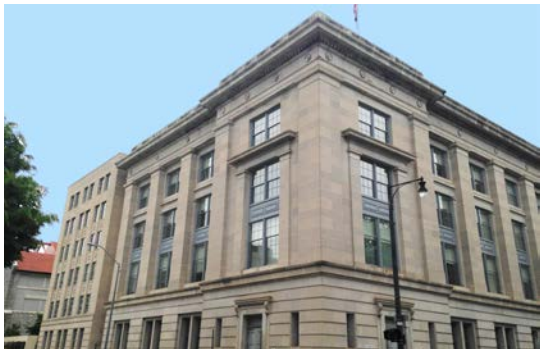
STATE OF NORTH CAROLINA

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, 2018

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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AUDITOR'S TRANSMITTAL

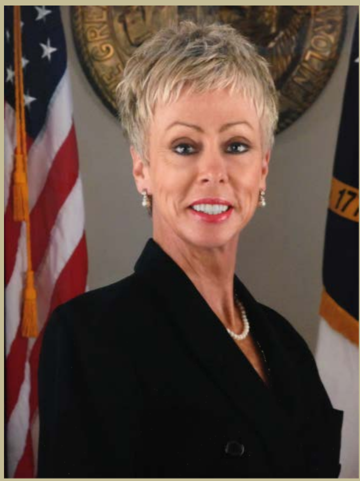
The Honorable Roy Cooper, Governor
The General Assembly of North Carolina
Board of Trustees, Mitchell Community College

We have completed a financial statement audit of Mitchell Community College for the year ended June 30, 2018, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

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

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

Beth A. Wood, 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 and any organization that receives public funding. 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

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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 (College), a component unit of the State of North Carolina, as of and for the year ended June 30, 2018, 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 Mitchell Community College Endowment for Excellence (Endowment), which represent 26 percent and 6 percent, respectively, of the assets 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 Endowment, 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 Endowment 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, 2018, 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 19 to the financial statements, during the year ended June 30, 2018, Mitchell Community College adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions,* as amended by Governmental Accounting Standards Board Statement No. 85, *Omnibus 2017*. 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 March 25, 2019 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

March 25, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis of Mitchell Community College's (College) financial statements provides an overview of the College's financial activities for the year ended June 30, 2018. Please read it in conjunction with the Financial Statements and Notes to the Financial Statements.

Public colleges and universities are required to include the Management's Discussion and Analysis as part of the Financial Statements. This section is intended to provide a narrative analysis that users need to interpret the basic financial statements. The discussion and analysis is required to include condensed financial information comparing the current year to the prior year.

The financial statements of Mitchell Community College Endowment for Excellence (Endowment) have been blended with those of the College. See Note 1A and Note 18 of the Notes to Financial Statements for further details.

Overview of the Financial Statements

This discussion and analysis is an introduction to the College's basic financial statements. The basic financial statements include the Statement of Net Position, the Statement of Revenues, Expenses, and Changes in Net Position, the Statement of Cash Flows, which provide information on the whole operations of the College, and the related Notes to the Financial Statements. Additional required supplementary information is also provided related to the College's participation in the Teachers' and State Employees' Retirement System (TSERS) pension plan, and the Retiree Health Benefit Fund (RHBF) and Disability Income Plan of North Carolina (DIPNC) other postemployment benefit (OPEB) plans.

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 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, capital and related financing, and noncapital 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 College'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 College.

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 earned and expenses incurred during the current year are taken into account regardless of when cash is received or paid. For the purpose of this continued discussion, the College will address the Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position.

Institutional Financial Highlights

The College's state aid increased from the prior year by $457,499.61 or 3.86%, while state capital aid increased by $552,103.76 or 78.39% primarily due to an increase in construction projects and full-time equivalent (FTE) students. The North Carolina Community College System's funding formula uses the prior year's FTE student total in determining the current year's allocation. The FTE used in calculating the College's funding allocation for the year ended June 30, 2018, increased from the 2016-2017 fiscal year by 126 or 4.9%.

Iredell County's financial situation appears to be stable. As a result, the College's county appropriations for current operations and county capital aid were $5,986,713.51 for the fiscal year, which represented an increase of $1,616,588.55 or 36.99% from the previous year. The increase is primarily due to county bond funds being used to begin construction of the College's new Health Sciences Building. The College will need to continue to receive county appropriations for current operations and county capital aid for the addition of the new Health Sciences Building during the 2019 and 2020 fiscal years.

Noncapital grants student financial aid decreased from the prior fiscal year by $375,093.78. This decrease was the result of a decline in the number of FTE students receiving PELL awards.

Net investment income of $1,386,316.82 represents a decrease of $498,209.54 over the previous year. The investment income decrease was the result of two factors. First, the Endowment received a distribution from investments totaling $713,300.00 that lowered the asset base, which lowered the income distributions. Second, the College's financial advisors recommended shifting a portion of the asset allocation to international equity funds. As a result, these funds do not pay as big of a dividend and did not pay out as much of a capital gain versus other investments in the portfolio.

Statement of Net Position

Net position serves as a useful indicator of the College's financial position. As of July 1, 2017, net position as previously reported of $50,349,842.74 was restated to $22,800,391.23. Beginning construction in progress (CIP) was restated by $96,952.51 to remove projects previously capitalized to CIP because they were determined to be repair and renovation expenses. The remainder of the restatement of beginning net position is the result of implementing GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. The $27,452,499.00 reduction in beginning net position records the net effect of the previously unreported liability for OPEB.

The impact of GASB Statement No. 75 on unrestricted net position and details of the OPEB plan can be found in Notes 11 and 15 of the Notes to the Financial Statements.

The increase in capital assets of $1,479,455.84 is the result of construction and land improvement projects which resulted in an increase in those capitalized assets. The College received a gift of land from the Endowment for construction of the Health Sciences Building, and the College is currently in the process of constructing that building as well as a new Agri-Business Building.

The increase in noncurrent assets of $1,326,154.13 was due primarily to the receipt of county capital aid for the construction of the Health Sciences Building at the end of the fiscal year, which increased restricted cash.

Deferred outflows of resources related to pensions and OPEB are reported as a result of the GASB Statement No. 68 pension reporting standard and the GASB Statement No. 75 OPEB reporting standard. Deferred outflows of resources totaled $3,644,741.00 compared to $5,083,497.00 in the previous year. This decrease is due to changes in actuarial calculations. It is primarily the difference between projected investment earnings and actual earnings of funds invested in TSERS, RHBF, and DIPNC. See Notes 14 and 15 of the Notes to Financial Statements for further details regarding deferred outflows of resources for pension and OPEB.

Long-term liabilities consist of net pension liability, net OPEB liability, and accrued annual leave not expected to be used within the next year. For the current year, there was a decrease in total long-term liabilities in the amount of $9,526,735.42. The decrease is due primarily to a change in actuarial assumptions for the net OPEB liability.

Deferred inflows of resources related to pension and OPEB increased $8,485,718.00 from the prior period primarily due to changes in actuarial calculations. See Notes 14 and 15 of the Notes to Financial Statements for further details regarding deferred inflows of resources for pension and OPEB.

Condensed Statement of Net Position

	6/30/2018	6/30/2017 (as Restated)	$ Change
Assets			
Current Assets	$ 8,540,573.52	$ 8,168,309.05	$ 372,264.47
Capital Assets, Net	28,465,493.74	26,986,037.90	1,479,455.84
Other Noncurrent Assets	20,899,643.62	19,573,489.49	1,326,154.13
Total Assets	57,905,710.88	54,727,836.44	3,177,874.44
Total Deferred Outflows of Resources	3,644,741.00	5,083,497.00	(1,438,756.00)
Liabilities			
Current Liabilities	1,137,505.67	1,147,252.75	(9,747.08)
Long-Term Liabilities	25,834,273.04	35,361,008.46	(9,526,735.42)
Total Liabilities	26,971,778.71	36,508,261.21	(9,536,482.50)
Total Deferred Inflows of Resources	8,988,399.00	502,681.00	8,485,718.00
Net Position			
Investment in Capital Assets	28,465,493.74	26,986,037.90	1,479,455.84
Restricted:			
Nonexpendable	2,372,709.66	2,425,296.22	(52,586.56)
Expendable	6,136,504.57	5,210,022.06	926,482.51
Unrestricted	(11,384,433.80)	(11,820,964.95)	436,531.15
Total Net Position	$ 25,590,274.17	$ 22,800,391.23	$ 2,789,882.94

Statement of Revenues, Expenses, and Changes in Net Position

Operating expenses totaled $26,532,457.64, which increased by $1,578,385.12 in comparison to the prior fiscal year. The increase is primarily due to increases in salaries and benefits of $382,684.37, which were the result of a pay increase for full-time employees, along with an increase in supplies and materials of $1,221,506.10 associated with repair and renovation projects for the Mooresville facade, classroom renovations, and the Wallace House renovation.

Nonoperating revenues totaled $21,849,733.66, which decreased by $278,830.79 over last year's total of $22,128,564.45. The largest increases occurred in state aid and county appropriations. State aid increased by $457,499.61 due to an increase in enrollment. County appropriations increased by $127,505.04 from the previous year due to increases in funding.

Noncapital grants and investment income revenues decreased from the prior year. The cause of the decrease in noncapital grants and investment returns was discussed in the Institutional Financial Highlights section.

Capital contributions increased over the prior year. The reasons for the increase in capital contributions were discussed in the Institutional Financial Highlights section.

