STATE OF NORTH CAROLINA

MITCHELL COMMUNITY COLLEGE

STATESVILLE, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2011

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR

A Component Unit of the State of North Carolina

MITCHELL COMMUNITY COLLEGE

STATESVILLE, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2011

STATE OF NORTH CAROLINA

Office of the State Auditor

Beth A. Wood, CPA
State Auditor

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AUDITOR'S TRANSMITTAL

The Honorable Beverly E. 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, 2011, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

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

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

Beth A. Wood

Beth A. Wood, CPA
State Auditor

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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, 2011, 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 27 percent, 27 percent, and 9 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, 2011, 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 March 30, 2012 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

Beth A. Wood, CPA
State Auditor

March 30, 2012

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, 2011. 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 increased by $1,641,009.63 or 16.2% from the prior year due to increased enrollment. The North Carolina Community Colleges' funding formula uses the prior year's full time equivalent (FTE) student total in determining the current year's allocation. The FTE for the year ended June 30, 2010 increased from the prior year by 597 or 22.6%.

Iredell County's financial situation weakened as the global recession has affected the local economies as well as the state and national finances. As a result, the College was appropriated $2,454,301.00 for the fiscal year, which represented a decrease of $51,322.00 or 2.0% less than the previous year.

Noncapital grants – federal student financial aid increased from the prior fiscal year by $1,758,461.53 due to federal Pell awards increasing by $1,677,161.08 or 27.6%. This increase was mainly due an increase in the number of students receiving Pell awards as well as an increase in the maximum Pell award amount compared to the prior year.

Noncapital gifts increased from the prior fiscal year by $1,061,279.39 due to two large bequests of approximately $1,102,490.00.

State and county capital aid increased from 2010 by $1,140,832.11 or 113.5% and $1,583,557.62 or 93.9%, respectively due to the completion of the new Mooresville Classroom Building, Main Campus grounds, and the Drake Street addition.

The College had investment income of $2,493,106.96 for the current year compared to investment income of $1,103,895.02 for 2010, resulting in an increase from the prior year of $1,389,211.94. The investment increases were caused by the global rebound in the financial markets.

The College's financial position improved during the fiscal year ended June 30, 2011. Its combined net assets increased $6,536,542.25, or 16.4% from the previous year. The changes in net assets were mainly caused by increases of $430,571.84, $2,927,003.60, and $4,298,522.01 in current receivables, investments, and capital assets, respectively. These increases were partially offset by a decrease of $884,748.09 in due from primary government.

The completion of the construction projects caused the decrease in due from primary government.

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 help the users analyze the current year's operations to determine if the institution is better or worse off than the prior year. When revenues and other support exceed expenses, the result is an increase in net assets. When expenses exceed revenues and support, the result is a decrease in net assets. The Statement of Cash Flows is prepared using the direct method. This statement reports the net change in cash resulting from operating, investing, and financial 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 non-financial factors to assess the complete health of the College. The age and condition of its buildings and grounds are just a couple of the non-financial 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 of when cash is received or paid. For the purpose of this continued discussion, we will address the Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets.

Statement of Net Assets

For the year, the total assets of the College increased by $6,738,378.00. This change was due to increases in capital assets, current assets and noncurrent assets of $4,298,522.01, $1,297,481.83, and $1,142,374.16, respectively. The increase in capital assets was primarily due to the completion of the Mooresville Classroom Building, the Drake Street Building, and the Main Campus renovation projects, which incurred additional construction costs of $4,358,710.22.

The increase in current assets was primarily due to increases in cash and cash equivalents, current restricted cash and cash equivalents, and net receivables of $618,168.14, $208,963.91, and $430,571.84, respectively. Current cash and cash equivalents increased primarily due to increases in cash from bookstore earnings, self supporting classes' net revenues, and curriculum program development reserves of approximately $268,000, $132,000, and $137,000, respectively.

The current restricted cash and cash equivalents increase was primarily due to increases of county carryover funds, scholarship gifts, grants received and technology fees of approximately $51,000, $51,000, $76,000, and $17,000, respectively. The net receivables were over last year primarily due to a $500,000 nursing bequest received in 2011.

Noncurrent assets, excluding capital assets, increased by $1,142,374.16 due to increases in other investments and restricted investments by $2,577,626.98 and $349,376.62, respectively. These increases were partially offset by decreases in restricted cash and cash equivalents and restricted due from primary government of $890,881.35 and $884,748.09, respectively.

