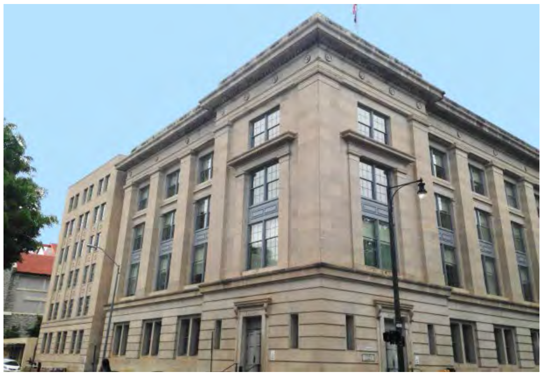
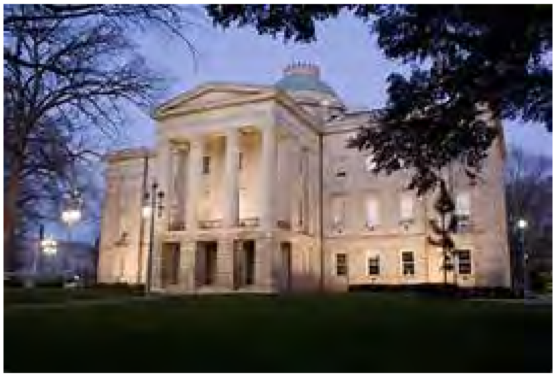
STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA





MITCHELL COMMUNITY COLLEGE

STATESVILLE, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2015

A COMPONENT UNIT OF THE STATE OF NORTH CAROLINA

NCOSA

The Taxpayers' Watchdog

STATE OF NORTH CAROLINA

Office of the State Auditor

Beth A. Wood, CPA
State Auditor

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Raleigh, NC 27699-0600
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AUDITOR'S TRANSMITTAL

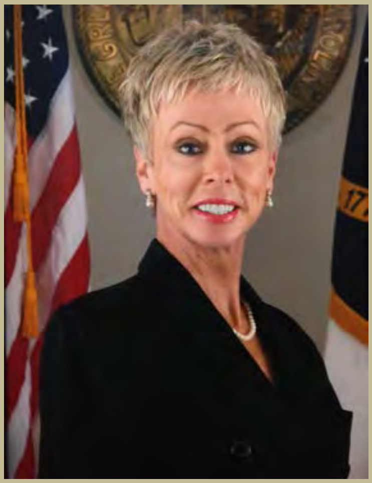
The Honorable Pat McCrory, Governor
The General Assembly of North Carolina
Board of Trustees, Mitchell Community College

We have completed a financial statement audit of Mitchell Community College for the year ended June 30, 2015, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

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

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

Beth A. Wood, CPA
State Auditor



Beth A. Wood, CPA
State Auditor

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Article V, Chapter 147 of the *North Carolina General Statutes*, gives the Auditor broad powers to examine all books, records, files, papers, documents, and financial affairs of every state agency. The Auditor also has the power to summon people to produce records and to answer questions under oath.

INDEPENDENT AUDITOR'S REPORT

STATE OF NORTH CAROLINA
Office of the State Auditor

Beth A. Wood, CPA
State Auditor

2 S. Salisbury Street
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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Mitchell Community College
Statesville, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of Mitchell Community College, a component unit of the State of North Carolina, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express 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 29 percent, 32 percent, and 2 percent, respectively, of the assets, net position, and revenues of the College. Those statements were audited by other auditors, whose report 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 solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the Mitchell Community College Endowment for Excellence were not audited in accordance with *Government Auditing Standards.*

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the College's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of Mitchell Community College, as of June 30, 2015, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 16 to the financial statements, during the year ended June 30, 2015, Mitchell Community College adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 68. – *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27* and Statement No. 71 – *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*. Our opinion is not modified with respect to this matter.

Other Matters – Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and other required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 22, 2016 on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control over financial reporting and compliance.

Beth A. Wood

Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

April 22, 2016

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, 2015. 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 a supplement to 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 slightly from the prior year by $27,727.03 or 0.2%, while state capital aid had a minimal decrease of $18,561.54 or 2.5% from the prior year.

Iredell County's financial situation appears to be stable. As a result, the College's county appropriations for current operations and county capital aid totaled $3,922,629.00 for fiscal year 2015, which represented an increase of $165,899.00 or 4.4% from the previous year.

Noncapital grants - federal student financial aid decreased from the prior fiscal year by $838,966.58 or 13.5%, while investment income of $424,291.66 for fiscal year 2015 decreased by $1,980,905.07 or 82.4% from the previous year.

Salaries and benefits expense decreased from the prior year by $1,097,560.89 or 6.1%, as well as scholarships and fellowships expense which decreased $492,469.40 or 14.7%.

The College's change in net position decreased from the prior year's change mainly as a result of the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* (GASB 68). This statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources of $1,007,125.00, deferred inflows of resources of $3,293,004.00, and expenses for the College's defined pension plan that is administered through a trust. Mitchell Community College had a restatement of beginning net position totaling $3,816,073.00. Prior amounts on the condensed Statement of Net Position have been restated for consideration of GASB 68. Refer to Notes 11 and 16 of the notes to the financial statements for details.

Overview of the Financial Statements

This discussion and analysis is an introduction to the College's basic financial statements. The three basic financial statements include the Statement of Net Position, the Statement of Revenues, Expenses, and Changes in Net Position, and the Statement of Cash Flows, which provide information on the whole operations of the College. For the fiscal year ended June 30, 2015 additional required supplementary information was provided related to the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. This additional information includes the Schedule of the Proportionate Net Pension Liability, Teachers' and State Employees' Retirement System, Last Two Fiscal Years; the Schedule of College Contributions, Teachers' and State Employees' Retirement System, Last Ten Fiscal Years; and notes for the Schedule of College Contributions, Teachers' and State Employees' Retirement System, for the Fiscal Year Ended June 30, 2015.

The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position 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 position. When expenses exceed revenues and support, the result is a decrease in net position. The Statement of Cash Flows is prepared using the direct method. This statement reports the net change in cash resulting from operating, investing, and financing activities.

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

The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position use the accrual basis of accounting, which is similar to the accounting used by most private-sector institutions. Revenues and expenses during 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 Position and the Statement of Revenues, Expenses, and Changes in Net Position.

Statement of Net Position

Net position serves as a useful indicator of the College's financial position. In the case of Mitchell Community College, net position increased by $698,953.57. Significant differences reported on the Statement of Net Position were mainly the result of the new pension accounting standard.

For the fiscal year 2015, the total assets of the College decreased $152,311.74, or 0.3% from the previous year. This change was mainly due to a modest increase in current assets of $136,565.02, offset by a decrease of $288,876.76 in noncurrent assets. The decrease in noncurrent assets was mainly due to a decrease in investments totaling $395,713.96 and a decrease in capital assets of $229,199.68. These decreases were offset by an increase in noncurrent restricted cash of $419,785.88. The downturn in the global financial markets was the main reason for the decrease in investments, while the decrease in capital assets was attributed to the annual depreciation on the College's depreciable capital assets. The increase in noncurrent restricted cash for fiscal year 2015 was mainly attributed to the reclassification of cash to noncurrent to cover interfund borrowing for cash deficits as well as a reduction in current plant liabilities from the prior year; thus, requiring less cash to be reclassified out of noncurrent at year-end.