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

	6/30/2018	6/30/2017*	$ Change
Operating Revenues			
Student Tuition and Fees, Net	$ 2,939,216.13	$ 2,914,000.68	$ 25,215.45
Sales and Services, Net	804,197.60	748,469.04	55,728.56
Total Operating Revenues	3,743,413.73	3,662,469.72	80,944.01
Operating Expenses			
Salaries and Benefits	17,373,028.88	16,990,344.51	382,684.37
Supplies and Materials	3,427,220.47	2,205,714.37	1,221,506.10
Services	2,247,839.27	2,229,356.06	18,483.21
Scholarships and Fellowships	2,150,067.37	2,176,738.87	(26,671.50)
Utilities	622,637.28	652,306.79	(29,669.51)
Depreciation	711,664.37	699,611.92	12,052.45
Total Operating Expenses	26,532,457.64	24,954,072.52	1,578,385.12
Operating Loss	(22,789,043.91)	(21,291,602.80)	(1,497,441.11)
Nonoperating Revenues (Expenses)			
State Aid	12,314,635.07	11,857,135.46	457,499.61
County Appropriations	3,371,910.00	3,244,404.96	127,505.04
Noncapital Grants	4,385,787.41	4,803,691.90	(417,904.49)
Noncapital Gifts	391,084.36	338,805.77	52,278.59
Investment Income, Net	1,386,316.82	1,884,526.36	(498,209.54)
Other Nonoperating Expenses	(397,987.42)	(78,799.95)	(319,187.47)
Net Nonoperating Revenues	21,451,746.24	22,049,764.50	(598,018.26)
Income (Loss) Before Other Revenues	(1,337,297.67)	758,161.70	(2,095,459.37)
Capital Contributions	4,023,843.11	1,953,783.67	2,070,059.44
Additions to Endowment	103,337.50	64,519.72	38,817.78
Increase in Net Position	2,789,882.94	2,776,465.09	13,417.85
Net Position Beginning of Year (Prior to Restatement)	22,800,391.23	47,573,377.65	(24,772,986.42)
GASB 75 Restatement (Note 20)		(27,549,451.51)	27,549,451.51
Net Position at End of Year (as Restated)	$ 25,590,274.17	$ 22,800,391.23	$ 2,789,882.94
Reconciliation of Change in Net Position			
Total Revenues	$ 29,720,328.00	$ 27,809,337.56	$ 1,910,990.44
Less: Total Expenses	26,930,445.06	25,032,872.47	1,897,572.59
Increase in Net Position	$ 2,789,882.94	$ 2,776,465.09	$ 13,417.85

* Note: The year ended June 30, 2017 column is not presented "as Restated" above because actuarial calculations performed relative to the implementation of GASB 75 do not provide sufficient information to restate these amounts.

Capital Assets

On June 30, 2018, the College's capital assets, net of accumulated depreciation, totaled $28,465,493.74, which represents a $1,479,455.84 increase from the prior year. The prior year net capital assets total of $27,082,990.41 was adjusted to decrease beginning CIP by 96,952.51; thereby, restating the prior year's net capital assets to $26,986,037.90. This restatement was necessary because projects previously recorded in CIP were determined to be repair and renovation expenses and not capital projects.

The College began the Health Sciences Building project during the fiscal year which accounts for the majority of the increase in CIP. Other projects included in the CIP increase are the Agri-Business Building project and Student Union Elevator project. The decrease in CIP reflects the completion of a demolition project to remove buildings on Cherry Street and to prepare the land for construction of the Health Sciences Building. This resulted in an overall increase to CIP of $601,202.21. The beginning land value of $1,606,920.12 increased by $1,364,390.69. The increase includes amounts moved from CIP for demolition of the Cherry Street property. It also includes an increase in land value to record the costs associated with the demolition of the Old Davis Hospital by the Endowment. During the fiscal year, the Endowment gifted land in the amount of $1,028,257.51 to the College. Since the Endowment is a blended component unit, the property was transferred from the Endowment to the College at the current book value. The beginning net buildings total of $21,590,363.44 was reduced to reflect the demolition of the Cherry Street Apartment Building owned by the College, and the Old Nurses Dormitory owned by the Endowment. Net machinery and equipment increased $406,502.16 due primarily to the purchase of a lathe for the Engineering and Construction Technology program.

Capital Assets

	6/30/2018	6/30/2017 (as Restated)	$ Change
Capital Assets, Nondepreciable			
Land	$ 2,971,310.81	$ 1,606,920.12	$ 1,364,390.69
Construction in Progress	1,033,099.21	431,897.00	601,202.21
Total Capital Assets, Nondepreciable	4,004,410.02	2,038,817.12	1,965,592.90
Capital Assests, Depreciable, Net			
Buildings	20,739,090.02	21,590,363.44	(851,273.42)
Machinery and Equipment	2,249,872.91	1,843,370.75	406,502.16
General Infrastructure	1,472,120.79	1,513,486.59	(41,365.80)
Total Capital Assets, Depreciable, Net	24,461,083.72	24,947,220.78	(486,137.06)
Total Capital Assets, Net	$ 28,465,493.74	$ 26,986,037.90	$ 1,479,455.84

Economic Factors and Next Year's Budgets

The economic position of the College is closely tied to that of the State and, to a lesser degree, the County. The College relies heavily on state and local support to fund its operations and meet the needs of students and the communities it serves. State aid and county appropriations constituted 65.81% of total revenues for the College during the 2017-2018 fiscal year.

During the 2017-2018 fiscal year, the North Carolina Community College System requested all community colleges reserve 1% of the current fiscal budget for a possible future reversion. This represented approximately $172,800.00 for Mitchell Community College during the fiscal year, of which $100,201.00 of the reserves were called back for reversion. The College was able to utilize the remaining funds for current expenditures during the fiscal year. The College is prepared to revert 1% of state funds in the 2018-2019 fiscal year due to unexpected economic factors if necessary.

In addition, the College is currently in the process of constructing an Agri-Business Classroom Building that is funded with proceeds received from the NC Connect Bonds. This facility will be available for use starting in the spring 2019 semester. The College is also currently constructing a new Health Sciences Building that is funded with Iredell County bond proceeds along with a $200,000.00 state appropriation. This facility will be completed in October 2019 and will be available for use beginning in the spring 2020 semester. It will be very important that the County's financial position remain stable with the additional funding that will be requested for the operations of these new facilities.

FINANCIAL STATEMENTS

Mitchell Community College
Statement of Net Position
June 30, 2018

ASSETS		
Current Assets:		
Cash and Cash Equivalents	$	5,593,068.89
Restricted Cash and Cash Equivalents		2,104,834.68
Receivables, Net (Note 5)		193,421.75
Inventories		351,579.87
Prepaid Items		297,668.33
Total Current Assets		8,540,573.52
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		2,299,240.72
Restricted Due from Primary Government		223,013.00
Restricted Investments		3,917,601.20
Other Investments		14,420,842.70
Net Other Postemployment Benefits Asset		38,946.00
Capital Assets - Nondepreciable (Note 6)		4,004,410.02
Capital Assets - Depreciable, Net (Note 6)		24,461,083.72
Total Noncurrent Assets		49,365,137.36
Total Assets		57,905,710.88
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Outflows Related to Pensions		2,979,493.00
Deferred Outflows Related to Other Postemployment Benefits (Note 15)		665,248.00
Total Deferred Outflows of Resources		3,644,741.00
LIABILITIES		
Current Liabilities:		
Accounts Payable and Accrued Liabilities (Note 7)		819,045.81
Unearned Revenue		193,855.57
Funds Held for Others		30,485.18
Long-Term Liabilities - Current Portion (Note 9)		94,119.11
Total Current Liabilities		1,137,505.67
Noncurrent Liabilities:		
Long-Term Liabilities (Note 9)		25,834,273.04
Total Liabilities		26,971,778.71
DEFERRED INFLOWS OF RESOURCES		
Deferred Inflows Related to Pensions		321,218.00
Deferred Inflows Related to Other Postemployment Benefits (Note 15)		8,667,181.00
Total Deferred Inflows of Resources		8,988,399.00

NET POSITION

Investment in Capital Assets	28,465,493.74
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	2,304,454.49
Restricted for Specific Programs	68,255.17
Expendable:	
Scholarships and Fellowships	1,448,417.48
Capital Projects	2,281,303.21
Restricted for Specific Programs	2,017,002.41
Other	389,781.47
Unrestricted	(11,384,433.80)
Total Net Position	$ 25,590,274.17

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, 2018 ***Exhibit A-2***

REVENUES	
Operating Revenues:	
Student Tuition and Fees, Net (Note 12)	$ 2,939,216.13
Sales and Services, Net (Note 12)	804,197.60
Total Operating Revenues	3,743,413.73
EXPENSES	
Operating Expenses:	
Salaries and Benefits	17,373,028.88
Supplies and Materials	3,427,220.47
Services	2,247,839.27
Scholarships and Fellowships	2,150,067.37
Utilities	622,637.28
Depreciation	711,664.37
Total Operating Expenses	26,532,457.64
Operating Loss	(22,789,043.91)
NONOPERATING REVENUES (EXPENSES)	
State Aid	12,314,635.07
County Appropriations	3,371,910.00
Noncapital Grants - Student Financial Aid	4,173,102.12
Noncapital Grants	212,685.29
Noncapital Gifts	391,084.36
Investment Income (Net of Investment Expense of $94,256.67)	1,386,316.82
Other Nonoperating Expenses	(397,987.42)
Net Nonoperating Revenues	21,451,746.24
Loss Before Other Revenues	(1,337,297.67)
State Capital Aid	1,256,373.04
County Capital Aid	2,614,803.51
Capital Grants	59,298.56
Capital Gifts	93,368.00
Additions to Endowments	103,337.50
Increase in Net Position	2,789,882.94
NET POSITION	
Net Position, July 1, 2017 as Restated (Note 20)	22,800,391.23
Net Position, June 30, 2018	$ 25,590,274.17

