



STATE OF NORTH CAROLINA

PAMLICO COMMUNITY COLLEGE

GRANTSBORO, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2009

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR

PAMLICO COMMUNITY COLLEGE

GRANTSBORO, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2009

STATE BOARD OF COMMUNITY COLLEGES

THE NORTH CAROLINA COMMUNITY COLLEGE SYSTEM

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Beth A. Wood, CPA
State Auditor

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Office of the State Auditor

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AUDITOR'S TRANSMITTAL

The Honorable Beverly Eaves Perdue, Governor
The General Assembly of North Carolina
Board of Trustees, Pamlico Community College

We have completed a financial statement audit of Pamlico Community College for the year ended June 30, 2009, 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 a deficiency that is detailed in the Audit Findings and Responses section of this report. The College's response is included following the finding.

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

A handwritten signature in cursive script that reads "Beth A. Wood".

Beth A. Wood, CPA
State Auditor

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Pamlico Community College
Grantsboro, North Carolina

We have audited the accompanying basic financial statements of Pamlico Community College, a component unit of the State of North Carolina, as of and for the year ended June 30, 2009, as listed in the table of contents. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

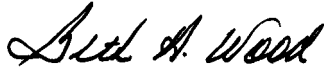
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Pamlico Community College as of June 30, 2009, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 14 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* and Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*, during the year ended June 30, 2009.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 28, 2010 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, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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



Beth A. Wood, CPA
State Auditor

May 28, 2010

PAMLICO COMMUNITY COLLEGE MANAGEMENT'S DISCUSSION AND ANALYSIS

Pamlico Community College is a small two-year institution located in rural Eastern North Carolina, that in 2008-2009 began its 47th year of serving the education, cultural and personal interests of this area.

The College continues to increase the availability of college classes for high school students through Huskins (college courses taught at the high school) and Dual Enrollment (high school students take college course on the college campus) programs. We are continuing to explore offering additional courses and this year we established a Welding program for students at the high school to help meet the demand for skilled workers in the Construction Trades in Pamlico County. Also, during 2008-2009 two new curriculum programs were approved - Entrepreneurship and Electronic Commerce.

The College's national grant "Breaking Through" entered its third year. This grant encourages a seamless pathway for basic skills students to move into curriculum and continuing education programs. The College also continued for the second year on a U.S. Department of Education grant entitled "Ready for College," which prepares youth aged 18-24 for college-level course work.

In June 2009, Dr. Marion Altman retired from the College after serving as President for over 10 years. His replacement Dr. Cleve Cox, who will serve as the fourth President, began employment in August 2009. Formerly he was the President of Williamsburg Technical Community College in Kingstree, South Carolina. He has an extensive background in the management and administration in Community Colleges.

During 2008-2009 the Ned E. Delamar Center (Delamar Center) auditorium was completed with the addition of curtains, lighting, piano and sound system. These additions enhanced the facilities use making it suitable for a vast array of educational functions, civic, and cultural activities for our students and the community at large. Additionally, a commercial quality kitchen was completed which is located next to the auditorium. The College is considering adding a culinary arts program and the kitchen were designed to support such a program.

In 2008-2009 the Johnson Building had an extensive renovation of the student lounge and back room, creating a small Book Store and lovely student lounge. This renovation was financed using funds from prior year bookstore profits.