The increase in other investments was due to the receipt of a bequest of $602,490.00 in addition to the upturn of the investment market whereas these investments reported an unrealized gain of $1,672,101.01. The increase in restricted investments (scholarships) was also due to the upturn in the financial markets as these investments reported an unrealized gain of $280,872.29. The decreases in restricted cash and cash equivalents and restricted due from primary government were primarily due to the completion of construction projects.

Condensed Statement of Net Assets

	6/30/2011	(as restated) 6/30/2010	Increase (Decrease)
Assets			
Current Assets	$ 5,787,876.99	$ 4,490,395.16	$ 1,297,481.83
Noncurrent Assets	14,279,962.80	13,137,588.64	1,142,374.16
Capital Assets	28,095,305.70	23,796,783.69	4,298,522.01
Total Assets	48,163,145.49	41,424,767.49	6,738,378.00
Liabilities			
Current Liabilities	1,233,888.95	1,135,246.34	98,642.61
Long-Term Liabilities	620,876.15	517,683.01	103,193.14
Total Liabilities	1,854,765.10	1,652,929.35	201,835.75
Net Assets			
Invested in Capital Assets, Net	28,045,305.70	23,796,783.69	4,248,522.01
Restricted			
Nonexpendable	1,892,355.02	1,521,898.13	370,456.89
Expendable	2,408,796.31	3,249,854.20	(841,057.89)
Unrestricted	13,961,923.36	11,203,302.12	2,758,621.24
Total Net Assets	$ 46,308,380.39	$ 39,771,838.14	$ 6,536,542.25

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

Total net assets of the College increased from the prior year by $6,536,542.25. The total operating revenues decreased by $62,846.09 due to a decrease in sales and services revenue of $199,610.29. The decrease in sales and services revenue was partially offset by increases in tuition and fees and other operating revenues of $70,041.40 and $66,722.80, respectively. The decrease in sales and services revenue is mainly attributed to an increase in bookstore scholarship discounts from the prior year of $218,142.54. The College's full time equivalent students increased 109 or 3.4% for the year ended June 30, 2011, which along with an increase in tuition rates caused an increase in revenues for tuition and fees. Other operating revenues consisted primarily of rental income and sponsorship revenues received by Mitchell Community College Endowment for Excellence, a blended unit of Mitchell Community College.

Total operating expenses were $4,054,810.59 above last year primarily due to increases in salaries and benefits, supplies and materials, scholarships and fellowships, and utilities of $1,763,151.17, $1,213,354.70, $704,796.54, and $124,301.27, respectively. Salaries and benefits increased primarily due to the hiring of additional full time and part time employees to accommodate the growth in student enrollment. The increase also includes a 3% raise for faculty and a 3% one-time bonus to staff. The supplies and materials increase is associated with the growth in student enrollment. Scholarships and fellowships increased primarily due to the increase in Pell funds associated with enrollment growth, an increase in the maximum Pell award amount compared to the prior year, and a change in federal regulations that allowed eligible students to receive additional Pell awards during the summer term. Utilities expense increased primarily due to the unusually hot summer and cold winter and the completion of the Student Services Center, Mooresville Classroom Building, and the Drake Street addition.

Nonoperating revenues increased by $6,145,040.51 or 29.1% over the year ended June 30, 2010 primarily due to increases in State aid, noncapital grants (federal student financial aid), noncapital gifts, and investment income of $1,641,009.63, $1,758,461.53, $1,061,279.39, and $1,389,211.94, respectively and a decrease of $666,233.98 in other nonoperating expenses. The increases were partially offset by a decrease in other noncapital grants of $319,833.96.

The overall increase in State aid is attributed to the increased student enrollment over the prior year. The increase in noncapital grants – federal student financial aid was due to the reasons noted above. The increase in noncapital gifts was due to the receipt in 2011 of two bequests totaling approximately $1,102,500. The increase in investment income is attributed to the upturn in the financial market as previously mentioned. The $666,233.98 decrease in other nonoperating expenses is due to the 2010 fiscal year including a land transfer to Iredell County valued at $675,101.20. The land was deeded over to Iredell County for collateral for the financing of the construction of the Mooresville Classroom Building. Once the county debt is satisfied in ten years, the land, building, improvements and fixtures will be transferred back to the College. Noncapital grants decreased mainly due to reduced amounts received from various state grants such as Golden Leaf, NCEDU Lottery Scholarship, NCEARN and NCREACH.