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

Mitchell Community College
Statement of Cash Flows ***Exhibit A-3***
For the Fiscal Year Ended June 30, 2018

CASH FLOWS FROM OPERATING ACTIVITIES	
Received from Customers	$ 3,848,914.06
Payments to Employees and Fringe Benefits	(16,972,561.68)
Payments to Vendors and Suppliers	(6,356,728.55)
Payments for Scholarships and Fellowships	(2,150,067.37)
Other Receipts	29,361.53
Net Cash Used by Operating Activities	(21,601,082.01)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Aid Received	12,314,635.07
County Appropriations	3,371,910.00
Noncapital Grants - Student Financial Aid	4,195,270.96
Noncapital Grants	212,685.29
Noncapital Gifts	391,084.36
Additions to Endowments	103,337.50
Cash Provided by Noncapital Financing Activities	20,588,923.18
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
State Capital Aid Received	1,256,373.04
County Capital Aid	3,486,612.51
Capital Grants	59,298.56
Capital Gifts	93,368.00
Proceeds from Sale of Capital Assets	5,613.54
Acquisition and Construction of Capital Assets	(2,582,225.81)
Net Cash Provided by Capital and Related Financing Activities	2,319,039.84
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from Sales and Maturities of Investments	3,273,125.51
Investment Income	370,470.95
Purchase of Investments and Related Fees	(2,495,783.84)
Net Cash Provided by Investing Activities	1,147,812.62
Net Increase in Cash and Cash Equivalents	2,454,693.63
Cash and Cash Equivalents, July 1, 2017	7,542,450.66
Cash and Cash Equivalents, June 30, 2018	$ 9,997,144.29

Mitchell Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2018

RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES

Operating Loss	$	(22,789,043.91)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense		711,664.37
Nonoperating Other Expense		20,039.43
Changes in Assets and Deferred Outflows of Resources:		
Receivables, Net		106,367.67
Inventories		17,825.02
Prepaid Items		(24,096.30)
Net Other Postemployment Benefits Asset		705.00
Deferred Outflows Related to Pensions		1,458,156.00
Deferred Outflows Related to Other Postemployment Benefits		(19,400.00)
Changes in Liabilities and Deferred Inflows of Resources:		
Accounts Payable and Accrued Liabilities		(26,007.92)
Due to Primary Government		(1,305.79)
Unearned Revenue		(658.34)
Funds Held for Others		9,322.10
Net Pension Liability		(879,880.00)
Net Other Postemployment Benefits Liability		(8,691,190.00)
Compensated Absences		20,702.66
Deferred Inflows Related to Pensions		(181,463.00)
Deferred Inflows Related to Other Postemployment Benefits		8,667,181.00
Net Cash Used by Operating Activities	$	(21,601,082.01)

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:		
Cash and Cash Equivalents	$	5,593,068.89
Restricted Cash and Cash Equivalents		2,104,834.68
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		2,299,240.72
Total Cash and Cash Equivalents - June 30, 2018	$	9,997,144.29

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through Assumption of a Liability	$	71,105.10
Change in Fair Value of Investments		881,622.86
Decrease in Receivables Related to County Capital Aid		(871,809.00)
Loss on Disposal of Capital Assets		(418,026.85)

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 (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 unit. Other related foundations and similar nonprofit corporations for which the College is not financially accountable are not part of the accompanying financial statements.

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 12 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 Nominating Committee of the Endowment 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 the College, its financial statements have been blended with those of the College. Effective September 13, 2018, the name of the Endowment was changed to Mitchell Community College Foundation and Endowment for Excellence.

During the year ended June 30, 2018, the Endowment distributed $738,300.00 to the College for unrestricted purposes. Separate financial statements for the Endowment may be obtained from the Vice President for Accounting/CFO of the College at 500 West Broad Street, Statesville, NC 28677, or by calling (704) 878-3212.

Condensed combining information regarding the blended component unit is provided in Note 18.

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 aid, 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** - To the extent available, investments are recorded at fair value based on quoted market prices in active markets on a trade-date basis. Additional information regarding the fair value measurement of investments is disclosed in Note 3. Because of the inherent uncertainty in the use of estimates, values that are based on estimates may differ from the values that would have been used had a ready market existed for the investments. The net change in the 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 acquisition value at date of donation in the case of gifts. Donated capital assets acquired prior to July 1, 2015 are stated at fair value as of the date of donation. The value of assets constructed includes all material direct and indirect construction costs. Interest costs incurred are capitalized during the period of construction.

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	10-60 years
Machinery and Equipment	2-30 years
General Infrastructure	10-50 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 long-term liabilities that will not be paid within the next fiscal year. Long-term liabilities include: compensated absences, net pension liability, and net other postemployment benefits (OPEB) liability.

The net pension liability represents the College's proportionate share of the collective net pension liability reported in the State of North Carolina's 2017 *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 14 for further information regarding the College's policies for recognizing liabilities, expenses, deferred outflows of resources, and deferred inflows of resources related to pensions.

The net OPEB liability represents the College's proportionate share of the collective net OPEB liability reported in the State of North Carolina's 2017 *Comprehensive Annual Financial Report*. This liability represents the College's portion of the collective total OPEB liability less the fiduciary net position of the Retiree Health Benefit Fund. See Note 15 for further information regarding the College's policies for recognizing liabilities, expenses, deferred outflows of resources, and deferred inflows of resources related to OPEB.

K. **Compensated Absences** - The College's policy is to record the cost of vacation leave when earned. The policy provides for a maximum accumulation of unused vacation leave of 30 days which can be carried forward each July 1 or for which an employee can be paid upon termination of employment. When classifying compensated absences into current and noncurrent, leave is considered taken using a last-in, first-out (LIFO) method. Also, any accumulated vacation leave in excess of 30 days at fiscal year-end is converted to sick leave. 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. Deferred Outflows/Inflows of Resources - In addition to assets, the Statement of Net Position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The College has the following items that qualify for reporting in this category: deferred outflows related to pensions and deferred outflows related to other postemployment benefits.

In addition to liabilities, the Statement of Net Position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until then. The College has the following items that qualify for reporting in this category: deferred inflows related to pensions and deferred inflows related to other postemployment benefits.

M. 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. It also includes the net position of accrued employee benefits such as compensated absences, pension plans, and other postemployment benefits.

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 of resources and deferred inflows of resources. See Note 11 for further information regarding deferred outflows of resources and deferred inflows of resources that had a significant effect on unrestricted net position.

N. **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.

O. **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.

P. **Internal Sales Activities** - Certain institutional auxiliary operations provide goods and services to College departments, as well as to its customers.

The College has miscellaneous sales and services units that operated either on a reimbursement or charge basis. All internal sales activities to College departments from auxiliary operations and sales and service units have been eliminated in the accompanying financial statements. These eliminations are recorded by removing the revenue and expense in the auxiliary operations and sales and service units and, if significant, allocating any residual balances to those departments receiving the goods and services during the year.

Q. 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, savings and loan association, or trust company 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, 2018 was $3,190.00. The carrying amount of the College's deposits not with the State Treasurer was $5,529,848.10, and the bank balance was $5,755,106.00.

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, 2018, 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, 2018, the amount shown on the Statement of Net Position as cash and cash equivalents includes $4,464,106.19, 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 or subject to any other regulatory oversight and does not have a credit rating) had a weighted average maturity of 1.4 years as of June 30, 2018. Assets and shares of the STIF are valued at 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 North Carolina Department of State Treasurer Investment Programs' separately issued audit report. This separately issued report can be obtained from the Department of State Treasurer, 3200 Atlantic Avenue, Raleigh, NC 27604 or can be accessed from the Department of State Treasurer's website at https://www.nctreasurer.com/ in the Audited Financial Statements section.

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 investments by type and investments subject to interest rate risk at June 30, 2018, for the College's investments. Interest rate risk is defined by GASB Statement No. 40, *Deposit and Investment Risk Disclosures – An Amendment of GASB Statement No. 3,* as the risk a government may face should interest rate variances affect the value of investments. The College does not have a formal investment policy that addresses interest rate risk.

Investments

		Investment Maturities (in Years)
	Amount	1 to 5
Investment Type		
Debt Securities		
Mutual Bond Funds	$ 4,171,955.49	$ 4,171,955.49
Other Securities		
Domestic Stocks	9,094,567.34	
Foreign Stocks (denominated in US dollars)	3,336,047.48	
Other Mutual Funds	1,735,873.59	
Total Investments	$ 18,338,443.90	

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, 2018, the College's investments in mutual bond funds were rated on an average of BBB by multiple rating agencies (including Moody's).

