



# STATE OF NORTH CAROLINA

**PITT COMMUNITY COLLEGE**

**WINTERVILLE, NORTH CAROLINA**

**FINANCIAL STATEMENT AUDIT REPORT**

**FOR THE YEAR ENDED JUNE 30, 2010**

**OFFICE OF THE STATE AUDITOR**

**BETH A. WOOD, CPA**

**STATE AUDITOR**

**PITT COMMUNITY COLLEGE**

**WINTERVILLE, NORTH CAROLINA**

**FINANCIAL STATEMENT AUDIT REPORT**

**FOR THE YEAR ENDED JUNE 30, 2010**

**STATE BOARD OF COMMUNITY COLLEGES**

**THE NORTH CAROLINA COMMUNITY COLLEGE SYSTEM**

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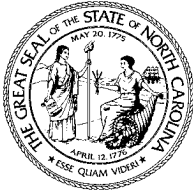
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Beth A. Wood, CPA  
State Auditor

STATE OF NORTH CAROLINA  
Office of the State Auditor

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**AUDITOR'S TRANSMITTAL**

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

We have completed a financial statement audit of Pitt Community College for the year ended June 30, 2010, 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 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.

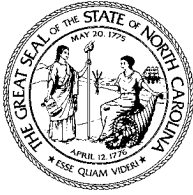
A handwritten signature in cursive script that reads "Beth A. Wood".

Beth A. Wood, CPA  
State Auditor

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Beth A. Wood, CPA  
State Auditor

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**INDEPENDENT AUDITOR'S REPORT**

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Board of Trustees  
Pitt Community College  
Winterville, North Carolina

We have audited the accompanying financial statements of Pitt Community College, a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 2010, 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 Pitt Community College Foundation, Inc., the College's discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinions, insofar as they relate to the amounts included for this entity, 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 Pitt Community College Foundation, Inc. were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of Pitt Community College and its discretely presented component unit as of June 30, 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.


As discussed in Note 15 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 51, *Accounting and Financial Reporting for Intangible Assets* during the year ended June 30, 2010.

## INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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In accordance with *Government Auditing Standards*, we have also issued our report dated February 24, 2011 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, CPA  
State Auditor

February 24, 2011

**PITT COMMUNITY COLLEGE  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

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This section of Pitt Community College's Annual Financial Report provides an overview of the financial activities for the fiscal year June 30, 2010 with comparative data for the fiscal year ended June 30, 2009. Information contained herein has been prepared for the purpose of identifying significant transactions, trends and events that have impacted the fiscal health of the College and that may continue to exert influence in future years. It is recommended that this discussion and analysis be read in conjunction with the College's basic financial statements and the notes to the financial statements.

**The Financial Statements**

The financial statements of the College include:

- Statement of Net Assets
- Statement of Revenues, Expenses, and Changes in Net Assets
- Statement of Cash Flows

These statements were prepared in accordance with Governmental Accounting Standards Board (GASB) principles and reflect an economic resource measurement focus and the accrual basis of accounting. The Statement of Cash Flows presents information detailing the sources and uses of cash from operating activities, financing activities, capital related activities, and investing activities. Management's Discussion and Analysis will concentrate on the Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets, using condensed versions for the purposes of this discussion.

**Statement of Net Assets**

The Statement of Net Assets presents the financial position of the College at June 30, 2010, defined by the balances of assets, liabilities and assets net of liabilities. Assets are classified as current or noncurrent and are further identified as unrestricted or restricted. Current assets include those resources available to meet current obligations and operating requirements while noncurrent assets are to be held to meet future needs. Capital assets are shown net of depreciation. Assets, net of liabilities, are grouped into three categories: investment in capital assets, restricted net assets, and unrestricted net assets. Restricted net assets are further classified as nonexpendable or expendable. Endowments and other funds comprise the nonexpendable restricted net assets and expendable restricted net assets are made up primarily of contracts, grants, and gifts.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

### Condensed Statement of Net Assets

	2010	2009 Restated	Increase (Decrease)	Percent Changed
<b>Assets</b>				
Current Assets	\$ 6,209,964.81	\$ 5,244,054.19	\$ 965,910.62	18.42%
Capital Assets, Net of Depreciation	48,562,795.37	43,305,246.17	5,257,549.20	12.14%
Other Noncurrent Assets	629,594.15	1,698,678.77	(1,069,084.62)	-62.94%
Total Assets	<u>55,402,354.33</u>	<u>50,247,979.13</u>	<u>5,154,375.20</u>	10.26%
<b>Liabilities</b>				
Current Liabilities	1,592,396.88	1,343,102.94	249,293.94	18.56%
Noncurrent Liabilities	1,585,676.04	1,525,225.83	60,450.21	3.96%
Total Liabilities	<u>3,178,072.92</u>	<u>2,868,328.77</u>	<u>309,744.15</u>	10.80%
<b>Net Assets</b>				
Investment in Capital Assets	48,562,795.37	42,805,246.17	5,757,549.20	13.45%
Restricted	1,140,041.52	2,539,481.86	(1,399,440.34)	-55.11%
Unrestricted	2,521,444.52	2,034,922.33	486,522.19	23.91%
Total Net Assets	<u>\$ 52,224,281.41</u>	<u>\$ 47,379,650.36</u>	<u>\$ 4,844,631.05</u>	10.23%