Deferred outflows related to pensions represent contributions subsequent to the measurement date and appear for the first time this year as a result of the College's implementation of the new GASB 68 pension reporting standard. The pension liability calculation lags financial reporting by one year. As a result of the lag, recognition of the cash contribution is deferred. The deferred outflows totaled $1,007,125.00 for fiscal year 2015 compared to the restated amount of $937,535.00 from the previous year, resulting in an increase of $69,590.00 for the year.

Current Liabilities decreased by $270,632.23 and were made up of accounts payable, accrued payroll, unearned revenue, funds due to the primary government, funds held for others, and the current portion of compensated absences. All of these liabilities declined from the previous year's liabilities, with the exception of compensated absences that increased slightly by a total of $25,270.91. One of the key contributors to the decline in current liabilities resulted from fewer classes being offered in continuing education for the summer, resulting in lower accrued wages and unearned revenue for the year.

Compensated absences normally makes up the balance in noncurrent liabilities, but a net pension liability is now included in this category due to the implementation of GASB 68. The 2013-2014 noncurrent liabilities were restated to include a $4,753,608.00 net pension liability, which is the primary reason for the decrease of $3,804,047.08 in this account for fiscal year 2015.

Deferred inflows related to pensions reports the cumulative difference between expected performance and actual performance. Cumulative differences between expected and actual pension plan investment returns total $211,550.00. The cumulative difference between projected and actual pension plan investment returns total $3,066,351.00. The change in proportion and differences between the agency's contribution and proportionate share of contribution total $15,103.00. The total deferred inflows related to pensions as reported by the College for fiscal year 2015 was $3,293,004.00. The deferred inflows will reduce net pension expense over the next four fiscal years.

Condensed Statement of Net Position

	6/30/2015	6/30/2014 (As Restated)	Increase (Decrease)
Assets			
Current Assets	$ 6,460,960.19	$ 6,324,395.17	$ 136,565.02
Other Noncurrent Assets	18,281,580.66	18,341,257.74	(59,677.08)
Noncurrent Capital Assets, Net	26,787,684.36	27,016,884.04	(229,199.68)
Total Assets	51,530,225.21	51,682,536.95	(152,311.74)
Deferred Outflows of Resources	1,007,125.00	937,535.00	69,590.00
Liabilities			
Current Liabilities	1,062,605.74	1,333,237.97	(270,632.23)
Long-Term Liabilities	1,511,273.39	5,315,320.47	(3,804,047.08)
Total Liabilities	2,573,879.13	6,648,558.44	(4,074,679.31)
Deferred Inflows of Resources	3,293,004.00		3,293,004.00
Net Position			
Investment in Capital Assets	26,787,684.36	27,016,884.04	(229,199.68)
Restricted:			
Nonexpendable	2,207,340.76	1,970,542.19	236,798.57
Expendable	3,850,681.36	3,770,132.19	80,549.17
Unrestricted	13,824,760.60	13,213,955.09	610,805.51
Total Net Position	$ 46,670,467.08	$ 45,971,513.51	$ 698,953.57

Statement of Revenues, Expenses, and Changes in Net Position

The Statement of Revenues, Expenses, and Changes in Net Position consist of total revenues of $27,536,557.53 and total expenses of $26,837,603.96, resulting in an overall increase in net position at year-end of $698,953.57, a decrease of $1,155,164.40 from the prior year.

Operating revenues consist of student tuition and fees and sales and services. Student tuition and fees decreased by $264,955.27 mainly due to a decrease in student enrollment for the year, while sales and services decreased slightly by $74,203.40.

Total operating expenses were $1,787,434.66 less than the prior year primarily due to a $1,097,560.89 decrease in salaries and benefits that resulted mainly from pension adjustments related to GASB 68 implementation. In addition, scholarships and fellowships expense declined $492,469.40 primarily due to the decrease in student enrollment previously discussed.

Total nonoperating revenues decreased by $2,629,999.25 at June 30, 2015 or 10.4% over the year ended June 30, 2014 primarily due to decreases in investment income and noncapital grants – federal student financial aid of $1,980,905.07 and $838,966.58, respectively. The decrease in investment income was a result of the global downturn in the financial markets from the credit crisis in Europe. The decrease in noncapital grants – federal student financial aid was attributed primarily to a decrease in the number of full-time equivalent students receiving Pell awards for fiscal year 2015, which resulted in a decrease of $857,979.00 from the previous year. There were also some offsetting increases in nonoperating revenues, with the more significant increases occurring in county appropriations for $156,243.00 and noncapital gifts for $194,530.03. The increase in county appropriations resulted from the stable economic situation of Iredell County that allowed for increased funding to the College over the prior year. The increase in noncapital gifts was mainly attributed to a gift of $200,000.00 for the College's nursing program.

Other revenues consisting mainly of capital contributions and additions to endowments consisted of modest changes from the previous year, with the most significant change occurring in additions to endowments of $73,910.40. This change was due to an increase in endowment contributions for fiscal year 2015.

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

	6/30/2015	6/30/2014*	Increase (Decrease)
Operating Revenues			
Student Tuition and Fees, Net	$ 2,355,045.89	$ 2,620,001.16	$ (264,955.27)
Sales and Services, Net	883,267.94	957,471.34	(74,203.40)
Total Operating Revenues	3,238,313.83	3,577,472.50	(339,158.67)
Operating Expenses			
Salaries and Benefits	16,989,337.41	18,086,898.30	(1,097,560.89)
Supplies and Materials	3,066,852.05	3,066,816.39	35.66
Services	2,521,090.17	2,683,700.95	(162,610.78)
Scholarships and Fellowships	2,853,740.27	3,346,209.67	(492,469.40)
Utilities	701,901.25	678,829.65	23,071.60
Depreciation	704,682.81	762,583.66	(57,900.85)
Total Operating Expenses	26,837,603.96	28,625,038.62	(1,787,434.66)
Operating Loss	(23,599,290.13)	(25,047,566.12)	1,448,275.99
Nonoperating Revenues			
State Aid	12,632,452.62	12,604,725.59	27,727.03
County Appropriations	3,091,314.00	2,935,071.00	156,243.00
Noncapital Grants - Federal Student Financial Aid	5,354,810.44	6,193,777.02	(838,966.58)
Noncapital Grants	704,546.90	885,894.79	(181,347.89)
Noncapital Gifts	352,625.29	158,095.26	194,530.03
Investment Income, Net	424,291.66	2,405,196.73	(1,980,905.07)
Other Nonoperating Revenues	9,815.40	17,095.17	(7,279.77)
Total Nonoperating Revenues	22,569,856.31	25,199,855.56	(2,629,999.25)
Income (Loss) Before Other Revenues	(1,029,433.82)	152,289.44	(1,181,723.26)
Other Revenues			
State Capital Aid	712,567.71	731,129.25	(18,561.54)
County Capital Aid	831,315.00	821,659.00	9,656.00
Capital Gifts	27,092.00	65,538.00	(38,446.00)
Additions to Endowments	157,412.68	83,502.28	73,910.40
Increase in Net Position	698,953.57	1,854,117.97	(1,155,164.40)
Net Position, July 1	49,787,586.51	47,933,468.54	1,854,117.97
Restatement	(3,816,073.00)		(3,816,073.00)
Net Position, June 30	$ 46,670,467.08	$ 49,787,586.51	$ (3,117,119.43)