C. Reconciliation of Deposits and Investments - A reconciliation of deposits and investments for the College to the basic financial statements as of June 30, 2018, is as follows:

Cash on Hand	$ 3,190.00
Carrying Amount of Deposits with Private Financial Institutions	5,529,848.10
Investments in the Short-Term Investment Fund	4,464,106.19
Other Investments	18,338,443.90
Total Deposits and Investments	$ 28,335,588.19
Deposits	
Current:	
Cash and Cash Equivalents	$ 5,593,068.89
Restricted Cash and Cash Equivalents	2,104,834.68
Noncurrent:	
Restricted Cash and Cash Equivalents	2,299,240.72
Total Deposits	9,997,144.29
Investments	
Noncurrent:	
Restricted Investments	3,917,601.20
Other Investments	14,420,842.70
Total Investments	18,338,443.90
Total Deposits and Investments	$ 28,335,588.19

NOTE 3 - FAIR VALUE MEASUREMENTS

To the extent available, the College's investments are recorded at fair value as of June 30, 2018. GASB Statement No. 72, *Fair Value Measurement and Application*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Inputs are used in applying the various valuation techniques and take into account the assumptions that market participants use to make valuation decisions. Inputs may include price information, credit data, interest and yield curve data, and other factors specific to the financial instrument. Observable inputs reflect market data obtained from independent sources. In contrast, unobservable inputs reflect the entity's assumptions about how market participants would value the financial instrument. Valuation techniques should maximize the use of observable inputs to the extent available.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used for financial instruments measured at fair value on a recurring basis:

Level 1 Investments whose values are based on quoted prices (unadjusted) for identical assets in active markets that a government can access at the measurement date.

Level 2 — Investments with inputs – other than quoted prices included within Level 1 – that are observable for an asset, either directly or indirectly.

Level 3 — Investments classified as Level 3 have unobservable inputs and may require a degree of professional judgment.

The following table summarizes the College's investments, including the Short-Term Investment Fund, within the fair value hierarchy at June 30, 2018:

		Fair Value Measurements Using		
	Fair Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Investments by Fair Value Level				
Debt Securities				
Mutual Bond Funds	$ 4,171,955.49	$ 4,171,955.49	$ 0.00	$ 0.00
Other Securities				
Domestic Stocks	9,094,567.34	9,094,567.34		
Foreign Stocks (denominated in US dollars)	3,336,047.48	3,336,047.48		
Other Mutual Funds	1,735,873.59	1,735,873.59		
Total Investments by Fair Value Level	18,338,443.90	$ 18,338,443.90	$ 0.00	$ 0.00
Investments as a Position in an External Investment Pool				
Short-Term Investment Fund	4,464,106.19			
Total Investments Measured at Fair Value	$ 22,802,550.09			

Short-Term Investment Fund - Ownership interest of the STIF is determined on a fair market valuation basis as of fiscal year end in accordance with the STIF operating procedures. Valuation of the underlying assets is performed by the custodian. Pool investments are measured at fair value in accordance with GASB 72. The College's position in the pool is measured and reported at fair value and the STIF is not required to be categorized within the fair value hierarchy.

Debt and Other Securities - Debt and other securities classified in Level 1 of the fair value hierarchy are valued based on quoted prices in active markets for those securities.

NOTE 4 - 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 the associated restricted, expendable net position endowment balances to make up the difference. At June 30, 2018, net appreciation of $426,700.13 was available to be spent, of which $386,168.18 was classified in net position as restricted expendable for scholarships and fellowships, and $40,531.95 was classified as restricted expendable for specific programs.

NOTE 5 - RECEIVABLES

Receivables at June 30, 2018, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	$ 198,587.72	$ 120,543.05	$ 78,044.67
Student Sponsors	12,857.76	7,938.34	4,919.42
Accounts	85,529.90		85,529.90
Intergovernmental	24,927.76		24,927.76
Total Current Receivables	$ 321,903.14	$ 128,481.39	$ 193,421.75

NOTE 6 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2018, is presented as follows:

	Balance July 1, 2017 (as Restated)	Increases	Decreases	Balance June 30, 2018
Capital Assets, Nondepreciable:				
Land	$ 1,606,920.12	$ 1,364,390.69	$ 0.00	$ 2,971,310.81
Construction in Progress	431,897.00	1,085,257.89	484,055.68	1,033,099.21
Total Capital Assets, Nondepreciable	2,038,817.12	2,449,648.58	484,055.68	4,004,410.02
Capital Assets, Depreciable:				
Buildings	30,815,301.13		671,203.59	30,144,097.54
Machinery and Equipment	3,939,782.50	649,167.70	19,463.96	4,569,486.24
General Infrastructure	2,112,068.69			2,112,068.69
Total Capital Assets, Depreciable	36,867,152.32	649,167.70	690,667.55	36,825,652.47
Less Accumulated Depreciation for:				
Buildings	9,224,937.69	428,813.53	248,743.70	9,405,007.52
Machinery and Equipment	2,096,411.75	241,485.04	18,283.46	2,319,613.33
General Infrastructure	598,582.10	41,365.80		639,947.90
Total Accumulated Depreciation	11,919,931.54	711,664.37	267,027.16	12,364,568.75
Total Capital Assets, Depreciable, Net	24,947,220.78	(62,496.67)	423,640.39	24,461,083.72
Capital Assets, Net	$ 26,986,037.90	$ 2,387,151.91	$ 907,696.07	$ 28,465,493.74

NOTE 7 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2018, were as follows:

	Amount
Current Accounts Payable and Accrued Liabilities:	
Accounts Payable	$ 194,211.93
Accounts Payable - Capital Assets	67,460.59
Accrued Payroll	548,907.19
Contract Retainage	8,466.10
Total Current Accounts Payable and Accrued Liabilities	$ 819,045.81

NOTE 8 - SHORT-TERM DEBT – LINE OF CREDIT

The Endowment used a revolving line of credit to finance the abatement and demolition of the Davis Hospital Property.

Short-term debt activity for the year ended June 30, 2018, was as follows:

	Balance July 1, 2017	Draws	Repayments	Balance June 30, 2018
Total Short-Term Debt - Line of Credit	$ 55,000.00	$ 500,000.00	$ 555,000.00	$ 0.00

NOTE 9 - LONG-TERM LIABILITIES

A summary of changes in the long-term liabilities for the year ended June 30, 2018, is presented as follows:

	Balance July 1, 2017 (as Restated)	Additions	Reductions	Balance June 30, 2018	Current Portion
Compensated Absences	$ 667,152.49	$ 592,277.93	$ 571,575.27	$ 687,855.15	$ 94,119.11
Net Pension Liability	6,673,609.00		879,880.00	5,793,729.00	
Net Other Postemployment Benefits Liability	28,137,998.00		8,691,190.00	19,446,808.00	
Total Long-Term Liabilities	$ 35,478,759.49	$ 592,277.93	$ 10,142,645.27	$ 25,928,392.15	$ 94,119.11

Additional information regarding the net pension liability is included in Note 14.
Additional information regarding the net other postemployment benefits liability is included in Note 15.

NOTE 10 - OPERATING LEASE OBLIGATIONS

The College entered into operating leases for rental of property and equipment. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2018:

Fiscal Year	Amount
2019	$ 32,396.84
2020	7,328.84
2021	7,328.84
2022	7,328.84
2023	3,850.29
2024-2028	10,000.00
2029-2033	10,000.00
2034-2038	10,000.00
2039-2043	10,000.00
Total Minimum Lease Payments	$ 98,233.65

Rental expense for all operating leases during the year was $55,614.55.

NOTE 11 - NET POSITION

The deficit in unrestricted net position of $11,384,433.80 has been significantly affected by transactions that resulted in the recognition of deferred outflows of resources and deferred inflows of resources. A summary of the balances reported within unrestricted net position relating to the reporting of net pension liability and net other postemployment benefits (OPEB) liability, and the related deferred outflows of resources and deferred inflows of resources is presented as follows:

	TSERS	Retiree Health Benefit Fund	Total
Deferred Outflows Related to Pensions	$ 2,979,493.00	$ 0.00	$ 2,979,493.00
Deferred Outflows Related to OPEB		631,055.08	631,055.08
Noncurrent Liabilities:			
Long-Term Liabilities:			
Net Pension Liability	5,793,729.00		5,793,729.00
Net OPEB Liability		19,446,808.00	19,446,808.00
Deferred Inflows Related to Pensions	321,218.00		321,218.00
Deferred Inflows Related to OPEB		8,667,181.00	8,667,181.00
Net Effect on Unrestricted Net Position	$ (3,135,454.00)	$ (27,482,933.92)	$ (30,618,387.92)

See Notes 14 and 15 for detailed information regarding the amortization of the deferred outflows of resources and deferred inflows of resources relating to pensions and OPEB, respectively.

NOTE 12 - REVENUES

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

	Gross Revenues	Sales Eliminations	Scholarship Discounts	Allowance for Uncollectibles	Net Revenues
Operating Revenues:					
Student Tuition and Fees, Net	$ 4,670,467.20	$ 0.00	$ 1,648,597.34	$ 82,653.73	$ 2,939,216.13
Sales and Services:					
Sales and Services of Auxiliary Enterprises:					
Vending	$ 15,935.41	$ 0.00	$ 0.00	$ 0.00	$ 15,935.41
Bookstore	1,220,757.01	5,033.28	553,332.32	31,676.83	630,714.58
Rent	115,693.03				115,693.03
Other	18,843.40				18,843.40
Sales and Services of Education and Related Activities	23,011.18				23,011.18
Total Sales and Services, Net	$ 1,394,240.03	$ 5,033.28	$ 553,332.32	$ 31,676.83	$ 804,197.60

NOTE 13 - 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	$ 8,925,399.48	$ 675,111.21	$ 272,073.54	$ 0.00	$ 0.00	$ 0.00	$ 9,872,584.23
Academic Support	2,306,066.33	74,354.50	12,887.39				2,393,308.22
Student Services	1,468,792.01	120,670.75	197,037.50				1,786,500.26
Institutional Support	3,269,486.79	630,153.25	894,558.13				4,794,198.17
Operations and Maintenance of Plant	1,124,127.09	926,437.25	804,062.96		622,637.28		3,477,264.58
Student Financial Aid				2,150,067.37			2,150,067.37
Auxiliary Enterprises	279,157.18	1,000,493.51	67,219.75				1,346,870.44
Depreciation						711,664.37	711,664.37
Total Operating Expenses	$ 17,373,028.88	$ 3,427,220.47	$ 2,247,839.27	$ 2,150,067.37	$ 622,637.28	$ 711,664.37	$ 26,532,457.64

NOTE 14 - PENSION PLANS

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 that elect to join the Retirement System. 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 annual pay. The contribution rate for employers is set each year by the North Carolina 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, 2018 was 10.78% of covered payroll. Employee contributions to the pension plan were $625,839.75, and the College's contributions were $1,124,425.41 for the year ended June 30, 2018.

