



STATE OF NORTH CAROLINA

PITT COMMUNITY COLLEGE

GREENVILLE, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2006

OFFICE OF THE STATE AUDITOR

LESLIE W. MERRITT, JR., CPA, CFP

STATE AUDITOR

PITT COMMUNITY COLLEGE
GREENVILLE, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2006

STATE BOARD OF COMMUNITY COLLEGES
THE NORTH CAROLINA COMMUNITY COLLEGE SYSTEM

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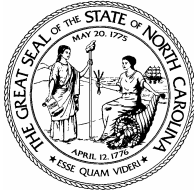
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STATE OF NORTH CAROLINA
Office of the State Auditor

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AUDITOR'S TRANSMITTAL

The Honorable Michael F. Easley, Governor
The General Assembly of North Carolina
Board of Trustees, Pitt Community College

We have completed a financial statement and compliance audit of Pitt Community College for the year ended June 30, 2006, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

Our consideration of internal control over financial reporting and compliance and other matters based on an audit of the financial statements and our consideration of the College's administration of federal programs in accordance with applicable laws, regulations, contracts and grants disclosed a deficiency that is detailed in the Audit Finding and Recommendation section of this report. The College's response is included following the finding.

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

Leslie W. Merritt, Jr.

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

June 25, 2007

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Pitt Community College
Greenville, North Carolina

We have audited the accompanying basic financial statements of Pitt Community College, a component unit of the State of North Carolina, as of and for the year ended June 30, 2006, as listed in the table of contents. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Pitt Community College as of June 30, 2006, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 21, 2007, on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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

Leslie W. Merritt, Jr.

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

May 21, 2007

**PITT COMMUNITY COLLEGE
MANAGEMENT’S DISCUSSION AND ANALYSIS**

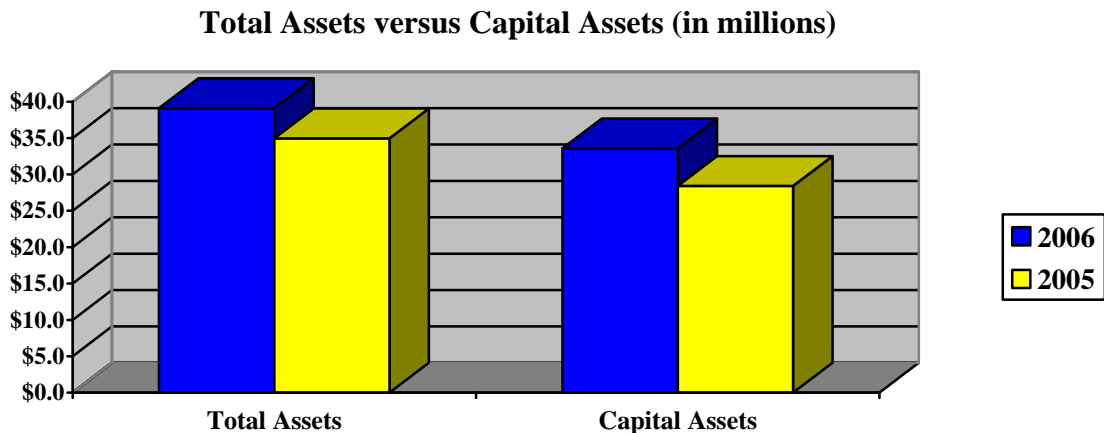
This section of Pitt Community College’s Annual Financial Report presents Management’s Discussion and Analysis of the College’s financial activity during the fiscal year ended June 30, 2006, with comparative data from fiscal year ended June 30, 2005. Since this Management’s Discussion and Analysis is designed to focus on current activities, resulting change and currently known facts, please read it in conjunction with the transmittal letter, the College’s basic financial statements and the notes to the financial statements.

Using This Annual Report

These financial statements are presented in a manner to focus on the College as a whole. The format requires the College to report current year financial activity in a single column, with prior year data for comparison also presented in a single column. The Statement of Net Assets combines current, noncurrent and capital assets in one statement. The Statement of Revenues, Expenses, and Changes in Net Assets combines all fund types to illustrate the College’s gross and net costs and expenses.

College-Wide Analysis

Assets – The College continues to operate in a fiscally sound financial manner. Total assets of the College increased by \$4.2 million, from \$34.9 million to \$39.1 million, an increase of 11.9%. Increases are shown in both current and noncurrent categories. Current assets consist of inventories, cash and cash equivalents, and receivables expected to be collected in the next accounting cycle. Noncurrent assets consist of restricted cash and cash equivalents and capital assets. Nondepreciable capital assets, including land and construction in progress (CIP), now total \$15.6 million, an increase of \$2.7 million. Depreciable assets, including buildings, general infrastructure, and machinery and equipment, now total \$18.0 million showing an increase of \$2.4 million. This increase in depreciable assets is due to completion of construction and renovation projects.



MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

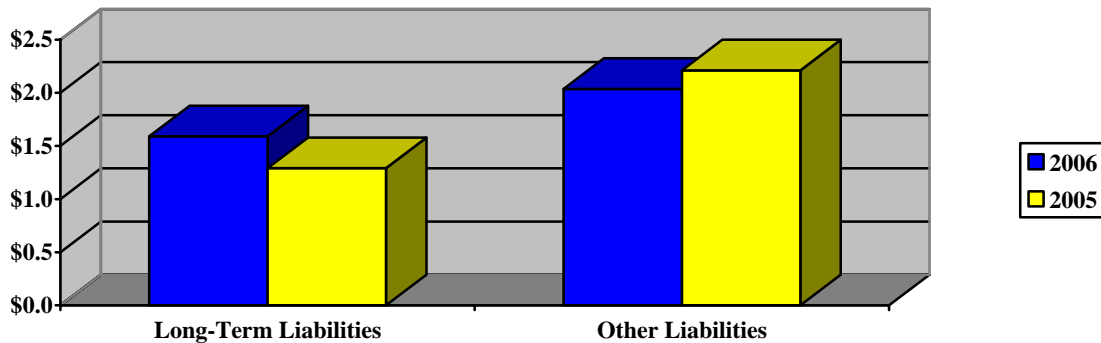
Expenditures for the General Classroom Building are shown as CIP in capital assets, nondepreciable, on this year's financial statements. CIP for the General Classroom Building is \$5.1 million. Other projects included in CIP are:

- Law Enforcement Training Facility - \$846,481
- Fulford Addition - \$211,434
- Humber Building - \$2,983,308
- Student Center - \$16,278
- Athletic Field (Concessions) - \$12,000

Total CIP is \$9.1 million.