**Note:* *The year ended June 30, 2014 column is not presented "As Restated" above because actuarial calculations performed relative to the implementation of GASB 68 do not provide sufficient information to restate these amounts.*

Capital Assets

On June 30, 2015, the College's capital assets, net of accumulated depreciation of $10,692,200.38, totaled $26,787,684.36. The significant changes related to capital assets consisted mainly of asset acquisitions and recording the current year's depreciation. This activity resulted in only a slight decrease in the net value of capital assets as a whole totaling $229,199.68. In regards to construction, there were no significant construction costs during the year or outstanding commitments on construction projects at year-end. Refer to Note 5 of the notes to the financial statements for more information about the College's capital assets.

Capital Assets

	6/30/2015	6/30/2014	Increase (Decrease)
Capital Assets, Nondepreciable			
Land	$ 1,376,343.69	$ 1,256,287.80	$ 120,055.89
Construction in Progress		105,990.00	(105,990.00)
Total Capital Assets, Nondepreciable	1,376,343.69	1,362,277.80	14,065.89
Capital Assests, Depreciable, Net			
Buildings	22,021,662.17	22,454,108.31	(432,446.14)
Machinery and Equipment	1,793,460.31	1,568,817.05	224,643.26
General Infrastructure	1,596,218.19	1,631,680.88	(35,462.69)
Total Capital Assets, Depreciable, Net	25,411,340.67	25,654,606.24	(243,265.57)
Total Capital Assets, Net	$ 26,787,684.36	$ 27,016,884.04	$ (229,199.68)

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, 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 2014-2015 state budget allocation of $17,165,541.00 for the 2014-2015 fiscal year, which represented a decrease of $270,849.00 or 1.69% from the previous year. The College experienced an enrollment drop of 327 or 11.13% during the 2014-2015 academic year. This drop was as a result of the normalization of the community college enrollment which escalated during the financial crisis from 2009-2012.

The 2014-2015 state allocation reflects this decrease in enrollment, modified slightly by a two-year average formula used by the State and does not reflect an allocation based on actual enrollment. The decrease in overall state funding for the 2014-2015 academic year did include a $1,000.00 increase for full-time employees. In addition, during the 2014-2015 fiscal year, the North Carolina Community College System also requested all community colleges reserve 2% of the current fiscal budget for a possible future reversion. This represented approximately $348,728.00 for Mitchell Community College during 2014–2015, of which only 0.94% or $164,211.00 was called back for reversion. These were funds the College was not able to allocate for current expenses.

The College received county current and county capital appropriations of $3,922,629.00 for the 2014-2015 fiscal year, which represented an increase over the previous year for operations. This amounted to an increase of approximately $165,899.00 or 4.4% from the 2013-2014 fiscal year.

During the fiscal year ended June 30, 2015, the Mitchell Community College Endowment for Excellence, the foundation that provides financial support to the College earned $342,248.75 in investment income, while the college endowments earned $82,042.91. Although this increase in investment value was not as large as it was in the prior year, the funds will still be able to assist with the budget shortfalls caused by the reduced state funding. Mitchell Community College Endowment for Excellence approved a $450,000 allocation to the

College for support of college operations in the 2014-2015 fiscal year and a $300,000 allocation for the 2015-2016 fiscal year.

The future for Mitchell Community College resides with the new relevant programs that are offered to students. This past year the Agribusiness program was launched with an enrollment of eight (8) students. This summer the Agribusiness program is moving from pails of dirt to a one (1) plus acre site next to the College's Workforce Development building creating an urban farm. The farm will serve as an outdoor laboratory for the Agribusiness students plus serve as a resource for the food desert (described as an area absent of fresh farm raised foods) that is present in the community.

FINANCIAL STATEMENTS

Mitchell Community College
Statement of Net Position — *Exhibit A-1*
June 30, 2015 — *Page 1 of 2*

ASSETS		
Current Assets:		
Cash and Cash Equivalents	$	4,316,447.17
Restricted Cash and Cash Equivalents		1,205,582.20
Receivables, Net (Note 4)		335,690.01
Due from State of North Carolina Component Units		28,581.44
Inventories		346,124.63
Prepaid Items		228,534.74
Total Current Assets		6,460,960.19
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		1,545,358.78
Restricted Due from Primary Government		23,014.49
Restricted Investments		3,405,528.12
Other Investments		13,307,679.27
Capital Assets - Nondepreciable (Note 5)		1,376,343.69
Capital Assets - Depreciable, Net (Note 5)		25,411,340.67
Total Noncurrent Assets		45,069,265.02
Total Assets		51,530,225.21
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Outflows Related to Pensions		1,007,125.00
LIABILITIES		
Current Liabilities:		
Accounts Payable and Accrued Liabilities (Note 6)		722,858.58
Due to Primary Government		120,202.74
Unearned Revenue		88,064.26
Funds Held for Others		30,456.29
Long-Term Liabilities - Current Portion (Note 7)		101,023.87
Total Current Liabilities		1,062,605.74
Noncurrent Liabilities:		
Long-Term Liabilities (Note 7)		1,511,273.39
Total Liabilities		2,573,879.13
DEFERRED INFLOWS OF RESOURCES		
Deferred Inflows Related to Pensions		3,293,004.00

NET POSITION

Investment in Capital Assets	26,787,684.36
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	2,155,550.76
Restricted for Specific Programs	51,790.00
Expendable:	
Scholarships and Fellowships	1,066,525.71
Capital Projects	1,124,554.16
Restricted for Specific Programs	1,610,778.87
Other	48,822.62
Unrestricted	13,824,760.60
Total Net Position	$ 46,670,467.08

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 Position
For the Fiscal Year Ended June 30, 2015

