STATE OF NORTH CAROLINA

PIEDMONT COMMUNITY COLLEGE

ROXBORO, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2009

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR

PIEDMONT COMMUNITY COLLEGE

ROXBORO, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2009

STATE OF NORTH CAROLINA
Office of the State Auditor

Beth A. Wood, CPA
State Auditor

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

AUDITOR'S TRANSMITTAL

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

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

TABLE OF CONTENTS

STATE OF NORTH CAROLINA
Office of the State Auditor

Beth A. Wood, CPA
State Auditor

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

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Piedmont Community College
Roxboro, North Carolina

We have audited the accompanying financial statements of Piedmont Community College, a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 2009, which collectively comprise the College's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the College's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Piedmont Community College Foundation Inc., the College's discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinions, insofar as they relate to the amounts included for the Foundation, are based on the report of the other auditors.

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

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of Piedmont Community College and its discretely presented component unit as of June 30, 2009, 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 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 June 11, 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.

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

Beth A. Wood, CPA
State Auditor

June 11, 2010

This section of Piedmont Community College's Annual Financial Report presents management's discussion and analysis of the College's financial activity during the fiscal years ended June 30, 2009, with comparative data for the year ended June 30, 2008. College management has prepared this discussion, along with the financial statements and related notes. The financial statements, notes to the financial statements, and this discussion are the responsibility of College management.

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

Using the Annual Report/Overview of Financial Statements

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

One of the most important questions asked about college finances is whether the college as a whole is better off or worse off as a result of the year's activities. The key to understanding this question is the Statement of Net Assets, the Statement of Revenues, Expenses, and Changes in Net Assets and the Statement of Cash Flows. This discussion will focus on the first two statements cited here. The Statement of Cash Flows presents the information related to cash inflows and outflows summarized by operating, capital and noncapital financing and investing activities. These statements present financial information in a form similar to that used by corporations. The College's net assets are one indicators of the College's financial health. Over time, increases or decreases in net assets is one indicator of the improvement or erosion of the College's financial health when considered with nonfinancial facts such as enrollment levels and the condition of the facilities.

Statement of Net Assets

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

From the data presented, readers of this statement are able to determine the assets available to continue the operations of the institution. They are also able to determine how much the institution owes vendors, investors and lending institutions. The Statement of Net Assets also provides a picture of the net assets (assets minus liabilities) and their availability for expenditure by the institution. Net assets are divided into three major categories: invested in capital assets; unrestricted net assets; and restricted net assets. Restricted net assets are then required to be presented as expendable or nonexpendable. The nonexpendable category does not apply to the College. These three categories of net assets are discussed further in the notes to the financial statements.

A condensed statement of net assets is reflected below:

	June 30, 2009	June 30, 2008 As Restated	Increase (Decrease)
Assets:			
Current Assets	$ 1,503,537.18	$ 1,506,759.54	$ (3,222.36)
Noncurrent:			
Capital Assets, Net of Depreciation	14,586,893.49	13,230,386.92	1,356,506.57
Other Noncurrent Assets	539,346.74	1,314,442.09	(775,095.35)
Total Assets	16,629,777.41	16,051,588.55	578,188.86
Liabilities:			
Current Liabilities	709,256.31	537,337.96	171,918.35
Noncurrent Liabilities	1,318,721.40	1,130,698.44	188,022.96
Total Liabilities	2,027,977.71	1,668,036.40	359,941.31
Net Assets:			
Invested in Capital Assets	14,586,893.49	13,230,386.92	1,356,506.57
Restricted, Expendable	697,898.71	1,747,843.14	(1,049,944.43)
Unrestricted	(682,992.50)	(594,677.91)	(88,314.59)
Total Net Assets	$ 14,601,799.70	$ 14,383,552.15	$ 218,247.55

The total assets of the College increased by $578,188.86 for the year (a decrease of $3,222.36 for current assets and an increase of $581,411.22 for noncurrent assets). This increase in noncurrent assets was attributable to an increase in total capital assets, net of accumulated depreciation in the amount of $1,356,506.57 and a decrease in restricted due from primary government in the amount of $775,095.35. The increase in capital assets, net of accumulated depreciation, was primarily due to an increase in construction in progress for costs associated with the building of the Technical Vocational Building. The decrease in restricted due from primary government is due to the collection of funds due from the State for the Vocational Technical Building.

