



STATE OF NORTH CAROLINA

PAMLICO COMMUNITY COLLEGE

GRANTSBORO, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2007

OFFICE OF THE STATE AUDITOR

LESLIE W. MERRITT, JR., CPA, CFP

STATE AUDITOR

PAMLICO COMMUNITY COLLEGE

GRANTSBORO, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2007

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THE NORTH CAROLINA COMMUNITY COLLEGE SYSTEM

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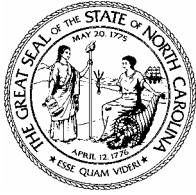
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STATE OF NORTH CAROLINA
Office of the State Auditor

Leslie W. Merritt, Jr., CPA, CFP
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AUDITOR'S TRANSMITTAL

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

We have completed a financial statement audit of Pamlico Community College for the year ended June 30, 2007, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

Our consideration of internal control over financial reporting and compliance and other matters based on an audit of the financial statements disclosed certain deficiencies that are detailed in the Audit Findings and Responses section of this report. The College's response is included following each 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.

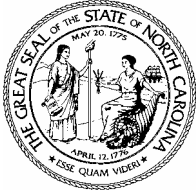
Leslie W. Merritt, Jr.

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

May 8, 2008

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Pamlico Community College
Grantsboro, North Carolina

We have audited the accompanying basic financial statements of Pamlico Community College, a component unit of the State of North Carolina, as of and for the year ended June 30, 2007, 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 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 Pamlico Community College as of June 30, 2007, 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 April 2, 2008, 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.

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

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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

April 2, 2008

PAMLICO COMMUNITY COLLEGE MANAGEMENT'S DISCUSSION AND ANALYSIS

Pamlico Community College (PCC) is a small two-year institution located in rural Eastern North Carolina, that in 2006-2007 began its 45th year of serving the education, cultural and personal interests of this area. In 2006-2007, Pamlico Community College increased enrollment over the previous year by 10% and attained a final FTE of 438. Much of this enrollment growth is attributed to the expansion of our Allied Health program areas of study as exhibited in the "Student Enrollment per Semester" graph. Enrollment for 2007-08 will probably go down slightly because the high school is raising the criteria for taking PCC courses from a 2.0 GPA to a 2.5 GPA.

We have increased the availability of college classes for high school students through Huskins, Dual Enrollment, and most recently the Learn and Earn Programs. We are also implementing a Construction Trades program to offer skills training in Plumbing, Masonry, Welding and Carpentry. These new training opportunities will be available in the Fall of 2008, and will help meet the demand for skilled workers in Construction Trades in Pamlico County. Our new Allied Health facility opened in January 2008. It will stimulate interest in our Allied Health programs and we anticipate an increase in enrollment for the spring semester.

In 2006, the Continuing Education area increased services significantly which generated 34 FTE's over 2005. The increase was the result of our ability to offer more night and weekend classes, especially in the area of Allied Health, and Fire and Rescue training. In 2007-08 we will be adding business courses and an Upholstery class at the Pamlico Correctional Institute.

The "Small Business Center," and the Pamlico County JobLink Career Center, located in Bayboro, both continue to serve as valuable assets to the College and the community. The Small Business Center serves to help bring the College, the business community, our local Chamber of Commerce, and our citizenry together to assist with the overall economic development of Pamlico County. The Pamlico County Job Link Career Center offers a variety of employment and training services that are available to students and the public at large. It also serves as a connector to the local business community by discovering their human resources needs and connecting them with a qualified workforce.

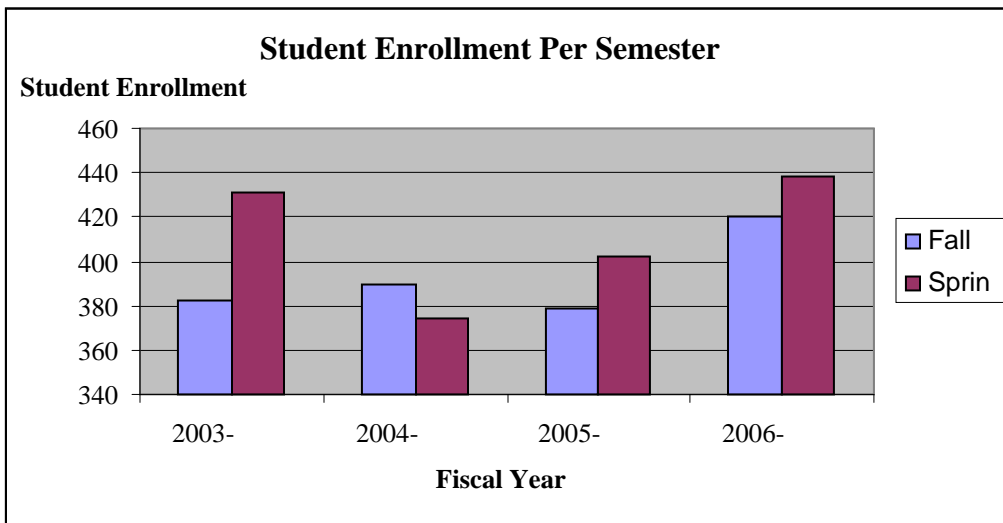
Our new \$4.3 million Allied Health Building opened during the Spring Semester of the 2007-2008 academic year. This new facility will allow all of our Allied Health programs, both Continuing Education and Curriculum, to be housed in one central location. Our Allied Health curriculum faculty members have been working closely with our continuing education staff to provide short term classes in Phlebotomy Technician, EKG Technician, and Medical Billing and Coding Specialist which have been well received by the medical community. This is made available through a national grant entitled **BREAKING THROUGH** which encourages a seamless pathway between curriculum and continuing education instruction. This concept is also being established to create that same kind of pathway for our students in

