



# STATE OF NORTH CAROLINA

**PIEDMONT COMMUNITY COLLEGE**

**ROXBORO, 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**

**PIEDMONT COMMUNITY COLLEGE**

**ROXBORO, NORTH CAROLINA**

**FINANCIAL STATEMENT AUDIT REPORT**

**FOR THE YEAR ENDED JUNE 30, 2007**

**STATE BOARD OF COMMUNITY COLLEGES**

**THE NORTH CAROLINA COMMUNITY COLLEGE SYSTEM**

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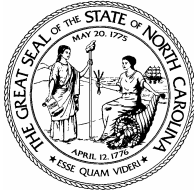
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STATE OF NORTH CAROLINA  
Office of the State Auditor

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

2 S. Salisbury Street  
20601 Mail Service Center  
Raleigh, NC 27699-0601  
Telephone: (919) 807-7500  
Fax: (919) 807-7647  
Internet  
<http://www.ncauditor.net>

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**AUDITOR'S TRANSMITTAL**

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

We have completed a financial statement audit of Piedmont 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 and/or instances of noncompliance 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.*

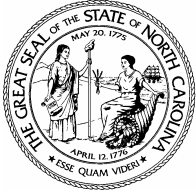
Leslie W. Merritt, Jr., CPA, CFP  
State Auditor

May 19, 2008

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

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2 S. Salisbury Street  
20601 Mail Service Center  
Raleigh, NC 27699-0601  
Telephone: (919) 807-7500  
Fax: (919) 807-7647  
Internet  
<http://www.ncauditor.net>

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**INDEPENDENT AUDITOR'S REPORT**

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Board of Trustees  
Piedmont Community College  
Roxboro, North Carolina

We have audited the accompanying financial statements of Piedmont Community College, a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 2007, which collectively comprise the College's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of Piedmont Community College's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Piedmont Community College Foundation, Inc., the College's discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Foundation, is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of Piedmont Community College Foundation, Inc., were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of Piedmont Community College and its discretely presented component unit as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

## INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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In accordance with *Government Auditing Standards*, we have also issued our report dated May 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 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., CPA, CFP  
State Auditor

May 2, 2008

## **PIEDMONT COMMUNITY COLLEGE MANAGEMENT'S DISCUSSION AND ANALYSIS**

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This section of Piedmont 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, 2007, with comparative data for the year ended June 30, 2006. College management has prepared this discussion, along with the financial statements and related notes. The financial statements, notes to the financial statements, and this discussion are the responsibility of College management.

The purpose of the management discussion and analysis is to identify significant transactions that have financial impact and to highlight favorable and unfavorable trends. This discussion and analysis should, however, be read in conjunction with, and is qualified in its entirety by, the related financial statements and notes to the financial statements.

### **Using the Annual Report/Overview of Financial Statements**

This annual report consists of a series of financial statements, prepared in accordance with the Governmental Accounting Standards Board Statement (GASB) pronouncements. These statements establish standards for external financial reporting for public colleges and universities and require that financial statements be presented on a consolidated basis to focus on the College as a whole, with resources classified for accounting and reporting purposes into four net asset categories.

One of the most important questions asked about College finances is whether the College as a whole is better off or worse off as a result of the year's activities. The key to understanding this question is the Statement of Net Assets, and the Statement of Revenues, Expenses, and Changes in Net Assets. These statements present financial information in a form similar to that used by corporations. The College's net assets are one indicator of the college's financial health. Over time, increases or decreases in net assets is one indicator of the improvement or erosion of the College's financial health when considered with nonfinancial facts such as enrollment levels and the condition of the facilities.

### **Statement of Net Assets**

The Statement of Net Assets presents College assets, liabilities and net assets as of the end of the fiscal year. The assets and liabilities are divided into current and noncurrent portions. The differences between current and noncurrent assets and liabilities are discussed further in the notes to the financial statements. The Statement of Net Assets is prepared under the accrual basis of accounting, whereby revenues and assets are recognized when the service is provided and expenses and liabilities are recognized when others provide the service, regardless of when cash is exchanged.

From the data presented, readers of this statement are able to determine the assets available to continue the operations of the institution. They are also able to determine how much the institution owes vendors, investors and lending institutions. The Statement of Net Assets also

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

provides a picture of the net assets (assets minus liabilities) and their availability for expenditure by the institution. Net assets are divided into three major categories: invested in capital assets; unrestricted net assets; and restricted net assets-expendable. These three categories of net assets are discussed further in the notes to the financial statements.