The total liabilities of the College increased by $359,941.31 for the year (an increase of $171,918.35 in current liabilities and an increase of $188,022.96 in noncurrent liabilities). The increase in current liabilities was primarily due to the increase in accounts payable in the amount of $239,917.13 for costs associated with the Vocational Technical Building. This increase was offset by a decrease in the current portion of the annual leave accrual in the amount of $89,055.29. The increase in noncurrent liabilities (accrued annual leave) by $188,022.96 is due to an increase in the number of employees and employees not taking as much leave as they earned.

Statement of Revenues, Expenses, and Changes in Net Assets

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

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

A Condensed Statement of Revenues, Expenses, and Changes in Net Assets is reflected below:

	June 30, 2009	June 30, 2008 As Restated	Increase (Decrease)
Operating Revenue			
Tuition and Fees	$ 1,106,584.81	$ 1,196,626.06	$ (90,041.25)
Sales and Services	568,309.43	596,261.72	(27,952.29)
Other Operating Revenues	55,853.21	12,433.33	43,419.88
Total	1,730,747.45	1,805,321.11	(74,573.66)
Less Operating Expenses			
Personal Services	15,626,655.74	14,552,910.81	1,073,744.93
Supplies and Materials	1,468,792.97	2,106,401.27	(637,608.30)
Services	1,632,947.97	1,617,275.63	15,672.34
Scholarships and Fellowships	3,113,773.38	2,114,473.18	999,300.20
Utilities	314,342.38	343,163.36	(28,820.98)
Depreciation	423,560.49	506,119.67	(82,559.18)
Total	22,580,072.93	21,240,343.92	1,339,729.01
Operating Loss	(20,849,325.48)	(19,435,022.81)	(1,414,302.67)
Nonoperating Revenue			
State Aid	12,284,438.24	12,455,016.04	(170,577.80)
State Aid-Federal Recovery Funds	599,273.29		599,273.29
County Appropriations	1,238,726.00	1,224,311.00	14,415.00
Noncapital Grants-Federal Student Aid	2,953,555.58	2,285,835.25	667,720.33
Noncapital Grants and Gifts	2,435,478.88	2,407,705.13	27,773.75
Other Nonoperating Revenue	22,655.11	30,481.39	(7,826.28)
Net Nonoperating Revenue	19,534,127.10	18,403,348.81	1,130,778.29
Loss Before Other Revenue	(1,315,198.38)	(1,031,674.00)	(283,524.38)
Capital Contributions	1,533,445.93	2,063,647.03	(530,201.10)
Increase in Net Assets	218,247.55	1,031,973.03	(813,725.48)
Net Assets, Beginning of theYear	14,383,552.15	13,200,313.80	1,183,238.35
Restatement		151,265.32	(151,265.32)
Net Assets, End of Year	$ 14,601,799.70	$ 14,383,552.15	$ 218,247.55

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

Operating revenue decreased overall by $74,573.66. This decrease was primarily the result of a decrease in tuition and fee revenues in the amount of $90,041.25. The decrease in student tuition and fee revenue was the result of an increase in scholarship discounts due to more students receiving financial aid.

Operating expenses for fiscal year 2009 increased $1,339,729.01 over fiscal year 2008. Personal Services increased $1,073,744.93 due to the effects of salary increases for faculty and staff and an increase in personnel. Supplies and Materials decreased $637,608.30 due to reductions in spending mandated by the State of North Carolina. Services increased $15,672.34 which corresponds to an increase in enrollment. Scholarships and Fellowships increased $999,300.20 due to an increase in number of students. Utilities decreased $28,820.98 due to a reduction in expenditures. Depreciation expense decreased $82,559.18 due to the change in the number and value of assets depreciated.

Nonoperating revenue increased by $1,130,778.29 in fiscal year 2009 from fiscal year 2008 but the components have varying balance changes.

- State aid decreased by $170,577.80 while state aid from federal recovery funds increased by $599,273.29. The cause for the reduction in state aid was primarily due to a reduction in spending. The federal recovery funds were not available in 2008.
- County appropriations increased $14,415.00 due to funding increases.
- Noncapital grants-federal student financial aid increased $667,720.33 primarily due to an increase in the number of students receiving financial aid.