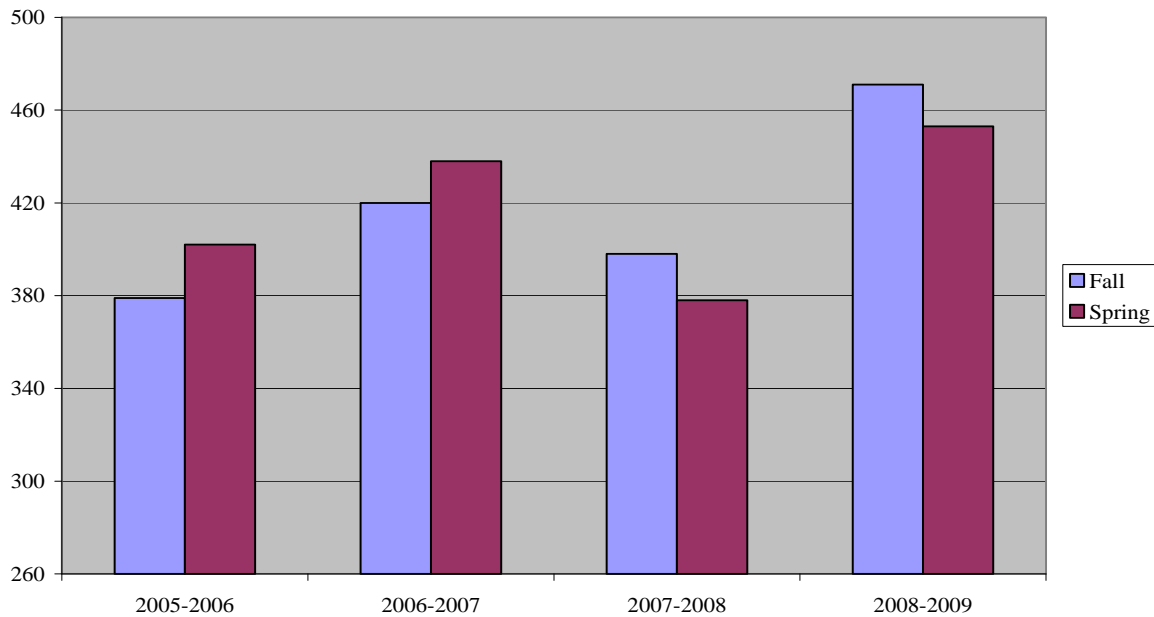
Student enrollment increased during the Fall 2008 and Spring 2009 semesters by 18.34% and 19.84%, respectively, over comparable periods in the prior year. This increase can be partially attributed to the increase in unemployment in the county. The unemployment rate in Pamlico County was 10.1% in July 2009 which is an increase of 6.2% from the previous year. Traditionally, when the rate of unemployment increases, the student enrollment increases, as people seek to refresh their skill set to allow for future employment.

MANAGEMENT’S DISCUSSION AND ANALYSIS (CONTINUED)

Further adding to the increase in enrollment is that the State of North Carolina has established a new website that greatly enhances potential student’s access to opportunities for Scholarship. They are allowed to go on-line and apply for scholarships and the money is automatically directed to the school of their choice. During the year, a new scholarship was offered, the NC Earn Scholarship, which pays each student up to \$4,000 per year. Also, the Perry Griffin and NC Lottery scholarships utilization significantly increased from prior years.

We continue to offer various programs for both curriculum and continuing education students as well as provide an expanded presence to area businesses through our Small Business Center. Enrollment data for campus, Huskins Program, Dual Enrollment Program and prison programs is as follows (unduplicated headcount):

Student Enrollment Per Semester



	2005-2006	2006-2007	2007-2008	2008-2009
Student Count				
Fall	379	420	398	471
Spring	402	438	378	453

Overview of Financial Statements

The basic financial statements include the Statement of Net Assets, Statement of Revenues, Expenses, and Changes in Net Assets, and Statement of Cash Flows. The Statement of Net Assets presents all of the College’s assets and liabilities, with the difference between the two reported as “net assets.” Over time, changes in net assets measure whether the College’s financial position is improving or deteriorating. The Statement of Revenues, Expenses, and Changes in Net Assets present information showing how the net assets changed during the

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

fiscal year. The Statement of Cash Flows provides detail on the cash activity of the College during the year.

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

Condensed Statement of Net Assets (in thousands)

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

	<u>2009</u>	<u>2008</u>	<u>Increase (Decrease)</u>
Current Assets	\$ 877.3	\$ 865.8	\$ 11.5
Other Assets	350.3	201.7	148.6
Capital Assets, Net	<u>7,921.8</u>	<u>7,966.4</u>	<u>(44.6)</u>
Total Assets	<u>9,149.4</u>	<u>9,033.9</u>	<u>115.5</u>
Current Liabilities	119.3	81.7	37.6
Long-Term Liabilities	<u>171.2</u>	<u>199.1</u>	<u>(27.9)</u>
Total Liabilities	<u>290.5</u>	<u>280.8</u>	<u>9.7</u>
Net Assets			
Invested In Capital Assets	7,921.8	7,966.4	(44.6)
Restricted	552.4	384.1	168.3
Unrestricted	<u>384.7</u>	<u>402.7</u>	<u>(18.0)</u>
Total Net Assets	<u>\$ 8,858.9</u>	<u>\$ 8,753.2</u>	<u>\$ 105.7</u>

Pamlico Community College has adequate financial resources to meet the present needs of its student population. The Statement of Net Assets is strong due to its high liquidity and virtually nonexistent debt.

The majority of the increase in both Current and Other Assets and Net Assets - Restricted relates to a gift to the Pamlico Community College Foundation in the amount of \$152.8 thousand from the Estate of Geraldine M. Beveridge.

Capital Assets, Net and Net Assets - Invested In Capital Assets decreased by \$44.6 thousand during year which is directly attributable to a full year of depreciation being recorded on the new Delamar Center.