A condensed statement of net assets is reflected below:

	<u>June 30, 2007</u>	<u>June 30, 2006</u>	<u>Increase (Decrease)</u>
<b>Assets:</b>			
Current Assets	\$ 1,251,637.65	\$ 1,152,303.15	\$ 99,334.50
Noncurrent Capital Assets, Net of Accumulated Depreciation	13,168,317.95	11,080,706.29	2,087,611.66
Other Noncurrent Assets	415,787.96	413,015.86	2,772.10
<b>Total Assets</b>	<b>14,835,743.56</b>	<b>12,646,025.30</b>	<b>2,189,718.26</b>
<b>Liabilities:</b>			
Current Liabilities	473,594.65	807,831.30	(334,236.65)
Long-Term Liabilities	1,161,835.11	869,670.02	292,165.09
<b>Total Liabilities</b>	<b>1,635,429.76</b>	<b>1,677,501.32</b>	<b>(42,071.56)</b>
<b>Net Assets:</b>			
Invested in Capital Assets	13,168,317.95	11,080,706.29	2,087,611.66
Restricted-Expendable	564,264.64	356,761.71	207,502.93
Unrestricted	(532,268.79)	(468,944.02)	(63,324.77)
<b>Total Net Assets</b>	<b>\$ 13,200,313.80</b>	<b>\$ 10,968,523.98</b>	<b>\$ 2,231,789.82</b>

The total assets of the College increased by \$2,189,718.26 for the year (an increase of \$99,334.50 for current assets and an increase of \$2,090,383.76 for noncurrent assets). This increase was attributable to an increase in cash and cash equivalents of \$101,656.93; a decrease of \$15,871.87 in receivables; an increase of \$15,246.79 in inventories; a decrease of \$1,697.35 in notes receivable and an increase of \$2,772.10 in restricted due from primary government. In addition there was an increase in noncurrent capital assets, net of accumulated depreciation, in the amount of \$2,087,611.66. This was primarily due to a prior period adjustment of \$1,323,291.66 and an increase in construction in progress of \$798,606.23. The prior period adjustment was recorded to reflect application of the revised North Carolina Community College depreciation policy. This policy was revised to reflect a longer useful life of capital assets based on actual use of the items.

The total liabilities of the College decreased by \$42,071.56 for the year (a decrease of \$334,236.65 in current liabilities and an increase of \$292,165.09 in noncurrent liabilities). This decrease is attributable to an increase in the accrual of annual leave for employees of \$47,600.57; a decrease in accounts payable of \$94,604.25; a decrease in funds held for others of \$2,375.28 and an increase in unearned revenue of \$7,307.40. The increase in annual leave for employees is due primarily to an increase in the number of employees. The decrease in



## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

accounts payable was due primarily to a large reduction in outstanding payables for capital in the current year as compared to the prior year.

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

Changes in total net assets as presented on the Statement of Net Assets are based on the activity presented in the Statement of Revenues, Expenses, and Changes in Net Assets. The purpose of the statement is to present the revenues earned by the institution, both operating and nonoperating, and the expenses incurred by the institution, operating and nonoperating, and any other revenues, expenses, gains and losses earned or incurred by the institution.

Generally speaking, operating revenues are earned for providing goods and services to the various constituencies of the institution. Operating expenses are those expenses incurred to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the mission of the institution. Nonoperating revenues are revenues earned for which goods and services are not provided. State and county appropriations and noncapital grants are included as nonoperating revenues in accordance with GASB guidelines, even though these revenues are instrumental to the College's mission and operations. Capital contributions are reported separately after nonoperating revenues.

A condensed statement of revenues, expenses, and changes in net assets is reflected below:

#### FOR THE YEARS ENDED JUNE 30, 2007 AND JUNE 30, 2006

	June 30, 2007	June 30, 2006	Increase (Decrease)
Operating Revenue			
Tuition and Fees	\$ 1,233,274.68	\$ 1,056,075.90	\$ 177,198.78
Federal Grants and Contracts	3,569,411.31	3,833,563.60	(264,152.29)
Other	835,805.02	810,880.03	24,924.99
Total	5,638,491.01	5,700,519.53	(62,028.52)
Less Operating Expenses	19,661,820.57	18,111,098.89	1,550,721.68
Operating Loss	(14,023,329.56)	(12,410,579.36)	(1,612,750.20)
Nonoperating Revenue			
State/Local Grants and Contracts	12,762,851.30	10,921,668.64	1,841,182.66
Investment Income	27,422.90	19,292.79	8,130.11
Gifts and Other	34,368.45	16,960.55	17,407.90
	12,824,642.65	10,957,921.98	1,866,720.67
Loss Before Other Revenue	(1,198,686.91)	(1,452,657.38)	253,970.47
Capital Contributions	2,107,185.07	1,776,728.45	330,456.62
Increase in Net Assets	908,498.16	324,071.07	584,427.09
Net Assets, Beginning of Year	10,968,523.98	10,644,452.91	324,071.07
Restatement	1,323,291.66		1,323,291.66
Net Assets, End of Year	\$ 13,200,313.80	\$ 10,968,523.98	\$ 2,231,789.82
Total Revenues	\$ 20,570,318.73	\$ 18,435,169.96	\$ 2,135,148.77

## **MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

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The State and local appropriations are not classified as operating revenue per GASB Statement No. 35; therefore, the College will usually show a significant operating loss.

Operating revenue decreased overall by \$62,028.52 but the component parts have varying balance changes. The largest component changes were as follows:

Tuition and Fees increased by \$177,198.78 primarily because of an increase in student enrollment.

Federal grants and contracts had a \$264,152.29 decrease. Of this decrease \$146,142.42 is due to a decrease in Title IV funds due to an increase in the number of part-time students and therefore a decrease in the number of eligible recipients for Pell and SEOG. There was also a \$104,046.25 decrease in other Federal Grants primarily due to reduced funding for the Educational Opportunity Center.

Other revenues increased by \$24,924.99 primarily because of an increase in Bookstore sales in the amount of \$70,430.17; however, this increase was offset by the decrease revenues from the Child Development Center in Caswell County in the amount of \$49,789.90. The Child Development Center in Caswell County closed in 2006-07 due to low enrollment.

Operating expenses for fiscal year 2007 increased \$1,550,721.68 over fiscal year 2006. Personal Services increased \$1,308,151.22 due to the effects of salary increases for faculty and staff and an increase in number of staff. Supplies and Materials increased \$140,876.06 due to an increase in number of students and courses offered. Services increased \$172,690.18 due to an increase in number of students.

Nonoperating and Capital Contributions increased by \$2,197,177.29 in fiscal year 2007 from fiscal year 2006. The primary reasons for this increase are:

State aid increased by \$1,759,633.67 due to a growth in full-time equivalent students (FTE). The College's State funding is based on FTE and other factors.

County appropriations increased \$104,542.28 due to funding increases.

State capital aid increased \$323,670.70 because of an increase in State construction projects.

### **Capital Assets and Debt**

**Capital Assets:** Piedmont Community College's investment in capital assets as of June 30, 2007, amounted to \$13,168,317.95, net of accumulated depreciation. This investment in capital assets includes land, construction in progress, buildings, infrastructure, and machinery and equipment. The change in capital assets for the year totaled \$2,087,611.66. The change was attributable to a prior period adjustment of \$1,323,291.66, a net increase in additions to capital assets in the amount of \$1,081,839.47 and a net increase in accumulated depreciation in the amount of \$317,519.47.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Major capital asset events during the current fiscal year included the following:

There was an increase to construction in progress in the amount of \$798,606.23. The increases in construction in progress were for the renovation of the student complex (\$289,308.25), roofing projects (\$352,061.20), the cosmetology project (\$69,338.70), the Caswell classroom lab (\$79,230), and renovations to the technical vocational building (\$8,668.08).

The change in machinery and equipment totaled \$286,023.13 and was primarily due to acquisitions for items valued over \$5,000.

A prior period adjustment of \$1,323,291.66 was recorded to reflect application of the revised North Carolina Community College System depreciation policy. This policy was revised to reflect a longer useful life of capital assets based on actual use of the assets.