Exhibit A-2

REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net (Note 9)	$	2,355,045.89
Sales and Services, Net (Note 9)		883,267.94
Total Operating Revenues		3,238,313.83
EXPENSES		
Operating Expenses:		
Salaries and Benefits		16,989,337.41
Supplies and Materials		3,066,852.05
Services		2,521,090.17
Scholarships and Fellowships		2,853,740.27
Utilities		701,901.25
Depreciation		704,682.81
Total Operating Expenses		26,837,603.96
Operating Loss		(23,599,290.13)
NONOPERATING REVENUES		
State Aid		12,632,452.62
County Appropriations		3,091,314.00
Noncapital Grants - Federal Student Financial Aid		5,354,810.44
Noncapital Grants		704,546.90
Noncapital Gifts		352,625.29
Investment Income (Net of Investment Expense of $102,888.81)		424,291.66
Other Nonoperating Revenues		9,815.40
Nonoperating Revenues		22,569,856.31
Loss Before Other Revenues		(1,029,433.82)
State Capital Aid		712,567.71
County Capital Aid		831,315.00
Capital Gifts		27,092.00
Additions to Endowments		157,412.68
Increase in Net Position		698,953.57
NET POSITION		
Net Position, July 1, 2014 as Restated (Note 16)		45,971,513.51
Net Position, June 30, 2015	$	46,670,467.08

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

CASH FLOWS FROM OPERATING ACTIVITIES	
Received from Customers	$ 3,199,628.63
Payments to Employees and Fringe Benefits	(17,564,322.39)
Payments to Vendors and Suppliers	(6,506,206.59)
Payments for Scholarships and Fellowships	(2,853,740.27)
Other Payments	(9,767.33)
Net Cash Used by Operating Activities	(23,734,407.95)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Aid Received	12,632,452.62
County Appropriations	3,091,314.00
Noncapital Grants - Federal Student Financial Aid	5,319,924.02
Noncapital Grants	826,093.49
Noncapital Gifts and Endowments	510,037.97
Cash Provided by Noncapital Financing Activities	22,379,822.10
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
State Capital Aid Received	712,567.71
County Capital Aid	831,315.00
Capital Gifts	27,092.00
Acquisition and Construction of Capital Assets	(477,259.98)
Net Cash Provided by Capital and Related Financing Activities	1,093,714.73
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from Sales and Maturities of Investments	3,849,910.21
Investment Income	371,127.17
Purchase of Investments and Related Fees	(3,401,031.76)
Net Cash Provided by Investing Activities	820,005.62
Net Increase in Cash and Cash Equivalents	559,134.50
Cash and Cash Equivalents, July 1, 2014	6,508,253.65
Cash and Cash Equivalents, June 30, 2015	$ 7,067,388.15

RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES

Operating Loss	$ (23,599,290.13)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	704,682.81
Pension Expense	384,502.00
Nonoperating Other Income	11,592.25
Changes in Assets, Liabilities, and Deferred Outflows of Resources:	
Receivables, Net	11,488.93
Inventories	9,119.73
Prepaid Items	(20,736.23)
Accounts Payable and Accrued Liabilities	(214,196.17)
Due to Primary Government	120,202.74
Dut to State of North Carolina Component Units	(130,376.00)
Unearned Revenue	(50,174.13)
Funds Held for Others	(21,359.58)
Deferred Outflows - Contributions Subsequent to the Measurement Date	(1,007,125.00)
Compensated Absences	67,260.83
Net Cash Used by Operating Activities	$ (23,734,407.95)

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	$ 4,316,447.17
Restricted Cash and Cash Equivalents	1,205,582.20
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	1,545,358.78
Total Cash and Cash Equivalents - June 30, 2015	$ 7,067,388.15

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Change in Fair Value of Investments	$ (373,007.11)
Increase in Receivables Related to Nonoperating Income	34,886.42
Loss on Disposal of Capital Assets	(1,776.85)

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

NOTES TO THE FINANCIAL STATEMENTS

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. See below for further discussion of the College's component units.

Blended Component Unit - Although legally separate, the Mitchell Community College Endowment for Excellence (Endowment) is reported as if it was part of the College. The Endowment is governed by a minimum of 25 elected directors. The Endowment's purpose is to aid, support, and promote the educational endeavors of the College. The elected directors of the Endowment are 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.

During the year ended June 30, 2015, the Endowment distributed $300,000 to the College for unrestricted purposes. 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.

Condensed combining information regarding the blended component unit is provided in Note 15.

B. Basis of Presentation - The accompanying financial statements are presented in accordance with accounting principles generally accepted in the United States of America as prescribed by the GASB.

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

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

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

D. **Cash and Cash Equivalents** - This classification includes undeposited receipts, petty cash, cash on deposit with private bank accounts, cash on deposit with fiscal agents, and deposits held by the State Treasurer in the short-term investment fund (STIF). The STIF maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.

E. **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.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets in the following manner:

Asset Class	Estimated Useful Life
Buildings	15-60 years
Machinery & Equipment	3-30 years
General Infrastructure	15-50 years

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, resources whose use is limited by external parties or statute, and endowment and other restricted investments.

J. **Noncurrent Long-Term Liabilities** - Noncurrent long-term liabilities include net pension liability and compensated absences that will not be paid within the next fiscal year.

The net pension liability represents the College's proportionate share of the collective net pension liability reported in the State of North Carolina's 2014 *Comprehensive Annual Financial Report.* This liability represents the College's portion of the collective total pension liability less the fiduciary net position of the Teachers' and State Employees' Retirement System. See Note 11 for further information regarding the College's policies for recognizing liabilities, expenses, and deferred outflows and inflows related to pensions.

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. Under this policy, the accumulated vacation leave for each employee at June 30 equals the leave carried forward at the previous June 30 plus the leave earned, less the leave taken between July 1 and June 30.

In addition to the vacation leave described above, compensated absences include the accumulated unused portion of the special annual leave bonuses awarded by the North Carolina General Assembly. The bonus leave balance on 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 Position** - The College's net position is classified as follows:

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

Restricted Net Position - **Nonexpendable** - Nonexpendable restricted net position includes 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 Position - **Expendable** - Expendable restricted net position includes resources for which the College is legally or contractually obligated to spend in accordance with restrictions imposed by external parties.

Unrestricted Net Position - Unrestricted net position includes resources derived from student tuition and fees, sales and services, unrestricted gifts, and interest income.

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

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

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 Position. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the College's principal ongoing operations. Operating revenues include activities that have characteristics of exchange transactions, such as (1) student tuition 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 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. **County Appropriations** - County appropriations are provided to the College primarily to fund its plant operation and maintenance function and to fund construction projects, motor vehicle purchases, and maintenance of equipment. Unexpended county current appropriations and county capital appropriations do not revert and are available for future use by the College.

NOTE 2 - DEPOSITS AND INVESTMENTS

A. **Deposits** - The College is required by *North Carolina General Statute* 147-77 to deposit any funds collected or received that belong to the State of North Carolina with the State Treasurer or with a depository institution in the name of the State Treasurer. All funds of the College, other than those required to be deposited with the State Treasurer, are deposited in board-designated official depositories and are required to be collateralized in accordance with *North Carolina General Statute* 115D-58.7. Official depositories may be established with any bank or savings and loan association whose principal office is located in North Carolina. Also, the College may establish time deposit accounts, money market accounts, and certificates of deposit. Cash on hand at June 30, 2015 was $3,070.00. The carrying amount of the College's deposits not with the State Treasurer was $2,733,466.65, and the bank balance was $2,542,335.21.