The increase in Current Liabilities of \$37.6 thousand is from two sources - a payable due to Craven Community College in the amount of \$10.3 thousand which was a refund of unexpended Perkins Grant Funds and an increase in payroll related liabilities related to the payout of earned vacation leave to former employees.

The decrease in noncurrent long-term liabilities relates to the payment of the accumulated vacation and bonus leave of several employees who retired or separated during the year.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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

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

**Condensed Statement of Revenues, Expenses, and Changes in Net Assets
for the Year Ended June 30, 2009 and 2008
(in thousands)**

	2009	2008 (restated)	Increase (Decrease)
Operating Revenues			
Student Tuition and Fees, Net	\$ 101.9	\$ 80.8	\$ 21.1
Sales and Services, Net	90.6	77.9	12.7
Other Operating Revenues	2.8	10.3	(7.5)
Total Operating Revenues	195.3	169.0	26.3
Less Operating Expenses	6,325.6	5,996.3	329.3
Operating Loss	(6,130.3)	(5,827.3)	(303.0)
Nonoperating Revenues			
State Aid	4,004.7	4,020.7	(16.0)
County Appropriations	609.8	497.7	112.1
Noncapital Grants	991.3	828.4	162.9
Noncapital Gifts	214.4	28.6	185.8
Investment Income	32.4	43.0	(10.6)
Other Nonoperating Expenses	(1.0)	(12.6)	11.6
Capital Aid, Appropriations, and Grants	383.2	488.3	(105.1)
Additions to Endowment	1.2	12.5	(11.3)
Total Nonoperating and Capital Revenues	6,236.0	5,906.6	329.4
Change in Net Assets	105.7	79.3	26.4
Net Assets, Beginning of Year	8,753.2	8,673.9	79.3
Net Assets, End of Year	\$ 8,858.9	\$ 8,753.2	\$ 105.7

At the request of the Office of the State Controller, non-exchange revenue derived from Federal and State Grants should be reported as Noncapital Grants on the income statement. This change does not have an impact on the total Change in Net Assets in 2007-2008 and 2008-2009.

The increase of \$21.1 thousand in Student Tuition and Fees, Net is directly related the increase in enrollment and improved collection of student receivables and loans experienced in 2008-2009 over the prior year.

The increase in County Appropriations is attributable principally to the County funding costs associated with operating the Delamar Center. These costs include utilities, cleaning and maintenance.

The increase in Noncapital Grants is related to the increase enrollment and access to scholarships to students.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Noncapital gifts increased during the year resulting primarily from a gift to the Pamlico Community College Foundation in the amount of \$152.8 thousand.

Capital Aid, Appropriation and Grants decreased mainly due to the completion of construction of the Delamar Center offset by increases in Health Sciences programs and new programs in Plumbing and Upholstering.

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

Operating Expenses for the Year Ended June 30, 2009 and 2008 (in thousands)			
	2009	2008	Increase (Decrease)
Operating Expenses			
Personal Services	\$ 4,324.5	\$ 4,214.3	\$ 110.2
Supplies and Materials	666.0	589.4	76.6
Services	426.0	469.5	(43.5)
Scholarships/Fellowships	550.8	441.4	109.4
Utilities	112.2	96.6	15.6
Depreciation	246.1	185.1	61.0
Total Operating Expenses	\$ 6,325.6	\$ 5,996.3	\$ 329.3

Operating Expenses increased by \$329.3 thousand from fiscal year 2008. This is primarily due to an increase in personal services as a result of an increase in student enrollment requiring more teaching resources and a graduated pay increase for employees. Additionally, Personal Services are higher from payout of unused vacation for several long term employees who retired and/or separated from the College during the period. Scholarships/Fellowships increased mainly due to an increase in Federal and State grant funding received and the addition of new state provided scholarships. Depreciation increased due to a full year depreciation being recorded for the new Delamar Center.

Capital Assets

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

Capital Assets June 30, 2009 and 2008 (in thousands)			
	2009	2008	Increase (Decrease)
Capital Assets, Nondepreciable			
Land	\$ 381.1	\$ 381.1	\$ 0.0
Capital Assets, Depreciable			
Buildings	\$ 8,555.7	\$ 8,555.7	\$ 0.0
Machinery and Equipment	902.1	726.1	176.0
General Infrastructure	89.9	89.9	0.0
Total Capital Assets, Depreciable	9,547.7	9,371.7	176.0
Less: Accumulated Depreciation	2,007.0	1,786.4	220.6
Capital Assets, Depreciable, Net	7,540.7	7,585.3	(44.6)
Capital Assets, Net	\$ 7,921.8	\$ 7,966.4	\$ (44.6)

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

The increase in Machinery and Equipment is due to the purchase of curtains, sound and lighting systems and equipment upgrades in the classrooms.