Liabilities – Total liabilities of the College are \$3.6 million. This indicates an increase of 3.7% over total liabilities on June 30, 2005. For Pitt Community College, long-term liabilities consist of accrued vacation leave and a notes payable for purchase of equipment. This is the first year that the College has obtained outside financing for the purchase of instructional equipment. The balance for long-term liabilities increased 23.7% from FY05 to FY06, from \$1.3 million to \$1.6 million. All other liabilities decreased 7.9%, from \$2.2 million to \$2.0 million. Unearned revenues decreased by 41.6%, from \$18,009 in FY05 to \$10,524 in FY06, while funds held for others decreased by 24.3%, from \$1.1 million in FY05 to \$0.8 million in FY06. The decrease in funds held for others reflects a decrease in the Pitt Community College Foundation, Inc. fund balance, which was mainly due to the installation of new lights for the baseball field.

Long-Term versus Other Liabilities (in millions)

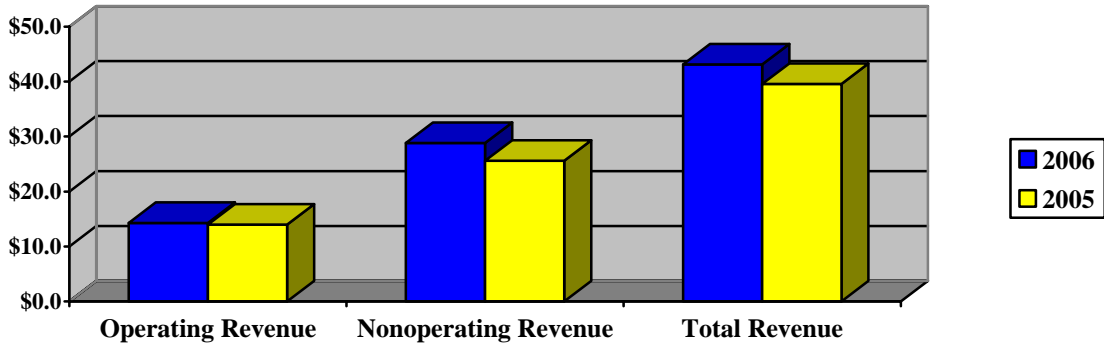


Revenues – Operating revenues increased 2.2% from FY05. Student tuition and fees, adjusted for scholarship discounts, totaled \$4.9 million. Nonoperating revenues and other revenues from sources such as grants, gifts, and investment income increased by 13.4% in

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

FY06 because of a capital grant from Pitt County in the amount of \$3.0 million. Total revenue increased by 9.0%.

Illustration of Revenues (in millions)



Expenses – Operating expenses increased slightly by 9.8% from FY05. FY06 operating expense was \$39.1 million compared to FY05 operating expense of \$35.6 million. Salaries and fringe benefits account for 64.5% of the operating expense, or \$25.2 million. Salaries have increased by almost \$3 million this fiscal year due to the increases in our FY06 budget for enrollment growth and salary increases. The College awarded a 4% across the board salary increase for all annually appointed employees. Nonoperating expenses remained constant at zero dollars for FY06.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Condensed Statement of Revenues, Expenses, and Changes in Net Assets for the Year Ended June 30,

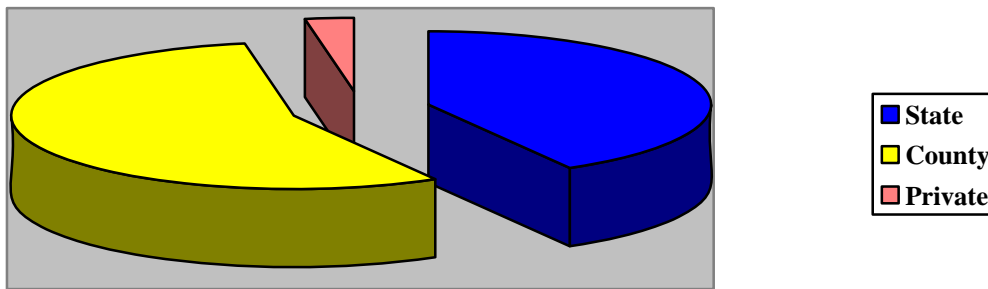
| | <i>(in thousands)</i> | | Increase (Decrease) | Percent Changed |
|--------------------------------------|-----------------------|---------------------|--------------------------------|----------------------------|
| | 2006 | 2005 | | |
| Operating Revenue | | | | |
| Student Tuition and Fees, Net | \$ 4,893.77 | \$ 4,217.35 | \$ 676.42 | 16.04 % |
| Federal Grants and Contracts | 6,666.93 | 7,145.98 | (479.05) | (6.70) % |
| State and Local Grants and Contracts | 32.54 | 140.72 | (108.18) | (76.88) % |
| Sales and Services, Net | 2,621.97 | 2,415.42 | 206.55 | 8.55 % |
| Other | 89.42 | 74.64 | 14.78 | 19.80 % |
| Total Operating Revenues | 14,304.63 | 13,994.11 | 310.52 | 2.22 % |
| Less Operating Expenses | 39,087.68 | 35,591.22 | 3,496.46 | 9.82 % |
| Net Operating Loss | (24,783.05) | (21,597.11) | (3,185.94) | 14.75 % |
| Nonoperating Revenues | | | | |
| State Aid | 18,101.67 | 15,932.96 | 2,168.71 | 13.61 % |
| County Appropriations | 3,360.00 | 3,200.00 | 160.00 | 5.00 % |
| Noncapital Grants | 988.13 | 936.10 | 52.03 | 5.56 % |
| Noncapital Gifts, Net | 774.00 | 445.72 | 328.28 | 73.65 % |
| Investment Income, Net | 64.08 | 45.71 | 18.37 | 40.19 % |
| Other | 19.06 | 2.22 | 16.84 | 758.56 % |
| Total Nonoperating Revenues | 23,306.94 | 20,562.71 | 2,744.23 | 13.35 % |
| Loss Before Other Revenues | (1,476.11) | (1,034.40) | (441.71) | 42.70 % |
| State Capital Aid | 2,055.90 | 3,991.59 | (1,935.69) | (48.49) % |
| County Capital Appropriations | 3,073.63 | 998.70 | 2,074.93 | 207.76 % |
| Capital Grants | 235.92 | 21.21 | 214.71 | 1012.31 % |
| Capital Gifts | 152.09 | 152.09 | 152.09 | 100.00 % |
| Increase in Net Assets | 4,041.43 | 3,977.10 | 64.33 | 1.62 % |
| Net Assets, Beginning of Year | 31,445.95 | 27,468.85 | 3,977.10 | 14.48 % |
| Net Assets, End of Year | \$ 35,487.38 | \$ 31,445.95 | \$ 4,041.43 | 12.85 % |