MANAGEMENT’S DISCUSSION AND ANALYSIS (CONTINUED)

high school who wish to take advantage of our college programs. Our application was chosen by the State as one of five participants to receive this grant.

The new auditorium will provide many new educational, civic and cultural opportunities for our students and the community at large. It will also be available as an auxiliary hurricane shelter for Pamlico County. Additional local revenues have been provided for the maintenance and operation of the new Allied Health facility and multi-purpose auditorium.

We continue to offer various programs for both curriculum and continuing education students as well as provide an expanded presence to area businesses through our Small Business Center. Enrollment data for campus, Huskins Program (college courses taught at the high school), Dual Enrollment Program (high school students take college courses on the College campus) and prison programs is as follows:



<u>Student Count</u>	<u>2003-2004</u>	<u>2004-2005</u>	<u>2005-2006</u>	<u>2006-2007</u>
Fall	382	390	379	420
Spring	431	374	402	438

Overview of Financial Statements

The basic financial statements are made of two components: the exhibits and the notes to the financial statements. The Statement of Net Assets and Statement of Revenues, Expenses, and Changes in Net Assets are two of the financial statement exhibits that report information about the College. The Statement of Net Assets presents all of the College’s assets and liabilities, with the difference between the two reported as “net assets.” Over time, changes in net assets measure whether the College’s financial position is improving or deteriorating. The Statement of Revenues, Expenses, and Changes in Net Assets present information showing how the net assets changed during the fiscal year.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

The Notes to the Financial Statements provide additional information that is needed for a full understanding of the data provided in the statements. Notes to the Financial Statements are found at the end of this report.

Condensed Statement of Net Assets

The following chart compares asset data for the last two years:

Condensed Statement of Net Assets June 30, 2007 and 2006 (in thousands)

	2007	2006	Increase (Decrease)
Current and Other Noncurrent Assets	\$ 3,206.22	\$ 1,151.54	\$ 2,054.68
Capital Assets, Net	6,391.51	3,785.30	2,606.21
Total Assets	9,597.73	4,936.84	4,660.89
Noncurrent Long-Term Liabilities	188.85	200.57	(11.72)
Other Liabilities	761.37	81.95	679.42
Total Liabilities	950.22	282.52	667.70
Net Assets			
Invested In Capital Assets	6,391.51	3,785.30	2,606.21
Restricted	1,836.70	419.16	1,417.54
Unrestricted	419.30	449.86	(30.56)
Total Net Assets	\$ 8,647.51	\$ 4,654.32	\$ 3,993.19

Pamlico Community College has adequate financial resources to meet the present needs of its student population. The Statement of Net Assets is strong due to its high liquidity and virtually nonexistent debt. The increase in "Current and Other Noncurrent Assets" and "Capital Assets, Net" categories is due to approximately \$1 million in State bond receivable and approximately \$1 million receivable from an Economic Development Administration (EDA) grant. The \$2.6 million increase in investment in plant over the previous year was for the construction of our Life Care Learning Center, a \$4.2 million dollar project, which began construction this year.

The increase in "Other Liabilities" is due to contracts payable and construction retainage for the Life Care Learning Center project. Pamlico Community College has no long-term capital debt or capital leases at this time.

"Invested in Capital Assets" and "Restricted Net Assets" both increased in 2007 due to the addition of the Life Care Learning Center.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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

The following chart depicts the College's activities for the last two years:

**Condensed Statement of Revenues, Expenses, and Changes in Net Assets
for the Year Ended June 30, 2007 and 2006
(in thousands)**

