STATE OF NORTH CAROLINA

PITT COMMUNITY COLLEGE

GREENVILLE, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2008

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR

PITT COMMUNITY COLLEGE

GREENVILLE, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2008

STATE OF NORTH CAROLINA
Office of the State Auditor

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State Auditor

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AUDITOR'S TRANSMITTAL

The Honorable Beverly E. Perdue
The General Assembly of North Carolina
Board of Trustees, Pitt Community College

We have completed a financial statement audit of Pitt Community College for the year ended June 30, 2008, 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.

Beth A. Wood

Beth A. Wood, CPA
State Auditor

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Pitt Community College
Greenville, North Carolina

We have audited the accompanying financial statements of Pitt 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, 2008, which collectively comprise the College's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of Pitt 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 Pitt 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 this entity, 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 Pitt 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 Pitt Community College and its discretely presented component unit as of June 30, 2008, 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.

As discussed in Note 15 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and Statement No. 50, *Pension Disclosures*, during the year ended June 30, 2008.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

In accordance with *Government Auditing Standards*, we have also issued our report dated July 21, 2009 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.

Beth A. Wood

Beth A. Wood, CPA
State Auditor

July 21, 2009

This section of Pitt Community College's Annual Financial Report presents Management's Discussion and Analysis of the College's financial activity during the fiscal year ended June 30, 2008, with comparative data from fiscal year ended June 30, 2007. Since this Management's Discussion and Analysis is designed to focus on current activities, resulting change and currently known facts, please read it in conjunction with the College's basic financial statements and the notes to the financial statements.

Using This Annual Report

This annual report consists of financial statements prepared in accordance with the Governmental Accounting Standards Board (GASB) Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*.

The statement format presents financial information in a form that emulates corporate presentation models. The statements are prepared under the accrual basis of accounting, whereby revenues are recognized when earned and expenses are recorded when an obligation has been incurred. The full scope of the College's activities is considered to be a single business-type activity and is reported in a single column on the statements. Three basic financial statements are included in this report along with the required supplementary information: Statement of Net Assets; Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows.

The Statement of Net Assets includes all assets and liabilities. This statement combines current financial resources and capital assets.

The Statement of Revenues, Expenses, and Changes in Net Assets presents the revenues earned and the expenses incurred during the year. Activities are reported as operating or nonoperating. The financial reporting model classifies State and county appropriations as nonoperating revenue. Because the College receives the majority of its funding from appropriations, this classification of appropriations results in an operating loss on the statements. Depreciation is recognized and is presented as an operating expense. The College's net assets (the difference between assets and liabilities) are one indicator of the financial well-being of the College. Over a period of time, increases or decreases in the College's net assets are one factor in determining the financial health of the institution. Nonfinancial factors must also be analyzed to determine the complete picture of the College's condition. Enrollment levels and the age and condition of its buildings are examples of nonfinancial factors that have an impact on the College's condition.

The Statement of Cash Flows presents an analysis of cash receipts and cash payments during the period. It shows the College's ability to meet financial obligations as they mature. The information is summarized by the different types of activities: operating activities, noncapital financing activities, capital and related financing activities and investing activities.

College-Wide Analysis

Condensed Statement of Net Assets

	(in thousands) 2008	2007	Increase (Decrease)	Percent Changed
Assets				
Current Assets	$ 4,147.36	$ 4,109.90	$ 37.46	0.91%
Capital Assets, Net of Depreciation	41,369.31	38,115.91	3,253.40	8.54%
Noncurrent Assets	4,191.27	6,522.27	(2,331.00)	-35.74%
Total Assets	49,707.94	48,748.08	959.86	1.97%
Liabilities				
Current Liabilities	1,897.93	1,206.44	691.49	57.32%
Noncurrent Liabilities	1,477.08	1,183.72	293.36	24.78%
Total Liabilities	3,375.01	2,390.16	984.85	41.20%
Net Assets				
Investment in Capital Assets	41,369.31	38,115.92	3,253.39	8.54%
Restricted	4,140.89	7,082.80	(2,941.91)	-41.54%
Unrestricted	822.73	1,159.20	(336.47)	-29.03%
Total Net Assets	$ 46,332.93	$ 46,357.92	$ (24.99)	-0.05%

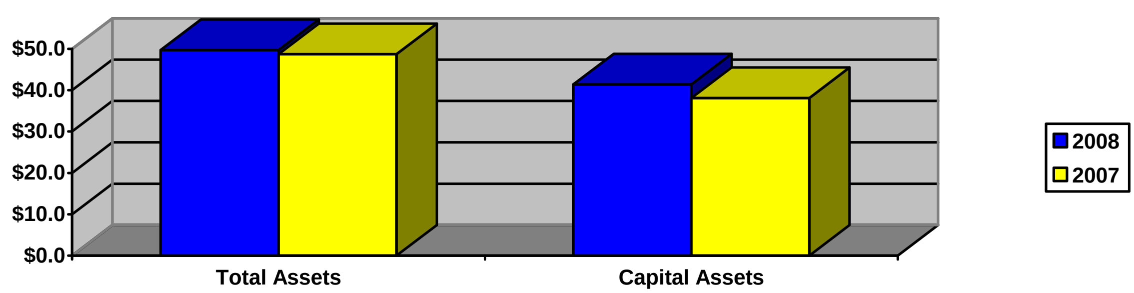
Assets

The College continues to operate in a fiscally sound financial manner. Total assets of the College increased by $1.0 million, from $48.7 million to $49.7 million, an increase of 1.97%. Capital assets, net of depreciation increased 8.5% as a result of:

- A $1.4 million decrease due to moving the General Classroom Building from construction in progress (CIP) to depreciable assets and adding the Student Building to CIP.
- A $4.6 million increase due to completion of the General Classroom Building plus the addition of new machinery and equipment purchased this fiscal year.