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, 2015, 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 any form of investment established or managed by certain investment advisors pursuant to G.S. 115D-58.6(d1) or in the form of investments pursuant to G.S. 159-30(c), as follows: a commingled investment pool established and administered by the State Treasurer pursuant to G.S. 147-69.3 (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, 2015, the amount shown on the Statement of Net Position as cash and cash equivalents includes $4,330,851.50, which represents the College's equity position in the State Treasurer's Short-Term Investment Fund (STIF). The STIF (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission and does not have a credit rating) had a weighted average maturity of 1.5 years as of June 30, 2015. Assets and shares of the STIF are valued at amortized cost, which approximates fair value. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's STIF) are included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page http://www.osc.nc.gov/ and clicking on "Reports" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

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 and other deposit accounts of specified financial institutions; prime quality commercial paper; asset-backed securities, bills of exchange or time drafts, and corporate bonds/notes with specified ratings; general obligations of other states; general obligations of North Carolina local governments and obligations of certain entities with specified ratings.

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, 2015, 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) Less than 5
Investment Type		
Debt Securities		
Mutual Bond Funds	$ 2,976,637.00	$ 2,976,637.00
Other Securities		
Domestic Stocks	7,801,576.31	
Foreign Stocks	448,842.84	
Other Mutual Funds	5,469,040.79	
Real Estate Investment Trust	17,110.45	
Total Investments	$ 16,713,207.39	

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, 2015, the College's investments in Mutual Bond Funds with a fair market value of $2,976,637.00 were rated on an average of BBB by multiple rating agencies (including Moody's).

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributable to the magnitude of an investment in a single issuer. The College places no limit on the amount that may be invested in any one issuer. The following table presents investments representing more than 5% of the College's investments:

	Fair Value	Percentage of College Investments
Ishares Trust Russell 1000 Growth	$ 2,733,592.52	16%
Janus Flexible Bond Fund	2,003,360.86	12%
Henderson Intl Opportunities Fd Class 1	1,196,431.07	7%
First Eagle Overseas Fd Class 1	1,053,139.58	6%
Wells Fargo Advantage Absolute	1,007,527.93	6%
Blackrock Strategic Income Oppt Port	1,013,351.01	6%
Templeton Global Bond Fund Advisor	973,276.14	6%
Total	$ 9,980,679.11	59%

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.

C. **Reconciliation of Deposits and Investments** - A reconciliation of deposits and investments for the College to the basic financial statements as of June 30, 2015, is as follows:

Cash on Hand	$ 3,070.00
Carrying Amount of Deposits with Private Financial Institutions	2,733,466.65
Investments in the Short-Term Investment Fund	4,330,851.50
Other Investments	16,713,207.39
Total Deposits and Investments	$ 23,780,595.54
Current:	
Cash and Cash Equivalents	$ 4,316,447.17
Restricted Cash and Cash Equivalents	1,205,582.20
Noncurrent:	
Restricted Cash and Cash Equivalents	1,545,358.78
Restricted Investments	3,405,528.12
Other Investments	13,307,679.27
Total Deposits and Investments	$ 23,780,595.54

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. Under this policy, the prior year spending percentage is increased by the inflation rate to determine the current year spending percentage. If current year earnings do not meet the payout requirements, the College uses accumulated income and appreciation from restricted, expendable net position endowment balances to make up the difference. At June 30, 2015, net appreciation of $111,162.70 was available to be spent, all of which was classified in net position as restricted expendable for scholarships and fellowships as it is restricted for specific purposes.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2015, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	$ 187,396.58	$ 98,667.91	$ 88,728.67
Student Sponsors	31,194.32	14,202.14	16,992.18
Accounts	165,142.74		165,142.74
Intergovernmental	39,801.42		39,801.42
Other	25,025.00		25,025.00
Total Current Receivables	$ 448,560.06	$ 112,870.05	$ 335,690.01

NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2015 is presented as follows:

	Balance July 1, 2014	Increases	Decreases	Balance June 30, 2015
Capital Assets, Nondepreciable:				
Land	$ 1,256,287.80	$ 120,055.89	$ 0.00	$ 1,376,343.69
Construction in Progress	105,990.00		105,990.00	
Total Capital Assets, Nondepreciable	1,362,277.80	120,055.89	105,990.00	1,376,343.69
Capital Assets, Depreciable:				
Buildings	30,383,018.93			30,383,018.93
Machinery and Equipment	3,188,456.15	457,518.02	37,520.74	3,608,453.43
General Infrastructure	2,106,392.62	5,676.07		2,112,068.69
Total Capital Assets, Depreciable	35,677,867.70	463,194.09	37,520.74	36,103,541.05
Less Accumulated Depreciation for:				
Buildings	7,928,910.62	432,446.14		8,361,356.76
Machinery and Equipment	1,619,639.10	231,097.91	35,743.89	1,814,993.12
General Infrastructure	474,711.74	41,138.76		515,850.50
Total Accumulated Depreciation	10,023,261.46	704,682.81	35,743.89	10,692,200.38
Total Capital Assets, Depreciable, Net	25,654,606.24	(241,488.72)	1,776.85	25,411,340.67
Capital Assets, Net	$ 27,016,884.04	$ (121,432.83)	$ 107,766.85	$ 26,787,684.36

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2015, were as follows:

	Amount
Current Accounts Payable and Accrued Liabilities:	
Accounts Payable	$ 117,154.82
Accrued Payroll	605,703.76
Total Current Accounts Payable and Accrued Liabilities	$ 722,858.58

NOTE 7 - LONG-TERM LIABILITIES

A summary of changes in the long-term liabilities for the year ended June 30, 2015, is presented as follows:

	Balance July 1, 2014 (As Restated)	Additions	Reductions	Balance June 30, 2015	Current Portion
Net Pension Liability	$ 4,753,608.00	$ 0.00	$ 3,846,037.00	$ 907,571.00	$ 0.00
Compensated Absences	637,465.43	603,702.39	536,441.56	704,726.26	101,023.87
Total Long-Term Liabilities	$ 5,391,073.43	$ 603,702.39	$ 4,382,478.56	$ 1,612,297.26	$ 101,023.87

Additional information regarding the net pension liability is included in Note 11.

NOTE 8 - OPERATING LEASE OBLIGATIONS

The College entered into operating leases for rental of property. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2015:

Fiscal Year	Amount
2016	$ 1,574.69
2017	1,574.69
2018	1,574.69
2019	1,574.69
2020	1,574.69
2021-2025	7,873.45
2026-2030	7,873.45
2031-2035	7,873.45
2036-2040	7,873.45
Total Minimum Lease Payments	$ 39,367.25

Rental expense for all operating leases during the year was $51,710.69.