	<u>2007</u>	<u>2006</u>	<u>Increase (Decrease)</u>
Operating Revenues			
Student Tuition and Fees, Net	\$ 61.31	\$ 74.47	\$ (13.16)
Federal Grants and Contracts	568.92	473.80	95.12
State and Local Grants and Contracts	50.50	45.76	4.74
Sales and Services, Net	116.87	101.39	15.48
Other Operating Revenues	4.03	1.33	2.70
Total Operating Revenues	<u>801.63</u>	<u>696.75</u>	<u>104.88</u>
Less Operating Expenses	<u>5,279.93</u>	<u>4,977.57</u>	<u>302.36</u>
Operating Loss	<u>(4,478.30)</u>	<u>(4,280.82)</u>	<u>(197.48)</u>
Nonoperating Revenues (Expenses)			
State Aid	3,571.59	3,262.51	309.08
County Appropriations	386.54	370.61	15.93
Noncapital grants	106.19	94.20	11.99
Noncapital gifts	36.48	72.25	(35.77)
Investment Income, Net	39.95	26.19	13.76
Other Nonoperating Revenues (Expenses)	(3.91)	(705.46)	701.55
Capital Aid and Grants			
State Capital Aid	2,709.28	105.10	2,604.18
County Capital Appropriations	11.10	38.76	(27.66)
Capital Grants	1,600.00		1,600.00
Capital Gifts	12.40	110.00	(97.60)
Additions to Endowment	1.87		1.87
Total Nonoperating and Capital Revenues	<u>8,471.49</u>	<u>3,374.16</u>	<u>5,097.33</u>
Change in Net Assets	<u>3,993.19</u>	<u>(906.66)</u>	<u>4,899.85</u>
Net Assets, Beginning of Year	<u>4,654.32</u>	<u>5,560.98</u>	<u>(906.66)</u>
Net Assets, End of Year	<u>\$ 8,647.51</u>	<u>\$ 4,654.32</u>	<u>\$ 3,993.19</u>

“Federal Grants and Contracts” increased from 2006 to 2007 due to an increase in our Allied Health program enrollment and consist primarily of Pell and FSEOG received by students. This caused a corresponding decrease in “Student Tuition and Fees,” due to the associated tuition discounting entry. The increase in “Sales and Services,” is due to increased Bookstore sales. The net effect of all transactions is an increase in total operating revenues of \$105 thousand.

“Nonoperating Revenues, State Aid” increased in 2007 due to additional funding received for increased Fall enrollment of greater than 5% over Fall of the previous year. “Noncapital

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Gifts” decreased due to less boat donations to the PCC Foundation. “Capital Aid and Grants, State Capital Aid” increased during 2007 due to the bond funds received on the new construction of the Life Care Learning Center building and auditorium. “Capital Grants” increased to \$1.6 million representing a \$1.5 million grant from the U.S. Department of Commerce, EDA and a \$100,000 grant from the U.S. Department of Agriculture toward the construction of the Life Care Learning Center.

The increase of \$1,865 in the “Additions to Endowment” category is due to donations added to the endowment accounts of both J. Holton and Louise Muse. The Change in “Net Assets” and “Net Assets, End of Year” increased primarily due to the work in progress of the Life Care Learning Center and auditorium.

The decrease in “Other Nonoperating Expenses” was due to a change in the funding from the State bond fund. The College returned \$705 thousand in unspent bond allotment during the prior fiscal year.

The following chart represents the operating expenses of Pamlico Community College by activity:

Operating Expenses for the Year Ended June 30, 2007 and 2006 (in thousands)

	2007	2006	Increase (Decrease)
Operating Expenses			
Personal Services	\$ 3,743.83	\$ 3,543.69	\$ 200.14
Supplies and Materials	533.24	460.99	72.25
Services	397.01	376.25	20.76
Scholarships/Fellowships	364.13	334.83	29.30
Utilities	81.91	75.56	6.35
Depreciation	159.81	186.25	(26.44)
Total Operating Expenses	<u>\$ 5,279.93</u>	<u>\$ 4,977.57</u>	<u>\$ 302.36</u>

”Operating Expenses” increased by \$302 thousand from fiscal year 2006. This is primarily due to an increase in personal services expenses as a result of an approximate six percent wage increase for full-time employees. Supplies and materials increased mainly due to a \$37 thousand increase in cost of goods sold in the bookstore and a \$32 thousand increase in instructional supplies due to the growth in the Allied Health program. Depreciation decreased due to restatements made to extend the useful life of fully depreciated assets that are still in use.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Capital Assets

The following chart depicts the College's capital assets for the last two years:

Capital Assets June 30, 2007 (in thousands)			
	2007	2006	Increase (Decrease)
Capital Assets, Nondepreciable			
Land	\$ 381.05	\$ 381.05	\$ 0.00
Construction in Progress	2,812.38	183.09	2,629.29
Total Capital Assets, Nondepreciable	3,193.43	564.14	2,629.29
Capital Assets, Depreciable			
Buildings	4,171.16	4,171.16	
Machinery and Equipment	624.47	546.95	77.52
General Infrastructure	61.35	61.35	
Total Capital Assets, Depreciable	4,856.98	4,779.46	77.52
Less: Accumulated Depreciation	1,658.90	1,558.30	100.60
Capital Assets, Depreciable, Net	3,198.08	3,221.16	(23.08)
Capital Assets, Net	\$ 6,391.51	\$ 3,785.30	\$ 2,606.21

The increase in "Construction in Progress" is the result of progress made on construction of the Life Care Learning Center building, which will house our Allied Health programs upon completion. The College secured an EDA grant of \$1.5 million and consequent matching bond funds during the 2005 fiscal year for this project and construction began during fiscal year 2007.

The Paul H. Johnson Building on our main campus is 31 years old; therefore, a new roof is expected to be required within the next few years. The expected cost for this replacement is estimated at this time to be approximately \$250 thousand. The College's management will look to Pamlico County to provide funding in part or in whole for the replacement cost.