Capital contributions decreased $530,201.10 in fiscal year 2009 from fiscal year 2008 but the components have varying balance changes. The primary reasons for this decrease are:

- State capital aid decreased $1,182,330.24 primarily because of a decrease in State funding for the Technical Vocational building.
- County capital aid increased $481,733.50 because of an increase in county funding for the Technical Vocational building.
- Capital gifts increased $185,610.13 primarily because of gifts received from the Piedmont Community College Foundation for the Technical Vocational building.)

Capital Assets

Piedmont Community College's investment in capital assets as of June 30, 2009 amounted to $14,586,893.49, net of accumulated depreciation. This investment in capital assets includes land, construction in progress, buildings, infrastructure, and machinery and equipment. The change in capital assets for the year was an increase of $1,356,506.57. The change was attributable to a net increase in additions to capital assets in the amount of $1,654,594.96 and a net increase in accumulated depreciation in the amount of $298,088.39.

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

There was a net increase to construction in progress in the amount of $584,322.49. The increase is the result of $1,608,473.36 in expenditures which were primarily for the construction of the Technical Vocational building. The decrease to construction in progress and the increase in buildings in the amount of $1,024, 150.67 is the result of the completion of the following projects: Renovation of the Student Center ($1,015,150.87) and a storage building ($9,000.00).

The net change in equipment totaled $46,121.60 which resulted from acquisitions of items over $5,000 and disposals of similar items.

Capital Assets, Net

	June 30, 2009	6/30/2008 As Restated	Increase (Decrease)
Capital Assets			
Land	$ 153,654.15	$ 153,654.15	$ 0.00
Construction in Progress	1,663,156.51	1,078,834.02	584,322.49
Buildings	13,212,178.47	12,188,027.60	1,024,150.87
Infrastructure	2,774,969.39	2,774,969.39	
Equipment	2,812,067.70	2,765,946.10	46,121.60
	20,616,026.22	18,961,431.26	1,654,594.96
Less Accumulated Depreciation	6,029,132.73	5,731,044.34	298,088.39
Net Capital Assets	$ 14,586,893.49	$ 13,230,386.92	$ 1,356,506.57

Economic and Other Factors Impacting Future Periods

The economic position of Piedmont Community College is closely tied to the State of North Carolina. State aid, including federal recovery funds, constituted 53 percent of total College revenues and is the largest source of funding. The College has continued to have enrollment increases and it is felt that the future funding for the college will continue to grow. The biggest challenges facing the College are the level of federal, state, and local support and assessment and reallocation of available resources.

Requests for Information

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

Piedmont Community College
Statement of Net Assets
June 30, 2009 ***Exhibit A-1***

ASSETS		
Current Assets:		
Cash and Cash Equivalents	$	542,699.58
Restricted Cash and Cash Equivalents		425,934.90
Receivables (Note 3)		282,125.81
Inventories		251,076.89
Notes Receivable (Note 3)		1,700.00
Total Current Assets		1,503,537.18
Noncurrent Assets:		
Restricted Due from Primary Government		539,346.74
Capital Assets - Nondepreciable (Note 4)		1,816,810.66
Capital Assets - Depreciable, Net (Note 4)		12,770,082.83
Total Noncurrent Assets		15,126,240.23
Total Assets		16,629,777.41
LIABILITIES		
Current Liabilities:		
Accounts Payable and Accrued Liabilities (Note 5)		566,328.61
Unearned Revenue		61,414.50
Funds Held for Others		33,972.27
Long-Term Liabilities - Current Portion (Note 6)		47,540.93
Total Current Liabilities		709,256.31
Noncurrent Liabilities:		
Long-Term Liabilities (Note 6)		1,318,721.40
Total Liabilities		2,027,977.71
NET ASSETS		
Invested in Capital Assets		14,586,893.49
Restricted for:		
Expendable:		
Scholarships and Fellowships		1,931.35
Loans		4,795.74
Capital Projects		529,139.32
Other		162,032.30
Unrestricted		(682,992.50)
Total Net Assets	$	14,601,799.70

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

Piedmont Community College
Statement of Revenues, Expenses, and Changes in Net Assets
For the Fiscal Year Ended June 30, 2009 ***Exhibit A-2***