Capital Contributions – State and local appropriations contribute most capital dollars to the College's budget. Occasionally, capital grants may be awarded to the College by private sources, adding to the overall capital budget. The increase in capital contributions for FY06

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

versus FY05 was 10%. FY06 capital revenue was \$5.5 million compared to FY05 capital revenue of \$5.0 million. State capital aid is down this year from the prior year by \$1.9 million. This was in large part due to a \$3.1 million land acquisition that occurred in the previous fiscal year. We have also received an increase in our county capital aid this year of \$2.1 million due to the county's funding of the Humber Building renovation and their share of the purchase of the MacThrift Building.

FY06 Sources of Capital Contributions



Contributions to Term and Permanent Endowments – Endowments held by Pitt Community College are held in our State Treasury Investment Fund. These endowments earn interest and the interest is applied back to the endowment or the scholarship as directed by the donor.

Special and Extraordinary Items – There were no special and/or extraordinary items for either FY06 or FY05.

Net Assets – North Carolina Community College System and local and State guidelines require spending unrestricted cash on current operations. Unspent balances in most cases revert to the State; therefore, unrestricted net assets will have the lowest balance of the three net asset categories. Restricted assets include State, local and institutional funds held for equipment, construction and scholarships. Investment in Capital Assets is a cumulative amount of the State, local and institutional funds spent on depreciable and nondepreciable assets. This category of assets remains on the College's books until fully depreciated or, in the case of land and CIP, until sold or capitalized. FY06 total net assets is made up of: unrestricted at 2.6%, restricted at 3.3%, and capital at 94.1%.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

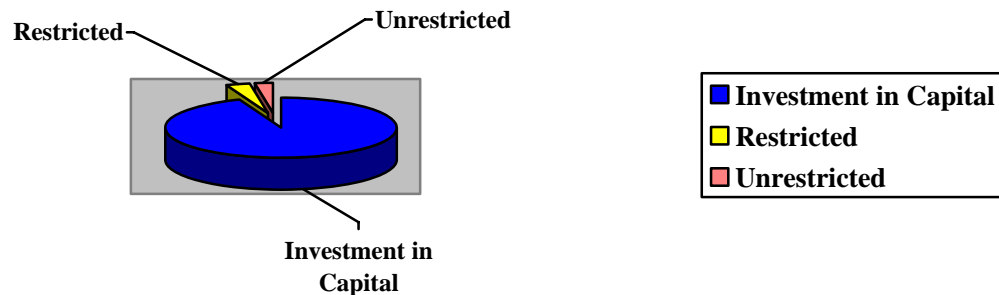
**Condensed Statement of Net Assets
As of June 30**

| | <i>(in thousands)</i> | | Increase (Decrease) | Percent Changed |
|-----------------------------------|-----------------------|---------------------|--------------------------------|----------------------------|
| | 2006 | 2005 | | |
| Assets | | | | |
| Current Assets | \$ 4,198.93 | \$ 3,563.37 | \$ 635.56 | 17.84 % |
| Noncurrent Assets | | | | |
| Capital Assets, Nondepreciable | 15,556.06 | 12,816.19 | 2,739.87 | 21.38 % |
| Capital Assets, Depreciable, Net | 18,028.22 | 15,588.70 | 2,439.52 | 15.65 % |
| Other | <u>1,336.95</u> | <u>2,979.67</u> | <u>(1,642.72)</u> | (55.13) % |
| Total Assets | <u>39,120.16</u> | <u>34,947.93</u> | <u>4,172.23</u> | 11.94 % |
| Liabilities | | | | |
| Current Liabilities | 1,375.60 | 2,270.23 | (894.63) | (39.41) % |
| Noncurrent Liabilities | <u>2,257.18</u> | <u>1,231.75</u> | <u>1,025.43</u> | 83.25 % |
| Total Liabilities | <u>3,632.78</u> | <u>3,501.98</u> | <u>130.80</u> | 3.74 % |
| Net Assets | | | | |
| Investment in Capital Assets, Net | 33,378.08 | 28,404.89 | 4,973.19 | 17.51 % |
| Restricted | 1,197.46 | 2,132.48 | (935.02) | (43.85) % |
| Unrestricted | <u>911.84</u> | <u>908.58</u> | <u>3.26</u> | 0.36 % |
| Total Net Assets | <u>\$ 35,487.38</u> | <u>\$ 31,445.95</u> | <u>\$ 4,041.43</u> | 12.85 % |

Investment in capital assets consists primarily of buildings, infrastructures and equipment with a unit purchase cost of \$5,000 or greater. Other equipment is expensed in the year of purchase. Restricted net assets are separated from unrestricted because external sources exert control over their use.

The following is a graphic illustration of the FY06 net assets.

Analysis of Net Assets



MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

Economic Outlook and Effects on Financial Position

Pitt Community College continues to see increases in our student population. Our Full Time Equivalent (FTE) students FY06 were 4,874. The FTE for FY05 and FY04 were 4,785 and 4,660, respectively. The majority of our State funding is based on our student FTE. This past year, Pitt Community College has begun offering curriculum classes on the weekend in order to target students whose schedule may not allow them to attend classes during the traditional weekday offerings.

Budget reversions continue to deplete needed resources from our operating budget. For FY06, Pitt Community College was required to revert \$254,688 or 1.5% of its operating budget. These funds would have been used to fund additional instructional positions.

Pitt Community College continues to proceed with construction as outlined by its Master Plan as resources will allow. Currently, we are planning our design for Phase One (of two Phases) for our new Student Services Building. Construction will hopefully begin for this project in the fall of 2007. This will effectively deplete the remaining 2000 State Bond Funds appropriated to the College.