### CAPITAL ASSETS, NET AS OF JUNE 30, 2007 AND JUNE 30, 2006

	<u>39,263.00</u>	<u>38,898.00</u>	<u>Increase (Decrease)</u>
Capital Assets			
Land	\$ 153,654.15	\$ 153,654.15	\$ 0.00
Construction in Progress	3,228,571.18	2,429,964.95	798,606.23
Buildings	10,377,750.99	10,296,909.06	80,841.93
Infrastructure	2,273,511.94	2,339,274.14	(65,762.20)
Equipment	<u>2,504,000.76</u>	<u>2,217,977.63</u>	<u>286,023.13</u>
	18,537,489.02	17,437,779.93	1,099,709.09
Less Accumulated Depreciation	<u>5,369,171.07</u>	<u>6,357,073.64</u>	<u>(987,902.57)</u>
Net Capital Assets	<u>\$ 13,168,317.95</u>	<u>\$ 11,080,706.29</u>	<u>\$ 2,087,611.66</u>

**Long-Term Debt:** The College did not incur any long-term debt for fiscal year ending June 30, 2007.

### **Economic and Other Factors Impacting Future Periods**

The economic position of Piedmont Community College is closely tied to the State of North Carolina. State aid and State capital aid comprise 63 percent of total College revenues and are the largest source of funding. The State economy has stabilized as the national economy has stabilized. The College has continued to have enrollment increases and it is felt that the future funding for the College will continue to grow.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)**

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The biggest challenges facing the College are:

The level of federal, State, and local support; continued implementation of the new administrative computing system; and assessment and reallocation of available resources.

### **Requests for Information**

This financial report is designed to provide a general overview of Piedmont Community College's finances for all those with an interest. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Piedmont Community College, Vice President for Administrative Services, P. O. Box 1197, 1715 College Drive, Roxboro, North Carolina 27573.

***Piedmont Community College***  
***Statement of Net Assets***  
***June 30, 2007***

***Exhibit A-1***

**ASSETS**

Current Assets:

Cash and Cash Equivalents	\$ 622,636.06
Restricted Cash and Cash Equivalents	139,815.56
Receivables (Note 3)	265,276.08
Inventories	222,260.80
Notes Receivable	1,649.15
	<hr/>
Total Current Assets	1,251,637.65

Noncurrent Assets:

Restricted Due from Primary Government	415,787.96
Capital Assets - Nondepreciable (Note 4)	3,382,225.33
Capital Assets - Depreciable, Net (Note 4)	9,786,092.62
	<hr/>
Total Noncurrent Assets	13,584,105.91

Total Assets	<hr/> <hr/> 14,835,743.56
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**LIABILITIES**

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 5)	320,148.36
Unearned Revenue	80,866.38
Funds Held for Others	8,527.61
Long-Term Liabilities - Current Portion (Note 6)	64,052.30
	<hr/>
Total Current Liabilities	473,594.65

Noncurrent Liabilities:

Long-Term Liabilities (Note 6)	1,161,835.11
	<hr/>

Total Liabilities	<hr/> <hr/> 1,635,429.76
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**NET ASSETS**

Invested in Capital Assets	13,168,317.95
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Restricted for:

Expendable:

Scholarships and Fellowships	169.10
Loans	4,794.54
Capital Projects	435,341.09
Other	123,959.91

Unrestricted	(532,268.79)
	<hr/>

Total Net Assets	<hr/> <hr/> <hr/> \$ 13,200,313.80
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The accompanying notes to the financial statements are an integral part of this statement.

***Piedmont 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 8)	\$ 1,233,274.68
Federal Grants and Contracts	3,569,411.31
State and Local Grants and Contracts	219,640.61
Sales and Services, Net (Note 8)	602,752.15
Other Operating Revenues	13,412.26
	<hr/>
Total Operating Revenues	5,638,491.01
	<hr/>

**EXPENSES**

Operating Expenses:	
Personal Services	13,518,294.02
Supplies and Materials	2,018,199.35
Services	1,630,932.41
Scholarships and Fellowships	1,748,093.03
Utilities	322,267.37
Depreciation	424,034.39
	<hr/>
Total Operating Expenses	19,661,820.57
	<hr/>
Operating Loss	(14,023,329.56)
	<hr/>

**NONOPERATING REVENUES**

State Aid	11,421,243.28
County Appropriations	1,128,718.00
Noncapital Grants	212,890.02
Noncapital Gifts	33,808.45
Investment Income, Net	27,422.90
Other Nonoperating Revenues	560.00
	<hr/>
Nonoperating Revenues	12,824,642.65
	<hr/>
Income Before Other Revenues	(1,198,686.91)
	<hr/>
State Capital Aid	1,638,911.00
County Capital Aid	400,008.07
Capital Grants	68,266.00
	<hr/>
Increase in Net Assets	908,498.16

**NET ASSETS**

Net Assets, July 1, 2006 as Restated (Note 14)	12,291,815.64
	<hr/>
Net Assets, June 30, 2007	\$ 13,200,313.80
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The accompanying notes to the financial statements are an integral part of this statement.