REVENUES	
Operating Revenues:	
Student Tuition and Fees, Net (Note 8)	$ 1,106,584.81
Sales and Services, Net (Note 8)	568,309.43
Other Operating Revenues	55,853.21
Total Operating Revenues	1,730,747.45
EXPENSES	
Operating Expenses:	
Personal Services	15,626,655.74
Supplies and Materials	1,468,792.97
Services	1,632,947.97
Scholarships and Fellowships	3,113,773.38
Utilities	314,342.38
Depreciation	423,560.49
Total Operating Expenses	22,580,072.93
Operating Loss	(20,849,325.48)
NONOPERATING REVENUES	
State Aid	12,284,438.24
State Aid - Federal Recovery Funds	599,273.29
County Appropriations	1,238,726.00
Noncapital Grants - Federal Student Financial Aid	2,953,555.58
Noncapital Grants	2,405,095.11
Noncapital Gifts	30,383.77
Investment Income	21,362.38
Other Nonoperating Revenues	1,292.73
Total Nonoperating Revenues	19,534,127.10
Income Before Other Revenues	(1,315,198.38)
State Capital Aid	799,884.23
County Capital Appropriations	485,733.06
Capital Grants	62,218.51
Capital Gifts	185,610.13
Increase in Net Assets	218,247.55
NET ASSETS	
Net Assets, July 1, 2008 as Restated (Note 15)	14,383,552.15
Net Assets, June 30, 2009	$ 14,601,799.70

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

Piedmont Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2009 ***Exhibit A-3***

CASH FLOWS FROM OPERATING ACTIVITIES	
Received from Customers	$ 1,763,150.38
Payments to Employees and Fringe Benefits	(15,504,870.08)
Payments to Vendors and Suppliers	(3,226,603.44)
Payments for Scholarships and Fellowships	(3,113,773.38)
Loans Issued to Students	(3,789.75)
Collection of Loans to Students	2,514.35
Other Receipts	17,183.24
Net Cash Used by Operating Activities	(20,066,188.68)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Aid Received	12,284,438.24
State Aid - Federal Recovery Funds	599,273.29
County Appropriations	1,238,726.00
Noncapital Grants - Federal Student Financial Aid	2,953,555.58
Noncapital Grants Received	2,344,677.53
Noncapital Gifts and Endowments Received	30,383.77
Cash Provided by Noncapital Financing Activities	19,451,054.41
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
State Capital Aid Received	1,574,979.58
County Capital Aid	485,733.06
Capital Grants Received	42,595.85
Capital Gifts Received	185,610.13
Acquisition and Construction of Capital Assets	(1,831,173.89)
Net Cash Provided by Capital and Related Financing Activities	457,744.73
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment Income	22,124.61
Net Decrease in Cash and Cash Equivalents	(135,264.93)
Cash and Cash Equivalents, July 1, 2008	1,103,899.41
Cash and Cash Equivalents, June 30, 2009	$ 968,634.48

RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES

Operating Loss	$	(20,849,325.48)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense		423,560.49
Provision for Uncollectible Loans and Write-Offs		1,177.40
Miscellaneous Nonoperating Income		1,292.73
Changes in Assets and Liabilities:		
Receivables, Net		27,236.93
Inventories		(31,319.58)
Notes Receivable, Net		(1,275.40)
Accounts Payable and Accrued Liabilities		242,440.05
Unearned Revenue		5,166.00
Funds Held for Others		15,890.51
Compensated Absences		98,967.67
Net Cash Used by Operating Activities	$	(20,066,188.68)

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:		
Cash and Cash Equivalents	$	542,699.58
Restricted Cash and Cash Equivalents		425,934.90
Total Cash and Cash Equivalents - June 30, 2009	$	968,634.48

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Increase in Receivables Related to Nonoperating Income	$	128,624.15
Capital Asset Write-Offs		51,106.83

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

Piedmont Community College Foundation, Inc.
Statement of Financial Position
June 30, 2009 — *Exhibit B-1*

ASSETS		
Cash and Cash Equivalents	$	140,444
Certificates of Deposit		10,000
Marketable Securities, at Fair Value		997,567
Promises to Give		35,529
Account Receivable		150
Total Assets		1,183,690
LIABILITIES		
Accounts Payable		10,100
Scholarships Payable		125,470
Total Liabilities		135,570
NET ASSETS		
Unrestricted		
Available for General Activities		447,123
Temporarily Restricted		32,480
Permanently Restricted		
Endowed Scholarship Donations		568,517
Total Net Assets		1,048,120
Total Liabilities and Net Assets	$	1,183,690