Pitt Community College
Statement of Net Assets
June 30, 2006

Exhibit A-1

ASSETS

Current Assets:

| | |
|--|-----------------|
| Cash and Cash Equivalents | \$ 1,457,642.12 |
| Restricted Cash and Cash Equivalents | 528,223.40 |
| Receivables (Note 4) | 1,301,865.15 |
| Due from State of North Carolina Component Units | 122,584.80 |
| Inventories | 782,535.98 |
| Prepaid Items | 2,530.25 |
| Notes Receivable, Net (Note 4) | 3,550.00 |
| | <hr/> |
| Total Current Assets | 4,198,931.70 |

Noncurrent Assets:

| | |
|--|---------------|
| Restricted Cash and Cash Equivalents | 1,142,179.15 |
| Restricted Due from Primary Government | 194,787.98 |
| Capital Assets - Nondepreciable (Note 5) | 15,556,055.30 |
| Capital Assets - Depreciable, Net (Note 5) | 18,028,216.47 |
| | <hr/> |
| Total Noncurrent Assets | 34,921,238.90 |

| | |
|--------------|---------------------------|
| Total Assets | <hr/> <hr/> 39,120,170.60 |
|--------------|---------------------------|

LIABILITIES

Current Liabilities:

| | |
|---|--------------|
| Accounts Payable and Accrued Liabilities (Note 6) | 1,206,179.44 |
| Unearned Revenue | 10,523.60 |
| Long-Term Liabilities - Current Portion (Note 7) | 158,898.13 |
| | <hr/> |
| Total Current Liabilities | 1,375,601.17 |

Noncurrent Liabilities:

| | |
|--------------------------------|--------------|
| Funds Held for Others | 819,793.72 |
| Long-Term Liabilities (Note 7) | 1,437,389.03 |
| | <hr/> |
| Total Noncurrent Liabilities | 2,257,182.75 |

| | |
|-------------------|--------------------------|
| Total Liabilities | <hr/> <hr/> 3,632,783.92 |
|-------------------|--------------------------|

NET ASSETS

| | |
|---|------------------|
| Invested in Capital Assets, Net of Related Debt | 33,378,084.98 |
| Restricted for: | |
| Nonexpendable: | |
| Other | 161,355.42 |
| Expendable: | |
| Scholarships and Fellowships | 29,470.10 |
| Loans | 64,582.69 |
| Capital Projects | 350,984.32 |
| Other | 591,065.66 |
| Unrestricted | 911,843.51 |
| | <hr/> |
| Total Net Assets | \$ 35,487,386.68 |

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

***Pitt Community College
Statement of Revenues, Expenses, and
Changes in Net Assets
For the Fiscal Year Ended June 30, 2006***

Exhibit A-2

REVENUES

Operating Revenues:

| | |
|--|-----------------|
| Student Tuition and Fees, Net (Note 8) | \$ 4,893,768.74 |
| Federal Grants and Contracts | 6,666,931.51 |
| State and Local Grants and Contracts | 32,540.12 |
| Sales and Services, Net (Note 8) | 2,621,970.83 |
| Other Operating Revenues | 89,418.39 |

| | |
|--------------------------|---------------|
| Total Operating Revenues | 14,304,629.59 |
|--------------------------|---------------|

EXPENSES

Operating Expenses:

| | |
|------------------------------|---------------|
| Personal Services | 25,211,446.87 |
| Supplies and Materials | 4,970,467.72 |
| Services | 3,155,476.16 |
| Scholarships and Fellowships | 3,790,198.36 |
| Utilities | 1,053,161.45 |
| Depreciation | 906,932.84 |

| | |
|--------------------------|---------------|
| Total Operating Expenses | 39,087,683.40 |
|--------------------------|---------------|

| | |
|----------------|-----------------|
| Operating Loss | (24,783,053.81) |
|----------------|-----------------|

NONOPERATING REVENUES

| | |
|-----------------------------|---------------|
| State Aid | 18,101,674.81 |
| County Appropriations | 3,360,000.00 |
| Noncapital Grants | 988,129.05 |
| Noncapital Gifts | 773,999.88 |
| Investment Income | 64,076.22 |
| Other Nonoperating Revenues | 19,062.65 |

| | |
|---------------------------|---------------|
| Net Nonoperating Revenues | 23,306,942.61 |
|---------------------------|---------------|

| | |
|----------------------------|----------------|
| Loss Before Other Revenues | (1,476,111.20) |
|----------------------------|----------------|

| | |
|-------------------------------|--------------|
| State Capital Aid | 2,055,898.08 |
| County Capital Appropriations | 3,073,634.24 |
| Capital Grants | 235,922.69 |
| Capital Gifts | 152,091.04 |

| | |
|------------------------|--------------|
| Increase in Net Assets | 4,041,434.85 |
|------------------------|--------------|

NET ASSETS

| | |
|--|---------------|
| Net Assets, July 1, 2005 as Restated (Note 15) | 31,445,951.83 |
|--|---------------|

| | |
|---------------------------|------------------|
| Net Assets, June 30, 2006 | \$ 35,487,386.68 |
|---------------------------|------------------|

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

Pitt Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2006

Exhibit A-3

CASH FLOWS FROM OPERATING ACTIVITIES

| | |
|---|------------------|
| Received from Customers | \$ 13,591,090.15 |
| Payments to Employees and Fringe Benefits | (24,990,010.30) |
| Payments to Vendors and Suppliers | (9,012,013.99) |
| Payments for Scholarships and Fellowships | (3,790,198.36) |
| Loans Issued to Students | (300.00) |
| Other Payments | (21,526.71) |
| | <hr/> |
| Net Cash Used by Operating Activities | (24,222,959.21) |
| | <hr/> |

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

| | |
|--|---------------|
| State Aid Received | 18,101,674.81 |
| County Appropriations | 3,360,000.00 |
| Noncapital Grants Received | 1,059,287.07 |
| Noncapital Gifts and Endowments Received | 773,999.88 |
| | <hr/> |
| Cash Provided by Noncapital Financing Activities | 23,294,961.76 |
| | <hr/> |

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

| | |
|---|----------------|
| State Capital Aid Received | 3,748,282.49 |
| County Capital Appropriations | 3,073,634.24 |
| Capital Grants Received | 235,922.69 |
| Capital Gifts Received | 152,091.04 |
| Proceeds from Capital Debt | 222,841.73 |
| Proceeds from Sale of Capital Assets | 5,553.00 |
| Acquisition and Construction of Capital Assets | (6,318,342.86) |
| Principal Paid on Capital Debt and Leases | (16,654.94) |
| | <hr/> |
| Net Cash Provided by Capital and Related Financing Activities | 1,103,327.39 |
| | <hr/> |

