon dated June 25, 2010. Our report was modified to include a reference to other auditors.

As discussed in Note 15 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* and Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*, during the year ended June 30, 2009.

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.

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

**INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
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GOVERNMENT AUDITING STANDARDS (CONCLUDED)**

to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting 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.

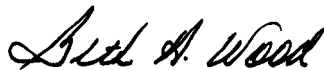
A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the College's internal control.

Our consideration of 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 internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

This report is intended solely for the information and use of management of the College, the Board of Trustees, others within the entity, the State Board of Community Colleges, the Governor, the General Assembly, and the State Controller, and is not intended to be and should not be used by anyone other than these specified parties.



Beth A. Wood, CPA
State Auditor

June 25, 2010

ORDERING INFORMATION

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