Additional Discussion

Pamlico Community College increased donations to both the J. Holton and Louise Muse endowments this fiscal year. Prior existing endowment values remained unchanged. Additionally, the College did not incur any long-term debt during fiscal year 2007 nor have a change in its credit rating or suffer any debt limitations.

Economic Outlook

The county has experienced economic deterioration in the farming and commercial fishing industry over the past few years, however, residential construction in the area is on the rise. The unemployment rate in Pamlico County was 1.89% in June, 2007, which is a decrease from 4.6% the previous year. The 2004 census indicated a population of approximately 13 thousand, which is a .93% decrease from the 2000 census; however, the county expects to see a growth trend to begin due to the anticipated development of coastal residential properties. River Dunes, formerly referred to as Gum Thicket, is an example of one such development, which projects an additional 500 single-family homes. The area expects to experience further growth due to the widening of NC Hwy. 55 to five lanes, the main entrance into our county. The anticipated completion of this project is late 2008.

The management is optimistic about the future of Pamlico Community College. There are challenges expected in managing the growth of this College, but management is excited about the opportunity to provide quality education and training to the citizens of Pamlico County.

Pamlico Community College
Statement of Net Assets
June 30, 2007

Exhibit A-1

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 577,180.08
Restricted Cash and Cash Equivalents	374,388.52
Short-Term Investments	300.00
Receivables, Net (Note 4)	35,320.01
Inventories	70,048.26
Notes Receivable, Net (Note 4)	4,991.11
	<hr/>
Total Current Assets	1,062,227.98

Noncurrent Assets:

Restricted Cash and Cash Equivalents	113,099.49
Receivables (Note 4)	1,038,855.00
Restricted Due from Primary Government	992,041.18
Capital Assets - Nondepreciable (Note 5)	3,193,433.53
Capital Assets - Depreciable, Net (Note 5)	3,198,072.98
	<hr/>
Total Noncurrent Assets	8,535,502.18

Total Assets

9,597,730.16

LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 6)	744,535.03
Unearned Revenue	7,146.23
Funds Held for Others	4,274.74
Long-Term Liabilities - Current Portion (Note 7)	5,420.11
	<hr/>
Total Current Liabilities	761,376.11

Noncurrent Liabilities:

Long-Term Liabilities (Note 7)	188,849.15
	<hr/>

Total Liabilities

950,225.26

NET ASSETS

Invested in Capital Assets	6,391,506.51
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	108,824.75
Expendable:	
Scholarships and Fellowships	16,563.06
Loans	119,603.05
Capital Projects	1,554,897.58
Restricted for Specific Programs	2,637.08
Other	34,178.13
Unrestricted	419,294.74
	<hr/>
Total Net Assets	\$ 8,647,504.90

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

***Pamlico Community College
Statement of Revenues, Expenses, and
Changes in Net Assets
For the Fiscal Year Ended June 30, 2007***

Exhibit A-2

REVENUES

Operating Revenues:	
Student Tuition and Fees, Net (Note 9)	\$ 61,310.09
Federal Grants and Contracts	568,915.57
State and Local Grants and Contracts	50,503.54
Sales and Services, Net (Note 9)	116,870.28
Other Operating Revenues	4,035.00
	<hr/>
Total Operating Revenues	801,634.48
	<hr/>

EXPENSES

Operating Expenses:	
Personal Services	3,743,827.98
Supplies and Materials	533,242.85
Services	397,009.57
Scholarships and Fellowships	364,136.44
Utilities	81,910.50
Depreciation	159,806.89
	<hr/>
Total Operating Expenses	5,279,934.23
	<hr/>
Operating Loss	(4,478,299.75)
	<hr/>

NONOPERATING REVENUES (EXPENSES)

State Aid	3,571,594.97
County Appropriations	386,544.00
Noncapital Grants	106,193.17
Noncapital Gifts	36,475.40
Investment Income, Net	39,949.19
Other Nonoperating Expenses	(3,910.43)
	<hr/>
Net Nonoperating Revenues	4,136,846.30
	<hr/>
Loss Before Other Revenues	(341,453.45)
	<hr/>
State Capital Aid	2,709,278.21
County Capital Aid	11,100.00
Capital Grants	1,600,000.00
Capital Gifts	12,397.10
Additions to Endowments	1,865.00
	<hr/>
Increase in Net Assets	3,993,186.86
	<hr/>

NET ASSETS

Net Assets, July 1, 2006 as Restated (Note 15)	4,654,318.04
	<hr/>
Net Assets, June 30, 2007	\$ 8,647,504.90
	<hr/> <hr/>

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

***Pamlico Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2007***

Exhibit A-3

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 800,660.79
Payments to Employees and Fringe Benefits	(3,756,414.67)
Payments to Vendors and Suppliers	(1,001,534.95)
Payments for Scholarships and Fellowships	(366,137.77)
Loans Issued to Students	(28,944.51)
Collection of Loans to Students	21,480.04
Other Payments	7,928.90
	<hr/>
Net Cash Used by Operating Activities	(4,322,962.17)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Aid Received	3,571,594.97
County Appropriations	386,544.00
Noncapital Grants Received	97,452.56
Noncapital Gifts and Endowments Received	38,340.40
	<hr/>
Cash Provided by Noncapital Financing Activities	4,093,931.93