***Piedmont 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	\$ 5,706,064.51
Payments to Employees and Fringe Benefits	(13,455,360.94)
Payments to Vendors and Suppliers	(3,945,635.33)
Payments for Scholarships and Fellowships	(1,748,093.03)
Loans Issued to Students	(2,651.95)
Collection of Loans to Students	3,523.55
Other Payments	(1,815.28)
	<u>(13,443,968.47)</u>
Net Cash Used by Operating Activities	<u>(13,443,968.47)</u>

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

State Aid Received	11,421,243.28
County Appropriations	1,128,718.00
Noncapital Grants Received	178,399.53
Noncapital Gifts Received	33,808.45
	<u>12,762,169.26</u>
Cash Provided by Noncapital Financing Activities	<u>12,762,169.26</u>

**CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES**

State Capital Aid Received	1,636,138.90
County Capital Aid	400,008.07
Capital Grants Received	59,133.57
Acquisition and Construction of Capital Assets	(1,339,382.67)
	<u>755,897.87</u>
Net Cash Provided by Capital and Related Financing Activities	<u>755,897.87</u>

**CASH FLOWS FROM INVESTING ACTIVITIES**

Investment Income	<u>27,558.27</u>
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Net Increase in Cash and Cash Equivalents	101,656.93
Cash and Cash Equivalents, July 1, 2006	<u>660,794.69</u>
Cash and Cash Equivalents, June 30, 2007	<u>\$ 762,451.62</u>

***Piedmont 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	\$ (14,023,329.56)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	424,034.39
Provision for Uncollectible Loans and Write-Offs	825.75
Miscellaneous Nonoperating Income	560.00
Changes in Assets and Liabilities:	
Receivables, Net	60,266.10
Inventories	(15,246.79)
Notes Receivable, Net	871.60
Accounts Payable and Accrued Liabilities	55,517.35
Unearned Revenue	7,307.40
Funds Held for Others	(2,375.28)
Compensated Absences	47,600.57
	<u>47,600.57</u>
Net Cash Used by Operating Activities	<u>\$ (13,443,968.47)</u>

**RECONCILIATION OF CASH AND CASH EQUIVALENTS**

Current Assets:	
Cash and Cash Equivalents	\$ 622,636.06
Restricted Cash and Cash Equivalents	139,815.56
	<u>139,815.56</u>
Total Cash and Cash Equivalents - June 30, 2007	<u>\$ 762,451.62</u>

**NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES**

Increase in Receivables Related to Nonoperating Income	\$ 47,301.70
Capital Asset Write-Off	19,577.96

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



***Piedmont Community College Foundation, Inc.***  
***Statement of Financial Position***  
***June 30, 2007***

***Exhibit B-1***

**ASSETS**

Cash and Cash Equivalents	\$	71,091
Certificates of Deposit		20,044
Marketable Securities		1,663,545
Promises to Give		32,979
Accrued Interest Receivable		245
		<hr/>
Total Assets	\$	<u>1,787,904</u>

**LIABILITIES AND NET ASSETS**

Liabilities:

Accounts Payable	\$	3,000
Scholarships Payable		97,487
		<hr/>
Total Liabilities		<u>100,487</u>

Net Assets:

Unrestricted		
Available for general activities		450,439
Temporarily Restricted		785,282
Permanently Restricted		451,696
		<hr/>
Total Net Assets		<u>1,687,417</u>
		<hr/>
Total Liabilities and Net Assets	\$	<u>1,787,904</u>

***Piedmont Community College Foundation, Inc.***  
***Statement of Activities***  
***For the Fiscal Year Ended June 30, 2007***