Capital aid and gifts increased by $2,880,962.73 primarily due to State and county capital aid increasing by $1,140,832.11 and $1,583,557.62, respectively. The increase in State capital aid is mainly attributed to instructional equipment purchases for furnishing the Mooresville Building and information technology equipment purchases related to the implementation of a wireless network campus-wide. The county capital aid increases were related to increased funding for the completion of the Mooresville Building Project, Main Campus Renovation Project, and the Drake Street Annex Project.

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

	6/30/2011	(as restated) 6/30/2010	Increase (Decrease)
Operating Revenues			
Student Tuition and Fees, Net	$ 2,589,909.22	$ 2,519,867.82	$ 70,041.40
Sales and Services, Net	1,139,436.67	1,339,046.96	(199,610.29)
Other Operating Revenues	66,722.80		66,722.80
Total Operating Revenues	3,796,068.69	3,858,914.78	(62,846.09)
Operating Expenses			
Salaries and Benefits	16,645,566.34	14,882,415.17	1,763,151.17
Supplies and Materials	4,765,773.22	3,552,418.52	1,213,354.70
Services	2,053,694.85	1,879,052.59	174,642.26
Scholarships and Fellowships	5,095,876.68	4,391,080.14	704,796.54
Utilities	722,778.64	598,477.37	124,301.27
Depreciation	855,101.66	780,537.01	74,564.65
Total Operating Expenses	30,138,791.39	26,083,980.80	4,054,810.59
Operating Loss	(26,342,722.70)	(22,225,066.02)	(4,117,656.68)
Nonoperating Revenues (Expenses)			
State Aid	11,795,456.04	10,154,446.41	1,641,009.63
County Appropriations	2,454,301.00	2,505,623.00	(51,322.00)
Noncapital Grants - Federal Student Financial Aid	7,982,671.21	6,224,209.68	1,758,461.53
Noncapital Grants	1,055,130.15	1,374,964.11	(319,833.96)
Noncapital Gifts	1,473,954.30	412,674.91	1,061,279.39
Investment Income	2,493,106.96	1,103,895.02	1,389,211.94
Other Nonoperating Revenues (Expenses)	19,173.10	(647,060.88)	666,233.98
Net Nonoperating Revenues	27,273,792.76	21,128,752.25	6,145,040.51
Income (Loss) Before Other Revenues	931,070.06	(1,096,313.77)	2,027,383.83
Other Revenues			
State Capital Aid	2,146,275.83	1,005,443.72	1,140,832.11
County Capital Aid	3,270,896.36	1,687,338.74	1,583,557.62
Capital Gifts	172,480.00	15,907.00	156,573.00
Additions to Endowment	15,820.00	18,650.00	(2,830.00)
Increase in Net Assets	6,536,542.25	1,631,025.69	4,905,516.56
Net Assets Beginning of Year, as Restated	39,771,838.14	38,140,812.45	1,631,025.69
Net Assets End of Year	$ 46,308,380.39	$ 39,771,838.14	$ 6,536,542.25

Capital Assets

On June 30, 2011 the College's capital assets, net of accumulated depreciation of $8,468,683.79 totaled $28,095,305.70. This represents an increase of $4,298,522.01 from the prior year. This increase is mainly attributed to current year construction costs of $4,358,710.22 related to the completion of the Mooresville Classroom Building, Main Campus Renovations, and the Drake Street Annex. The completion of these projects caused the construction in progress to decrease by $1,493,144.73, and general infrastructure and buildings to increase by a net $5,358,261.19. Additional net increases in machinery and equipment of $328,843.15 were primarily due to implementation of a wireless network and equipment upgrades related to the Music and Machining Programs.

Capital Assets

	6/30/2011	(as restated) 6/30/2010	Increase (Decrease)
Capital Assets, Nondepreciable			
Land	$ 1,212,704.22	$ 1,108,141.82	$ 104,562.40
Construction in Progress	95,515.00	1,588,659.73	(1,493,144.73)
Total Capital Assets, Nondepreciable	1,308,219.22	2,696,801.55	(1,388,582.33)
Capital Assests, Depreciable, Net			
Buildings	23,517,892.20	18,618,321.56	4,899,570.64
Machinery and Equipment	1,514,322.96	1,185,479.81	328,843.15
General Infrastructure	1,754,871.32	1,296,180.77	458,690.55
Total Capital Assets, Depreciable	26,787,086.48	21,099,982.14	5,687,104.34
Total Capital Assets, Net	$ 28,095,305.70	$ 23,796,783.69	$ 4,298,522.01

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 State of North Carolina continues to experience financial difficulties. The budgetary issues facing the State have in turn affected all state agencies, including community colleges.