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

State Capital Aid Received	1,804,517.56
County Capital Aid	11,100.00
Capital Grants Received	551,677.00
Acquisition and Construction of Capital Assets	(2,073,129.11)
	<hr/>
Net Cash Provided by Capital and Related Financing Activities	294,165.45

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from Sales and Maturities of Investments	1,000.00
Investment Income	55,349.19
	<hr/>
Cash Provided by Investing Activities	56,349.19

Net Increase in Cash and Cash Equivalents	121,484.40
Cash and Cash Equivalents, July 1, 2006	943,183.69
	<hr/>
Cash and Cash Equivalents, June 30, 2007	\$ 1,064,668.09

***Pamlico Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2007***

***Exhibit A-3
Page 2***

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

Operating Loss	\$ (4,478,299.75)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	159,806.89
Provision for Uncollectible Loans and Write-Offs	14,981.76
Miscellaneous Nonoperating Revenue	9,310.40
Changes in Assets and Liabilities:	
Receivables, Net	(7,356.65)
Inventories	(6,145.96)
Notes Receivable, Net	(7,464.47)
Accounts Payable and Accrued Liabilities	12,687.69
Unearned Revenue	4,381.63
Funds Held for Others	(1,381.50)
Compensated Absences	(23,482.21)
	<u>(23,482.21)</u>
Net Cash Used by Operating Activities	<u>\$ (4,322,962.17)</u>

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	\$ 577,180.08
Restricted Cash and Cash Equivalents	374,388.52
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	113,099.49
	<u>113,099.49</u>
Total Cash and Cash Equivalents - June 30, 2007	<u>\$ 1,064,668.09</u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through Assumption of a Liability	\$ 693,710.65
Assets Acquired through a Gift	12,397.10
Increase in Receivables Related to Nonoperating Income	1,959,683.10
Capital Asset Write-Offs	13,220.83

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

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PAMLICO COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2007

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. Pamlico Community College is a component unit of the State of North Carolina and an integral part of the State's *Comprehensive Annual Financial Report*.

The accompanying financial statements present all funds of the College and the component unit for which the College's Board of Trustees is financially accountable. The College's component unit is blended in the financial statements. The blended component unit, although legally separate, is, in substance, part of the College's operations and therefore, is reported as if it were part of the College.

Blended Component Unit - Although legally separate, Pamlico Community College Foundation is reported as if it were part of the College. The Foundation is governed by a 13-member board consisting of 1 ex officio director and 12 elected directors. The Foundation's purpose is to aid, support, and promote teaching, research, and service in the various educational, scientific, scholarly, professional, artistic, and creative endeavors of the College. Because the elected directors of the Foundation are appointed by the members of the Pamlico Community College Board of Trustees and the Foundation's sole purpose is to benefit Pamlico Community College, its financial statements have been blended with those of the College.

Separate financial statements for the Foundation may be obtained from the College Controller's Office, P.O. Box 185, Grantsboro, NC 28529, or by calling (252) 249-1851. Other related foundations and similar nonprofit corporations for which the College is not financially accountable are not part of the accompanying financial statements.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

- C. Basis of Accounting** - The financial statements of the College have been prepared using the economic resource measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. 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. Investments** - This classification includes asset holdings by the Foundation. Asset holdings are reported at cost, if purchased, or at fair value or appraised value at date of gift, if donated.
- 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, 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 net of estimated uncollectible amounts.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

G. Inventories - Inventories, consisting of expendable supplies and merchandise for resale, are valued at the lower of cost or market using the last invoice cost method.

H. Capital Assets - Capital assets are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. The 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 15 to 35 years for general infrastructure, 25 to 50 years for buildings, and 5 to 25 years for equipment.

I. Restricted Assets - Unexpended capital contributions are classified as restricted assets because their use is limited by donor/grantor agreements. Certain other assets are classified as restricted because their use is limited by external parties or statute.

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

K. Compensated Absences - The College's policy is to record the cost of vacation leave when earned. The policy provides for a maximum accumulation of unused vacation leave of 30 days which can be carried forward each January 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. Under this policy, the accumulated vacation leave for each employee at June 30 equals the leave carried forward at the previous December 31 plus the leave earned, less the leave taken between January 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 December 31 is retained by employees and transferred into the next calendar 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

L. Net Assets - The College's net assets are classified as follows:

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

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

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

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

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

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

N. Revenue and Expense Recognition - The College classifies its revenues and expenses as operating or nonoperating in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the College's principal

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

ongoing operations. Operating revenues include activities that have characteristics of exchange transactions, such as (1) student tuition and fees, (2) sales and services of auxiliary enterprises, and (3) certain federal, State and local grants and contracts. Operating expenses are all expense transactions incurred other than those related to capital and noncapital financing or investing activities as defined by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*.

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

- O. Internal Sales Activities** - 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 central stores. In addition, the College has other miscellaneous sales and service 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.
- P. County Appropriations** - County appropriations are provided to the College primarily to fund its plant operation and maintenance function and to fund construction projects, motor vehicle purchases, and maintenance of equipment. Unexpended county current appropriation and county capital appropriation do not revert and are available for future use approved by the county commissioners.