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

Piedmont Community College Foundation, Inc.
Statement of Activities
For the Fiscal Year Ended June 30, 2009

Exhibit B-2

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total Net Assets
Revenue and Other Support				
Smart Start-Early Childhood Scholarships Grant	$ 0	$ 5,755	$ 0	$ 5,755
Scholarship Contributions		78,289	44,001	122,290
President's Club Dues	35,068			35,068
Campus Fund Drive	3,274			3,274
Other Contributions	6,002	37,461		43,463
Golf Classic Tournament, Net of Direct Cost of $5,092	20,504			20,504
Interest Earned on Cash Deposits	809	5		814
Investment Return (Loss)	(325,420)			(325,420)
Sales Tax Refund	1,536			1,536
Other Fundraising, Net of Direct Cost $1,474	1,216			1,216
Total Support	(257,011)	121,510	44,001	(91,500)
Net Assets Released from Restrictions:				
Satisfaction of Program Restrictions	241,344	(241,344)		
Total Support and Reclassifications	(15,667)	(119,834)	44,001	(91,500)
Expenses				
Program Services				
Scholarships	88,181			88,181
Faculty and Staff Development	2,903			2,903
Technical Education Building	141,605			141,605
College Programs	80,311			80,311
Other Program Services	17,220			17,220
Total Program Services	330,220			330,220
Supporting Services				
Management and General	77,467			77,467
Fund Raising	1,718			1,718
Total Supporting Services	79,185			79,185
Increase (Decrease) in Net Assets	(425,072)	(119,834)	44,001	(500,905)
Beginning Net Assets	872,195	152,314	524,516	1,549,025
Ending Net Assets	$ 447,123	$ 32,480	$ 568,517	$ 1,048,120

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

The accompanying financial statements present all funds for which the College's Board of Trustees is financially accountable. The College's component unit is discretely presented in the College's financial statements. The discretely presented component unit's financial data are reported in separate financial statements because of their use of different GAAP reporting models and to emphasize its legal separateness.

Discretely Presented Component Unit - Piedmont Community College Foundation Inc. (Foundation) is a legally separate not-for-profit corporation and is reported as a discretely presented component unit based on the nature and significance of their 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 directors. Although the College does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, that the Foundation holds and invests are restricted to the activities of the College by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of the College, the Foundation is considered a component unit of the College and is reported in separate financial statements because of the difference in its reporting model, as described below.

The Foundation is a private not-for-profit organization that reports its financial results under Financial Accounting Standards Board (FASB) Statements. As such, certain revenue recognition criteria and presentation features are different from the 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, 2009, the Foundation distributed $319,553.85 to the College for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from the Executive Director of the Piedmont Community College Foundation, P. O. Box 1101, 1715 College Drive, Roxboro, NC 27573.

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

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

In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the College does not apply Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, 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 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** - The College does not hold any investments. Note 2B includes investments held by the Piedmont Community College Foundation Inc. because of its significance to the reporting entity.

F. **Receivables** - Receivables consist of tuition and fees charged to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from the federal government, State and local governments, private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants. Accounts and notes receivables are shown at book value with no provision for doubtful account considered necessary.

G. **Inventories** - Inventories, consisting of expendable supplies and merchandise for resale, are stated at cost using the last invoice cost method.

H. **Capital Assets** - Capital assets are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. The value of assets constructed includes all material direct and indirect construction costs. 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 25 to 50 years for general infrastructure, 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 include compensated absences that will not be paid within the next fiscal year.

K. **Compensated Absences** - The College's policy is to record the cost of vacation leave when earned. The policy provides for a maximum accumulation of unused vacation leave of 30 days which can be carried forward each January 1 or for which an employee can be paid upon termination of employment. 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 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 - Expendable - Expendable restricted net assets include resources for which the College is legally or contractually obligated to spend in accordance with restrictions imposed by external parties.

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

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

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

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

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

O. Internal Sales Activities - Certain institutional auxiliary operations provide goods and services to College departments, as well as to its customers. These institutional auxiliary operations include activities such as a 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.

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

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 $720.00, and deposits in private financial institutions with a carrying value of $466,300.84 and a bank balance of $502,376.01.

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.

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, 2009, the amount shown on the Statement of Net Assets as cash and cash equivalents includes $501,613.64 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 (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.