Noncurrent assets decreased by 35.74% due to a $2.3 million decrease in construction receivables for the new Student Center Building.

Total Assets Versus Capital Assets (in millions)



Liabilities

Total liabilities of the College total $3.4 million, an increase of 41.2%.

- Current liabilities increased by 57.32% due to an amount of $626,365.40 for contracts payable shown for the Student Services Building.
- Noncurrent liabilities increased 24.78%. For Pitt Community College, noncurrent liabilities consist primarily of accrued vacation leave. A 6% salary increase given in FY08 increased the value of that leave.

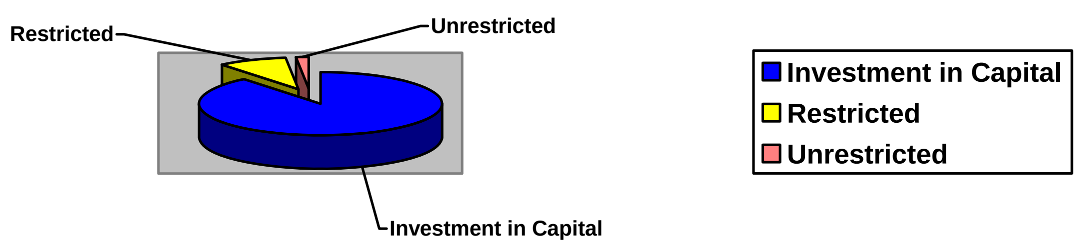
Net Assets

North Carolina Community College System and local and State guidelines require spending unrestricted cash on current operations. Unspent balances in most cases revert to the State; therefore, unrestricted net assets will have the lowest balance of the three net asset categories. Restricted assets include State, local and institutional funds held for equipment, construction and scholarships. Investment in capital assets is a cumulative amount of the State, local and institutional funds spent on depreciable and nondepreciable assets. This category of assets remains on the College's books until fully depreciated or, in the case of land and CIP, until sold or capitalized. FY08 total net assets are made up of: unrestricted at 1.8%, restricted at 8.8%, and capital at 89.4%.

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

The following is a graphic illustration of the FY08 net assets.

Analysis of Net Assets



Revenues

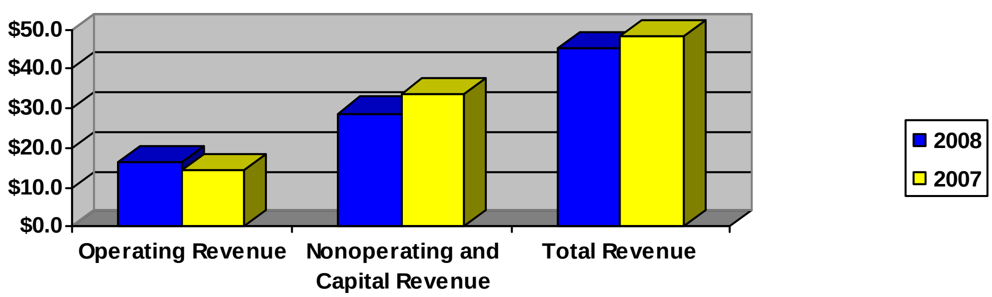
Condensed Operating Revenues

	(in thousands) 2008	2007	Increase (Decrease)	Percent Changed
Student Tuition and Fees, Net	$ 5,609.07	$ 5,126.67	$ 482.40	9.41%
Federal Grants and Contracts	6,730.78	6,460.48	270.30	4.18%
State and Local Grants and Contracts	1,022.83	50.63	972.20	1920.21%
Other Operating Revenues	2,855.79	2,797.81	57.98	2.07%
Total Operating Revenues	$ 16,218.47	$ 14,435.59	$ 1,782.88	12.35%

Condensed Nonoperating and Capital Revenues

	(in thousands) 2008	2007	Increase (Decrease)	Percent Changed
State Aid	$ 21,591.04	$ 20,181.58	$ 1,409.46	6.98%
Noncapital Gifts	500.71	719.53	(218.82)	-30.41%
Other Nonoperating Revenues	4,313.33	4,391.20	(77.87)	-1.77%
State Capital Aid	2,191.54	7,916.24	(5,724.70)	-72.32%
Other Capital Revenues	193.01	496.45	(303.44)	-61.12%
Total Nonoperating and Capital Revenues	$ 28,789.63	$ 33,705.00	$ (4,915.37)	-14.58%

Illustration of Revenues (in millions)