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 2017 *Comprehensive Annual Financial Report*. An electronic version of this report is available on the North Carolina Office of the State Controller's website at https://www.osc.nc.gov/ 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 External Investment Pool. TSERS and other pension plans of the State of North Carolina are the sole participants in the Long-Term Investment, Fixed Income Investment, Equity Investment, Real Estate Investment, Alternative Investment, Opportunistic Fixed Income Investment, and Inflation Sensitive Investment Portfolios. The Fixed Income Asset Class includes the Long-Term Investment and Fixed Income Investment Portfolios. The Global Equity Asset Class includes the Equity Investment Portfolio. 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 External Investment Pool. Detailed descriptions of the methods and significant assumptions regarding investments of the State Treasurer are provided in the 2017 *Comprehensive Annual Financial Report*.

Net Pension Liability: At June 30, 2018, the College reported a liability of $5,793,729.00 for its proportionate share of the collective net pension liability. The net pension liability was measured as of June 30, 2017. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2016, and update procedures were used to roll forward the total pension liability to June 30, 2017. 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, 2017, the College's proportion was 0.07302%, which was an increase of 0.00041 from its proportion measured as of June 30, 2016, which was 0.07261%.

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	12/31/2016
Inflation	3%
Salary Increases*	3.50% - 8.10%
Investment Rate of Return**	7.20%

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

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 mortality rates also contain a provision to reflect future mortality improvements.

The actuarial assumptions used in the December 31, 2016 valuations were based on the results of an actuarial experience review for the period January 1, 2010 through December 31, 2014.

Future ad hoc Cost of Living Adjustment 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, 2017 (the valuation date) are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return
Fixed Income	1.4%
Global Equity	5.3%
Real Estate	4.3%
Alternatives	8.9%
Opportunistic Fixed Income	6.0%
Inflation Sensitive	4.0%

The information in the preceding table is based on 30-year expectations developed with the consulting actuary and is part of the asset, liability, and investment policy of 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 3.05%. Return projections do not include any excess return expectations over benchmark averages. All rates of return and inflation are annualized. The long-term expected real rate of return for the Bond Index Investment Pool as of June 30, 2017 is 1.3%.

Discount Rate: The discount rate used to measure the total pension liability was lowered from 7.25% to 7.20% for the December 31, 2016 valuation. This discount rate is in line with the long-term nominal expected return on pension plan investments. The calculation of the net pension liability is a present value calculation of the future net pension payments. These net pension payments assume that contributions from plan members will be made at the current statutory contribution rate and that contributions from employers will be made at the contractually 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 at June 30, 2017 calculated using the discount rate of 7.20%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.20%) or 1-percentage point higher (8.20%) than the current rate:

Net Pension Liability		
1% Decrease (6.20%)	Current Discount Rate (7.20%)	1% Increase (8.20%)
$ 11,925,892.00	$ 5,793,729.00	$ 655,758.00

Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions: For the year ended June 30, 2018, the College recognized pension expense of $1,521,447.00. At June 30, 2018, 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	$ 125,597.00	$ 189,543.00
Changes of Assumptions	915,322.00	
Net Difference Between Projected and Actual Earnings on Plan Investments	784,087.59	
Change in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	30,061.00	131,675.00
Contributions Subsequent to the Measurement Date	1,124,425.41	
Total	$ 2,979,493.00	$ 321,218.00

The amount of $1,124,425.41 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be included as a reduction of the net pension liability in the fiscal year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as 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
2019	$ 279,905.00
2020	1,060,167.00
2021	507,579.00
2022	(313,801.41)
Total	$ 1,533,849.59

NOTE 15 - OTHER POSTEMPLOYMENT BENEFITS

The College participates in two postemployment benefit plans, the Retiree Health Benefit Fund and the Disability Income Plan of North Carolina, that are administered by the State of North Carolina as pension and other employee benefit trust funds. Each plan's financial information, including all information about the plans' 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 2017 *Comprehensive Annual Financial Report.* An electronic version of this report is available on the North Carolina Office of the State Controller's website at https://www.osc.nc.gov/ or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

A. Summary of Significant Accounting Policies and Plan Asset Matters

Basis of Accounting: The financial statements of these plans were prepared using the accrual basis of accounting. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits are recognized when due and payable in accordance with the terms of each plan. The fiduciary net position of each plan was determined using the same basis as the other postemployment benefit (OPEB) plans.

Methods Used to Value Plan Investments: Pursuant to *North Carolina General Statutes*, the State Treasurer is the custodian and administrator of the other postemployment benefits funds. The State Treasurer maintains various investment portfolios in its External Investment Pool. The Retiree Health Benefit Fund participates in the External Investment Pool. The Disability Income Plan of North Carolina is invested in the Short-Term Investment Portfolio of the External Investment Pool and the Bond Index External Investment Pool. The investment balance of each other employee benefit 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 2017 *Comprehensive Annual Financial Report.*

B. Plan Descriptions

1. Health Benefits

Plan Administration: The State of North Carolina administers the North Carolina State Health Plan for Teachers and State Employees, referred to as the State Health Plan (the Plan), a healthcare plan exclusively for the benefit of employees of the State, the University of North Carolina System, community colleges, and certain other component units. In addition, Local Education Agencies (LEAs), charter schools, and some select local governments that are not part of the State's financial reporting entity also participate. Health benefit programs and premium rates are determined by the State Treasurer upon approval of the Plan Board of Trustees.

The Retiree Health Benefit Fund (RHBF) has been established as a fund to provide health benefits to retired and disabled employees and their applicable beneficiaries. RHBF is established by General Statute 135-7, Article 1. RHBF is a cost-sharing, multiple-employer, defined benefit healthcare plan, exclusively for the benefit of eligible former employees of the State, the University of North Carolina System, and community colleges. In addition, LEAs, charter schools, and some select local governments that are not part of the State's financial reporting entity also participate.

By statute, RHBF is administered by the Board of Trustees of the Teachers' and State Employees' Retirement System (TSERS). RHBF is supported by a percent of payroll contribution from participating employing units. Each year the percentage is set in legislation, as are the maximum per retiree contributions from RHBF to the Plan. The State Treasurer, with the approval of the Plan Board of Trustees, then sets the employer contributions (subject to the legislative cap) and the premiums to be paid by retirees, as well as the health benefits to be provided through the Plan.

Benefits Provided: Plan benefits received by retired employees and disabled employees from RHBF are OPEB. The healthcare benefits for retired and disabled employees who are not eligible for Medicare are the same as for active employees as described in Note 16. The plan options change when former employees become eligible for Medicare. Medicare retirees have the option of selecting one of two fully-insured Medicare Advantage/Prescription Drug Plan options or the self-funded Traditional 70/30 Preferred Provider Organization plan option that is also offered to non-Medicare members. If the Traditional 70/30 Plan is selected by a Medicare retiree, the self-funded State Health Plan coverage is secondary to Medicare.

Those former employees who are eligible to receive medical benefits from RHBF are long-term disability beneficiaries of the Disability Income Plan of North Carolina and retirees of TSERS, the Consolidated Judicial Retirement System, the Legislative Retirement System, the University Employees' Optional Retirement Program (ORP), and a small number of local governments, with five or more years of contributory membership service in their retirement system prior to disability or retirement, with the following exceptions: for employees first hired on or after October 1, 2006, and members of the General Assembly first taking office on or after February 1, 2007, future coverage as retired employees and retired members of the General Assembly is subject to the requirement that the future retiree have 20 or more years of retirement service credit in order to receive coverage on a noncontributory basis. Employees first hired on or after October 1, 2006 and members of the General Assembly first taking office on or after February 1, 2007 with 10 but less than 20 years of retirement service credit are eligible for coverage on a partially contributory basis. For such future retirees, the State will pay 50% of the State Health Plan's total noncontributory premium.

The Plan's and RHBF's benefit and contribution provisions are established by Chapter 135-7, Article 1, and Chapter 135, Article 3B of the General Statutes and may be amended only by the North Carolina General Assembly. RHBF does not provide for automatic post-retirement benefit increases.

Contributions: Contribution rates to RHBF, which are intended to finance benefits and administrative expenses on a pay-as-you-go basis, are determined by the General Assembly in the Appropriations Bill. The College's contractually-required contribution rate for the year ended June 30, 2018 was 6.05% of covered payroll. The College's contributions to the RHBF were $631,055.08 for the year ended June 30, 2018.

2. **Disability Income**

Plan Administration: As discussed in Note 16, short-term and long-term disability benefits are provided through the Disability Income Plan of North Carolina (DIPNC), a cost-sharing, multiple-employer, defined benefit plan, to the eligible members of TSERS which includes employees of the State, the University of North Carolina System, community colleges, certain participating component units, LEAs which are not part of the reporting entity, and the University Employees' ORP. By statute, DIPNC is administered by the Department of State Treasurer and the Board of Trustees of TSERS.