The Paul H. Johnson Building on our main campus is 32 years old; therefore, a new roof is expected to be required within the next few years. The Facilities Master Plan completed in June 2008 estimates the replacement cost to be approximately \$515 thousand.

Economic Outlook

The county has experienced economic deterioration in the farming and commercial fishing industry, which are the primary industries for the community. The unemployment rate in Pamlico County was 10.1% in July 2009, which is an increase from 6.2% the previous year. In July 2009, North Carolina's statewide unemployment was 11.1%. The 2008 census estimated a small decline in population to 12,500, which is a 3.3% decrease from the 2000 census; however, the county expects to see a growth trend to begin due to the anticipated development of coastal residential properties. River Dunes and Arlington Place are examples of such developments, which project an additional 500 single-family homes each. The sales of these new homes are directly tied to the revival of the real estate market on a national basis. The area expects to experience further growth due to the widening of NC Hwy 55 to five lanes, the main entrance into the county.

The overall budget provided for Pamlico Community College for fiscal year 2010 may decrease by approximately 4.2%. The State's fiscal situation continues to provide uncertainty for the amount of State funding to be received by the College. During fiscal year 2009, Community Colleges were required to revert approximately 5.5% of their budgets. There has been much focus on maintaining existing grants and obtaining new grants for added funding.

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

Pamlico Community College
Statement of Net Assets
June 30, 2009

Exhibit A-1

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 547,665.91
Restricted Cash and Cash Equivalents	211,728.63
Short-Term Investments	1,100.00
Receivables, Net (Note 4)	56,790.51
Inventories	59,935.48
Notes Receivable, Net (Note 4)	113.38

Total Current Assets	877,333.91
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Noncurrent Assets:

Restricted Cash and Cash Equivalents	349,164.65
Restricted Due from Primary Government	1,111.88
Capital Assets - Nondepreciable (Note 5)	381,050.00
Capital Assets - Depreciable, Net (Note 5)	7,540,743.45

Total Noncurrent Assets	8,272,069.98
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Total Assets	9,149,403.89
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LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 6)	78,683.48
Unearned Revenue	6,815.46
Funds Held for Others	2,428.61
Long-Term Liabilities - Current Portion (Note 7)	31,400.20

Total Current Liabilities	119,327.75
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Noncurrent Liabilities:

Long-Term Liabilities (Note 7)	171,181.74
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Total Noncurrent Liabilities	171,181.74
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Total Liabilities	290,509.49
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NET ASSETS

Invested in Capital Assets, Net of Related Debt	\$ 7,921,793.45
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Restricted for:

Nonexpendable:	
Scholarships and Fellowships	276,283.79
Expendable:	
Scholarships and Fellowships	29,946.15
Loans	130,140.81
Capital Projects	73,992.74
Other	42,072.17

Unrestricted	384,665.29
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Total Net Assets	\$ 8,858,894.40
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The accompanying notes to the financial statements are an integral part of this statement

***Pamlico Community College
Statement of Revenues, Expenses, and
Changes in Net Assets
For the Fiscal Year Ended June 30, 2009***

Exhibit A-2

REVENUES

Operating Revenues:	
Student Tuition and Fees, Net (Note 9)	\$ 101,892.30
Sales and Services, Net (Note 9)	90,640.43
Other Operating Revenues	2,820.90
	<hr/>
Total Operating Revenues	195,353.63
	<hr/>

EXPENSES

Operating Expenses:	
Personal Services	4,324,539.97
Supplies and Materials	665,982.29
Services	426,004.77
Scholarships and Fellowships	550,791.05
Utilities	112,226.06
Depreciation	246,100.54
	<hr/>
Total Operating Expenses	6,325,644.68
	<hr/>
Operating Loss	(6,130,291.05)
	<hr/>

NONOPERATING REVENUES (EXPENSES)

State Aid	3,900,973.52
State Aid - Federal Recovery Funds	103,694.49
County Appropriations	609,831.96
Noncapital Grants - Federal Student Financial Aid	696,159.04
Noncapital Grants	295,118.99
Noncapital Gifts	214,440.00
Investment Income	32,380.40
Other Nonoperating Expenses	(995.45)
	<hr/>
Net Nonoperating Revenues	5,851,602.95
	<hr/>
Loss Before Other Revenues	(278,688.10)
	<hr/>
State Capital Aid	382,720.42
County Capital Aid	477.73
Additions to Endowments	1,180.00
	<hr/>
Increase in Net Assets	105,690.05