The College received its 2011-2012 state budget allocation of $17,834,673 in July 2011 which represented a decrease of $248,107 or 1.4% from the previous year. Mitchell Community College (MCC) experienced enrollment growth of 109 or 3.4 % for the 2010-2011 academic year. The 2011-2012 state allocation reflects this increase in enrollment. The decrease in state funding for the 2011-2012 academic year included no salary increases and an increase of $572,275 in Management Flexibility Reductions and a reduction of approximately $307,000 due to a newly instituted state budgeting formula model. In addition, the North Carolina Community College System has also requested all community colleges to reserve another 2% for a possible further reversion. This represents approximately $357, 000 that the College can not allocate.

The College received county operational appropriations of $2,571,530 for fiscal year 2011-2012 operations. This amounted to an increase of $224,760 or 9.6% from the 2010-2011 fiscal year. The county reduced its capital allocation to the College for the 2011-2012 fiscal year by $55,366 or 9.8% to assist in funding the increased operating allocation.

During the last two fiscal years the Mitchell Community College Endowment for Excellence (MCCEE), the foundation that provides financial support to MCC, has earned $3,001,997.25 in investment income. Due to this increase in investment value the MCCEE has approved a $250,000 allocation to the College for the 2011-2012 academic year.

Mitchell Community College
Statement of Net Assets
June 30, 2011 ***Exhibit A-1***

ASSETS		
Current Assets:		
Cash and Cash Equivalents	$	3,463,735.48
Restricted Cash and Cash Equivalents		980,032.76
Receivables, Net (Note 4)		864,729.54
Due from State of North Carolina Component Units		17,860.25
Inventories		345,878.92
Prepaid Items		115,640.04
Total Current Assets		5,787,876.99
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		1,218,142.31
Restricted Due from Primary Government		79,770.93
Restricted Investments		1,843,597.08
Other Investments		11,138,452.48
Capital Assets - Nondepreciable (Note 5)		1,308,219.22
Capital Assets - Depreciable, Net (Note 5)		26,787,086.48
Total Noncurrent Assets		42,375,268.50
Total Assets		48,163,145.49
LIABILITIES		
Current Liabilities:		
Accounts Payable and Accrued Liabilities (Note 6)		878,695.49
Unearned Revenue		237,288.19
Funds Held for Others		65,588.33
Long-Term Liabilities - Current Portion (Note 7)		52,316.94
Total Current Liabilities		1,233,888.95
Noncurrent Liabilities:		
Long-Term Liabilities (Note 7)		620,876.15
Total Liabilities		1,854,765.10
NET ASSETS		
Invested in Capital Assets, Net of Related Debt		28,045,305.70
Restricted for:		
Nonexpendable:		
Scholarships and Fellowships		1,840,590.02
Instructional Programs		21,085.00
Faculty and Staff Awards		20,645.00
Campus Beautification		10,035.00
Expendable:		
Scholarships and Fellowships		668,009.98
Capital Projects		639,283.22
Instructional Programs		1,007,149.30
Student Support		45,433.09
Grants		27,375.51
Other		21,545.21
Unrestricted		13,961,923.36
Total Net Assets	$	46,308,380.39