B. Component Unit Investments - Investments of the College's component unit, Piedmont Community College Foundation Inc., are subject to and restricted by G.S. 36E "Uniform Prudent Management of Institutional Funds Act" (UPMIFA) and any requirements placed on them by contract or donor agreements. Investments are carried at fair value on the statement of financial position. The fair value of the Foundation's investments at June 30, 2009 was $997,567.00.

NOTE 3 - RECEIVABLES

Receivables at June 30, 2009, were as follows:

	Amount
Current Receivables:	
Students	$ 58,633.35
Accounts	19,042.95
Intergovernmental	203,728.35
Investment Earnings	721.16
Total Current Receivables	$ 282,125.81
Notes Receivable - Current:	
Institutional Student Loan Programs	$ 1,700.00

NOTE 4 - 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 (as restated)	Increases	Decreases	Balance June 30, 2009
Capital Assets, Nondepreciable:				
Land	$ 153,654.15	$ 0.00	$ 0.00	$ 153,654.15
Construction in Progress	1,078,834.02	1,608,473.36	1,024,150.87	1,663,156.51
Total Capital Assets, Nondepreciable	1,232,488.17	1,608,473.36	1,024,150.87	1,816,810.66
Capital Assets, Depreciable:				
Buildings	12,188,027.60	1,024,150.87		13,212,178.47
Machinery and Equipment	2,765,946.10	222,700.53	176,578.93	2,812,067.70
General Infrastructure	2,774,969.39			2,774,969.39
Total Capital Assets, Depreciable	17,728,943.09	1,246,851.40	176,578.93	18,799,215.56
Less Accumulated Depreciation/Amortization for:				
Buildings	4,244,652.82	247,533.19		4,492,186.01
Machinery and Equipment	1,251,642.78	119,495.37	125,472.10	1,245,666.05
General Infrastructure	234,748.74	56,531.93		291,280.67
Total Accumulated Depreciation	5,731,044.34	423,560.49	125,472.10	6,029,132.73
Total Capital Assets, Depreciable, Net	11,997,898.75	823,290.91	51,106.83	12,770,082.83
Capital Assets, Net	$ 13,230,386.92	$ 2,431,764.27	$ 1,075,257.70	$ 14,586,893.49

NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

		Amount
Accounts Payable	$	300,893.77
Accrued Payroll		265,434.84
Total Accounts Payable and Accrued Liabilities	$	566,328.61

NOTE 6 - 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	$ 1,267,294.66	$ 884,141.24	$ 785,173.57	$ 1,366,262.33	$ 47,540.93

NOTE 7 - OPERATING LEASE OBLIGATIONS

Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2009:

Fiscal Year		Amount
2010	$	33,481.70
2011		34,538.75
2012		34,538.75
2013		1,884.60
2014		1,884.60
Total Minimum Lease Payments	$	106,328.40

Rental expense for all operating leases during the year was $39,091.07.

NOTE 8 - REVENUES

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

	Gross Revenues	Internal Sales Eliminations	Less Scholarship Discounts	Net Revenues
Operating Revenues:				
Student Tuition and Fees	$ 1,986,515.19	$ 0.00	$ 879,930.38	$ 1,106,584.81
Sales and Services:				
Sales and Services of Auxiliary Enterprises:				
Bookstore	$ 1,169,148.96	$ 160,704.16	$ 595,433.83	$ 413,010.97
Other	145,626.30			145,626.30
Sales and Services of Education and Related Activities	91,631.45	81,959.29		9,672.16
Total Sales and Services	$ 1,406,406.71	$ 242,663.45	$ 595,433.83	$ 568,309.43

NOTE 9 - OPERATING EXPENSES BY FUNCTION

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

	Personal Services	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	$ 9,811,477.23	$ 996,621.82	$ 750,339.15	$ 318,020.81	$ 7,269.33	$ 0.00	$ 11,883,728.34
Academic Support	1,885,024.88	121,646.23	56,521.65				2,063,192.76
Student Services	826,510.71	4,889.85	33,711.26	68,911.12			934,022.94
Institutional Support	2,167,529.20	100,216.51	541,336.83	2,215.24			2,811,297.78
Operations and Maintenance of Plant	586,506.69	75,575.39	163,940.78		307,073.05		1,133,095.91
Student Financial Aid			6,475.00	2,724,626.21			2,731,101.21
Auxiliary Enterprises	349,607.03	169,843.17	80,623.30				600,073.50
Depreciation						423,560.49	423,560.49
Total Operating Expenses	$ 15,626,655.74	$ 1,468,792.97	$ 1,632,947.97	$ 3,113,773.38	$ 314,342.38	$ 423,560.49	$ 22,580,072.93