CASH FLOWS FROM INVESTING ACTIVITIES

| | |
|---------------------------------------|-----------|
| Investment Income | 64,076.22 |
| | <hr/> |
| Cash Provided by Investing Activities | 64,076.22 |
| | <hr/> |

| | |
|---|-----------------|
| Net Increase in Cash and Cash Equivalents | 239,406.16 |
| Cash and Cash Equivalents, July 1, 2005 | 2,888,638.51 |
| | <hr/> |
| Cash and Cash Equivalents, June 30, 2006 | \$ 3,128,044.67 |
| | <hr/> <hr/> |

Pitt Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2006

Exhibit A-3

Page 2

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

| | | |
|---|----|------------------------|
| Operating Loss | \$ | (24,783,053.81) |
| Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities: | | |
| Depreciation Expense | | 906,932.84 |
| Miscellaneous Nonoperating Income | | 19,062.65 |
| Changes in Assets and Liabilities: | | |
| Receivables | | (482,969.53) |
| Inventories | | (33,711.99) |
| Notes Receivable, Net | | (300.00) |
| Accounts Payable and Accrued Liabilities | | 322,827.71 |
| Unearned Revenue | | (7,485.75) |
| Funds Held for Others | | (263,673.52) |
| Compensated Absences | | 99,412.19 |
| | | <hr/> |
| Net Cash Used by Operating Activities | \$ | <u>(24,222,959.21)</u> |

RECONCILIATION OF CASH AND CASH EQUIVALENTS

| | | |
|---|----|---------------------|
| Current Assets: | | |
| Cash and Cash Equivalents | \$ | 1,457,642.12 |
| Restricted Cash and Cash Equivalents | | 528,223.40 |
| Noncurrent Assets: | | |
| Restricted Cash and Cash Equivalents | | 1,142,179.15 |
| | | <hr/> |
| Total Cash and Cash Equivalents - June 30, 2006 | \$ | <u>3,128,044.67</u> |

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

| | | |
|--|----|------------|
| Assets Acquired through Assumption of a Liability | \$ | 222,841.73 |
| Increase in Receivables Related to Nonoperating Income | | 61,564.82 |

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

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PITT COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

- A. Financial Reporting Entity** - The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their constituents for their actions. As required by accounting principles generally accepted in the United States of America, the financial reporting entity includes both the primary government and all of its component units. An organization other than a primary government serves as a nucleus for a reporting entity when it issues separate financial statements. Pitt Community College is a component unit of the State of North Carolina and an integral part of the State's *Comprehensive Annual Financial Report*.

The accompanying financial statements present all funds for which the College's Board of Trustees is financially accountable. Related foundations and similar nonprofit corporations for which the College is not financially accountable or for which the nature of their relationship is not considered significant to the College are not part of the accompanying financial statements.

- B. Basis of Presentation** – The accompanying financial statements are presented in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

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

In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the College does not apply Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, for proprietary activities, unless the GASB amends its pronouncements to specifically adopt FASB pronouncements issued after that date.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- C. Basis of Accounting** – The financial statements of the College have been prepared using the economic resource measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.
- D. Cash and Cash Equivalents** – This classification includes undeposited receipts, petty cash, cash on deposit with private bank accounts and deposits held by the State Treasurer in the short-term investment fund. The short-term investment fund maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.
- E. 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 that are verifiable, measurable, and expected to be collected and available for expenditures for which the resource provider's conditions have been satisfied. Receivables are recorded at book value with no provision for doubtful accounts considered necessary. Notes receivable is recorded net of estimated uncollectible amounts.
- F. Inventories** – Inventories, consisting of expendable supplies and merchandise for resale, are valued at cost using the first-in, first-out method.
- G. Capital Assets** – Capital assets are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. The College capitalizes assets that have a value or cost in excess of \$5,000 at the date of acquisition and an expected useful life of more than one year. Library books are generally not considered to have a useful life of more than one year unless part of a collection and are expensed in the year of acquisition.
- Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 10 to 25 years for general infrastructure, 15 to 40 years for buildings, and 2 to 15 years for equipment.
- H. Restricted Assets** – Unexpended capital contributions are classified as restricted assets because their use is limited by donor/grantor agreements.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Certain other assets are classified as restricted because their use is limited by external parties or statute.

- I. **Noncurrent Long-Term Liabilities** – Noncurrent long-term liabilities include notes payable and compensated absences that will not be paid within the next fiscal year.
- J. **Compensated Absences** – The College’s policy is to record the cost of vacation leave when earned. The policy provides for a maximum accumulation of unused vacation leave of 30 days which can be carried forward each July 1 or for which an employee can be paid upon termination of employment. Also, any accumulated vacation leave in excess of 30 days at year end is converted to sick leave.

In addition to the vacation leave described above, compensated absences include the accumulated unused portion of the special annual leave bonuses awarded by the North Carolina General Assembly. The bonus leave balance on June 30 is retained by employees and transferred into the next fiscal year. It is not subject to the limitation on annual leave carried forward described above and is not subject to conversion to sick leave.

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

- K. **Net Assets** – The College’s net assets are classified as follows:

Invested in Capital Assets, Net of Related Debt – This represents the College’s total investment in capital assets, net of outstanding debt obligations related to those capital assets.

Restricted Net Assets – Nonexpendable – Nonexpendable restricted net assets include endowments and similar type assets whose use is limited by donors or other outside sources, and, as a condition of the gift, the principal is to be maintained in perpetuity.

Restricted Net Assets – Expendable – Expendable restricted net assets include resources for which the College is legally or contractually obligated to spend in accordance with restrictions imposed by external parties.

Unrestricted Net Assets – Unrestricted net assets include resources derived from student tuition and fees, sales and services, unrestricted gifts, and interest income.

Restricted and unrestricted resources are tracked using a fund accounting system and are spent in accordance with established fund authorities.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

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

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

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

N. Internal Sales Activities – Certain institutional auxiliary operations provide goods and services to College departments, as well as to its customers. These institutional auxiliary operations include activities such as the bookstore and copy center. In addition, the College has other miscellaneous sales and service units that operated either on a

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

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

NOTE 2 - DEPOSITS AND INVESTMENTS

All funds of the College are deposited in board-designated official depositories and are required to be collateralized in accordance with *North Carolina General Statute* 115D-58.7. Official depositories may be established with any bank or savings and loan association whose principal office is located in North Carolina. Also, the College may establish time deposit accounts, money market accounts, and certificates of deposit. The amount shown on the Statement of Net Assets as cash and cash equivalents includes cash on hand totaling \$3,960.00, and deposits in private financial institutions with a carrying value of \$10,000.00 and a bank balance of \$386,724.82.