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, 2011 ***Exhibit A-2***

REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net (Note 9)	$	2,589,909.22
Sales and Services, Net (Note 9)		1,139,436.67
Other Operating Revenues		66,722.80
Total Operating Revenues		3,796,068.69
EXPENSES		
Operating Expenses:		
Salaries and Benefits		16,645,566.34
Supplies and Materials		4,765,773.22
Services		2,053,694.85
Scholarships and Fellowships		5,095,876.68
Utilities		722,778.64
Depreciation		855,101.66
Total Operating Expenses		30,138,791.39
Operating Loss		(26,342,722.70)
NONOPERATING REVENUES		
State Aid		11,795,456.04
County Appropriations		2,454,301.00
Noncapital Grants - Federal Student Financial Aid		7,982,671.21
Noncapital Grants		1,055,130.15
Noncapital Gifts		1,473,954.30
Investment Income, Net		2,493,106.96
Other Nonoperating Revenues		19,173.10
Nonoperating Revenues		27,273,792.76
Income Before Other Revenues		931,070.06
State Capital Aid		2,146,275.83
County Capital Aid		3,270,896.36
Capital Gifts		172,480.00
Additions to Endowments		15,820.00
Increase in Net Assets		6,536,542.25
NET ASSETS		
Net Assets, July 1, 2010 as Restated (Note 15)		39,771,838.14
Net Assets, June 30, 2011	$	46,308,380.39

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

Mitchell Community College
Statement of Cash Flows *Exhibit A-3*
For the Fiscal Year Ended June 30, 2011 *Page 1 of 2*

CASH FLOWS FROM OPERATING ACTIVITIES	
Received from Customers	$ 3,911,103.30
Payments to Employees and Fringe Benefits	(16,534,710.21)
Payments to Vendors and Suppliers	(7,640,673.31)
Payments for Scholarships and Fellowships	(5,095,876.68)
Other Receipts	10,756.27
Net Cash Used by Operating Activities	(25,349,400.63)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Aid Received	11,795,456.04
County Appropriations	2,454,301.00
Noncapital Grants - Federal Student Financial Aid	7,983,439.38
Noncapital Grants Received	436,584.82
Noncapital Gifts and Endowments Received	1,489,774.30
Cash Provided by Noncapital Financing Activities	24,159,555.54
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
State Capital Aid Received	3,031,023.92
County Capital Aid	3,390,147.07
Capital Gifts Received	21,480.00
Acquisition and Construction of Capital Assets	(4,882,658.56)
Net Cash Provided by Capital and Related Financing Activities	1,559,992.43
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from Sales and Maturities of Investments	5,642,740.50
Investment Income	299,942.37
Purchase of Investments and Related Fees	(6,376,579.51)
Net Cash Used by Investing Activities	(433,896.64)
Net Decrease in Cash and Cash Equivalents	(63,749.30)
Cash and Cash Equivalents, July 1, 2010	5,725,659.85
Cash and Cash Equivalents, June 30, 2011	$ 5,661,910.55

RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES

Operating Loss	$ (26,342,722.70)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	855,101.66
Miscellaneous Nonoperating Income	19,173.10
Changes in Assets and Liabilities:	
Receivables, Net	76,954.61
Inventories	(33,996.44)
Prepaid Items	(5,781.50)
Accounts Payable and Accrued Liabilities	(6,701.67)
Unearned Revenue	38,080.00
Funds Held for Others	(8,416.83)
Compensated Absences	58,909.14
Net Cash Used by Operating Activities	$ (25,349,400.63)

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	$ 3,463,735.48
Restricted Cash and Cash Equivalents	980,032.76
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	1,218,142.31
Total Cash and Cash Equivalents - June 30, 2011	$ 5,661,910.55

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through Assumption of a Liability	$ 268,680.05
Assets Acquired through a Gift	151,000.00
Change in Fair Value of Investments	1,952,973.30
Increase in Receivables Related to Nonoperating Income	618,545.33

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

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity - The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their constituents for their actions. As required by accounting principles generally accepted in the United States of America (GAAP), the financial reporting entity includes both the primary government and all of its component units. An organization other than a primary government serves as a nucleus for a reporting entity when it issues separate financial statements. 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. The elected directors of the Endowment must first be nominated by the Executive Committee of the Mitchell Community College Endowment for Excellence Board of Directors. Because the majority of the Executive Committee Directors consist of College administrators and board members 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).

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 increase 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.

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 of $5,000 or greater 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 20 to 50 years for general infrastructure, 15 to 60 years for buildings, and 4 to 30 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 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 notes payable and 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 fiscal 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.

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 nonoperating revenues in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. To the extent that revenues from these programs are used to satisfy tuition, fees, and other charges, the College has recorded a scholarship discount.

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

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

O. Internal Sales Activities – The College bookstore provides goods and services to College departments, as well as to its customers. All internal sales activities to College departments from the College bookstore have been eliminated in the accompanying financial statements. These eliminations are recorded by removing the revenue and expense in the College bookstore and, if significant, allocating any residual balances to those departments receiving the goods and services during the year.