NOTE 2 - DEPOSITS AND INVESTMENTS

- A. Deposits** - All funds of the College are deposited in board-designated official depositories and are required to be collateralized in accordance with North Carolina General Statute 115D-58.7. Official depositories may be established with any bank or savings and loan association whose principal office is located in North Carolina. Also, the College may establish time deposit accounts, money market accounts, and certificates of deposit. The amount shown on the Statement of Net Assets as cash and

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

cash equivalents includes cash on hand totaling \$310.00, and deposits in private financial institutions with a carrying value of \$25,549.14 and a bank balance of \$115,105.83.

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, 2007, the College's bank balance in excess of federal depository insurance coverage was covered under the pooling method.

- B. Investments** - The College is authorized to invest idle funds as provided by G.S. 115D-58.6. In accordance with this statute, the College and the Board of Trustees manage investments to ensure they can be converted into cash when needed.

Generally, funds belonging to the College may be invested in the form of investments pursuant to G.S. 159-30(c), as follows: a commingled investment pool established and administered by the State Treasurer pursuant to G.S. 147-69.3, 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, 2007, the amount shown on the Statement of Net Assets as cash and cash equivalents includes \$1,038,808.95 which represents the College's equity position in the State Treasurer's Short-Term Investment Fund. The Short-Term Investment Fund (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission and does not

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

have a credit rating) had a weighted average maturity of 1.6 years as of June 30, 2007. 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.

Except as specified by the donor, endowment funds belonging to the College may be invested pursuant to G.S. 147-69.2. This statute authorizes investments for special funds held by the State Treasurer and includes the following investments: obligations of or fully guaranteed by the United States; obligations of certain federal agencies; repurchase agreements; obligations of the State of North Carolina; certificates of deposit of specified institutions; prime quality commercial paper; specified bills of exchange; asset-backed securities, corporate bonds and notes with specified ratings; general obligations of other states; general obligations of North Carolina local governments; certain venture capital limited partnerships; and the obligations or securities of the North Carolina Enterprise Corporation.

Investments of the College's component unit, Pamlico Community College Foundation are subject to and restricted by G.S. 36B "Uniform Management of Institutional Funds Act" (UMIFA) and any requirements placed on them by contract or donor agreements. At June 30, 2007, the Pamlico Community College Foundation held \$300.00 in investments consisting of personal property.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

A reconciliation of deposits and investments for the College to the basic financial statements at June 30, 2007, is as follows:

Cash on Hand	\$	310.00
Carrying Amount of Deposits with Private Financial Institutions		25,549.14
Investments in the Short Term Investment Fund		1,038,808.95
Other Investments		<u>300.00</u>
Total Deposits and Investments	\$	<u>1,064,968.09</u>
Current:		
Cash and Cash Equivalents	\$	577,180.08
Restricted Cash and Cash Equivalents		374,388.52
Short-Term Investments		300.00
Noncurrent:		
Restricted Cash and Cash Equivalents		<u>113,099.49</u>
Total	\$	<u>1,064,968.09</u>

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, 2007, net appreciation of \$5,322.87 was available to be spent, of which all was restricted to specific purposes.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 4 - RECEIVABLES

Receivables at June 30, 2007, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	\$ 141.65	\$ 136.00	\$ 5.65
Intergovernmental	16,067.45		16,067.45
Other	19,246.91		19,246.91
Total Current Receivables	\$ 35,456.01	\$ 136.00	\$ 35,320.01
Noncurrent Receivables:			
Intergovernmental	\$ 1,038,855.00	\$ 0.00	\$ 1,038,855.00
Notes Receivable - Current:			
Institutional Student Loan Programs	\$ 22,570.27	\$ 17,579.16	\$ 4,991.11

NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2007, is presented as follows:

	Balance July 1, 2006 (as restated)	Increases	Decreases	Balance June 30, 2007
Capital Assets, Nondepreciable:				
Land	\$ 381,050.00	\$ 0.00	\$ 0.00	\$ 381,050.00
Construction in Progress	183,094.91	2,629,288.62		2,812,383.53
Total Capital Assets, Nondepreciable	564,144.91	2,629,288.62		3,193,433.53
Capital Assets, Depreciable:				
Buildings	4,171,157.57			4,171,157.57
Machinery and Equipment	546,498.54	149,948.24	71,972.38	624,474.40
General Infrastructure	61,347.94			61,347.94
Total Capital Assets, Depreciable	4,779,004.05	149,948.24	71,972.38	4,856,979.91
Less Accumulated Depreciation:				
Buildings	1,228,583.61	86,808.96		1,315,392.57
Machinery and Equipment	317,122.03	69,264.13	58,751.55	327,634.61
General Infrastructure	12,145.95	3,733.80		15,879.75
Total Accumulated Depreciation	1,557,851.59	159,806.89	58,751.55	1,658,906.93
Total Capital Assets, Depreciable, Net	3,221,152.46	(9,858.65)	13,220.83	3,198,072.98
Capital Assets, Net	\$ 3,785,297.37	\$ 2,619,429.97	\$ 13,220.83	\$ 6,391,506.51