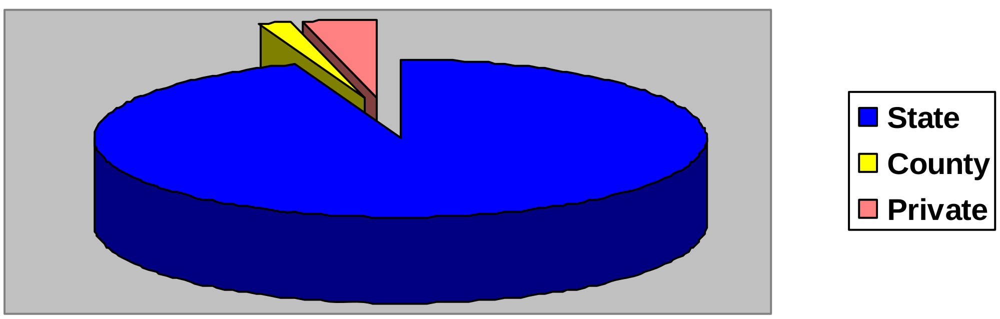
Operating revenues increased by 12.4%:

- Student tuition and fees, adjusted for scholarship discounts increased 9.41% as a result of an increase in enrollment.
- State and Local Grants and Contracts increased significantly due to a new grant for scholarships from the North Carolina Community College System in the amount of $430,947 and a $465,135 increase in the NC Education Lottery Scholarship funds.

Nonoperating and capital revenues decreased by 14.6%:

- State aid increased by 7.0% due to the increase in student enrollment.
- Noncapital gifts decreased by 30.4% due to a decrease in Institution Foundation Scholarships. More scholarships now are administered directly through the Foundation.
- State capital aid decreased 72.3% because no additional significant construction projects were added in FY08.
- Other capital revenues decreased by 61.1% primarily because a large gift from the Pitt Community College Foundation in the amount of $296,842.00 was received in FY07 for construction of the Athletic Field House; this amount was not received in FY08.

FY08 Sources of Capital Contributions



Expenses

Operating Expenses

	(in thousands) 2008	2007	Increase (Decrease)	Percent Changed
Personal Services	$ 28,830.49	$ 26,686.73	$ 2,143.76	8.03%
Supplies and Materials	4,970.23	4,996.70	(26.47)	-0.53%
Services	3,774.69	3,758.12	16.57	0.44%
Scholarships and Fellowships	4,867.83	3,960.82	907.01	22.90%
Utilities	1,169.27	1,063.26	106.01	9.97%
Depreciation	1,420.58	1,419.54	1.04	0.07%
Total Operating Expenses	$ 45,033.09	$ 41,885.17	$ 3,147.92	7.52%

Operating expenses increased slightly by 7.5%:

- Salaries and fringe benefits account for 64.0% of the operating expenses and increased by almost $2.1 million, or 8.0%, this fiscal year due to the increases in our FY08 budget for enrollment growth and salary increases. The College awarded a 6% across the board salary increase for all annually appointed employees.
- Scholarships and fellowships increased by 22.9% as a result of enrollment growth and increases in the amount of monies received from the North Carolina Community College System scholarship fund and the North Carolina Education Lottery Scholarship fund.
- Utilities increased by 9.9% due to utility rate increases as well as additional utilities used during the construction of the Goess Student Center Building.

Nonoperating expenses remained constant at zero dollars for FY08.

Economic Outlook and Effects on Financial Position

Pitt Community College continues to see increases in our student population. Our Full Time Equivalent (FTE) students for which we earn budget (fall and spring semester) for FY08 were 5,094. The FTE for FY07 and FY06 were 4,913 and 4,874, respectively. Since the majority of our State funding is based on our student FTE, Pitt Community College continues to see increases in its operational budget.

However, budget reversions continue to deplete needed resources. For FY08, Pitt Community College was required to initially hold .75% or $153,959 of its operating budget. Even though these funds were never reverted, it prevented the College from hiring additional instructional personnel at the first of the fiscal year. For FY09 year, these budget reversions have become even more challenging, requiring the College to hold 3% of its total budget.

Pitt Community College continues to proceed with construction as outlined by its Master Plan as resources will allow. Construction is completed for the Goess Student Center which opened in January 2009. Some of the departments located in this facility will include financial aid, registrar, cashier, and counseling offices. This facility will also contain a cafeteria and various multi-purpose rooms.

The Board of Trustees has recently authorized the construction of three new facilities. These projects include the first phase of the Construction and Industrial Complex, Maintenance, Grounds and Storage Facility Complex, and an Academic Classroom Building.

The bidding process for the Construction and Industrial Complex and the Maintenance, Grounds and Storage Facility Complex is expected to begin next year. The bidding process for the Academic Classroom Building will begin in late 2010.

The total cost for the projects is estimated to be $27.2 million. Each will be funded by proceeds from a quarter-cent sales tax referendum which was passed this past November.