NOTE 10 - PENSION PLANS

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

For the current fiscal year, the College had a total payroll of $12,780,290.46, of which $11,052,827.45 was covered under the Teachers' and State Employees' Retirement System. Total employer and employee contributions for pension benefits for the year were $371,375.00 and $663.169.64, 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 $371,375.00, $320,520.90, and $261,501.62, respectively.

The Teachers' and State Employees' Retirement System's financial information is included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available 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 $25,731.96 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. No costs are incurred by the College. The voluntary contributions by employees amounted to $59,884.00 for the year ended June 30, 2009.

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 $12,000.00 for the year ended June 30, 2009.

NOTE 11 - 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 $453,165.92, $430,864.16, and $373,573.44, 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 "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 $57,474.70, $54,646.19, and $51,120.58, 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 12 - RISK MANAGEMENT

The College is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These exposures to loss are handled via a combination of methods, 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.

Fire and other property losses are covered by contracts with private insurance companies. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

State-owned vehicles 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. Losses from county and institutional funds paid employees are covered by contracts with private insurance companies.

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.

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

NOTE 13 - COMMITMENTS AND CONTINGENCIES

A. 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 $717,647.22 at June 30, 2009

B. Pending Litigation and Claims - A former employee has threatened filing a lawsuit alleging various discrimination claims. The College is presently engaged in negotiating a settlement with the former employee. Also, a former part-time employee has alleged a violation of the Uniformed Services Employment and Re-employment Rights Act of 1994 (USERRA). The College has responded to the complaint and feels that it will be successful in resolving this complaint. Since it is not possible to predict the ultimate outcome of these matters, no provision for any liability has been made in the financial statements. College management is of the opinion that the liability, if any, for any of these matters will not have a material adverse effect on the financial position of the College.

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 financial aid as nonoperating revenue instead of operating revenue. This change was the result of a clarification in the GASB *Comprehensive Implementation Guide*.

NOTE 15 - NET ASSET RESTATEMENT

As of July 1, 2008, net assets as previously reported was restated as follows:

		Amount
July 1, 2008 Net Assets as Previously Reported	$	14,232,286.83
Error in Recording the Acquisition Costs of Capital Assets		151,265.32
July 1, 2008 Net Assets as Restated	$	14,383,552.15

STATE OF NORTH CAROLINA
Office of the State Auditor

Beth A. Wood, CPA
State Auditor

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

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

Board of Trustees
Piedmont Community College
Roxboro, North Carolina

We have audited the financial statements of Piedmont Community College, a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 2009, which collectively comprise the College's basic financial statements and have issued our report thereon dated June 11, 2010. Our report was modified to include a reference to other auditors.

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. Other auditors audited the financial statements of Piedmont Community College Foundation Inc., the discretely presented component unit, as described in our report on the College's financial statements. The financial statements of 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 both findings in the Audit Findings and Responses section of this report to be significant deficiencies internal control over financial reporting.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

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

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

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

This report is intended solely for the information and use of management of the College, the 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

June 11, 2010

[This Page Left Blank Intentionally]

AUDIT FINDINGS AND RESPONSES

Matters Related to Financial Reporting

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

1. INTERNAL CONTROL DEFICIENCIES OVER FINANCIAL REPORTING

The financial statements and related notes prepared by Piedmont Community College contained misstatements that were corrected as a result of our audit. These misstatements indicate that the College does not have internal controls in place over financial reporting that are sufficient to prevent or detect significant misstatments.