***Exhibit B-2***

	<b>Unrestricted Net Assets</b>	<b>Temporarily Restricted Net Assets</b>	<b>Permanently Restricted Net Assets</b>	<b>Total Net Assets</b>
<b>CHANGES IN UNRESTRICTED NET ASSETS</b>				
Revenue and Other Support				
Smart Start-Early Childhood scholarships grant	\$ 0	\$ 3,984	\$ 0	\$ 3,984
Scholarship contributions		32,572	32,584	65,156
President's Club dues	30,145			30,145
Campus fund drive	3,403			3,403
Faculty and staff development	363			363
Other contributions		32,984		32,984
Golf Classic tournament, net of direct cost of \$6,402	23,245			23,245
Interest earned on cash deposits	347	3		350
Investment return	199,204	47,169		246,373
Sales tax refund	1,645			1,645
Other fundraising, net of direct cost \$1,083	2,611			2,611
<b>Total support</b>	<b>260,963</b>	<b>116,712</b>	<b>32,584</b>	<b>410,259</b>
Net Assets Released from Restrictions:				
Satisfaction of program restrictions	379,835	(379,835)		
<b>Total support and reclassifications</b>	<b>640,798</b>	<b>(263,123)</b>	<b>32,584</b>	<b>410,259</b>
Expenses				
Program Services				
Scholarships	73,398			73,398
Faculty and staff development	3,074			3,074
College Programs	51,653			51,653
Other Program Services	15,087			15,087
<b>Total program services</b>	<b>143,212</b>			<b>143,212</b>
Supporting Services				
Management and general	78,651			78,651
Fund Raising	7,951			7,951
<b>Total Supporting Services</b>	<b>86,602</b>			<b>86,602</b>
<b>Total Expenses</b>	<b>229,814</b>			<b>229,814</b>
<b>Increase (decrease) in net assets</b>	<b>410,984</b>	<b>(263,123)</b>	<b>32,584</b>	<b>180,445</b>
Beginning net assets	39,455	1,048,405	419,112	1,506,972
<b>Ending net assets</b>	<b>\$ 450,439</b>	<b>\$ 785,282</b>	<b>\$ 451,696</b>	<b>\$ 1,687,417</b>

**PIEDMONT COMMUNITY COLLEGE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2007**

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**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. Piedmont 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 discretely presented in the financial statements. The discretely presented component unit's financial data are reported in separate financial statements because of its use of different GAAP reporting models and to emphasize its legal separateness.

**Discretely Presented Component Unit** - Piedmont Community College Foundation, Inc., is a legally separate not-for-profit corporation and is reported as a discretely presented component unit based on the nature and significance of its relationship to the College.

Piedmont Community College Foundation, Inc., is a tax-exempt component unit of the College. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the College in support of its programs. The Foundation board consists of 30 directors. Although the College does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, that the Foundation holds and invests are restricted to the activities of the College by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of the College, the Foundation is considered a component unit of the College and is reported in separate financial statements because of the difference in its reporting model, as described below.

Piedmont Community College Foundation, Inc. is a private not-for-profit organization that reports its financial results under Financial Accounting Standards Board (FASB) Statements. As such, certain revenue

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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recognition criteria and presentation features are different from Governmental Accounting Standards Board (GASB) revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information in the College's financial reporting entity for these differences.

During the year ended June 30, 2007, the Foundation distributed \$116,026.71 to the College for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from the Executive Director of the Piedmont Community College Foundation, P.O. Box 1101, 1715 College Drive, Roxboro, NC 27573.

- 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.

- 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 petty cash, cash on deposit with private bank accounts, money market 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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may deposit and withdraw cash at any time without prior notice or penalty.

- E. Investments** - The College does not hold any investments. Note 2B includes investments held by the Piedmont Community College Foundation, Inc., because of its significance to the reporting entity.
- F. Receivables** - Receivables consist of tuition and fees charged to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from the federal government, State and local governments, and private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants. Accounts and notes receivable are shown at book value with no provision for doubtful accounts considered necessary.
- G. Inventories** - Inventories, consisting of expendable supplies and merchandise for resale, are valued at cost 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 10 to 75 years for general infrastructure, 10 to 50 years for buildings, and 2 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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.

**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 - 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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 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 copy centers. 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 by the College.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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### NOTE 2 - DEPOSITS AND INVESTMENTS

- A. **Deposit** - 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 \$670.00, and deposits in private financial institutions with a carrying value of \$383,896.74 and a bank balance of \$477,021.31.

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.

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



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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 \$377,884.88 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 1.6 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.

- B. Component Unit Investments** - Investments of the College's component unit, the Piedmont Community College Foundation, Inc., 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. Investments are carried at fair value on the statement of financial position. The fair value of the Foundation's investments at June 30, 2007, was \$1,663,545.