NET ASSETS

Net Assets, July 1, 2008	<hr/> 8,753,204.35
Net Assets, June 30, 2009	<hr/> \$ 8,858,894.40

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

***Pamlico Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2009***

Exhibit A-3

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 219,121.83
Payments to Employees and Fringe Benefits	(4,327,484.58)
Payments to Vendors and Suppliers	(1,192,473.32)
Payments for Scholarships and Fellowships	(569,966.68)
Collection of Loans to Students	(113.38)
Other Payments	(1,093.98)
	<hr/>
Net Cash Used by Operating Activities	(5,872,010.11)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Aid Received	3,900,973.52
State Aid - Federal Recovery Funds	103,694.49
County Appropriations	609,831.96
Noncapital Grants - Federal Student Financial Aid	696,159.04
Noncapital Grants Received	304,283.60
Noncapital Gifts and Endowments Received	215,620.00
	<hr/>
Cash Provided by Noncapital Financing Activities	5,830,562.61

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

State Capital Aid Received	387,083.64
County Capital Aid	477.73
Proceeds from Sale of Capital Assets	9,282.92
Acquisition and Construction of Capital Assets	(211,763.34)
	<hr/>
Net Cash Provided by Capital and Related Financing Activities	185,080.95

CASH FLOWS FROM INVESTING ACTIVITIES

Investment Income	32,380.40
Purchase of Investments and Related Fees	4,550.00
	<hr/>
Cash Provided by Investing Activities	36,930.40

Net Increase in Cash and Cash Equivalents	180,563.85
Cash and Cash Equivalents, July 1, 2008	927,995.34
	<hr/>
Cash and Cash Equivalents, June 30, 2009	\$ 1,108,559.19

***Pamlico Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2009***

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

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

Operating Loss	\$ (6,130,291.05)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	246,100.54
Changes in Assets and Liabilities:	
Receivables, Net	(462.94)
Inventories	12,767.28
Notes Receivable, Net	(113.38)
Accounts Payable and Accrued Liabilities	16,486.52
Due to Primary Government	(508.00)
Unearned Revenue	4,188.21
Funds Held for Others	(226.68)
Compensated Absences	(19,950.61)
	<u>19,950.61</u>
Net Cash Used by Operating Activities	<u>\$ (5,872,010.11)</u>

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	\$ 547,665.91
Restricted Cash and Cash Equivalents	211,728.63
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	<u>349,164.65</u>
Total Cash and Cash Equivalents - June 30, 2009	<u>\$ 1,108,559.19</u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Increase in Receivables Related to Nonoperating Income	\$ 1,904.70
Loss on Disposal of Capital Assets	(995.45)

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

**PAMLICO COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009**

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the College does not apply Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, 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, regardless of the timing of the cash flows.

Nonexchange transactions, in which the College receives (or gives) value without directly giving (or receiving) equal value in exchange includes State appropriations, certain grants, and donations. Revenues are recognized, net of estimated uncollectible amounts, as soon as all eligibility requirements imposed by the provider have been met, if probable of collection.

- D. Cash and Cash Equivalents** - This classification includes undeposited receipts, petty cash, cash on deposit with private bank accounts, and deposits held by the State Treasurer in the short-term investment fund. The short-term investment fund maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.
- E. Investments** - This classification includes asset holdings by the Foundation. Asset holdings are reported at cost, if purchased, or at fair value or appraised value at date of gift, if donated.
- F. Receivables** - Receivables consist of tuition and fees charged to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from the federal government, State and local governments and private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants. Receivables are recorded net of estimated uncollectible amounts.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

H. Capital Assets - Capital assets are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. The value of assets constructed includes all material direct and indirect construction costs. Interest costs incurred are capitalized during the period of construction.

The College capitalizes assets that have a value or cost in excess of \$5,000 at the date of acquisition and an estimated useful life of more than one year. Library books are generally not considered to have a useful life of more than one year unless part of a collection and are expensed in the year of acquisition.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 15 to 20 years for general infrastructure, 20 to 50 years for buildings, and 5 to 25 years for equipment.

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

J. Noncurrent Long-Term Liabilities - Noncurrent long-term liabilities consists of 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. When classifying compensated absences into current and noncurrent, leave is considered taken using a last-in, first-out (LIFO) method. Also, any accumulated vacation leave in excess of 30 days at 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

There is no liability for unpaid accumulated sick leave because the College has no obligation to pay sick leave upon termination or retirement. However, additional service credit for retirement pension benefits is given for accumulated sick leave upon retirement.