Misstatements noted during our audit include:

- Nonoperating noncapital grants were understated and operating revenues were overstated by $2,209,036. The latest GASB *Comprehensive Implementation Guide* indicates that if there is no arms-length exchange transaction between the College and the grantor, the revenues should be reported as noncapital grants in the nonoperating revenues section of the Statement of Revenues, Expenses, and Changes in Net Assets.
- The College did not reconcile the capital assets subsidiary ledger to the general ledger prior to the preparation of the financial statements. This resulted in an understatement of depreciable capital assets and the related investment in capital assets account in the amount of $151,265. In addition, numerous errors were noted in the college's schedule of depreciation, which resulted in an overstatement of accumulated depreciation of $134,979.
- Current unrestricted cash was overstated by $152,746 and current restricted cash was understated by the same amount. The College did not accurately record the effect of interfund borrowing of unrestricted cash to cover deficit balances in restricted funds.
- The Significant Accounting Policies Note in the Notes to the Financial Statements understated the amount distributed by the Foundation to the College by $175,483. This note also disclosed inaccurate useful lives of capital assets.

The capital assets aspect of this finding was also reported in a prior year finding.

Recommendation: The College should place greater emphasis on the year-end financial reporting process and implement effective internal controls to ensure completeness and accuracy of the financial statements and notes. Management should implement policies and procedures to reconcile financial records to the underlying subsidiary ledgers.

Response: We concur that nonoperating noncapital grants were understated and operating revenues were overstated by $2,209,036. We were notified previously that PELL, SEOG, and College workstudy funds should be classified as nonoperating noncapital grants and these were reported correctly. However, we did not receive notification from the North Carolina Community College System that many of our State grants should also be classified accordingly until after we had already completed and submitted our CAFR package. All of these funds will be appropriately classified in the future.

The capital assets in the general ledger and the financial statements were in agreement. However, the capital assets subsidiary ledger did not agree with the general ledger. We acknowledge the necessity of reconciling the capital assets subsidiary ledger and the general ledger. A policy and procedure is in place to ensure that the financial records reconcile to the underlying subsidiary records. The purchasing officer will reconcile the capital assets subsidiary records to the general ledger amounts reported on the financial statements in subsequent years.

The College's depreciation schedule contained the incorrect cost basis for some items. Also, the College depreciated some items beyond their useful lives. A policy and procedure is in place to ensure that the cost basis on the depreciation schedule agrees with the subsidiary ledger and to prevent over depreciation of items in future years. This policy will be more closely adhered to in the future.

The College understands the necessity of recording interfund borrowing of unrestricted cash to cover deficit balances in restricted funds. This will be done correctly in future years.

The Notes to the Financial Statements understated the amount distributed by the Foundation to the College by the amount provided for construction of a new building on the Campus. All operating funds distributed by the Foundation were reported correctly. However, the funds distributed for capital were in a separate construction fund and were inadvertently omitted.

2. INTERNAL CONTROL DEFICIENCIES IN DEPARTMENTAL CASH RECEIPTING

We noted a number of internal control deficiencies related to departmental cash receipts and the safeguarding of cash. These deficiencies increase the risk of loss or misappropriation of cash. Specifically, we noted the following:

- The sequence of receipts is not verified when departments submit deposits to the Business Office cashier. This verification should be performed to ensure that all receipts are accounted for.
- Receipts from the Registrar's Office are not submitted to the Business Office in a timely manner. Cash receipts are being held in order to have a change fund. No change fund has been issued to this department.

- The fees collected for the Nursing Entrance Test (NET) were not deposited to a College account or accounted for by the College. The Registrar's Office collects a $30 fee from students for the NET. These fees are submitted to the Foundation for deposit and used to pay the testing fee to the vendor. Any funds collected from the students in excess of the NET expense are kept by the Foundation for use in supporting the nursing department.
- The bookstore receipts were not supported by cash register receipts when submitted to the Business Office cashier. There was no internal control to ensure all funds collected by the Bookstore were deposited.

Recommendation: The College should enhance its internal controls over cash receipts and safeguarding of cash to correct the deficiencies noted above. The collection and accounting for the NET should be placed with the College and removed from the Foundation.

Response: Effective immediately, the cashier will verify the sequence of receipts and account for all receipts when departments submit deposits to her.

Effective immediately, the Registrar's Office will no longer collect any funds. Funds collected for transcripts or the Nursing Entrance Test (NET) will be collected and receipted by the Business Office cashier. The Foundation will no longer be involved in the NET collections.

Effective immediately, the bookstore will print a cash register z-tape/report showing daily collections. This report and collected funds will be brought to the Business Office cashier for deposit daily.

[This Page Left Blank Intentionally]

ORDERING INFORMATION

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

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

Telephone: 919/807-7500

Facsimile: 919/807-7647