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, 2006, the College's bank balance in excess of federal depository insurance coverage was covered under the pooling method.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Generally, funds belonging to the College may be invested in the form of investments pursuant to G.S. 159-30(c), as follows: a commingled investment pool established and administered by the State Treasurer pursuant to G.S. 147-69.3, obligations of or fully guaranteed by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain nonguaranteed federal agencies; prime quality commercial paper bearing specified ratings and banker's acceptances; The North Carolina Capital Management Trust, an SEC registered mutual fund; repurchase agreements; and evidences of ownership of, or fractional undivided interests in, future interest and principal payments on either direct obligations of or fully guaranteed by the United States government, which are held by a specified bank or trust company or any state in the capacity.

At June 30, 2006, the amount shown on the Statement of Net Assets as cash and cash equivalents includes \$3,114,084.67 which represents the College's equity position in the State Treasurer's Short-Term Investment Fund. The Short-Term Investment Fund (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission and does not have a credit rating) had a weighted average maturity of 1.18 years as of June 30, 2006. Assets and shares of the Short-Term Investment Fund are valued at amortized cost, which approximates fair value. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's Short-Term Investment Fund) are included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.ncosc.net/> and clicking on "Financial Reports", or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

NOTE 3 - DONOR RESTRICTED ENDOWMENTS

The College's endowment assets are pooled with State agencies and similar institutions in short-term investments with the State Treasurer's Cash and Investment Pool and are reported as restricted cash and cash equivalents – noncurrent on the accompanying financial statements. 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 assets of the endowment funds. Annual payouts from the College's endowment funds are based on an adopted spending policy, which limits spending to 100% of the interest earnings unless the donor has stipulated otherwise. At June 30, 2006, net appreciation of \$5,362.46 was available to be spent, all of which was restricted to specific purposes.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 4 - RECEIVABLES

Receivables at June 30, 2006, were as follows:

| | Gross Receivables | Less Allowance for Doubtful Accounts | Net Receivables |
|-------------------------------------|------------------------|---|------------------------|
| Current Receivables: | | | |
| Students | \$ 621,019.27 | \$ 0.00 | \$ 621,019.27 |
| Accounts | 317,874.55 | | 317,874.55 |
| Intergovernmental | 362,971.33 | | 362,971.33 |
| Total Current Receivables | \$ 1,301,865.15 | \$ 0.00 | \$ 1,301,865.15 |
| Notes Receivable: | | | |
| Notes Receivable - Current: | | | |
| Institutional Student Loan Programs | \$ 11,086.62 | \$ 7,536.62 | \$ 3,550.00 |

NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2006, is presented as follows:

| | Balance July 1, 2005 | Increases | Decreases | Balance June 30, 2006 |
|---|-------------------------|------------------------|------------------------|--------------------------|
| Capital Assets, Nondepreciable: | | | | |
| Land | \$ 5,491,632.09 | \$ 921,172.12 | \$ 0.00 | \$ 6,412,804.21 |
| Construction in Progress | 7,324,561.49 | 3,167,656.70 | 1,348,967.10 | 9,143,251.09 |
| Total Capital Assets, Nondepreciable | 12,816,193.58 | 4,088,828.82 | 1,348,967.10 | 15,556,055.30 |
| Capital Assets, Depreciable: | | | | |
| Buildings | 20,758,973.49 | 2,174,905.63 | | 22,933,879.12 |
| Machinery and Equipment | 4,292,012.95 | 749,310.14 | 131,676.46 | 4,909,646.63 |
| General Infrastructure | 1,170,028.70 | 427,794.98 | | 1,597,823.68 |
| Total Capital Assets, Depreciable | 26,221,015.14 | 3,352,010.75 | 131,676.46 | 29,441,349.43 |
| Less Accumulated Depreciation: | | | | |
| Buildings | 6,783,684.29 | 532,072.56 | | 7,315,756.85 |
| Machinery and Equipment | 3,095,369.70 | 327,642.20 | 126,123.46 | 3,296,888.44 |
| General Infrastructure | 753,269.59 | 47,218.08 | | 800,487.67 |
| Total Accumulated Depreciation | 10,632,323.58 | 906,932.84 | 126,123.46 | 11,413,132.96 |
| Total Capital Assets, Depreciable, Net | 15,588,691.56 | 2,445,077.91 | 5,553.00 | 18,028,216.47 |
| Capital Assets, Net | \$ 28,404,885.14 | \$ 6,533,906.73 | \$ 1,354,520.10 | \$ 33,584,271.77 |

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2006, were as follows:

| | Amount |
|---|------------------------|
| Accounts Payable | \$ 694,623.03 |
| Accrued Payroll | 511,556.41 |
| Total Accounts Payable and Accrued Liabilities | \$ 1,206,179.44 |

NOTE 7 - LONG-TERM LIABILITIES

A. Changes in Long-Term Liabilities – A summary of changes in the long-term liabilities is presented as follows:

| | Balance July 1, 2005 | Additions | Reductions | Balance June 30, 2006 | Current Portion |
|------------------------------------|-------------------------|----------------------|----------------------|--------------------------|----------------------|
| Notes Payable | \$ 0.00 | \$ 222,841.73 | \$ 16,654.94 | \$ 206,186.79 | \$ 51,950.13 |
| Compensated Absences | 1,290,688.18 | 645,322.43 | 545,910.24 | 1,390,100.37 | 106,948.00 |
| Total Long-Term Liabilities | \$ 1,290,688.18 | \$ 868,164.16 | \$ 562,565.18 | \$ 1,596,287.16 | \$ 158,898.13 |

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

| Purpose | Financial Institution | Interest Rate/ Ranges | Final Maturity Date | Original Amount of Issue | Principal Paid Through 06/30/2006 | Principal Outstanding 06/30/2006 |
|----------------|--------------------------|-----------------------------|---------------------------|--------------------------------|---|--|
| Equipment Loan | RBC Centura | 5.84% | 03/02/2010 | \$ 222,841.73 | \$ 16,654.94 | \$ 206,186.79 |