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2007, were as follows:

	Amount
Accounts Payable	\$ 578,323.84
Accrued Payroll	39,333.95
Contract Retainage	126,578.70
Intergovernmental Payables	298.54
Total Accounts Payable and Accrued Liabilities	\$ 744,535.03

NOTE 7 - LONG-TERM LIABILITIES

A summary of changes in the long-term liabilities is presented as follows:

	Balance July 1, 2006	Additions	Reductions	Balance June 30, 2007	Current Portion
Compensated Absences	\$ 217,751.47	\$ 109,388.20	\$ 132,870.41	\$ 194,269.26	\$ 5,420.11

NOTE 8 - OPERATING LEASE OBLIGATIONS

Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2007:

Fiscal Year	Amount
2008	\$ 10,116.00
2009	10,116.00
2010	10,116.00
2011	1,686.00
Total Minimum Lease Payments	\$ 32,034.00

Rental expense for all operating leases during the year was \$8,430.00.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 9 - REVENUES

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

	Gross Revenues	Internal Sales Eliminations	Less Scholarship Discounts	Net Revenues
Operating Revenues:				
Student Tuition and Fees	\$ 235,035.86	\$ 0.00	\$ 173,725.77	\$ 61,310.09
Sales and Services:				
Sales and Services of Auxiliary Enterprises:				
Bookstore	\$ 171,907.81	\$ 17,087.73	\$ 77,506.48	\$ 77,313.60
Other	39,556.68			39,556.68
Total Sales and Services	\$ 211,464.49	\$ 17,087.73	\$ 77,506.48	\$ 116,870.28

NOTE 10 - OPERATING EXPENSES BY FUNCTION

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

	Personal Services	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	\$ 1,909,451.28	\$ 258,976.80	\$ 51,130.97	\$ 0.00	\$ 3,327.01	\$ 0.00	\$ 2,222,886.06
Public Service			2,564.44				2,564.44
Academic Support	564,737.61	28,684.40	24,241.02				617,663.03
Student Services	274,047.14	4,057.27	15,921.97				294,026.38
Institutional Support	841,190.11	52,938.48	240,971.46				1,135,100.05
Operations and Maintenance of Plant	154,401.84	9,218.57	46,000.45		78,583.49		288,204.35
Student Financial Aid		12,545.60	16,179.26	364,136.44			392,861.30
Auxiliary Enterprises		166,821.73					166,821.73
Depreciation						159,806.89	159,806.89
Total Operating Expenses	\$ 3,743,827.98	\$ 533,242.85	\$ 397,009.57	\$ 364,136.44	\$ 81,910.50	\$ 159,806.89	\$ 5,279,934.23

NOTE 11 - PENSION PLANS

A. Retirement Plans - Each permanent full-time employee, as a condition of employment, is a member of the Teachers' and State Employees' Retirement System. The Teachers' and State Employees' Retirement System (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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

actuarial valuations. For the year ended June 30, 2007, these rates were set at 2.66% of covered payroll for employers and 6% of covered payroll for members.

For the year ended June 30, 2007, the College had a total payroll of \$3,134,148.06, of which \$2,751,744.43 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were \$165,104.40 and \$73,196.40, respectively. The College made 100% of its annual required contributions for the years ended June 30, 2007, 2006, and 2005, which were \$73,196.40, \$59,453.36, and \$52,011.85, respectively.

The Teachers' and State Employees' Retirement System's financial information is included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.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 \$13,903.76 for the year ended June 30, 2007.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

by the College. The voluntary contributions by employees amounted to \$51,249.00 for the year ended June 30, 2007.

IRC Section 403(b) and 403(b)(7) Plans - Eligible College employees can participate in tax sheltered annuity plans created under Internal Revenue Code Sections 403(b) and 403(b)(7). The employee's eligible contributions, made through salary reduction agreements, are exempt from federal and State income taxes until the annuity is received or the contributions are withdrawn. These plans are exclusively for employees of colleges and certain charitable and other nonprofit institutions. All costs of administering and funding these plans are the responsibility of the Plan participants. No costs are incurred by the College.

NOTE 12 - 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, 2007, the College's total contribution to the Plan was \$104,566.29. 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. Disability Income -

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, 2007, the College's total contribution to the DIPNC was \$14,309.07. The College assumes no

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

liability for long-term disability benefits under the Plan other than its contribution. Additional detailed information about the DIPNC is disclosed in the State of North Carolina's *Comprehensive Annual Financial Report*.

NOTE 13 - RISK MANAGEMENT

The College is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These exposures to loss are handled via a combination of methods, 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 \$75,000 deductible. All employees are covered under a blanket policy for employee dishonesty and fraud with a private insurance company. Limits of the coverage are \$10,000 per occurrence and a \$250 deductible.

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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.

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 14 - COMMITMENTS

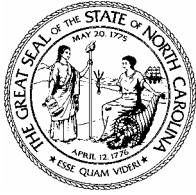
The College has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were \$1,249,792.00 at June 30, 2007.