Benefits Provided: Long-term disability benefits are payable as an OPEB from DIPNC after the conclusion of the short-term disability period or after salary continuation payments cease, whichever is later, for as long as an employee is disabled. An employee is eligible to receive long-term disability benefits provided the following requirements are met: (1) the employee has five or more years of contributing membership service in TSERS or the University Employees' ORP, earned within 96 months prior to the end of the short-term disability period or cessation of salary continuation payments, whichever is later; (2) the employee must make application to receive long-term benefits within 180 days after the conclusion of the short-term disability period or after salary continuation payments cease or after monthly payments for Workers' Compensation cease (excluding monthly payments for permanent partial benefits), whichever is later; (3) the employee must be certified by the Medical Board to be mentally or physically disabled for the further performance of his/her usual occupation; (4) the disability must have been continuous, likely to be permanent, and incurred at the time of active employment; (5) the employee must not be eligible to receive an unreduced retirement benefit from TSERS; and (6) the employee must terminate employment as a permanent, full-time employee. An employee is eligible to receive an unreduced retirement benefit from TSERS after (1) reaching the age of 65 and completing five years of membership service, or (2) reaching the age of 60 and completing 25 years of creditable service, or (3) completing 30 years of creditable service, at any age.

For employees who had five or more years of membership service as of July 31, 2007, during the first 36 months of the long-term disability period, the monthly long-term disability benefit is equal to 65% of one-twelfth of an employee's annual base rate of compensation last payable to the participant or beneficiary prior to the beginning of the short-term disability period, plus the like percentage of one-twelfth of the annual longevity payment and local supplements to which the participant or beneficiary would be eligible. The monthly benefits are subject to a maximum of $3,900 per month reduced by any primary Social Security disability benefits and by monthly payments for Workers'

Compensation to which the participant or beneficiary may be entitled, but the benefits payable shall be no less than $10 a month. After the first 36 months of the long-term disability, the long-term benefit is calculated in the same manner as described above except the monthly benefit is reduced by an amount equal to a monthly primary Social Security disability benefit to which the participant or beneficiary might be entitled had Social Security disability benefits been awarded. When an employee qualifies for an unreduced service retirement allowance from TSERS, the benefits payable from DIPNC will cease, and the employee will commence retirement under TSERS or the University Employees' ORP.

For employees who had less than five years of membership service as of July 31, 2007, and meet the requirements for long-term disability on or after August 1, 2007, during the first 36 months of the long-term disability period, the monthly long-term benefit shall be reduced by an amount equal to the monthly primary Social Security retirement benefit to which the employee might be entitled should the employee become age 62 during the first 36 months. This reduction becomes effective as of the first day of the month following the month of initial entitlement to Social Security benefits. After the first 36 months of the long-term disability, no further benefits are payable under the terms of this section unless the employee has been approved and is in receipt of primary Social Security disability benefits.

Contributions: Although DIPNC operates on a calendar year, disability income benefits are funded by actuarially determined employer contributions that are established in the Appropriations Bill by the General Assembly and coincide with the State's fiscal year. The College's contractually-required contribution rate for the year ended June 30, 2018 was 0.14% of covered payroll. The College's contributions to DIPNC were $14,602.93 for the year ended June 30, 2018.

C. Net OPEB Liability (Asset)

Net OPEB Liability: At June 30, 2018, the College reported a liability of $19,446,808.00 for its proportionate share of the collective net OPEB liability for RHBF. The net OPEB liability was measured as of June 30, 2017. The total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2016, and update procedures were used to roll forward the total OPEB liability to June 30, 2017. The College's proportion of the net OPEB 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, 2017, the College's proportion was 0.05931%, which was a decrease of 0.00537 from its proportion measured as of June 30, 2016, which was 0.06468%.

Net OPEB Asset: At June 30, 2018, the College reported an asset of $38,946.00 for its proportionate share of the collective net OPEB asset for

DIPNC. The net OPEB asset was measured as of June 30, 2017. The total OPEB asset used to calculate the net OPEB asset was determined by an actuarial valuation as of December 31, 2016, and update procedures were used to roll forward the total OPEB asset to June 30, 2017. The College's proportion of the net OPEB asset 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, 2017, the College's proportion was 0.06372%, which was a decrease of 0.00013 from its proportion measured as of June 30, 2016, which was 0.06385%.

Actuarial Assumptions: The total OPEB liabilities (assets) for RHBF and DIPNC were determined by actuarial valuations as of December 31, 2016, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified. The total OPEB liabilities (assets) were then rolled forward to June 30, 2017 utilizing update procedures incorporating the actuarial assumptions.

	Retiree Health Benefit Fund	Disability Income Plan of N.C.
Valuation Date	12/31/2016	12/31/2016
Inflation	2.75%	3.00%
Salary Increases*	3.50% - 8.10%	3.50% - 8.10%
Investment Rate of Return**	7.20%	3.75%
Healthcare Cost Trend Rate - Medical	5.00% - 6.50%	N/A
Healthcare Cost Trend Rate - Prescription Drug	5.00% - 7.25%	N/A
Healthcare Cost Trend Rate - Medicare Advantage	4.00% - 5.00%	N/A
Healthcare Cost Trend Rate - Administrative	3.00%	N/A

* Salary increases include 3.5% inflation and productivity factor.
** Investment rate of return is net of pension plan investment expense, including inflation.
N/A - Not Applicable

The OPEB plans currently use 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 studies that cover significant portions of the U.S. population. The healthy mortality rates also contain a provision to reflect future mortality improvements.

The projected long-term investment returns and inflation assumptions are developed through a 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 projects 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. DIPNC is primarily invested in the Bond Index Investment Pool as of June 30, 2017.

Best estimates of real rates of return for each major asset class included in RHBF's target asset allocation as of June 30, 2017 (the valuation date) are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return
Fixed Income	1.4%
Global Equity	5.3%
Real Estate	4.3%
Alternatives	8.9%
Opportunistic Fixed Income	6.0%
Inflation Sensitive	4.0%

The information in the preceding table is based on 30-year expectations developed with the consulting actuary and is part of the asset, liability, and investment policy of 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 3.05%. Return projections do not include any excess return expectations over benchmark averages. All rates of return and inflation are annualized. The long-term expected real rate of return for the Bond Index Investment Pool as of June 30, 2017 is 1.3%.

Actuarial valuations of the plans involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

The actuarial assumptions used for RHBF are consistent with those used to value the pension benefits of TSERS where appropriate. These assumptions are based on the most recent pension valuations available. The discount rate used for RHBF reflects a pay-as-you-go approach.

Projections of benefits for financial reporting purposes of the plans are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and historical pattern of sharing of benefit costs between the employer and plan members to that point. Historically, the benefits funded solely by employer contributions applied equally to all retirees. Currently, as described earlier in the note, benefits are dependent on membership requirements.

The actuarial methods and assumptions used for DIPNC include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The actuarial assumptions used in the December 31, 2016 valuations were based on the results of an actuarial experience study prepared as of December 31, 2014.

Discount Rate: The discount rate used to measure the total OPEB liability for RHBF was 3.58%. The projection of cash flows used to determine the discount rate assumed that contributions from employers will be made at the current statutorily determined contribution rate. Based on the above assumptions, the plan's fiduciary net position was not projected to be available to make projected future benefit payments of current plan members. As a result, a municipal bond rate of 3.58% was used as the discount rate used to measure the total OPEB liability. The 3.58% rate is based on the Bond Buyer 20-year General Obligation Index as of June 30, 2017.

The discount rate used to measure the total OPEB asset for DIPNC was 3.75%. 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 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 plan investments was applied to all periods of projected benefit payments to determine the total OPEB asset.

Sensitivity of the Net OPEB Liability (Asset) to Changes in the Discount Rate: The following presents the College's proportionate share of the net OPEB liability (asset) of the plans, as well as what the plans' net OPEB liability (asset) would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current discount rate:

	Net OPEB Liability (Asset)		
	1% Decrease (2.58%)	Current Discount Rate (3.58%)	1% Increase (4.58%)
RHBF	$ 23,197,659.00	$ 19,446,808.00	$ 16,469,948.00
	1% Decrease (2.75%)	Current Discount Rate (3.75%)	1% Increase (4.75%)
DIPNC	$ (33,110.00)	$ (38,946.00)	$ (44,795.00)

Sensitivity of the Net OPEB Liability (Asset) to Changes in the Healthcare Cost Trend Rates: The following presents the net OPEB liability (asset) of the plans, as well as what the plans' net OPEB liability (asset) would be if it were calculated using healthcare cost trend rates that are 1-percentage point lower or 1-percentage point higher than the current healthcare cost trend rates:

	1% Decrease (Medical - 4.00 - 5.50%, Pharmacy - 4.00 - 6.25%, Med. Advantage - 3.00 - 4.00%, Administrative - 2.00%)	Current Healthcare Cost Trend Rates (Medical - 5.00 - 6.50%, Pharmacy - 5.00 - 7.25%, Med. Advantage - 4.00 - 5.00%, Administrative - 3.00%)	1% Increase (Medical - 6.00 - 7.50%, Pharmacy - 6.00 - 8.25%, Med. Advantage - 5.00 - 6.00%, Administrative - 4.00%)
RHBF Net OPEB Liability	$ 15,885,385.00	$ 19,446,808.00	$ 24,177,924.00
DIPNC Net OPEB Asset	N/A	N/A	N/A

Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB: For the year ended June 30, 2018, the College recognized OPEB expense of $582,137.00 for RHBF and $20,817.00 for DIPNC. At June 30, 2018, the College reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

Employer Balances of Deferred Outflows of Resources
Related to OPEB by Classification:

	RHBF	DIPNC	Total
Differences Between Actual and Expected Experience	$ 0.00	$ 10,678.00	$ 10,678.00
Changes of Assumptions			
Net Difference Between Projected and Actual Earnings on Plan Investments		8,536.92	8,536.92
Changes in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions		375.00	375.00
Contributions Subsequent to the Measurement Date	631,055.08	14,603.00	645,658.08
Total	$ 631,055.08	$ 34,192.92	$ 665,248.00

Employer Balances of Deferred Inflows of Resources
Related to OPEB by Classification:

	RHBF	DIPNC	Total
Differences Between Actual and Expected Experience	$ 1,394,372.00	$ 0.00	$ 1,394,372.00
Changes of Assumptions	5,355,562.00		5,355,562.00
Net Difference Between Projected and Actual Earnings on Plan Investments	7,227.00		7,227.00
Changes in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	1,910,020.00		1,910,020.00
Total	$ 8,667,181.00	$ 0.00	$ 8,667,181.00

Amounts reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability related to RHBF and an increase of the net OPEB asset related to DIPNC in the fiscal year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB 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 OPEB Expense:

Year Ended June 30:	RHBF	DIPNC
2019	$ (1,733,798.00)	$ 5,820.00
2020	(1,733,798.00)	5,820.00
2021	(1,733,798.00)	5,818.00
2022	(1,733,798.00)	2,131.92
2023	(1,731,989.00)	
Total	$ (8,667,181.00)	$ 19,589.92

NOTE 16 - 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 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 contributions. Certain plans also require contributions from employees. The Plan has contracted with third parties to process claims. See Note 15, Other Postemployment Benefits, for additional information regarding retiree health benefits.

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 0.16% for the current fiscal year.

3. Disability Income Plan

Short-term and long-term disability benefits are provided to College employees through the Disability Income Plan of North Carolina (DIPNC), part of the State's Pension and Other Employee Benefit Trust Funds. Short-term benefits are paid by the College up to the first six months of benefits and reimbursed by DIPNC for any additional short-term benefits. As discussed in Note 15, long-term disability benefits are payable as other postemployment benefits from DIPNC after the conclusion of the short-term disability period or after salary continuation payments cease, whichever is later, for as long as an employee is disabled.

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 $100,000 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 17 - COMMITMENTS

The College has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were $981,504.39 and on other purchases were $84,169.24 at June 30, 2018.

NOTE 18 - BLENDED COMPONENT UNIT

Condensed combining information for the College's blended component unit for the year ended June 30, 2018, is presented as follows:

Condensed Statement of Net Position
June 30, 2018

	College	Mitchell Community College Endowment for Excellence	Eliminations	Total
ASSETS				
Current Assets	$ 8,446,247.94	$ 95,195.37	$ (869.79)	$ 8,540,573.52
Capital Assets, Net	28,334,979.42	130,514.32		28,465,493.74
Other Noncurrent Assets	6,192,969.32	14,706,674.30		20,899,643.62
Total Assets	42,974,196.68	14,932,383.99	(869.79)	57,905,710.88
TOTAL DEFERRED OUTFLOWS OF RESOURCES	3,644,741.00			3,644,741.00
LIABILITIES				
Current Liabilities	1,137,388.90	986.56	(869.79)	1,137,505.67
Long-Term Liabilities	25,834,273.04			25,834,273.04
Total Liabilities	26,971,661.94	986.56	(869.79)	26,971,778.71
TOTAL DEFERRED INFLOWS OF RESOURCES	8,988,399.00			8,988,399.00
NET POSITION				
Investment in Capital Assets	28,334,979.42	130,514.32		28,465,493.74
Restricted - Nonexpendable	2,112,742.50	259,967.16		2,372,709.66
Restricted - Expendable	6,110,640.13	25,864.44		6,136,504.57
Unrestricted	(25,899,485.31)	14,515,051.51		(11,384,433.80)
Total Net Position	$ 10,658,876.74	$ 14,931,397.43	$ 0.00	$ 25,590,274.17

Condensed Statement of Revenues, Expenses, and Changes in Net Position
For the Fiscal Year Ended June 30, 2018

	College	Mitchell Community College Endowment for Excellence	Eliminations	Total
OPERATING REVENUES				
Student Tuition and Fees, Net	$ 2,939,216.13	$ 0.00	$ 0.00	$ 2,939,216.13
Sales and Services, Net	784,567.60	88,247.96	(68,617.96)	804,197.60
Total Operating Revenues	3,723,783.73	88,247.96	(68,617.96)	3,743,413.73
OPERATING EXPENSES				
Operating Expenses	25,024,698.13	1,892,970.61	(1,096,875.47)	25,820,793.27
Depreciation	705,130.94	6,533.43		711,664.37
Total Operating Expenses	25,729,829.07	1,899,504.04	(1,096,875.47)	26,532,457.64
Operating Loss	(22,006,045.34)	(1,811,256.08)	1,028,257.51	(22,789,043.91)
NONOPERATING REVENUES (EXPENSES)				
State Aid	12,314,635.07			12,314,635.07
County Appropriations	3,371,910.00			3,371,910.00
Noncapital Grants	4,385,787.41			4,385,787.41
Noncapital Gifts	311,926.23	79,158.13		391,084.36
Investment Income, Net	334,693.56	1,051,623.26		1,386,316.82
Other Nonoperating Expenses	(8,000.50)	(389,986.92)		(397,987.42)
Net Nonoperating Revenues	20,710,951.77	740,794.47		21,451,746.24
Capital Contributions	4,643,377.29	408,723.33	(1,028,257.51)	4,023,843.11
Additions to Endowments	18,370.34	84,967.16		103,337.50
Increase (Decrease) in Net Position	3,366,654.06	(576,771.12)		2,789,882.94
NET POSITION				
Net Position, July 1, 2017, as Restated	7,292,222.68	15,508,168.55		22,800,391.23
Net Position, June 30, 2018	$ 10,658,876.74	$ 14,931,397.43	$ 0.00	$ 25,590,274.17

Condensed Statement of Cash Flows
June 30, 2018

	College	Mitchell Community College Endowment for Excellence	Total
Net Cash Used by Operating Activities	$ (20,820,992.12)	$ (780,089.89)	$ (21,601,082.01)
Cash Provided by Noncapital Financing Activities	20,424,797.89	164,125.29	20,588,923.18
Net Cash Provided (Used) by Capital and Related Financing Activities	2,851,896.83	(532,856.99)	2,319,039.84
Net Cash Provided by Investing Activities	327,400.46	820,412.16	1,147,812.62
Net Increase in Cash and Cash Equivalents	2,783,103.06	(328,409.43)	2,454,693.63
Cash and Cash Equivalents, July 1, 2017	7,058,810.57	483,640.09	7,542,450.66
Cash and Cash Equivalents, June 30, 2018	$ 9,841,913.63	$ 155,230.66	$ 9,997,144.29

NOTE 19 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2018, the College implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*

GASB Statement No. 85, *Omnibus 2017*

GASB Statement No. 75 improves accounting and financial reporting requirements by state and local governments for postemployment benefits other than pensions (OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. In addition, this Statement details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are administered through trusts that meet the specified criteria and for employers whose employees are provided with defined contribution OPEB.

GASB Statement No. 85 addresses practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and OPEB).

NOTE 20 - NET POSITION RESTATEMENTS

As of July 1, 2017, net position as previously reported was restated as follows:

		Amount
July 1, 2017 Net Position as Previously Reported	$	50,349,842.74
Restatements:		
Record the College's Net OPEB Asset and Liability and OPEB Related Deferred Outflows and Inflows of Resources Per GASB 75 Requirements.		(27,452,499.00)
Remove Repair and Renovation Expenses Previously Capitalized in Error.		(96,952.51)
July 1, 2017 Net Position as Restated	$	22,800,391.23

REQUIRED SUPPLEMENTARY INFORMATION

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

Exhibit B-1

	2017	2016	2015	2014	2013
Proportionate Share Percentage of Collective Net Pension Liability	0.07302%	0.07261%	0.07808%	0.07741%	0.07830%
Proportionate Share of TSERS Collective Net Pension Liability	$ 5,793,729.00	$ 6,673,609.00	$ 2,877,403.00	$ 907,571.00	$ 4,753,608.00
Covered Payroll	$ 10,435,401.72	$ 10,247,307.87	$ 11,006,835.19	$ 10,788,637.77	$ 10,811,398.04
Net Pension Liability as a Percentage of Covered Payroll	55.52%	65.13%	26.14%	8.41%	43.97%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	89.51%	87.32%	94.64%	98.24%	90.60%

Note: Information is presented for all years that were measured in accordance with the requirements of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - An Amendment of GASB Statement No. 27*, as amended.

Mitchell Community College
Required Supplementary Information
Schedule of College Contributions
Teachers' and State Employees' Retirement System
Last Ten Fiscal Years ***Exhibit B-2***

	2018	2017	2016	2015	2014
Contractually Required Contribution	$ 1,124,425.41	$ 1,041,453.10	$ 937,628.67	$ 1,007,125.42	$ 937,532.62
Contributions in Relation to the Contractually Determined Contribution	1,124,425.41	1,041,453.10	937,628.67	1,007,125.42	937,532.62
Contribution Deficiency (Excess)	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Covered Payroll	$ 10,430,662.45	$ 10,435,401.72	$ 10,247,307.87	$ 11,006,835.19	$ 10,788,637.77
Contributions as a Percentage of Covered Payroll	10.78%	9.98%	9.15%	9.15%	8.69%

	2013	2012	2011	2010	2009
Contractually Required Contribution	$ 900,589.43	$ 769,996.83	$ 514,261.79	$ 342,529.14	$ 317,918.44
Contributions in Relation to the Contractually Determined Contribution	900,589.43	769,996.83	514,261.79	342,529.14	317,918.44
Contribution Deficiency (Excess)	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Covered Payroll	$ 10,811,398.04	$ 10,349,419.80	$ 10,431,273.55	$ 9,594,653.69	$ 9,461,858.44
Contributions as a Percentage of Covered Payroll	8.33%	7.44%	4.93%	3.57%	3.36%

Note: Changes in benefit terms, methods, and assumptions are presented in the Notes to Required Supplementary Information (RSI) schedule following the pension RSI tables.