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The annual requirements to pay principal and interest on the notes payable at June 30, 2006, are as follows:

| Fiscal Year | Annual Requirements | |
|--------------------|---------------------|--------------|
| | Notes Payable | |
| | Principal | Interest |
| 2007 | \$ 51,950.13 | \$ 10,665.39 |
| 2008 | 55,066.54 | 7,548.98 |
| 2009 | 58,369.92 | 4,245.60 |
| 2010 | 40,800.20 | 943.48 |
| Total Requirements | \$ 206,186.79 | \$ 23,403.45 |

NOTE 8 - REVENUES

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

| | Gross Revenues | Internal Sales Eliminations | Less Scholarship Discounts | Net Revenues |
|---|-------------------|-----------------------------------|----------------------------------|-----------------|
| Operating Revenues: | | | | |
| Student Tuition and Fees | \$ 6,733,374.40 | \$ 0.00 | \$ 1,839,605.66 | \$ 4,893,768.74 |
| Sales and Services: | | | | |
| Sales and Services of Auxiliary Enterprises: | | | | |
| Copy Center | \$ 193,379.91 | \$ 193,379.91 | \$ 0.00 | \$ 0.00 |
| College Store | 2,813,898.85 | 64,340.32 | 774,012.27 | 1,975,546.26 |
| Athletics | 16,221.75 | | | 16,221.75 |
| Preschool | 398,022.84 | | | 398,022.84 |
| Other | 59,160.00 | | | 59,160.00 |
| Sales and Services of Education and Related Activities | 173,019.98 | | | 173,019.98 |
| Total Sales and Services | \$ 3,653,703.33 | \$ 257,720.23 | \$ 774,012.27 | \$ 2,621,970.83 |

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 9 - OPERATING EXPENSES BY FUNCTION

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

| | Personal Services | Supplies and Materials | Services | Scholarships and Fellowships | Utilities | Depreciation | Total |
|-------------------------------------|-------------------------|------------------------------|------------------------|------------------------------------|------------------------|----------------------|-------------------------|
| Instruction | \$ 15,940,406.88 | \$ 1,252,974.57 | \$ 684,252.27 | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 17,877,633.72 |
| Public Service | | | 380,811.36 | | | | 380,811.36 |
| Academic Support | 2,465,306.42 | 298,513.68 | 213,870.03 | | | | 2,977,690.13 |
| Student Services | 1,898,979.10 | 69,856.92 | 45,857.28 | | | | 2,014,693.30 |
| Institutional Support | 2,904,904.98 | 3,142,554.18 | 586,695.15 | | | | 6,634,154.31 |
| Operations and Maintenance of Plant | 1,096,824.34 | 205,099.22 | 942,918.36 | | 1,053,161.45 | | 3,298,003.37 |
| Student Financial Aid | 204,018.40 | 1,469.15 | 35,508.18 | 3,790,198.36 | | | 4,031,194.09 |
| Auxiliary Enterprises | 701,006.75 | | 265,563.53 | | | | 966,570.28 |
| Depreciation | | | | | | 906,932.84 | 906,932.84 |
| Total Operating Expenses | <u>\$ 25,211,446.87</u> | <u>\$ 4,970,467.72</u> | <u>\$ 3,155,476.16</u> | <u>\$ 3,790,198.36</u> | <u>\$ 1,053,161.45</u> | <u>\$ 906,932.84</u> | <u>\$ 39,087,683.40</u> |

NOTE 10 - PENSION PLANS

A. Retirement Plans – Each permanent full-time employee, as a condition of employment, is a member of the Teachers' and State Employees' Retirement System. The Teachers' and State Employees' Retirement System (System) is a cost sharing multiple-employer defined benefit pension plan administered by the North Carolina State Treasurer.

Benefit and contribution provisions for the Teachers' and State Employees' Retirement System are established by *North Carolina General Statutes*. 135-5 and 135-8 and may be amended only by the North Carolina General Assembly. Employer and member contribution rates are set each year by the North Carolina General Assembly based on annual actuarial valuations. For the year ended June 30, 2006, these rates were set at 2.34% of covered payroll for employers and 6% of covered payroll for members.

For the year ended June 30, 2006, the College had a total payroll of \$21,179,194.45, of which \$16,700,307.25 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were \$1,002,445.29 and \$386,622.63, respectively. The College made 100% of its annual required contributions for the years ended June 30, 2006, 2005, and 2004, which were \$386,622.63, \$329,969.97, and \$30,399.95, respectively.

The Teachers' and State Employees' Retirement System's financial information is included in the State of North Carolina's *Comprehensive*

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Annual Financial Report. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.state.nc.us/> and clicking on "Financial Reports", or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

- B. Deferred Compensation and Supplemental Retirement Income Plans** – IRC Section 457 Plan – The State of North Carolina offers its permanent employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 through the North Carolina Public Employee Deferred Compensation Plan (the Plan). The Plan permits each participating employee to defer a portion of his or her salary until future years. The deferred compensation is available to employees upon separation from service, death, disability, retirement, or financial hardships if approved by the Board of Trustees of the Plan. The Board, a part of the North Carolina Department of Administration, maintains a separate fund for the exclusive benefit of the participating employees and their beneficiaries, *the North Carolina Public Employee Deferred Compensation Trust Fund*. The Board also contracts with an external third party to perform certain administrative requirements and to manage the trust fund's assets. All costs of administering and funding the Plan are the responsibility of the Plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to \$58,802.96 for the year ended June 30, 2006.

IRC Section 401(k) Plan – All members of the Teachers' and State Employees' Retirement System are eligible to enroll in the Supplemental Retirement Income Plan, a defined contribution plan, created under Internal Revenue Code Section 401(k). All costs of administering the Plan are the responsibility of the Plan participants. No costs are incurred by the College except for a 5% employer contribution for the College's law enforcement officers, which is mandated under G.S. 143-166.30(e). Total employer contributions on behalf of College law enforcement officers for the year ended June 30, 2006, were \$12,977.74. The voluntary contributions by employees amounted to \$260,640.00 for the year ended June 30, 2006.

IRC Section 403(b) and 403(b)(7) Plans – Eligible College employees can participate in tax sheltered annuity plans created under Internal Revenue Code Sections 403(b) and 403(b)(7). The employee's eligible contributions, made through salary reduction agreements, are exempt from federal and State income taxes until the annuity is received or the contributions are withdrawn. These plans are exclusively for employees of colleges and certain charitable and other nonprofit institutions. All costs of administering and funding these plans are the responsibility of the

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to \$49,600.00 for the year ended June 30, 2006.