NOTE 15 - NET ASSET RESTATEMENT

As of July 1, 2006, net assets as previously reported was restated as follows:

	<u>Amount</u>
July 1, 2006, Net Assets as Previously Reported	\$ 4,281,913.83
Restatement:	
Correction of an Error Related to the Estimated Useful Lives of Capital Assets	<u>372,404.21</u>
July 1, 2006, Net Assets as Restated	<u><u>\$ 4,654,318.04</u></u>

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STATE OF NORTH CAROLINA
Office of the 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
Pamlico Community College
Grantsboro, North Carolina

We have audited the financial statements of Pamlico Community College, a component unit of the State of North Carolina, as of and for the year ended June 30, 2007, and have issued our report thereon dated April 2, 2008. 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.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider Finding 1 to be 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 disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

The College's responses to the findings identified in our audit are described in the Audit Findings and Responses section of this report. We did not audit the College's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management of the College the Board of Trustees, the State Board of Community Colleges, 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

April 2, 2008

AUDIT FINDINGS AND RESPONSES

Matters Related to Financial Reporting

The following findings were identified during the current audit and describe conditions that represent significant deficiencies in internal control.

1. DEFICIENCIES IN FINANCIAL REPORTING AND THE REVIEW OF JOURNAL ENTRIES

The financial statements prepared by Pamlico Community College contained numerous misstatements that were corrected as a result of our audit. Without these corrections, the financial statements could have been misleading to readers.

Misstatements noted during our audit included:

- a. The College posted a journal entry in the amount of \$624,609.00 to dispose of the Cosmetology Building that was still in use, which overstated expenses and understated capital assets.
- b. The College did not eliminate internal bookstore sales in the amount of \$17,087.73, recorded a noncapital grant in the amount of \$20,000.00 as sales and services, and did not record the discount applicable to the bookstore in the amount of \$77,506.48. The College calculated the amount of discount applicable to the bookstore, but failed to post the entry. The result of these errors caused sales and services to be overstated in the amount of \$114,594.21.
- c. The capital asset note, the general ledger and the capital asset subsidiary ledger did not agree. The amount of capital assets reported in the College's notes was \$3,542.80 more than Exhibit A-1 and the general ledger. The amount of capital assets in the College's general ledger was \$624,609.00 less than the capital assets subsidiary ledger, and accumulated depreciation per the general ledger was \$18,059.45 more the subsidiary ledger.
- d. The College did not properly account for the donation of a capital asset in the amount of \$12,397.10. This caused revenues and expenses to be understated by this amount.
- e. The College understated current restricted cash and cash equivalents in the amount of \$52,285.00 and overstated noncurrent restricted cash and cash equivalents by the same amount.
- f. The College's compensated absences balance was overstated in the amount of \$26,227.20. This was caused by a noticeable error in the hourly rate of one employee. The amount used by the College was \$213.40 per hour instead \$21.40 per hour.
- g. Various other misstatements were made in the cash flows statement, notes to the financial statements, and management's discussion and analysis.

AUDIT FINDINGS AND RESPONSES (CONTINUED)

The College used a consultant to assist in the close-out and preparation of the financial statements; however, management is still responsible for the fair presentation of the financial statements.

We noted during the audit that there was no comparison of journal entries entered in the College's general ledger to those that were approved by management. This could lead to unauthorized journal entries being entered. We also noted that the report the College used to determine sales tax collections contained errors, which caused the College to pay excess sales tax in the amount of \$12,348.07.

Recommendation: The College should place greater emphasis on the year-end financial reporting process and implement effective internal controls to ensure the completeness and accuracy of the financial statements, including ensuring that work performed by consultants is reliable.

Response: The extenuating circumstances that occurred last summer coupled with limited staff issues have either ended or been resolved. The Controller will manage the financial statement preparation and the V.P. of Administrative Services will review the final statements in accordance with auditor recommendation. Additionally, we have enlisted the services of a well respected, experienced and knowledgeable community college veteran to assist as well as review our statements before release in the future.

2. INAPPROPRIATE INFORMATION SYSTEMS ACCESS RIGHTS

The College granted information systems access rights to employees that were inconsistent with the employee's job function. This increases the risk that an error or fraud could occur and not be detected.

Both the Controller and Vice President of Administrative Services have system access rights to CORE, HR - Human Resources and CF - College Financials. This access gives them the ability to perform a majority of the accounting functions at the College. This increases the risk that an error or fraud could occur and not be detected.

Segregation of duties is a basic internal control that requires assigning different people the responsibilities of authorizing transactions, recording transactions, and maintaining custody of assets to reduce the opportunities to allow any person to be in a position to both perpetrate and conceal errors or fraud in the normal course of his or her duties.

Recommendation: All access rights to financial statement screens should be reviewed and assigned based on job function. Duties and access rights should be segregated among employees in a manner that deters errors or fraud. Access to sensitive subsystems should be restricted to the Information Technology department personnel.

AUDIT FINDINGS AND RESPONSES (CONCLUDED)

Response: Security classes for all Business Office personnel have been reviewed and implemented based on job function. The Controller has rights to enter general ledger transactions while the V.P. of Administrative Services has been given inquiry only rights and will serve to review transactions and reports in accordance with auditor recommendation.

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