Pitt Community College
Statement of Net Assets
June 30, 2008 ***Exhibit A-1***

ASSETS		
Current Assets:		
Cash and Cash Equivalents	$	2,036,750.03
Restricted Cash and Cash Equivalents		604,166.50
Receivables, Net (Note 4)		656,478.81
Inventories		843,297.12
Prepaid Items		2,181.00
Notes Receivable, Net (Note 4)		4,485.00
Total Current Assets		4,147,358.46
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		207,882.23
Restricted Due from Primary Government		3,945,389.70
Restricted Due from State of North Carolina Component Units		38,000.00
Capital Assets - Nondepreciable (Note 6)		10,782,539.83
Capital Assets - Depreciable, Net (Note 6)		30,586,766.53
Total Noncurrent Assets		45,560,578.29
Total Assets		49,707,936.75
LIABILITIES		
Current Liabilities:		
Accounts Payable and Accrued Liabilities (Note 7)		1,709,988.90
Due to Primary Government		1,086.01
Unearned Revenue		12,015.48
Long-Term Liabilities - Current Portion (Note 8)		174,842.03
Total Current Liabilities		1,897,932.42
Noncurrent Liabilities:		
Funds Held for Others		68,186.81
Long-Term Liabilities (Note 8)		1,408,889.33
Total Noncurrent Liabilities		1,477,076.14
Total Liabilities		3,375,008.56
NET ASSETS		
Invested in Capital Assets		41,369,306.36
Restricted for:		
Nonexpendable:		
Scholarships and Fellowships		161,417.05
Expendable:		
Scholarships and Fellowships		9,904.64
Loans		83,762.89
Capital Projects		3,316,505.92
Restricted for Specific Programs		57,162.39
Other		512,142.21
Unrestricted		822,726.73
Total Net Assets	$	46,332,928.19

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

Pitt Community College
Statement of Revenues, Expenses, and Changes in Net Assets
For the Fiscal Year Ended June 30, 2008

Exhibit A-2

REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net (Note 9)	$	5,609,075.17
Federal Grants and Contracts		6,730,777.82
State and Local Grants and Contracts		1,022,831.66
Sales and Services, Net (Note 9)		2,756,687.59
Other Operating Revenues		99,102.48
Total Operating Revenues		16,218,474.72
EXPENSES		
Operating Expenses:		
Personal Services		28,830,485.06
Supplies and Materials		4,970,232.69
Services		3,774,694.94
Scholarships and Fellowships		4,867,830.17
Utilities		1,169,270.56
Depreciation		1,420,579.31
Total Operating Expenses		45,033,092.73
Operating Loss		(28,814,618.01)
NONOPERATING REVENUES		
State Aid		21,591,041.73
County Appropriations		3,433,200.00
Noncapital Grants		719,393.29
Noncapital Gifts		500,708.78
Investment Income		138,774.99
Other Nonoperating Revenues		21,966.34
Nonoperating Revenues		26,405,085.13
Loss Before Other Revenues		(2,409,532.88)
State Capital Aid		2,191,542.11
County Capital Aid		37,500.00
Capital Grants		59,663.74
Capital Gifts		95,844.50
Decrease in Net Assets		(24,982.53)
NET ASSETS		
Net Assets, July 1, 2007 as Restated (Note 16)		46,357,910.72
Net Assets, June 30, 2008	$	46,332,928.19

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

Pitt Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2008 — ***Exhibit A-3***

CASH FLOWS FROM OPERATING ACTIVITIES	
Received from Customers	$ 16,008,821.51
Payments to Employees and Fringe Benefits	(28,435,390.93)
Payments to Vendors and Suppliers	(9,404,902.37)
Payments for Scholarships and Fellowships	(4,867,830.17)
Other Receipts	164,903.01
Net Cash Used by Operating Activities	(26,534,398.95)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Aid Received	21,591,041.73
County Appropriations	3,433,200.00
Noncapital Grants Received	829,239.08
Noncapital Gifts Received	500,708.78
Cash Provided by Noncapital Financing Activities	26,354,189.59
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
State Capital Aid Received	4,485,604.37
County Capital Aid	37,500.00
Capital Grants Received	21,663.74
Capital Gifts Received	95,844.50
Acquisition and Construction of Capital Assets	(4,673,973.27)
Net Cash Used by Capital and Related Financing Activities	(33,360.66)
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment Income	138,774.99
Cash Provided by Investing Activities	138,774.99
Net Decrease in Cash and Cash Equivalents	(74,795.03)
Cash and Cash Equivalents, July 1, 2007	2,923,593.79
Cash and Cash Equivalents, June 30, 2008	$ 2,848,798.76

Pitt Community College
Statement of Cash Flows — *Exhibit A-3*
For the Fiscal Year Ended June 30, 2008 — *Page 2*

RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES

Operating Loss	$	(28,814,618.01)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense		1,420,579.31
Provision for Uncollectible Loans and Write-Offs		(0.72)
Miscellaneous Nonoperating Income		21,966.34
Changes in Assets and Liabilities:		
Receivables, Net		(97,597.98)
Inventories		(52,984.45)
Prepaid Items		3,409.25
Accounts Payable and Accrued Liabilities		676,836.35
Due to Primary Government		101.47
Unearned Revenue		4,516.38
Funds Held for Others		26,365.06
Compensated Absences		277,028.05
Net Cash Used by Operating Activities	$	(26,534,398.95)

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:		
Cash and Cash Equivalents	$	2,036,750.03
Restricted Cash and Cash Equivalents		604,166.50
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		207,882.23
Total Cash and Cash Equivalents - June 30, 2008	$	2,848,798.76

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Capital Asset Write-Offs	$	6,429.70

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

Pitt Community College Foundation, Inc.
Statement of Financial Position
June 30, 2008 — *Exhibit B-1*