NOTE 9 - REVENUES

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

	Gross Revenues	Less Scholarship Discounts	Less Allowance for Uncollectibles	Net Revenues
Operating Revenues:				
Student Tuition and Fees, Net	$ 4,487,809.32	$ 2,070,049.23	$ 62,714.20	$ 2,355,045.89
Sales and Services:				
Sales and Services of Auxiliary Enterprises:				
Bookstore	$ 1,632,118.14	$ 962,619.84	$ 34,111.80	$ 635,386.50
Vending	26,326.52			26,326.52
Rent	150,670.15			150,670.15
Other	70,884.77			70,884.77
Total Sales and Services, Net	$ 1,879,999.58	$ 962,619.84	$ 34,111.80	$ 883,267.94

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	$ 9,366,296.86	$ 456,099.44	$ 430,701.10	$ 0.00	$ 0.00	$ 0.00	$ 10,253,097.40
Academic Support	1,324,160.80	21,278.96	53,052.26				1,398,492.02
Student Services	1,497,082.15	45,713.73	82,213.62				1,625,009.50
Institutional Support	3,058,222.25	264,087.82	980,638.40				4,302,948.47
Operations and Maintenance of Plant	1,033,558.30	1,003,802.88	890,793.44		701,901.25		3,630,055.87
Student Financial Aid			2,143.00	2,853,740.27			2,855,883.27
Auxiliary Enterprises	325,515.05	1,275,869.22	81,548.35				1,682,932.62
Depreciation						704,682.81	704,682.81
Pension Expense	384,502.00						384,502.00
Total Operating Expenses	$ 16,989,337.41	$ 3,066,852.05	$ 2,521,090.17	$ 2,853,740.27	$ 701,901.25	$ 704,682.81	$ 26,837,603.96

NOTE 11 - PENSION PLAN

Defined Benefit Plan

Plan Administration: The State of North Carolina administers the Teachers' and State Employees' Retirement System (TSERS) plan. This plan is a cost-sharing, multiple-employer, defined benefit pension plan established by the State to provide pension benefits for general employees and law enforcement officers (LEOs) of the State, general employees and LEOs of its component units, and employees of Local Education Agencies (LEAs) and charter schools not in the reporting entity. Membership is comprised of employees of the State (state agencies and institutions), universities, community colleges, and certain proprietary component units along with the LEAs and charter schools. Benefit provisions are established by General Statute 135-5 and may be amended only by the North Carolina General Assembly.

Benefits Provided: TSERS provides retirement and survivor benefits. Retirement benefits are determined as 1.82% of the member's average final compensation times the member's years of creditable service. A member's average final compensation is calculated as the average of a member's four highest consecutive years of compensation. General employee plan members are eligible to retire with full retirement benefits at age 65 with five years of creditable service, at age 60 with 25 years of creditable service, or at any age with 30 years of creditable service. General employee plan members are eligible to retire with partial retirement benefits at age 50 with 20 years of creditable service or at age 60 with five years of creditable service. Survivor benefits are available to eligible beneficiaries of general members who die while in active service or within 180 days of their last day of service and who also have either completed 20 years of creditable service regardless of age, or have completed five years of service and have reached age 60. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions. The plan does not provide for automatic post-retirement benefit increases. Increases are contingent upon actuarial gains of the plan.

Contributions: Contribution provisions are established by General Statute 135-8 and may be amended only by the North Carolina General Assembly. Employees are required to contribute 6% of their compensation. The contribution rate for employers is set each year by the NC General Assembly in the Appropriations Act based on the actuarially-determined rate recommended by the actuary. The College's contractually-required contribution rate for the year ended June 30, 2015 was 9.15% of covered payroll. The College's contributions to the pension plan were $1,007,125.42, and employee contributions were $660,410.11 for the year ended June 30, 2015.

The TSERS Plan's financial information, including all information about the plan's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fiduciary net position, is included in the State of North Carolina's fiscal year 2014 *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page http://www.osc.nc.gov/ and clicking on "Reports" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

TSERS Basis of Accounting: The financial statements of the TSERS plan were prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has a legal requirement to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan. The plan's fiduciary net position was determined on the same basis used by the pension plan.

Methods Used to Value TSERS Investment: Pursuant to *North Carolina General Statutes*, the State Treasurer is the custodian and administrator of the retirement systems. The State Treasurer maintains various investment portfolios in its Investment Pool. The pension trust funds are the primary participants in the Long-term Investment portfolio and the sole participants in the External Fixed Income Investment, Equity Investment, Real Estate Investment, Alternative Investment, Credit Investment, and Inflation Protection Investment portfolios. The investment balance of each pension trust fund represents its share of the fair market value of the net position of the various portfolios within the pool. Detailed descriptions of the methods and significant assumptions regarding investments of the State Treasurer are provided in the 2014 *Comprehensive Annual Financial Report*.

Net Pension Liability: At June 30, 2015, the College reported a liability of $907,571.00 for its proportionate share of the collective net pension liability. The net pension liability was measured as of June 30, 2014. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2013, and update procedures were used to roll forward the total pension liability to June 30, 2014. The College's proportion of the net pension liability was based on the present value of future salaries for the College relative to the present value of future salaries for all participating employers, actuarially-determined. As of June 30, 2014, the College's proportion was .07741%, which was a decrease of .00089% from its proportion measured as of June 30, 2013.

Actuarial Assumptions: The following table presents the actuarial assumptions used to determine the total pension liability for the TSERS plan at the actuarial valuation date:

Valuation Date	12/31/2013
Inflation	3%
Salary Increases*	4.25% - 9.10%
Investment Rate of Return**	7.25%

* Salary increases include 3.5% inflation and productivity factor.
** Investment rate of return is net of pension plan investment expense, including inflation.

TSERS currently uses mortality tables that vary by age, gender, employee group (i.e. teacher, general, law enforcement officer) and health status (i.e. disabled and healthy). The current mortality rates are based on published tables and based on studies that cover significant portions of the U.S. population. The healthy mortality rates also contain a provision to reflect future mortality improvements.

The actuarial assumptions used in the December 31, 2013 valuations were based on the results of an actuarial experience study for the period January 1, 2005 through December 31, 2009.

Future ad hoc Cost of Living Adjustment (COLA) amounts are not considered to be substantively automatic and are therefore not included in the measurement.

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2014 (the valuation date) are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return
Fixed Income	2.5%
Global Equity	6.1%
Real Estate	5.7%
Alternatives	10.5%
Credit	6.8%
Inflation Protection	3.7%

The information above is based on 30-year expectations developed with the consulting actuary for the 2013 asset, liability and investment policy study for the North Carolina Retirement Systems. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.19%. All rates of return and inflation are annualized.