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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. 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 as approved by the county commissioners.

NOTE 2 - DEPOSITS AND INVESTMENTS

- A. Deposits** - All funds of the College are deposited in board-designated official depositories and are required to be collateralized in accordance with *North Carolina General Statute 115D-58.7*. Official depositories may be established with any bank or savings and loan association whose principal office is located in North Carolina. Also, the College may establish time deposit accounts, money market accounts, and certificates of deposit. The amount shown on the Statement of Net Assets as cash and cash equivalents includes cash on hand totaling \$510.00, and deposits in private financial institutions with a carrying value of \$173,392.62, and a bank balance of \$294,644.33.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 2009, the College's bank balance in excess of federal depository insurance coverage was covered under the pooling method.

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

Generally, funds belonging to the College may be invested in the form of investments pursuant to G.S. 159-30(c), as follows: a commingled investment pool established and administered by the State Treasurer pursuant to G.S. 147-69.3 (STIF); obligations of or fully guaranteed by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain nonguaranteed federal agencies; prime quality commercial paper bearing specified ratings 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, 2009, the amount shown on the Statement of Net Assets as cash and cash equivalents includes \$934,656.57, 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 1.8 years as of June 30, 2009. 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(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 “Proceed directly to OSC’s index page,” then “Reports,” or by calling the State Controller’s Financial Reporting Section at (919) 981-5454.

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

Investments of the College’s component unit, Pamlico 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. At June 30, 2009, Pamlico Community College Foundation held \$1,100.00 in investments consisting of personal property.

A reconciliation of deposits and investments for the College to the basic financial statements at June 30, 2009, is as follows:

Cash on Hand	\$	510.00
Carrying Amount of Deposits with Private Financial Institutions		173,392.62
Investments in the Short Term Investment Fund		934,656.57
Other Investments		1,100.00
		1,109,659.19
Total Deposits and Investments	\$	1,109,659.19
Current:		
Cash and Cash Equivalents	\$	547,665.91
Restricted Cash and Cash Equivalents		211,728.63
Short-Term Investments		1,100.00
Noncurrent:		
Restricted Cash and Cash Equivalents		349,164.65
		349,164.65
Total	\$	1,109,659.19

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 2009, net appreciation of \$6,217.44 was available to be spent, of which all was restricted to specific purposes.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2009 were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	\$ 30,922.04	\$ 4,337.32	\$ 26,584.72
Intergovernmental	8,985.10		8,985.10
Other	21,220.69		21,220.69
Total Current Receivables	\$ 61,127.83	\$ 4,337.32	\$ 56,790.51
Notes Receivable - Current:			
Institutional Student Loan Programs	\$ 17,861.70	\$ 17,748.32	\$ 113.38

NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2009 is presented as follows:

	Balance July 1, 2008	Increases	Decreases	Balance June 30, 2009
Capital Assets, Nondepreciable:				
Land	\$ 381,050.00	\$ 0.00	\$ 0.00	\$ 381,050.00
Capital Assets, Depreciable:				
Buildings	8,555,717.57			8,555,717.57
Machinery and Equipment	726,066.11	211,763.34	35,776.16	902,053.29
General Infrastructure	89,942.65			89,942.65
Total Capital Assets, Depreciable	9,371,726.33	211,763.34	35,776.16	9,547,713.51
Less Accumulated Depreciation/Amortization for:				
Buildings	1,431,431.93	174,500.59		1,605,932.52
Machinery and Equipment	335,178.85	67,294.23	25,497.79	376,975.29
General Infrastructure	19,756.53	4,305.72		24,062.25
Total Accumulated Depreciation	1,786,367.31	246,100.54	25,497.79	2,006,970.06
Total Capital Assets, Depreciable, Net	7,585,359.02	(34,337.20)	10,278.37	7,540,743.45
Capital Assets, Net	\$ 7,966,409.02	\$ (34,337.20)	\$ 10,278.37	\$ 7,921,793.45

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2009 were as follows:

	Amount
Accounts Payable	\$ 11,545.57
Accrued Payroll	56,756.01
Intergovernmental Payables	10,381.90
Total Accounts Payable and Accrued Liabilities	\$ 78,683.48

NOTE 7 - LONG-TERM LIABILITIES

Changes in Long-Term Liabilities - A summary of changes in the long-term liabilities for the year ended June 30, 2009 is presented as follows:

	Balance July 1, 2008	Additions	Reductions	Balance June 30, 2009	Current Portion
Compensated Absences	\$ 222,532.55	\$ 115,616.49	\$ 135,567.10	\$ 202,581.94	\$ 31,400.20

NOTE 8 - OPERATING LEASE OBLIGATIONS

The College entered into operating leases for copiers. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2009:

Fiscal Year	Amount
2010	\$ 11,796.00
2011	11,796.00
2012	5,706.00
2013	2,618.00
Total Minimum Lease Payments	\$ 31,916.00

Rental expense for all operating leases during the year was \$11,796.00.