ASSETS		
Cash and Cash Equivalents	$	1,400,023.68
Investments		166,427.93
Investment in Cherry Oaks Rec. Club, Inc.		265,929.31
Receivables		1,160.95
Due from Cherry Oaks Rec. Club, Inc.		85,310.79
Pledges Receivable, Net		3,976,738.00
Capital Assets - Depreciable, net		2,988.40
Total Assets		5,898,579.06
LIABILITIES		
Accounts Payable		11,233.15
Total Liabilities		11,233.15
NET ASSETS		
Unrestricted		356,747.93
Temporarily Restricted		4,934,927.84
Permanently Restricted		595,670.14
Total Net Assets	$	5,887,345.91

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

Pitt Community College Foundation, Inc.
Statement of Activities
For the Fiscal Year Ended June 30, 2008 — *Exhibit B-2*

CHANGES IN UNRESTRICTED NET ASSETS		
Support and Revenues		
Contributions	$	203,055.00
Interest and Investment Income		17,913.00
Fund Raising Income		202,559.00
Total Unrestricted Revenues and Gains		423,527.00
Assets Released from Restrictions		291,266.28
Total Unrestricted Revenues and Support		714,793.28
Expenses:		
Scholarships		186,314.40
Construciton Projects		95,844.50
Program Services		109,802.51
General Expenses		110,532.03
Student Activities		4,232.74
Fund Raising		80,510.35
Total Expenses		587,236.53
Increase in Unrestricted Net Assets		127,556.75
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS		
Contributions		4,605,549.93
Interest and Investment Income		37,039.25
Net Increase in Fair Value of Investments		8,729.85
Loss from Investment in Cherry Oaks Recreational Club, Inc.		(25,837.72)
Fund Raising		35,837.57
Satisfaction of Restrictions		(291,266.28)
Increase in Temporarily Restricted Net Assets		4,370,052.60
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS		
Contributions		85,163.30
Interest and Investment Income		10,119.45
Net Increase in Fair Value of Investments		187.12
Increase in Permanently Restricted Net Assets		95,469.87
Increase in Net Assets		4,593,079.22
Net Assets at Beginning of Year		1,294,266.69
Net Assets at End of Year	$	5,887,345.91

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

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

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

The accompanying financial statements present all funds 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. Discretely presented component units' financial data are reported in separate financial statements because of their use of different GAAP reporting models and to emphasize their legal separateness.

Discretely Presented Component Unit – Pitt 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. 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 members. 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.

Pitt Community College Foundation, Inc. issues separate financial statements and reports its financial results under Financial Accounting Standards Board (FASB) Statements. As such, certain revenue 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, 2008, the Foundation distributed $282,158.90 to the College for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from Ricky D. Brown, Business Manager, Pitt Community College or the Business Office of Pitt Community College Foundation, Inc.

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 undeposited receipts, petty cash, cash on deposit with private bank accounts, and deposits held by the State Treasurer in the short-term investment fund. The short-term investment fund maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.

E. **Receivables** - Receivables consist of tuition and fees charged to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from the federal government, State and local governments, 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.

F. **Inventories** - Inventories, consisting of expendable supplies and merchandise for resale are valued at cost using either the first-in, first-out, method.

G. **Capital Assets** - Capital assets are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. The College capitalizes assets that have a value or cost in excess of $5,000 at the date of acquisition and an expected useful life of more than one year. Library books are generally not considered to have a useful life of more than one year unless part of a collection and are expensed in the year of acquisition.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 10 to 75 years for general infrastructure, 10 to 50 years for buildings, and 2 to 25 years for equipment.

H. **Restricted Assets** - Certain resources are reported as restricted assets because restrictions on asset use change the nature or normal understanding of the availability of the asset. Resources that are not available for current operations and are reported as restricted include resources restricted or designated for the acquisition or construction of capital assets and resources whose use is limited by external parties or statute.

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

J. **Compensated Absences** - The College's policy is to record the cost of vacation leave when earned. The policy provides for a maximum accumulation of unused vacation leave of 30 days which can be carried forward each July 1 or for which an employee can be paid upon termination of employment. Also, any accumulated vacation leave in excess of 30 days at year end is converted to sick leave.

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

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

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

Invested in Capital Assets - 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.

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

Revenues, Expenses, and Changes in Net Assets. To the extent that revenues from these programs are used to satisfy tuition, fees, and other charges, the College has recorded a scholarship discount.

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

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

N. **Internal Sales Activities** - Certain institutional auxiliary operations provide goods and services to College departments, as well as to its customers. These institutional auxiliary operations include activities such as the bookstore and copy center. In addition, the College has other miscellaneous sales and service units that operated either on a reimbursement or charge basis. All internal sales activities to College departments from auxiliary operations and sales and service units have been eliminated in the accompanying financial statements. These eliminations are recorded by removing the revenue and expense in the auxiliary operations and sales and service units and, if significant, allocating any residual balances to those departments receiving the goods and services during the year.

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

NOTE 2 - DEPOSITS AND INVESTMENTS

All funds of the College are deposited in board-designated official depositories and are required to be collateralized in accordance with *North Carolina General Statute* 115D-58.7. Official depositories may be established with any bank or savings and loan association whose principal office is located in North Carolina. Also, the College may establish time deposit accounts, money market accounts, and certificates of deposit. The amount shown on the Statement of Net Assets as cash and cash equivalents includes cash on hand totaling $9,310.00, and deposits in private financial institutions with a carrying value of $14,000.00 and a bank balance of $334,781.61.