### NOTE 3 - RECEIVABLES

Receivables at June 30, 2007, were as follows:

	<u>Amount</u>
<b>Current Receivables:</b>	
Students	\$ 117,596.40
Accounts	23,531.70
Intergovernmental	122,693.79
Investment Earnings	<u>1,454.19</u>
<b>Total Current Receivables</b>	<u>\$ 265,276.08</u>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 4 - 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	\$ 153,654.15	\$ 0.00	\$ 0.00	\$ 153,654.15
Construction in Progress	2,429,964.95	798,606.23		3,228,571.18
<b>Total Capital Assets, Nondepreciable</b>	<u>2,583,619.10</u>	<u>798,606.23</u>	<u>0.00</u>	<u>3,382,225.33</u>
Capital Assets, Depreciable:				
Buildings	10,377,750.99			10,377,750.99
Machinery and Equipment	2,235,847.25	394,246.39	126,092.88	2,504,000.76
General Infrastructure	2,258,432.21	15,079.73		2,273,511.94
<b>Total Capital Assets, Depreciable</b>	<u>14,872,030.45</u>	<u>409,326.12</u>	<u>126,092.88</u>	<u>15,155,263.69</u>
Less Accumulated Depreciation:				
Buildings	3,821,997.54	211,327.64		4,033,325.18
Machinery and Equipment	1,087,608.30	166,506.06	106,514.92	1,147,599.44
General Infrastructure	142,045.76	46,200.69		188,246.45
<b>Total Accumulated Depreciation</b>	<u>5,051,651.60</u>	<u>424,034.39</u>	<u>106,514.92</u>	<u>5,369,171.07</u>
<b>Total Capital Assets, Depreciable, Net</b>	<u>9,820,378.85</u>	<u>(14,708.27)</u>	<u>19,577.96</u>	<u>9,786,092.62</u>
<b>Capital Assets, Net</b>	<u>\$ 12,403,997.95</u>	<u>\$ 783,897.96</u>	<u>\$ 19,577.96</u>	<u>\$ 13,168,317.95</u>

### NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	Amount
Accounts Payable	\$ 111,239.75
Accrued Payroll	208,001.93
Intergovernmental Payables	906.68
<b>Total Accounts Payable and Accrued Liabilities</b>	<u>\$ 320,148.36</u>

### NOTE 6 - CHANGES IN 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	<u>\$ 1,178,286.84</u>	<u>\$ 693,988.06</u>	<u>\$ 646,387.49</u>	<u>\$ 1,225,887.41</u>	<u>\$ 64,052.30</u>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 7 - OPERATING LEASE OBLIGATIONS

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

Fiscal Year	<u>Amount</u>
2008	\$ 29,080.06
2009	29,080.06
2010	20,102.76
2011	<u>8,376.15</u>
Total Minimum Lease Payments	<u>\$ 86,639.03</u>

Rental expense for all operating leases during the year was \$23,184.91.

### NOTE 8 - REVENUES

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

	<u>Gross Revenues</u>	<u>Internal Sales Eliminations</u>	<u>Less Scholarship Discounts</u>	<u>Net Revenues</u>
<b>Operating Revenues:</b>				
<b>Student Tuition and Fees</b>	<u>\$ 1,880,321.68</u>	<u>\$ 0.00</u>	<u>\$ 647,047.00</u>	<u>\$ 1,233,274.68</u>
<b>Sales and Services:</b>				
Sales and Services of Auxiliary Enterprises:				
Bookstore	\$ 949,198.61	\$ 135,951.07	\$ 380,558.08	\$ 432,689.46
Other	156,597.80			156,597.80
Sales and Services of Education and Related Activities	<u>143,760.71</u>	<u>130,295.82</u>		<u>13,464.89</u>
<b>Total Sales and Services</b>	<u>\$ 1,249,557.12</u>	<u>\$ 266,246.89</u>	<u>\$ 380,558.08</u>	<u>\$ 602,752.15</u>

## 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	\$ 8,469,755.51	\$ 1,457,518.87	\$ 899,142.56	\$ 136,113.00	\$ 5,386.54	\$ 0.00	\$ 10,967,916.48
Public Service			1,193.11				1,193.11
Academic Support	1,536,201.80	129,081.32	89,886.37				1,755,169.49
Student Services	718,372.44	46,070.87	39,695.82	43,766.31			847,905.44
Institutional Support	1,917,012.05	143,128.74	427,462.00				2,487,602.79
Operations and Maintenance of Plant	568,535.96	73,956.36	121,088.93		316,880.83		1,080,462.08
Student Financial Aid			5,054.65	1,568,213.72			1,573,268.37
Auxiliary Enterprises	308,416.26	168,443.19	47,408.97				524,268.42
Depreciation						424,034.39	424,034.39
Total Operating Expenses	<u>\$ 13,518,294.02</u>	<u>\$ 2,018,199.35</u>	<u>\$ 1,630,932.41</u>	<u>\$ 1,748,093.03</u>	<u>\$ 322,267.37</u>	<u>\$ 424,034.39</u>	<u>\$ 19,661,820.57</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, 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 \$11,200,422.88, of which \$9,830,880.04 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were \$589,852.81 and \$261,501.62, respectively. The College made 100% of its annual required contributions for the years ended June 30, 2007, 2006, and 2005, which were \$261,501.62, \$201,691.77, and \$171,772.62, 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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 \$30,425.96 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 by the College. The voluntary contributions by employees amounted to \$117,560.00 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. The voluntary contributions by employees amounted to \$26,750.00 for the year ended June 30, 2007.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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### 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, 2007, the College's total contribution to the Plan was \$373,573.44. 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 \$51,120.58. 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 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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 contracts with private insurance companies. 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. Losses from County and Institutional fund paid employees 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.