NOTE 9 - REVENUES

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	Gross Revenues	Less Scholarship Discounts	Net Revenues
Operating Revenues:			
Student Tuition and Fees	\$ 296,715.49	\$ 194,823.19	\$ 101,892.30
Sales and Services:			
Sales and Services of Auxiliary Enterprises:			
Bookstore	\$ 189,582.54	\$ 139,154.73	\$ 50,427.81
Other	40,212.62		40,212.62
Total Sales and Services	\$ 229,795.16	\$ 139,154.73	\$ 90,640.43

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	\$ 2,195,923.28	\$ 223,119.96	\$ 49,598.45	\$ 0.00	\$ 7,141.19	\$ 0.00	\$ 2,475,782.88
Academic Support	598,979.06	38,297.09	28,293.65				665,569.80
Student Services	316,373.46	8,529.81	25,928.99				350,832.26
Institutional Support	1,032,599.55	28,253.09	219,861.73				1,280,714.37
Operations and Maintenance of Plant	180,664.62	176,741.35	101,661.71		105,084.87		564,152.55
Student Financial Aid		23.12	510.24	550,791.05			551,324.41
Auxiliary Enterprises		191,017.87	150.00				191,167.87
Depreciation						246,100.54	246,100.54
Total Operating Expenses	\$ 4,324,539.97	\$ 665,982.29	\$ 426,004.77	\$ 550,791.05	\$ 112,226.06	\$ 246,100.54	\$ 6,325,644.68

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 is a cost-sharing multiple-employer defined benefit pension plan established by the State to provide pension benefits for employees of the State, its component units and local boards of education. The plan is 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, 2009, these rates were set at 3.36% of covered payroll for employers and 6% of covered payroll for members.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the current fiscal year, the College had a total payroll of \$3,573,187.43, of which \$3,128,130.72 was covered under the Teachers' and State Employees' Retirement System. Total employer and employee contributions for pension benefits for the year were \$105,105.19 and \$187,769.18, respectively.

Required employer contribution rates for the years ended June 30, 2008, and 2007, were 3.05% and 2.66%, respectively, while employee contributions were 6% each year. The College made 100% of its annual required contributions for the years ended June 30, 2009, 2008, and 2007, which were \$105,105.19, \$91,134.59, and \$73,196.40, 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 "Proceed directly to OSC's index page," then "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 \$5,203.84 for the year ended June 30, 2009.

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. The voluntary contributions by employees amounted to \$69,039.00 for the year ended June 30, 2009.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 *North Carolina General Statute 135-7* and Chapter 135, Article 3A, 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 of the 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, 2008, and 2007, were 4.1% and 3.8%, respectively. The College made 100% of its annual required contributions to the Plan for the years ended June 30, 2009, 2008, and 2007, which were \$128,253.36, \$119,819.58, and \$104,566.29, 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

<http://www.ncosc.net/> and clicking on “Proceed directly to OSC’s index page,” then “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 for 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, 2009, 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, 2008, and 2007, were .52% and .52%, respectively. The College made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2009, 2008, and 2007, which were \$16,266.28, \$15,537.70, and \$14,309.07, 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, including participation in State-administered insurance programs, purchase of commercial insurance, and self-retention of certain risks. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

Tort claims of up to \$1,000,000 are retained under the authority of the State Tort Claims Act. In addition, the State provides excess public officers’ and employees’ liability insurance up to \$10,000,000 via contract with a private insurance company. The North Carolina Community College System Office pays the premium, based on a composite rate, directly to the private insurer.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 retains the risk for the \$10,000,000 deductible per occurrence. Reinsurance is purchased by the fund to cover catastrophic events in excess of the \$10,000,000 deductible. There have been no significant reductions in insurance coverage from the previous year.

State-owned vehicles are covered by liability insurance through a private insurance company and handled by the North Carolina Department of Insurance. The liability limits for losses are \$1,000,000 per claim and \$10,000,000 per occurrence. The community college pays premiums to the North Carolina Department of Insurance for the coverage. Liability insurance for other College-owned vehicles is covered by contracts with private insurance companies.