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, 2008, 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 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, 2008, the amount shown on the Statement of Net Assets as cash and cash equivalents includes $2,825,488.76 which represents the College's equity position in the State Treasurer's Short-Term Investment Fund. At June 30, 2008, the amount shown on the Statement of Financial Position of the Pitt Community College Foundation, Inc., the College's discretely presented component unit, as cash and cash equivalents includes $1,388,076.76 which represents the Foundation'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 2.9 years as of June 30, 2008. Assets and shares of the Short-Term Investment Fund are valued at amortized cost, which approximates fair value. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's Short-Term Investment Fund) are included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page http://www.ncosc.net/ and clicking on "Financial Reports," or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

NOTE 3 - DONOR RESTRICTED ENDOWMENTS

The College's endowment assets are pooled with State agencies and similar institutions in short-term investments with the State Treasurer's Cash and Investment Pool and are reported as restricted cash and cash equivalents – noncurrent on the accompanying financial statements. If a donor has not provided specific instructions, State law permits the Board of Trustees to authorize for expenditure the net appreciation, realized and unrealized, of the assets of the endowment funds. Annual payouts from the College's endowment funds are based on an adopted spending policy, which limits spending to 100% of the interest earnings unless the donor has stipulated otherwise. At June 30, 2008, net appreciation of $8,163.00 was available to be spent, of which all was restricted to specific purposes.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2008, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	$ 755,323.49	$ 253,115.32	$ 502,208.17
Accounts	74,136.59		74,136.59
Intergovernmental	80,134.05		80,134.05
Total Current Receivables	$ 909,594.13	$ 253,115.32	$ 656,478.81
Notes Receivable Current:			
Institutional Student Loan Programs	$ 4,876.30	$ 391.30	$ 4,485.00

NOTE 5 - COMPONENT UNIT PLEDGES RECEIVABLE

Contributions to the Pitt Community College Foundation, Inc. are recorded at fair value when the eligibility requirements established by the donor have been satisfied. Pledges are written, unconditional promises to make future contributions, and result in receivables that are recognized as gift income at the discounted present value based on the expected future collections. All eligibility requirements need to be satisfied as specified by SFAS 116, *Accounting for Contributions Received and Contributions Made*. Eligibility requirements for recognition of pledges receivable and the associated contribution revenue are satisfied when the Foundation can comply with both the purpose and time requirements imposed by donors.

At June 30, 2008, the Foundation had $4,189,950.00 that had been pledged during the 07-08 fiscal year to create a gross pledges receivable balance of $4,242,784.00. The present value was determined using a 6.27% discount rate. The discount is $266,046, and gives a net pledges receivable balance of $3,976,738. Due to the limited number of donors, and their perceived reliability, there will be no allowance for doubtful accounts. The yearly breakdown for the pledges receivable account is as follows:

	Balance
1 Year or Less	$ 197,000.00
1 to 5 Years	2,542,084.00
5 Years or More	1,503,700.00

NOTE 6 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2008, is presented as follows:

	Balance July 1, 2007 (as restated)	Increases	Decreases	Balance June 30, 2008
Capital Assets, Nondepreciable:				
Land	$ 6,421,880.21	$ 0.00	$ 0.00	$ 6,421,880.21
Construction in Progress	5,723,570.76	4,168,648.24	5,531,559.38	4,360,659.62
Total Capital Assets, Nondepreciable	12,145,450.97	4,168,648.24	5,531,559.38	10,782,539.83
Capital Assets, Depreciable:				
Buildings	26,214,028.89	5,531,559.38		31,745,588.27
Machinery and Equipment	5,694,259.90	505,325.03	6,429.70	6,193,155.23
General Infrastructure	2,500,506.88			2,500,506.88
Total Capital Assets, Depreciable	34,408,795.67	6,036,884.41	6,429.70	40,439,250.38
Less Accumulated Depreciation:				
Buildings	6,275,565.01	1,072,750.64		7,348,315.65
Machinery and Equipment	1,778,175.89	318,909.21	6,429.70	2,090,655.40
General Infrastructure	384,593.34	28,919.46		413,512.80
Total Accumulated Depreciation	8,438,334.24	1,420,579.31	6,429.70	9,852,483.85
Total Capital Assets, Depreciable, Net	25,970,461.43	4,616,305.10		30,586,766.53
Capital Assets, Net	$ 38,115,912.40	$ 8,784,953.34	$ 5,531,559.38	$ 41,369,306.36

NOTE 7 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2008, were as follows:

	Amount
Accounts Payable	$ 1,077,344.74
Accrued Payroll	632,644.16
Total Accounts Payable and Accrued Liabilities	$ 1,709,988.90

NOTE 8 - LONG-TERM LIABILITIES

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

	Balance July 1, 2007	Additions	Reductions	Balance June 30, 2008	Current Portion
Compensated Absences	$ 1,306,703.31	$ 929,302.99	$ 652,274.94	$ 1,583,731.36	$ 174,842.03