Discount Rate: The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate: The following presents the net pension liability of the plan calculated using the discount rate of 7.25%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.25%) or 1-percentage point higher (8.25%) than the current rate:

Net Pension Liability (Asset)		
1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
$ 6,515,175.00	$ 907,571.00	$ (3,827,233.00)

Deferred Inflows of Resources and Deferred Outflows of Resources Related to Pensions: For the year ended June 30, 2015, the College recognized pension expense of $384,502.00. At June 30, 2015, the College reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Employer Balances of Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions by Classification:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Actual and Expected Experience	$ 0.00	$ 211,550.00
Changes of Assumptions		
Net Difference Between Projected and Actual Earnings on Pension Plan Investments		3,066,351.00
Change in Proportion and Differences Between Agency's Contributions and Proportionate Share of Contributions		15,103.00
Contributions Subsequent to the Measurement Date	1,007,125.00	
Total	$ 1,007,125.00	$ 3,293,004.00

The amount of $1,007,125.00 reported as deferred outflows of resources related to pensions will be included as a reduction of the net pension liability in the fiscal year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Schedule of the Net Amount of the Employer's Balances of Deferred Outflows of Resources and Deferred Inflows of Resources That will be Recognized in Pension Expense:

Year ended June 30:	Amount
2016	$ (826,391.00)
2017	(826,391.00)
2018	(826,391.00)
2019	(813,831.00)
Total	$ (3,293,004.00)

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 (TSERS). Coverage eligibility varies depending on years of contributory membership service in their retirement system prior to disability or retirement.

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

By General Statute, a Retiree Health Benefit Fund (the Fund) has been established as a fund in which accumulated contributions from employers and any earnings on those contributions shall be used to provide health benefits to retired and disabled employees and applicable beneficiaries. By statute, the Fund is administered by the Board of Trustees of TSERS and contributions to the Fund are irrevocable. Also by law, Fund assets are dedicated to providing benefits to retired and disabled employees and applicable beneficiaries and are not subject to the claims of creditors of the employers making contributions to the Fund. Contribution rates to the Fund, which are intended to finance benefits and administrative expenses on a pay-as-you-go basis, are established by the General Assembly.

For the current fiscal year the College contributed 5.49% of the covered payroll under TSERS to the Fund. Required contribution rates for the years ended June 30, 2014, and 2013, were 5.4% and 5.3%, respectively. The College made 100% of its annual required contributions to the Plan for the years ended June 30, 2015, 2014, and 2013, which were $604,275.25, $582,586.44, and $573,004.08, respectively. The College assumes no liability for retiree health care benefits provided by the programs other than its required contribution.

Additional detailed information about these programs can be located in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page http://www.osc.nc.gov/ and clicking on "Reports" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

B. **Disability Income** - The College participates in the Disability Income Plan of North Carolina (DIPNC), a cost-sharing, multiple-employer defined benefit plan, to provide short-term and long-term disability benefits to eligible members of TSERS. 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, 2015, the College made a statutory contribution of .41% of covered payroll under TSERS to the DIPNC. Required contribution rates for the years ended June 30, 2014, and 2013, were .44% in both years. The College made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2015, 2014, and 2013, which were $45,128.02, $47,470.01, and $47,570.15, 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.

A. Public Entity Risk Pool

Public School Insurance Fund

Fire and other property losses are covered by the Public School Insurance Fund (Fund), a state-administered public entity risk pool. The Fund is financed by premiums and interest collected through membership participation and retains a $10 million deductible per occurrence. Reinsurance is purchased by the Fund to cover catastrophic events in excess of the $10 million deductible. Membership insured 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.

B. Employee Benefit Plans

1. State Health Plan

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.

2. Death Benefit Plan of North Carolina

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.

C. Other Risk Management and Insurance Activities

1. Automobile Insurance

State-owned vehicles are covered by liability insurance through a private insurance company and handled by the North Carolina Department of Insurance. The liability limits for losses are $1,000,000 per claim and $10,000,000 per occurrence. The College pays premiums to the North Carolina Department of Insurance for the coverage. Liability insurance for other College-owned vehicles is covered by contracts with private insurance companies.

2. Public Officers' and Employees' Liability Insurance

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

3. Employee Dishonesty and Computer Fraud

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.

4. Statewide Workers' Compensation Program

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.

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 other purchases were $83,332.15 at June 30, 2015.

NOTE 15 - BLENDED COMPONENT UNIT

Condensed combining information for the College's blended component unit for the year ended June 30, 2015, is presented as follows:

Condensed Statement of Net Position
June 30, 2015

	Mitchell Community College	Mitchell Community College Endowment For Excellence	Eliminations	Total
ASSETS				
Current Assets	$ 5,757,046.47	$ 703,913.72	$ 0.00	$ 6,460,960.19
Capital Assets, Net	26,071,201.84	716,482.52		26,787,684.36
Other Noncurrent Assets	4,863,901.39	13,417,679.27		18,281,580.66
Total Assets	36,692,149.70	14,838,075.51		51,530,225.21
TOTAL DEFERRED OUTFLOWS OF RESOURCES	1,007,125.00			1,007,125.00
LIABILITIES				
Current Liabilities	1,037,305.59	25,300.15		1,062,605.74
Long-Term Liabilities	1,511,273.39			1,511,273.39
Total Liabilities	2,548,578.98	25,300.15		2,573,879.13
TOTAL DEFERRED INFLOWS OF RESOURCES	3,293,004.00			3,293,004.00
NET POSITION				
Investment in Capital Assets	26,071,201.84	716,482.52		26,787,684.36
Restricted - Nonexpendable	2,097,340.76	110,000.00		2,207,340.76
Restricted - Expendable	3,850,681.36			3,850,681.36
Unrestricted	(161,532.24)	13,986,292.84		13,824,760.60
Total Net Position	$ 31,857,691.72	$ 14,812,775.36	$ 0.00	$ 46,670,467.08

Condensed Statement of Revenues, Expenses, and Changes in Net Position
For the Fiscal Year Ended June 30, 2015

	Mitchell Community College	Mitchell Community College Endowment for Excellence	Eliminations	Total
OPERATING REVENUES				
Student Tuition and Fees, Net	$ 2,355,045.89	$ 0.00	$ 0.00	$ 2,355,045.89
Sales and Services, Net	816,758.41	229,303.39	(162,793.86)	883,267.94
Total Operating Revenues	3,171,804.30	229,303.39	(162,793.86)	3,238,313.83
OPERATING EXPENSES				
Operating Expenses	26,032,792.77	562,922.24	(462,793.86)	26,132,921.15
Depreciation	685,644.31	19,038.50		704,682.81
Total Operating Expenses	26,718,437.08	581,960.74	(462,793.86)	26,837,603.96
Operating Loss	(23,546,632.78)	(352,657.35)	300,000.00	(23,599,290.13)
NONOPERATING REVENUES (EXPENSES)				
State Aid	12,632,452.62			12,632,452.62
County Appropriations	3,091,314.00			3,091,314.00
Noncapital Grants	6,059,357.34			6,059,357.34
Noncapital Gifts	580,208.15	72,417.14	(300,000.00)	352,625.29
Investment Income, Net	82,042.91	342,248.75		424,291.66
Other Nonoperating Revenues	25,333.01			25,333.01
Other Nonoperating Expenses	(5,517.61)	(10,000.00)		(15,517.61)
Net Nonoperating Revenues	22,465,190.42	404,665.89	(300,000.00)	22,569,856.31
Capital Contributions	1,570,974.71			1,570,974.71
Additions to Endowments	47,412.68	110,000.00		157,412.68
Increase in Net Position	536,945.03	162,008.54		698,953.57
NET POSITION				
Net Position, July 1, 2014 (As Restated)	31,320,746.69	14,650,766.82		45,971,513.51
Net Position, June 30, 2015	$ 31,857,691.72	$ 14,812,775.36	$ 0.00	$ 46,670,467.08