The College is protected for losses from employee dishonesty and computer fraud for employees paid in whole or in part from State funds. This coverage is with a private insurance company and is handled by the North Carolina Department of Insurance. North Carolina Community College System Office is charged a premium by the private insurance company. Coverage limit is \$5,000,000 per occurrence. The private insurance company pays 90% of each loss less a \$75,000 deductible. All employees are covered under a blanket policy for employee dishonesty and fraud with a private insurance company. Limits of the coverage are \$10,000 per occurrence and a \$250 deductible.

The College purchased malpractice insurance for students in medical-related fields. Coverage is provided at \$1,000,000 per occurrence with a limit of \$5,000,000.

College employees and retirees are provided comprehensive major medical care benefits. Coverage is funded by contributions to the State Health Plan (Plan), a pension and other employee benefit trust fund of the State of North Carolina. The Plan is funded by employer and employee contributions. The Plan has contracted with third parties to process claims.

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 (death benefits) of \$25,000 to \$50,000 is provided to eligible workers. This Death Benefit Plan is administered by the State Treasurer and funded via employer contributions. The employer contribution rate was .16% for the current fiscal year.

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2009, the College implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*.

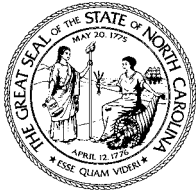
GASB Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*.

GASB Statement No. 49, requires reporting pollution remediation obligations, including reporting pollution remediation obligations that previously may not have been reported.

GASB Statement No. 52, requires reporting land and other real estate held as investments at fair value. This statement amends GASB Statement No. 31 which required endowments to report land and other real estate investments at historical cost.

In addition, beginning with the year ended June 30, 2009 the College reports federal student aid as nonoperating revenue instead of operating revenue. This change was the result of a clarification in the GASB Comprehensive Implementation Guide.

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Beth A. Wood, CPA
State Auditor

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

Board of Trustees
Pamlico Community College
Grantsboro, North Carolina

We have audited the financial statements of Pamlico Community College, a component unit of the State of North Carolina, as of and for the year ended June 30, 2009, and have issued our report thereon dated May 28, 2010.

As discussed in Note 14 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* and Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*, during the year ended June 30, 2009.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the College's internal control over financial reporting 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

**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)**

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 deficiency described in the Audit Findings and Responses section of this report to be a significant deficiency 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.

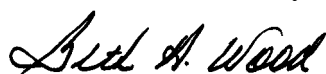
Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency 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 response to the finding identified in our audit is 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 College Board of Trustees, others within the entity, the State Board of Community Colleges, the Governor, the General Assembly, and the State Controller, and is not intended to be and should not be used by anyone other than these specified parties.



Beth A. Wood, CPA
State Auditor

May 28, 2010

AUDIT FINDINGS AND RESPONSES

Matters Related to Financial Reporting

The following finding and recommendation was identified during the current audit and discusses conditions that represent deficiencies in internal control. This finding was also reported in the prior report.

DEFICIENCIES IN FINANCIAL REPORTING

The financial statements prepared by the College contained misstatements that were ultimately corrected as a result of our audit. These misstatements indicate that the College's internal control over financial reporting was not effective, and without the corrections, the financial statements could have been misleading to readers. Misstatements noted in our audit included the following:

- a. The College overstated current restricted cash and cash equivalents in the amount of \$12,488 and understated noncurrent restricted cash and cash equivalents by the same amount.
- b. The College understated nonexpendable net assets restricted for scholarships and fellowships in the amount of \$152,750.
- c. Various other misstatements were made in the Statement of Cash Flows, Notes to the Financial Statements, and Management's Discussion and Analysis.

Also, consultants were involved in the preparation of the College's financial statements, including the year-end adjusting entries. There was no indication that representatives of College management reviewed the journal entries prepared by the consultants or reviewed the completed financial statements prior to their submission for audit.

Recommendation: The College should place greater emphasis on the year-end financial reporting process and implement effective internal controls to ensure the accuracy and completeness of the financial statements, including an independent review of the supporting journal entries.

College Response: The College will place greater emphasis on the year-end process as follows:

- a full time Vice President of Administrative Services is in place (an interim served in that capacity June-September, 2009), thereby ensuring continuity from the end of the fiscal year through the year-end process to the next audit;
- the Vice President of Administrative Services is responsible for internal controls, independent review of all journal entries, the year-end financial reporting process, and accurate and complete financial statements;

AUDIT FINDINGS AND RESPONSES (CONCLUDED)

- the Business Office has been organized to separate the preparation, approval, and entering of journal entries;
- the Administrative Council (president and vice presidents of student services, instructional services, and administrative services) will be involved in the preparation of the Management Discussion and Analysis; and
- the Administrative Council will review the completed financial statements before submission to the state controller's office.

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