NOTE 9 - REVENUES

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

	Gross Revenues	Internal Sales Eliminations	Less Scholarship Discounts	Less Allowance for Uncollectibles	Net Revenues
Operating Revenues:					
Student Tuition and Fees	$ 7,516,354.43	$ 0.00	$ 1,903,210.94	$ 4,068.32	$ 5,609,075.17
Sales and Services:					
Sales and Services of Auxiliary Enterprises:					
Copy Center	$ 253,789.24	$ 239,304.46	$ 0.00	$ 0.00	$ 14,484.78
College Store	3,028,554.52	40,970.15	818,323.52		2,169,260.85
Athletics	25,075.27				25,075.27
Preschool	357,031.62				357,031.62
Other	10,362.00				10,362.00
Sales and Services of Education and Related Activities	180,473.07				180,473.07
Total Sales and Services	$ 3,855,285.72	$ 280,274.61	$ 818,323.52	$ 0.00	$ 2,756,687.59

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	$ 18,006,933.94	$ 939,758.39	$ 1,134,183.42	$ 0.00	$ 0.00	$ 0.00	$ 20,080,875.75
Public Service	199,585.89	414.83	186,176.20				386,176.92
Academic Support	3,230,681.28	199,499.93	242,314.63				3,672,495.84
Student Services	2,186,600.34	87,688.59	41,116.84				2,315,405.77
Institutional Support	3,211,682.40	3,554,704.48	648,534.33				7,414,921.21
Operations and Maintenance of Plant	1,115,329.99	188,166.47	1,140,382.78		1,169,270.56		3,613,149.80
Student Financial Aid	152,689.89		24,995.27	4,867,830.17			5,045,515.33
Auxiliary Enterprises	726,981.33		356,991.47				1,083,972.80
Depreciation						1,420,579.31	1,420,579.31
Total Operating Expenses	$ 28,830,485.06	$ 4,970,232.69	$ 3,774,694.94	$ 4,867,830.17	$ 1,169,270.56	$ 1,420,579.31	$ 45,033,092.73

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 actuarial valuations. For the year ended June 30, 2008, these rates were set at 3.05% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the College had a total payroll of $23,971,668.11, of which $19,239,468.17 was covered under the Teachers' and State Employees' Retirement System. Total employer and employee contributions for pension benefits for the year were $586,803.78 and $1,154,368.12, respectively.

Required employer contribution rates for the years ended June 30, 2007, and 2006, were 2.66% and 2.34%, respectively, while employee contributions were 6% each year. The College made 100% of its annual required contributions for the years ended June 30, 2008, 2007, and 2006, which were $586,803.78, $481,145.14, and $386,622.63, 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.ncosc.net/ and clicking on "Financial Reports," or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

B. Deferred Compensation and Supplemental Retirement Income Plans - IRC Section 457 Plan - The State of North Carolina offers its permanent employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 through the North Carolina Public Employee Deferred Compensation Plan (the Plan). The Plan permits each participating employee to defer a portion of his or her salary until future years. The deferred compensation is available to employees upon separation from service, death, disability, retirement, or financial hardships if approved by the Board of Trustees of the Plan. The Board, a part of the North Carolina Department of Administration, maintains a separate fund for the exclusive benefit of the participating employees and their beneficiaries, *the North Carolina Public Employee Deferred Compensation Trust Fund*. The Board also contracts with an external third party to perform certain administrative requirements and to manage the trust fund's assets. All costs of administering and funding the Plan are the responsibility of the Plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to $58,070.96 for the year ended June 30, 2008.

IRC Section 401(k) Plan - All members of the Teachers' and State Employees' Retirement System are eligible to enroll in the Supplemental Retirement Income Plan, a defined contribution plan, created under Internal Revenue Code Section 401(k). All costs of administering the Plan are the responsibility of the Plan participants. No costs are incurred by the College except for a 5% employer contribution for the College's law enforcement officers, which is mandated under G.S. 143-166.30(e). Total employer contributions on behalf of College law enforcement officers for the year ended June 30, 2008, were $14,644.40. The voluntary contributions by employees amounted to $282,081.00 for the year ended June 30, 2008.

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 $61,590.00 for the year ended June 30, 2008.

NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS

A. Health Benefits - The College participates in the Comprehensive Major Medical Plan (the Plan), a cost-sharing, multiple-employer defined benefit health care plan that provides postemployment health insurance to eligible former employees. Eligible former employees include long-term disability beneficiaries of the Disability Income Plan of North Carolina and retirees of the Teachers' and State Employees' Retirement System. Coverage eligibility varies depending on years of contributory membership service in their retirement system prior to disability or retirement.

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

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

For the current fiscal year the College contributed 4.1% of the covered payroll under the Teachers' and State Employees' Retirement System to the Fund. Required contribution rates for the years ended June 30, 2007, and 2006, were 3.8% and 3.8%, respectively. The College made 100% of its annual required contributions to the Plan for the years ended June 30, 2008, 2007, and 2006, which were $788,818.19, $687,350.20, and $634,611.68, respectively. The College assumes no liability for retiree health care benefits provided by the programs other than its required contribution.

Additional detailed information about these programs can be located in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page http://www.ncosc.net/ and clicking on "Financial Reports," or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

B. **Disability Income** - The College participates in the Disability Income Plan of North Carolina (DIPNC), a cost-sharing, multiple-employer defined benefit plan, to provide short-term and long-term disability benefits to eligible members of the Teachers' and State Employees' Retirement System. Benefit and contribution provisions are established by Chapter 135, Article 6, of the General Statutes, and may be amended only by the North Carolina General Assembly. The plan does not provide fro automatic post-retirement benefit increases.