Condensed Statement of Cash Flows
June 30, 2015

	Mitchell Community College	Mitchell Community College Endowment for Excellence	Total
Net Cash Used by Operating Activities	$ (23,414,192.21)	$ (320,215.74)	$ (23,734,407.95)
Cash Provided by Noncapital Financing Activities	22,197,404.96	182,417.14	22,379,822.10
Net Cash Provided by Capital and Related Financing Activities	1,093,714.73		1,093,714.73
Net Cash Provided by Investing Activities	131,751.37	688,254.25	820,005.62
Net Increase in Cash and Cash Equivalents	8,678.85	550,455.65	559,134.50
Cash and Cash Equivalents, July 1, 2014	6,246,501.82	261,751.83	6,508,253.65
Cash and Cash Equivalents, June 30, 2015	$ 6,255,180.67	$ 812,207.48	$ 7,067,388.15

NOTE 16 - NET POSITION RESTATEMENT

As of July 1, 2014, net position as previously reported was restated as follows:

		Amount
July 1, 2014 Net Position as Previously Reported	$	49,787,586.51
Restatement:		
Record the College's Net Pension Liability and Pension Related Deferred Outflows of Resources Per GASB 68 Requirements		(3,816,073.00)
July 1, 2014 Net Position as Restated	$	45,971,513.51

REQUIRED SUPPLEMENTARY INFORMATION

Mitchell Community College
Required Supplementary Information
Schedule of the Proportionate Net Pension Liability
Teachers' and State Employees' Retirement System
Last Two Fiscal Years

Exhibit B-1

	2014	2013
Proportionate Share Percentage of Collective Net Pension Liability	0.07741%	0.07830%
Proportionate Share of TSERS Collective Net Pension Liability	$ 907,571.00	$ 4,753,608.00
Covered-Employee Payroll	$ 10,788,637.77	$ 10,811,398.04
Net Pension Liability as a Percentage of Covered-Employee Payroll	8.41%	43.97%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	98.24%	90.60%

Mitchell Community College
Required Supplementary Information
Schedule of College Contributions
Teachers' and State Employees' Retirement System
Last Ten Fiscal Years

Exhibit B-2

	2015	2014	2013	2012	2011
Contractually Required Contribution	$ 1,007,125.42	$ 937,532.62	$ 900,589.43	$ 769,996.83	$ 514,261.79
Contributions in Relation to the Contractually Determined Contribution	1,007,125.42	937,532.62	900,589.43	769,996.83	514,261.79
Contribution Deficiency (Excess)	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Covered-Employee Payroll	$ 11,006,835.19	$ 10,788,637.77	$ 10,811,398.04	$ 10,349,419.80	$ 10,431,273.55
Contributions as a Percentage of Covered-Employee Payroll	9.15%	8.69%	8.33%	7.44%	4.93%

	2010	2009	2008	2007	2006
Contractually Required Contribution	$ 342,529.14	$ 317,918.44	$ 271,089.63	$ 218,258.17	$ 176,928.97
Contributions in Relation to the Contractually Determined Contribution	342,529.14	317,918.44	271,089.63	218,258.17	176,928.97
Contribution Deficiency (Excess)	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Covered-Employee Payroll	$ 9,594,653.69	$ 9,461,858.44	$ 8,888,184.74	$ 8,205,194.39	$ 7,561,067.03
Contributions as a Percentage of Covered-Employee Payroll	3.57%	3.36%	3.05%	2.66%	2.34%

Mitchell Community College
Notes to Required Supplementary Information
Schedule of College Contributions
Teachers' and State Employees' Retirement System
For the Fiscal Year Ended June 30, 2015

Changes of Benefit Terms:

Cost of Living Increase

2014	2013	2012	2011	2010	2009	2008	2007	2006
N/A	1.00%	N/A	N/A	N/A	2.20%	2.20%	3.00%	2.00%

Changes of assumptions. In 2008, and again in 2012, the rates of withdrawal, mortality, service retirement and salary increase for active members and the rates of mortality for beneficiaries were adjusted to more closely reflect actual experience. Assumptions for leave conversions and loads were also revised in 2012.

INDEPENDENT AUDITOR'S REPORT

STATE OF NORTH CAROLINA
Office of the State Auditor

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, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Mitchell Community College, a component unit of the State of North Carolina, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the College's basic financial statements, and have issued our report thereon dated April 22, 2016. Our report includes a reference to other auditors who 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*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with this entity.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the College's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control. Accordingly, we do not express an opinion on the effectiveness of the College's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Findings, Recommendations, and Responses section, we identified a deficiency in internal control that we consider to be a material weakness.

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. We consider the deficiency described in the accompanying Findings, Recommendations, and Responses section to be a material weakness.

Compliance and Other Matters

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

College's Response to Finding

The College's response to the finding identified in our audit is described in the accompanying Findings, Recommendations, and Responses section. The College's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the College's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

April 22, 2016

FINDINGS, RECOMMENDATIONS, AND RESPONSES

Matters Related to Financial Reporting

The following audit finding was identified during the current audit and describes a condition that represents a deficiency in internal control.

IMPROPER SYSTEM ACCESS

System access rights that are inconsistent with proper segregation of duties were assigned to employees. Four members of management were assigned access rights that allowed them to create and approve their own journal entry transactions. As a result, there is an increased risk of error or fraud occurring without detection.

While no instances of error or fraud were identified during the audit period, this dual access provided these employees with a means to override controls that have been established over journal entry processing.

According to college personnel, in 2013 they acquired new software that allowed for processing and documenting journal entries; however, upon implementation, access rights and employee assignments were not reviewed for proper segregation of duties.

Adequate segregation of duties involves assigning responsibilities for transactions such that the duties of one employee automatically provide a cross-check of the work of other employees.

As a result of our audit, the College corrected the access deficiencies by taking measures to update the software to disallow the creator of a journal entry from serving as the approver. All access deficiencies were corrected as of 1/27/16.

Recommendation: Prior to the implementation of, or changes to, computer systems and/or software programs used in processing financial transactions such as journal entries, steps should be taken to ensure employees are assigned the minimum access needed to perform his or her job and assigned duties are appropriately segregated.

College's Response: As a result of the testing during the audit, Mitchell Community College Financial Services and Institutional Technologies were able to correct the mechanical component of the system that created the improper system access and segregation of duties the same day the deficiencies were discovered. The College, specifically Institutional Technology, will audit the access rights and follow our current procedures controlling access in technology.

ORDERING INFORMATION

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For additional information contact:
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This audit required 640.5 audit hours at an approximate cost of $63,410.