NOTE 11 - OTHER POSTEMPLOYMENT BENEFITS

- A. Health Care for Long-Term Disability Beneficiaries and Retirees –** The College participates in State-administered programs which provide postemployment health insurance to eligible former employees. Eligible former employees include long-term disability beneficiaries of the Disability Income Plan of North Carolina and retirees of the Teachers' and State Employees' Retirement System. These benefits were established by Chapter 135, Article 3, Part 3, of the General Statutes and may be amended only by the North Carolina General Assembly. Funding for the health care benefit for long-term disability beneficiaries and retirees is financed on a pay-as-you-go basis. The College contributed 3.8% of the covered payroll under the Teachers' and State Employees' Retirement System for these health care benefits. For the fiscal year ended June 30, 2006, the College's total contribution to the Plan was \$634,611.68. The College assumes no liability for retiree health care benefits provided by the programs other than its required contribution. Additional detailed information about these programs can be located in the State of North Carolina's *Comprehensive Annual Financial Report*.
- B. Long-Term Disability –** The College participates in the Disability Income Plan of North Carolina (DIPNC). Established by Chapter 135, Article 6, of the General Statutes, DIPNC provides short-term and long-term disability benefits to eligible members of the Teachers' and State Employees' Retirement System. Long-term disability income benefits are advance funded on an actuarially determined basis using the one-year term cost method. The College contributes .52% of covered payroll under the Teachers' and State Employees' Retirement System to the DIPNC. For the year ended June 30, 2006, the College's total contribution to the DIPNC was \$86,841.60. The College assumes no liability for long-term disability benefits under the Plan other than its contribution. Additional detailed information about the DIPNC is disclosed in the State of North Carolina's *Comprehensive Annual Financial Report*.

NOTE 12 - 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

methods, and can include participation in State-administered insurance programs, purchase of commercial insurance, and self-retention of certain risks. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

Tort claims of up to \$500,000 are self-insured under the authority of the State Tort Claims Act. In addition, the State provides excess public officers' and employees' liability insurance up to \$5,000,000 via contract with a private insurance company. The premium, based on a composite rate, is paid by the North Carolina Community College System Office directly to the private insurer.

Fire and other property losses are covered by the Public School Insurance Fund, a State-administered public entity risk pool. This fund is financed by premiums and interest and incurs a \$10 million self-insured deductible per occurrence. Reinsurance is purchased by the fund to cover catastrophic events in excess of the \$10 million deductible. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

State-owned vehicles used for instructional purposes are covered by liability insurance handled by the State Department of Insurance. Liability insurance for other College-owned vehicles is covered by contracts with private insurance companies.

The College is protected for losses from employee dishonesty and computer fraud for employees paid in whole or in part from State funds. The blanket honesty bond is with a private insurance company and is handled by the North Carolina Department of Insurance with coverage of \$5,000,000 per occurrence and a \$50,000 deductible. Employee dishonesty and computer fraud losses for employees paid from county and institutional funds are covered by contracts with private insurance companies.

Employees and retirees are provided health care coverage by the Comprehensive Major Medical Plan (Plan), a component unit of the State. The Plan is funded by employer and employee contributions and is administered by a third-party contractor.

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

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

Term life insurance of \$25,000 to \$50,000 is provided to eligible workers. This self-insured death benefit program is administered by the State Treasurer and funded via employer contributions. The employer contribution rate was .16% for the current fiscal year.

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

NOTE 13 - 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 \$633,659.06 and on other purchases were \$27,037.41 at June 30, 2006.

NOTE 14 - PITT COMMUNITY COLLEGE FOUNDATION, INC.

The Pitt Community College Foundation, Inc. is a separately incorporated nonprofit foundation associated with the College. This organization serves as the primary fundraising arm of the College through which individuals, corporations, and other organizations support College programs by providing scholarships, fellowships, faculty salary supplements, and unrestricted funds to specific departments and the College's overall academic environment. The College's financial statements do not include the assets, liabilities, net assets, or operational transactions of the Foundation, except for the distributions made and benefits provided by the Foundation. The distributions received and/or benefits provided approximated \$127,813.85 for the year ended June 30, 2006.

NOTE 15 - NET ASSET RESTATEMENT

As of July 1, 2005, net assets as previously reported was restated as follows

| | <u>Amount</u> |
|---|--------------------------------|
| July 1, 2005, Net Assets as Previously Reported | \$ 31,455,776.61 |
| Restatements: | |
| Prior Year Gift Transferred to Foundation | (2,955.04) |
| Fundraising Activity Transferred to Foundation | <u>(6,869.74)</u> |
| July 1, 2005, Net Assets as Restated | <u><u>\$ 31,445,951.83</u></u> |



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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
Pitt Community College
Greenville, North Carolina

We have audited the financial statements of Pitt Community College, a component unit of the State of North Carolina, as of and for the year ended June 30, 2005, and have issued our report thereon dated May 21, 2007.

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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the College's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the College's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. A reportable condition is described in the Audit Finding and Recommendation section of this report.

Finding

INADEQUATE CONTROLS OVER PAYROLL AND CASH

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by

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employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the College's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests, which are reported in the Audit Finding and Recommendation section of this report, disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. We also noted certain additional matters that we have reported to management of the College in a separate letter dated May 30, 2007.

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

Leslie W. Merritt, Jr.

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

May 21, 2007

AUDIT FINDING AND RECOMMENDATION

Matters Related to Financial Reporting or Federal Compliance Objectives

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

INADEQUATE CONTROLS OVER PAYROLL AND CASH

The College has granted computer access rights to payroll personnel that are inconsistent with prudent internal control principles. Additionally, segregation of duties over the cashing function is inadequate. As a result, there is an increased risk of unauthorized entries and misappropriation of assets.

The payroll technician has the ability to add employees to the system and also to pay them. Since there is no independent review of the payroll register, it is possible that fictitious employees can be set up and paid.

The Head Cashier receipts cash, voids receipts, approves all voids and is the only one who reviews the daily void receipt report. She also reconciles her own cash drawer and prepares the daily deposit and information used in the bank reconciliation process. Additionally, a mail receipts log is prepared but no one agrees it to the daily receipts register.

Recommendation: The College should take appropriate steps to strengthen internal controls over payroll and cash so that the same person does not have the ability to initiate, process, and record a transaction.

College's Response: The College has removed the access rights in question from the payroll personnel. The College agrees to implement management reviews and approvals of critical reports within the cashing functions in order to strengthen internal controls relating to separation of duties.

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