Disability income benefits are funded by actuarially determined employer contributions that are established in the Appropriations Bill by the General Assembly. For the fiscal year ended June 30, 2008, the College made a statutory contribution of .52% of covered payroll under the Teachers' and State Employees' Retirement System to the DIPNC. Required contribution rates for the years ended June 30, 2007, and 2006, were .52% and .52%, respectively. The College made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2008, 2007, and 2006, which were $100,045.23, $94,058.45, and $86,841.60, respectively. The College assumes no liability for long-term disability benefits under the Plan other than its contribution.

Additional detailed information about the DIPNC is disclosed in the State of North Carolina's *Comprehensive Annual Financial Report*.

NOTE 13 - RISK MANAGEMENT

The College is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These exposures to loss are handled via a combination of methods, 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 $1,000,000 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. This coverage is with a private insurance company and is handled by the North Carolina Department of Insurance with coverage of $5,000,000 per occurrence with a $75,000 deductible and a 10% participation in each loss above the deductible. Employee dishonesty and computer fraud losses for employees paid from county and institutional funds are covered by contracts with private insurance companies.

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

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

The College purchased malpractice insurance for students in medical-related fields. Coverage is provided at $2,000,000 per occurrence with a limit of $5,000,000.

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

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 $2,270,349.03 and on other purchases were $17,357.63 at June 30, 2008.

NOTE 15 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2008, the College implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

GASB Statement No. 50, *Pension Disclosures*.

GASB Statement No. 45, requires cost-sharing employers to recognize OPEB expense for their contractually required contributions to the plan generally consistent with the approach in adopted in GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers, with modifications to reflect differences between pension benefits and OPEB.*

GASB Statement No. 50, aligns financial reporting requirements for pensions with those of other postemployment benefits, to conform with GASB Statement No. 45. This Statement amends GASB Statement No. 27, to require note disclosure of the employer contribution rates and percentage of the amount contributed for the current and preceding two years and to disclose how the required contribution rates are established.

NOTE 16 - NET ASSET RESTATEMENT

As of July 1, 2007, net assets as previously reported was restated as follows:

	Amount
July 1, 2007 Net Assets as Previously Reported	$ 47,006,975.07
Restatement:	
Correction to 2006-2007 Restatement Extending the Life of Fully Depreciated Assets	(649,064.35)
July 1, 2007 Net Assets as Restated	$ 46,357,910.72

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

Board of Trustees
Pitt Community College
Greenville, North Carolina

We have audited the financial statements of Pitt Community College, a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 2008, which collectively comprise the College's basic financial statements and have issued our report thereon dated July 21, 2009. Our report was modified to include a reference to other auditors.

As discussed in Note 15 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and Statement No. 50, *Pension Disclosures*, during the year ended June 30, 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. Other auditors audited the financial statements of Pitt Community College Foundation, Inc., the discretely presented component unit, as described in our report on the College's financial statements. The financial statements of the discretely presented component unit 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 opinion 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 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 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 the significant deficiencies described above are material weaknesses.

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.

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)

This report is intended solely for the information and use of management of the College the Board of Trustees, others within the entity, 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.

Beth A. Wood

Beth A. Wood, CPA
State Auditor

July 21, 2009

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Matters Related to Financial Reporting

The following findings were identified during the current audit and describe conditions that represent significant deficiencies in internal control. Finding number 2 was also reported in the prior audit.

1. DEFICIENCIES IN FINANCIAL REPORTING

The financial statements and related notes prepared by Pitt Community College contained a number of 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:

- The College reported cash held for its discretely presented component unit in both the College's and the component unit's financial statements. The cash should only have been reported on the component unit's statement of net assets. As a result, the College's noncurrent restricted cash and cash equivalents and funds held for others accounts were overstated by $1,400,023.68.
- The College did not properly record depreciation for buildings capitalized in a prior year. This caused depreciation expense to be understated by $612,662.44 and net assets invested in capital assets to be overstated by the same amount.

Recommendation: The College should place greater emphasis on the year-end financial reporting process and implement effective controls to ensure the completeness and accuracy of the financial statements.

College Response: The College concurs with the findings of the State Auditors and agrees to make the recommended adjustments relating to the two misstatements in the Financial Statements.

2. INAPPROPRIATE INFORMATION SYSTEM ACCESS

The College has granted information system access rights that are inconsistent with adequate segregation of duties. This increases the risk that an error or fraud could occur and not be detected.

We identified eleven employees who had system access rights inconsistent with their job duties and which created an inadequate segregation of duties. We found that:

- Six accounting office employees have the ability to set up new vendors, create purchase orders, receive goods, enter invoices, print checks and create journal entries.
- Two employees in the Registrars' office have the ability to register students and award them financial aid.

Prudent internal control principles require that users be given access only to specific computer resources needed for their job duties.

Recommendation: The College should review access rights and ensure that personnel are only granted the system access needed to perform their job function and that duties are adequately segregated.

College Response: The College concurs with the findings of the State Auditors and agrees to restrict the access rights as appropriate.

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