P. County Appropriations - County appropriations are provided to the College primarily to fund its plant operation and maintenance function and to fund construction projects, motor vehicle purchases, and maintenance of equipment. Unexpended county current appropriation and county capital appropriation do not revert and are available for future use by the College.

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. Cash on hand at June 30, 2011 was $2,960.00. The carrying amount of the College's deposits not with the State Treasurer was $1,964,044.01, and the bank balance was $2,244,289.38.

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, 2011, 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; specified bills of exchange; certain savings certificates; The North Carolina Capital Management Trust, an SEC registered mutual fund; repurchase agreements; and evidences of ownership of, or fractional undivided interests in, future interest and principal payments on either direct obligations of or fully guaranteed by the United States government, which are held by a specified bank or trust company or any state in the capacity of custodian.

At June 30, 2011, the amount shown on the Statement of Net Assets as cash and cash equivalents includes $3,694,906.54, 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 have a credit rating) had a weighted average maturity of 1.9 years as of June 30, 2011. 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.osc.nc.gov/ and clicking on "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; 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, 2011, 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

	Fair Value	Investment Maturities (In Years) 4 to 10
Investment Type		
Debt Securities		
Mutual Bond Funds	$ 3,126,067.27	$ 3,126,067.27
Other Securities		
Mutual Funds - International	4,556,107.11	
Real Estate Investment Trust	65,358.92	
Domestic Stocks	4,970,377.25	
Foreign Stocks	264,139.01	
Total Investments	$ 12,982,049.56	

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, 2011, the College's investments in Mutual Bond Funds, with a fair value of $3,126,067.27, were rated A+ 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, 2011, is as follows:

Cash on Hand	$	2,960.00
Carrying Amount of Deposits with Private Financial Institutions		1,964,044.01
Investments in the Short-Term Investment Fund		3,694,906.54
Other Investments		12,982,049.56
Total Deposits and Investments	$	18,643,960.11
Current:		
Cash and Cash Equivalents	$	3,463,735.48
Restricted Cash and Cash Equivalents		980,032.76
Noncurrent:		
Restricted Cash and Cash Equivalents		1,218,142.31
Restricted Investments		1,843,597.08
Other Investments		11,138,452.48
Total	$	18,643,960.11

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. Under the "Uniform Prudent Management of Institutional Funds Act" (UPMIFA), authorized by the North Carolina General Assembly on March 19, 2009, the Board may also appropriate expenditures from eligible nonexpendable balances if deemed prudent and necessary to meet program outcomes and for which such spending is not specifically prohibited by the donor agreements. However, a majority of the College's endowment donor agreements prohibit spending of nonexpendable balances and therefore the related nonexpendable balances are not eligible for expenditure. During the year, the Board did not appropriate expenditures from eligible nonexpendable endowment funds.

Investment return of the College's endowment funds is predicated on the total return concept (yield plus appreciation). Annual payouts from the College's endowment funds are based on an adopted spending policy which limits spending to no more than 5% of the endowment principal's market value. If current year earnings do not meet the payout requirements, the College uses accumulated income and appreciation from the associated restricted, expendable account balances to make up the difference. At June 30, 2011, endowment net assets of $45,780.17 were available to be spent, all of which was restricted to specific purposes.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2011, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	$ 55,436.93	$ 2,971.19	$ 52,465.74
Student Sponsors	86,076.85		86,076.85
Accounts	50,601.90		50,601.90
Intergovernmental	65,501.57		65,501.57
Bequests	600,000.00		600,000.00
Other	10,083.48		10,083.48
Total Current Receivables	$ 867,700.73	$ 2,971.19	$ 864,729.54

NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2011, is presented as follows:

	Balance July 1, 2010 (as restated)	Increases	Decreases	Balance June 30, 2011
Capital Assets, Nondepreciable:				
Land	$ 1,108,141.82	$ 104,562.40	$ 0.00	$ 1,212,704.22
Construction in Progress	1,588,659.73	4,358,710.22	5,851,854.95	95,515.00
Total Capital Assets, Nondepreciable	2,696,801.55	4,463,272.62	5,851,854.95	1,308,219.22
Capital Assets, Depreciable:				
Buildings	24,724,506.07	5,485,654.79		30,210,160.86
Machinery and Equipment	2,468,454.51	556,259.90	85,497.62	2,939,216.79
General Infrastructure	1,606,101.31	500,291.31		2,106,392.62
Total Capital Assets, Depreciable	28,799,061.89	6,542,206.00	85,497.62	35,255,770.27
Less Accumulated Depreciation for:				
Buildings	6,106,184.51	586,084.15		6,692,268.66
Machinery and Equipment	1,282,974.70	227,416.75	85,497.62	1,424,893.83
General Infrastructure	309,920.54	41,600.76		351,521.30
Total Accumulated Depreciation	7,699,079.75	855,101.66	85,497.62	8,468,683.79
Total Capital Assets, Depreciable, Net	21,099,982.14	5,687,104.34		26,787,086.48
Capital Assets, Net	$ 23,796,783.69	$ 10,150,376.96	$ 5,851,854.95	$ 28,095,305.70

The capital assets schedule above includes $4,885,731.64 that pertains to the Mooresville Center Office and Classroom Building Project. The College entered into a lease agreement with Iredell County on December 18, 2009 (modified May 7, 2010) to deed approximately 1.13 acres valued at a cost of $675,101.20 to the County for the purpose of constructing the Mooresville Center Office and Classroom Building Project. This transfer was necessary in order for the County to obtain the financing needed to provide the land, building, improvements and fixtures. The land will be used 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.

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2011, were as follows:

	Amount
Accounts Payable	$ 185,098.23
Accrued Payroll	474,087.92
Contract Retainage	218,680.05
Other	829.29
Total Accounts Payable and Accrued Liabilities	$ 878,695.49

NOTE 7 - LONG-TERM LIABILITIES

A. Changes in Long-Term Liabilities - A summary of changes in the long-term liabilities for the year ended June 30, 2011, is presented as follows:

	Balance July 1, 2010	Additions	Reductions	Balance June 30, 2011	Current Portion
Notes Payable	$ 0.00	$ 50,000.00	$ 0.00	$ 50,000.00	$ 25,000.00
Compensated Absences	564,283.95	74,581.33	15,672.19	623,193.09	27,316.94
Total Long-Term Liabilities	$ 564,283.95	$ 124,581.33	$ 15,672.19	$ 673,193.09	$ 52,316.94

B. Notes Payable - The Mitchell Community College Endowment for Excellence was indebted for notes payable for the purpose shown in the following table:

Purpose	Financial Institution	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2011	Principal Outstanding June 30, 2011
Drake Street Property	Private Individual	01/31/2013	$ 50,000.00	$ 0.00	$ 50,000.00

On December 17, 2010, the Mitchell Community College Endowment for Excellence, the College's blended component unit, entered into a note agreement with a private individual for financing the remaining purchase price of the Drake Street Property for $50,000 to be paid in two annual installments of $25,000 at no interest.

The annual requirements to pay principal on the notes payable at June 30, 2011, are as follows:

Fiscal Year	Annual Requirements Notes Payable Principal
2012	$ 25,000.00
2013	25,000.00
Total Requirements	$ 50,000.00

NOTE 8 - OPERATING LEASE OBLIGATIONS

The College entered into operating leases for computers. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2011:

Fiscal Year	Amount
2012	$ 58,944.12

Rental expense for all operating leases during the year was $58,944.12.

NOTE 9 - REVENUES

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

	Gross Revenues	Internal Sales Eliminations	Less Scholarship Discounts	Change in Allowance for Uncollectibles	Net Revenues
Operating Revenues:					
Student Tuition and Fees	$ 4,862,847.04	$ 0.00	$ 2,271,577.85	$ 1,359.97	$ 2,589,909.22
Sales and Services:					
Sales and Services of Auxiliary Enterprises:					
Bookstore	2,196,864.39	5,498.05	1,273,346.84	867.86	917,151.64
Vending	44,423.93				44,423.93
Rent	95,182.08				95,182.08
Other	82,685.02			6.00	82,679.02
Total Sales and Services	$ 2,419,155.42	$ 5,498.05	$ 1,273,346.84	$ 873.86	$ 1,139,436.67