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

Changes of Benefit Terms:

Cost of Living Increase

2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
N/A	N/A	N/A	1.00%	N/A	N/A	N/A	2.20%	2.20%	3.00%

Changes of assumptions. In 2015, the actuarial assumptions were updated to more closely reflect actual experience. In 2015, the North Carolina Retirement Systems' consulting actuaries performed the quinquennial investigation of each retirement systems' actual demographic and economic experience (known as the "Experience Review"). The Experience Review provides the basis for selecting the actuarial assumptions and methods used to determine plan liabilities and funding requirements. The most recent Experience Review examined each plan's experience during the period between January 1, 2010, and December 31, 2014. Based on the findings, the Board of Trustees of the Teachers' and State Employees' Retirement System adopted a number of new actuarial assumptions and methods. The most notable changes to the assumptions include updates to the mortality tables and the mortality improvement projection scales to reflect reduced rates of mortality and significant increases in mortality improvements. These assumptions were adjusted to reflect the mortality projection scale MP-2015, released by the Society of Actuaries in 2015. In addition, the assumed rates of retirement, salary increases, and rates of termination from active employment were reduced to more closely reflect actual experience. The discount rate for Teachers' and State Employees' Retirement System was lowered from 7.25% to 7.20% for the December 31, 2016 valuation.

The Board of Trustees also adopted a new asset valuation method for the Teachers' and State Employees' Retirement System. For determining plan funding requirements, these plans now use a five-year smoothing method with a reset of the actuarial value of assets to market value as of December 31, 2014.

The Notes to Required Supplementary Information reflect information included in the State of North Carolina’s 2017 *Comprehensive Annual Financial Report* .

Mitchell Community College
Required Supplementary Information
Schedule of the Proportionate Net OPEB Liability or Asset
Cost-Sharing, Multiple-Employer, Defined Benefit OPEB Plans
Last Two Fiscal Years — *Exhibit B-3*

	2017	2016
Retiree Health Benefit Fund		
Proportionate Share Percentage of Collective Net OPEB Liability	0.05931%	0.06468%
Proportionate Share of Collective Net OPEB Liability	$ 19,446,808.00	$ 28,137,998.00
Covered Payroll	$ 10,435,401.72	$ 10,247,307.87
Net OPEB Liability as a Percentage of Covered Payroll	186.35%	274.59%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	3.52%	2.41%
Disability Income Plan of North Carolina		
Proportionate Share Percentage of Collective Net OPEB Asset	0.06372%	0.06385%
Proportionate Share of Collective Net OPEB Asset	$ 38,946.00	$ 39,651.00
Covered Payroll	$ 10,435,401.72	$ 10,247,307.87
Net OPEB Asset as a Percentage of Covered Payroll	0.37%	0.39%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Asset	116.23%	116.06%

Note: Information is presented for all years that were measured in accordance with the requirements of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* .

Mitchell Community College
Required Supplementary Information
Schedule of College Contributions
Cost-Sharing, Multiple-Employer, Defined Benefit OPEB Plans
Last Ten Fiscal Years ***Exhibit B-4***

Retiree Health Benefit Fund	**2018**	**2017**	**2016**	**2015**	**2014**
Contractually Required Contribution	$ 631,055.08	$ 606,296.84	$ 573,849.24	$ 604,275.25	$ 582,586.44
Contributions in Relation to the Contractually Determined Contribution	631,055.08	606,296.84	573,849.24	604,275.25	582,586.44
Contribution Deficiency (Excess)	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Covered Payroll	$ 10,430,662.45	$ 10,435,401.72	$ 10,247,307.87	$ 11,006,835.19	$ 10,788,637.77
Contributions as a Percentage of Covered Payroll	6.05%	5.81%	5.60%	5.49%	5.40%

	2013	**2012**	**2011**	**2010**	**2009**
Contractually Required Contribution	$ 573,004.08	$ 517,470.99	$ 511,132.40	$ 431,759.42	$ 387,936.19
Contributions in Relation to the Contractually Determined Contribution	573,004.08	517,470.99	511,132.40	431,759.42	387,936.19
Contribution Deficiency (Excess)	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Covered Payroll	$ 10,811,398.04	$ 10,349,419.80	$ 10,431,273.55	$ 9,594,653.69	$ 9,461,858.44
Contributions as a Percentage of Covered Payroll	5.30%	5.00%	4.90%	4.50%	4.10%

Disability Income Plan of North Carolina	**2018**	**2017**	**2016**	**2015**	**2014**
Contractually Required Contribution	$ 14,602.93	$ 39,654.53	$ 42,013.96	$ 45,128.02	$ 47,470.01
Contributions in Relation to the Contractually Determined Contribution	14,602.93	39,654.53	42,013.96	45,128.02	47,470.01
Contribution Deficiency (Excess)	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Covered Payroll	$ 10,430,662.45	$ 10,435,401.72	$ 10,247,307.87	$ 11,006,835.19	$ 10,788,637.77
Contributions as a Percentage of Covered Payroll	0.14%	0.38%	0.41%	0.41%	0.44%

	2013	**2012**	**2011**	**2010**	**2009**
Contractually Required Contribution	$ 47,570.15	$ 53,816.98	$ 54,242.62	$ 49,892.20	$ 49,201.66
Contributions in Relation to the Contractually Determined Contribution	47,570.15	53,816.98	54,242.62	49,892.20	49,201.66
Contribution Deficiency (Excess)	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Covered Payroll	$ 10,811,398.04	$ 10,349,419.80	$ 10,431,273.55	$ 9,594,653.69	$ 9,461,858.44
Contributions as a Percentage of Covered Payroll	0.44%	0.52%	0.52%	0.52%	0.52%

Note: Changes in benefit terms, methods, and assumptions are presented in the Notes to Required Supplementary Information (RSI) schedule following the OPEB RSI tables.

Mitchell Community College
Notes to Required Supplementary Information
Schedule of College Contributions
Cost-Sharing, Multiple-Employer, Defined Benefit OPEB Plans
Last Ten Fiscal Years

Changes of Benefit Terms: Effective January 1, 2016, benefit terms related to copays, out-of-pocket maximums, and deductibles were changed for three of four options of the Retiree Health Benefit Fund. Most of the changes were an increase in the amount from the previous year.

Effective January 1, 2017, benefit terms related to copays, coinsurance maximums, out-of-pocket maximums, and deductibles were changed for two of four options of the Retiree Health Benefit Fund. Most of the changes were an increase in the amount from the previous year.

Method and Assumptions Used in Calculations of Actuarially Determined Contributions: An actuarial valuation is performed for each plan each year. The actuarially determined contribution rates in the Schedule of Employer Contributions are calculated by the actuary as a projection of the required employer contribution for the fiscal year beginning six months following the date of the valuation results for the Retiree Health Benefit Fund. The actuarially determined contribution rates in the Schedule of Employer Contributions are calculated by the actuary as a projection of the required employer contribution for the fiscal year beginning 18 months following the date of the valuation results for the Disability Income Plan of North Carolina. See Note 15 for more information on the specific assumptions for each plan. The actuarially determined contributions for those items with covered payroll were determined using the actuarially determined contribution rate from the actuary and covered payroll as adjusted for timing differences and other factors such as differences in employee class. Other actuarially determined contributions are disclosed in the schedule as expressed by the actuary in reports to the plans.

Changes of assumptions: In 2015, the North Carolina Retirement Systems' consulting actuaries performed the quinquennial investigation of each retirement system's actual demographic and economic experience (known as the "Experience Review"). The Experience Review provides the basis for selecting the actuarial assumptions and methods used to determine plan liabilities and funding requirements. The most recent experience review examined each plan's experience during the period between January 1, 2010, and December 31, 2014. Based on the findings, the Boards of Trustees of the Teachers' and State Employees' Retirement System and the State Health Plan adopted a number of new actuarial assumptions and methods for the Retiree Health Benefit Fund and the Disability Income Plan of North Carolina. The most notable changes to the assumptions include updates to the mortality tables and the mortality improvement projection scales to reflect reduced rates of mortality and significant increases in mortality improvements. These assumptions were adjusted to reflect the mortality projection scale MP-2015, released by the Society of Actuaries in 2015. In addition, the assumed rates of retirement and rates of termination from active employment were reduced to more closely reflect actual experience.

In 2017, the medical and prescription health trend rates used in the December 31, 2016 actuarial valuation of the Retiree Health Benefit Fund were reduced based upon the plan's most recent experience.

The Notes to Required Supplementary Information reflect information included in the State of North Carolina's 2017 *Comprehensive Annual Financial Report* .

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 (College), a component unit of the State of North Carolina, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the College's basic financial statements, and have issued our report thereon dated March 25, 2019. Our report includes a reference to other auditors who audited the financial statements of the Mitchell Community College Endowment for Excellence (Endowment), as described in our report on the College's financial statements. The financial statements of the Endowment 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 the Endowment.

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.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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.*

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 results 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 College's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Beth A. Wood

Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

March 25, 2019

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This audit required 341.5 hours at an approximate cost of $35,175.