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.

## NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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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 \$81,986.80 at June 30, 2007.

### NOTE 14 - 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	\$ 10,968,523.98
Error in Estimating Useful Lives of Depreciable Assets	<u>1,323,291.66</u>
July 1, 2006 Net Assets as Restated	<u><u>\$ 12,291,815.64</u></u>





STATE OF NORTH CAROLINA  
Office of the State Auditor

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

2 S. Salisbury Street  
20601 Mail Service Center  
Raleigh, NC 27699-0601  
Telephone: (919) 807-7500  
Fax: (919) 807-7647  
Internet  
<http://www.ncauditor.net>

**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**

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Board of Trustees  
Piedmont Community College  
Roxboro, North Carolina

We have audited the financial statements of Piedmont Community College, a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 2007, which collectively comprise the College's basic financial statements and have issued our report thereon dated May 2, 2008. Our report was modified to include a reference to other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of Piedmont Community College Foundation, Inc., the discretely presented component unit, as described in our report on the College's financial statements. The financial statements of Piedmont Community College Foundation, Inc., were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the College's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control

**INDEPENDENT AUDITOR'S REPORT  
ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
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deficiency, or combination of control deficiencies, that adversely affects the College's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the College's financial statements that is more than inconsequential will not be prevented or detected by the College's internal control. We consider the deficiencies described in the finding in the Audit Findings and Responses section of this report to be significant deficiencies in internal control over financial reporting.

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, we believe that none of the significant deficiencies described above is 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*.

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., CPA, CFP  
State Auditor

May 2, 2008

## AUDIT FINDINGS AND RESPONSES

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### **Matters Related to Financial Reporting**

The following finding was identified during the current audit and describes conditions that represent significant deficiencies in internal control.

#### DEFICIENCIES IN CAPITAL ASSET ACCOUNTING AND REPORTING

Capital assets reported in the financial statements prepared by Piedmont Community College were misstated and did not agree with the detailed record of capital assets. This increases the risk of issuing misleading financial statements and impairs accountability for the assets.

Depreciable capital assets were understated by \$1,422,704 because the College did not reasonably estimate useful lives of the assets and the College capitalized an item in error. Also, the College failed to reconcile the capital assets subsidiary ledger to the general ledger amounts reported on the financial statements. At June 30, 2007, the general ledger had \$976,968 more assets recorded than were recorded in the capital assets subsidiary ledger.

*Recommendation:* The College should implement effective internal control to ensure that capital assets are properly accounted for and reported in the financial statements. Management should implement policies and procedures to reconcile financial records to the underlying subsidiary ledgers.

*College's Response:* The College relied on the North Carolina Community College System computer program to calculate its depreciation. This program does not properly account for the correct useful lives of capital assets. Thus, an excel worksheet which recomputes the depreciation with extended useful lives has been developed with the assistance of the staff of the State Auditor's Office. This worksheet, which utilizes the correct useful lives, will be used in subsequent years to correctly state accumulated depreciation.

Even though the College had balanced its acquisitions and disposals to the correct fixed asset totals on its financial statements, it failed to reconcile its capital assets subsidiary record to these same totals. A policy and procedure is now in place to ensure that the financial records reconcile to the underlying subsidiary records. The purchasing officer will reconcile the capital assets subsidiary records to the general ledger amounts reported on the financial statements in subsequent years.

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## **ORDERING INFORMATION**

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

Office of the State Auditor  
State of North Carolina  
2 South Salisbury Street  
20601 Mail Service Center  
Raleigh, North Carolina 27699-0601

Telephone: 919/807-7500

Facsimile: 919/807-7647