NOTE 10 - OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	$ 9,567,566.29	$ 2,303,463.59	$ 510,081.43	$ 0.00	$ 1,047.00	$ 0.00	$ 12,382,158.31
Academic Support	1,520,961.51	233,618.38	49,835.43				1,804,415.32
Student Services	1,345,075.20	102,236.15	63,981.22				1,511,292.57
Institutional Support	3,154,998.17	330,989.63	572,359.34	400.00	7,651.35		4,066,398.49
Operations and Maintenance of Plant	881,616.97	92,716.81	700,832.42		714,080.29		2,389,246.49
Student Financial Aid			2,820.00	5,095,476.68			5,098,296.68
Auxiliary Enterprises	175,348.20	1,702,748.66	153,785.01				2,031,881.87
Depreciation						855,101.66	855,101.66
Total Operating Expenses	$ 16,645,566.34	$ 4,765,773.22	$ 2,053,694.85	$ 5,095,876.68	$ 722,778.64	$ 855,101.66	$ 30,138,791.39

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 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, 2011, these rates were set at 4.93% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the College had a total payroll of $13,509,448.10, of which $10,431,273.55 was covered under the Teachers' and State Employees' Retirement System. Total employer and employee contributions for pension benefits for the year were $514,261.79 and $625,876.71, respectively.

Required employer contribution rates for the years ended June 30, 2010, and 2009, were 3.57% and 3.36%, respectively, while employee contributions were 6% each year. The College made 100% of its annual required contributions for the years ended June 30, 2011, 2010, and 2009, which were $514,261.79, $342,529.14, and $317,918.44, 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.nc.gov/ and clicking on "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 $18,960.16 for the year ended June 30, 2011.

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 $96,899.74 for the year ended June 30, 2011.

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 $23,590.00 for the year ended June 30, 2011.

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 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.

For the current fiscal year the College contributed 4.9% of the covered payroll under the Teachers' and State Employees' Retirement System to the Fund. Required contribution rates for the years ended June 30, 2010, and 2009, were 4.5% and 4.1%, respectively. The College made 100% of its annual required contributions to the Plan for the years ended June 30, 2011, 2010, and 2009, which were $511,132.40, $431,759.42, and $387,936.19, respectively. The College assumes no liability for retiree health care benefits provided by the programs other than its required contribution.

Additional detailed information about these programs can be located in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page http://www.osc.nc.gov/ and clicking on "Reports," or by calling the State Controller's Financial Reporting Section at (919) 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 by the General Assembly. For the fiscal year ended June 30, 2011, the College made a statutory contribution of .52% of covered payroll under the Teachers' and State Employees' Retirement System to the DIPNC. The required contribution rate for the years ended June 30, 2010 and 2009 was .52% for both years. The College made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2011, 2010, and 2009, which were $54,242.62, $49,892.20, and $49,201.66, respectively. The College assumes no liability for long-term disability benefits under the Plan other than its contribution.

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

NOTE 13 - RISK MANAGEMENT

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

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

Fire and other property losses are covered by the Public School Insurance Fund, 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. Property is covered under an all risk coverage contract. Building and contents are valued under a replacement cost basis. No coinsurance penalties apply. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

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. The College is protected for losses from employee dishonesty and theft for employees paid from county and institutional funds by a policy purchased from a private insurance company. The policy covers the College for employee crime losses up to $100,000.

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

The State Board of Community Colleges makes the necessary arrangements to carry out the provisions of the Workers' Compensation Act which are applicable to employees whose wages are paid in whole or in part from State funds. The College purchases workers' compensation insurance for employees whose salaries or wages are paid by the Board entirely from county or institutional funds.

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

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

NOTE 14 - COMMITMENTS

The College has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were $340,095.24 and on other purchases were $257,182.78 at June 30, 2011.

NOTE 15 - NET ASSET RESTATEMENTS

As of July 1, 2010, net assets as previously reported were restated as follows:

		Amount
July 1, 2010 Net Assets as Previously Reported	$	39,590,609.29
Restatements:		
Correction of Prior Year Asset Capitalized in Error		(19,000.00)
Correction of Various Prior Period Accounting Errors		200,228.85
July 1, 2010 Net Assets as Restated	$	39,771,838.14

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STATE OF NORTH CAROLINA

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

Board of Trustees
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, 2011, and have issued our report thereon dated March 30, 2012. 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.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the College's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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

Beth A. Wood, CPA
State Auditor

March 30, 2012

ORDERING INFORMATION

Audit reports issued by the Office of the State Auditor can be obtained from the web site at www.ncauditor.net. Also, parties may register on the web site to receive automatic email notification whenever reports of interest are issued. Otherwise, copies of audit reports may be obtained by contacting the:

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