Some of the highlights of the College's Statement of Net Assets are listed below:

- The most significant reason for the increase in total assets was the increase in Construction in Progress expense for the Herman Simon Building. This building is a new addition to the Health Sciences Program. Total Construction in Progress increased by \$5,365,226 over the prior year, of which \$4,193,214 was related to the Simon Building.
- Noncurrent assets decreased by \$1,069,084.62. Construction projects funded by state monies were completed prior to June 30, 2010 resulting in a decrease in the receivable from the State of \$673,383. Two Golden Leaf Grants had a decrease in their receivables from the prior year. Expanding Healthcare Education and Employment decreased by \$278,000 and Training for Work in Healthcare decreased by \$120,000.
- Liabilities showed an overall increase of \$309,744 with the major portion of this due to an increase in Current Liabilities for 2010. On January 13, 2009, Governor Perdue issued Executive Order Number 6 which significantly curtailed spending for the remainder of the 2009 fiscal year. Since this Executive Order was not in effect for the 2010 fiscal year, this resulted in an overall increase in purchasing, and subsequently outstanding payables, for the end of 2010. The biggest change in current liabilities was the increase in intergovernmental payable, mostly for the HIT grant and federal aid. Noncurrent liabilities are comprised only of compensated absences, and since there were no raises given in 2010, this number remained fairly constant from the prior year.
- Net assets increased by \$4,844,631 mostly as a result of the Construction in Progress expenses of the Herman Simon building.



## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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

The Statement of Revenues, Expenses, and Changes in Net Assets present the activity of the College during the year and subdivided into four major components: operating revenues, operating expenses, nonoperating revenues, and other revenues. Revenues are reported by natural classification. Intradepartmental sales, services, and transfers are eliminated and depreciation of capital assets is recorded.

### Condensed Statement of Revenues, Expenses, and Changes in Net Asset

	2010	2009 Restated	Increase (Decrease)
<b>Operating Revenues</b>			
Student Tuition and Fees, Net	\$ 7,194,318.66	\$ 6,026,250.23	\$ 1,168,068.43
Sales and Services, Net	2,560,527.84	2,625,282.00	(64,754.16)
Other Operating Revenues	229,234.82	203,404.30	25,830.52
<b>Total Operating Revenues</b>	<u>9,984,081.32</u>	<u>8,854,936.53</u>	<u>1,129,144.79</u>
<b>Less Operating Expenses</b>	<u>55,724,330.83</u>	<u>47,612,919.26</u>	<u>8,111,411.57</u>
<b>Operating Loss</b>	<u>(45,740,249.51)</u>	<u>(38,757,982.73)</u>	<u>(6,982,266.78)</u>
<b>Nonoperating and Other Revenues</b>			
State Aid	21,516,094.24	21,765,824.70	(249,730.46)
County Appropriations	4,110,835.00	4,163,450.00	(52,615.00)
Noncapital Grants	17,625,065.50	11,939,596.43	5,685,469.07
Other Nonoperating Revenues, Net	258,366.95	602,278.62	(343,911.67)
Capital Aid, Gifts and Grants	7,074,518.87	1,946,217.59	5,128,301.28
<b>Total Nonoperating and Other Revenues</b>	<u>50,584,880.56</u>	<u>40,417,367.34</u>	<u>10,167,513.22</u>
<b>Change in Net Assets</b>	<u>4,844,631.05</u>	<u>1,659,384.61</u>	<u>3,185,246.44</u>
Net Assets - Beginning of Year, Restated Note 16	<u>47,379,650.36</u>	<u>45,720,265.75</u>	<u>1,659,384.61</u>
Net Assets - End of Year	<u>\$ 52,224,281.41</u>	<u>\$ 47,379,650.36</u>	<u>\$ 4,844,631.05</u>

The Statement of Revenues, Expenses, and Changes in Net Assets reflects an increase in the net assets and revenues at year end. Some of the highlights are as follows:

- Operating revenues increased by \$1,129,145. This is mostly due to the increase in the charge for student tuition and fees as well as an increase in the number of students enrolled.
- Noncapital Grants increased by \$5,685,469. This increase was due to the significant increase in Federal financial aid, specifically the Federal Pell Grant Awards. Federal Pell awards increased from \$7,734,392 in 2008-2009 to \$14,100,094 in 2009-2010. This was the first year that the College received year-round Pell awards and there was a significant increase in students receiving Pell Grants.
- Capital Aid, Gifts and Grants increased by \$5,128,301 over the prior year due to:

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

- 1) Current Operating Funds of \$953,818 that was initially budgeted to be reverted was spent for capital items. The College had initially reverted 5% of its Current Operating State Budget in September 2009, but was refunded 2% back by the Governor in November 2009. These changes in the budgetary process resulted in the college having \$1,160,798 more in State Capital Aid in 2010 than in the prior year.
- 2) County Capital Aid increased due to the \$900,000 matching grant for the Herman Simon Building, as well as initial payments for three new construction projects - the Construction and Industrial Complex, the Academic Classroom Building, and the Facilities Services Complex - funded from a local sales tax referendum.
- 3) Capital gifts increased due to the donation of funds relating to the construction of the Herman Simon building, primarily from the Pitt County Memorial Hospital Foundation, the Smith Family Foundation and the Pitt Community College Foundation Capital Fund Drive.

### Operating Expenses

The College presents expenses by natural classification in the Statement of Revenues, Expenses, and Change in Net Assets. Personal services accounted for 55.82% of operating expenses, followed by scholarships and fellowships at 19.40%, supplies and materials at 13.17%, services at 7.06%, utilities at 2.44%, and depreciation costs at 2.11%.

	2010	2009	Increase (Decrease)
Salaries and Benefits	\$ 31,102,996.82	\$ 29,798,659.46	\$ 1,304,337.36
Supplies and Materials	7,340,940.50	5,505,355.71	1,835,584.79
Services	3,934,024.95	3,350,813.58	583,211.37
Scholarships and Fellowships	10,813,151.49	6,571,602.26	4,241,549.23
Utilities	1,360,364.38	1,299,135.18	61,229.20
Depreciation	1,172,852.69	1,087,353.07	85,499.62
<b>Total Operating Expenses</b>	<b>\$ 55,724,330.83</b>	<b>\$ 47,612,919.26</b>	<b>\$ 8,111,411.57</b>

The increase of \$8,111,411.57 in operating costs can be attributed primarily to the increase in scholarships and fellowships. The number of students awarded Pell increased from 2,608 in 2008-2009 to 3,757 in 2009-2010 and the maximum Pell Grant Award amount increased from \$4,731 to \$5,350. Thus, scholarships and fellowships increased \$4,241,549 due to an increased number of students who received Pell grants and other scholarships available. Personal Services increased by \$1,304,337. This increase was due to approximately 15 new faculty positions and approximately 7 new staff positions. In addition to these new full-time positions, there was also an increase in part-time payroll expenses. The \$1,835,585 increase in supplies and materials and the \$583,211 increase in services can be attributed to overall growth at the College and the fact that the College was not operating under spending restrictions as in the prior year. The operation of the new building also was a factor in the \$61,229 increase in utility costs.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

### Capital Assets

	<u>June 30, 2010</u>	<u>June 30, 2009</u>	<u>(Decrease)</u>
Land	\$ 6,421,880.21	\$ 6,421,880.21	\$ 0.00
Construction in Progress	6,082,275.77	717,049.33	5,365,226.44
Buildings	38,546,980.01	38,409,293.48	137,686.53
General Infrastructure	2,664,952.65	2,662,761.40	2,191.25
Machinery and Equipment	<u>7,365,308.02</u>	<u>6,514,137.18</u>	<u>851,170.84</u>
<b>Total Capital Assets</b>	61,081,396.66	54,725,121.60	6,356,275.06
Less: Accumulated Depreciation	<u>12,518,601.29</u>	<u>11,419,875.43</u>	<u>1,098,725.86</u>
<b>Total Capital Assets, Net</b>	<u>\$ 48,562,795.37</u>	<u>\$ 43,305,246.17</u>	<u>\$ 5,257,549.20</u>

The increase in Construction in Progress of \$5,365,226 was mostly due to the expenses related to the Herman Simon Building (increase of \$4,193,214). Other increases to the Construction in Progress balances are:

- 1) Construction/Industrial Complex \$260,468
- 2) Academic Classroom Building \$605,968
- 3) Facility Service Complex \$227,620
- 4) Hwy 11 Fulford Parking Lot \$ 77,956

As of June 30, 2010, the College had commitments of \$25,112,673 for the ongoing construction projects noted above.

### Economic Outlook and Effects on Financial Position

Pitt Community College continues to see record enrollment increases in the student population. The total Full Time Equivalent (FTE) students for which the College earned the 2010-2011 State budget is 7,214. This was based off of the enrollments for the prior fiscal year (2009 Fall and 2010 Spring Semester). This represents a 12% increase in students from the prior year, one of the largest percentage increases in the student population in recent years. The FTE earned for fiscal year 2009-2010 and fiscal year 2008-2009 were 6,397 and 5,799, respectively. Since the majority of State funding is based on student FTE, Pitt Community College continues to see increases in its operational budget.

Due to the significant increase in enrollment, and increases in both equipment funding and categorical grant funding, the College has received an increase of \$4.8 million dollars in its State Budget Allotment for the 2010-2011 fiscal year. However, this increase is offset by the continued budget cuts relating to the Management Flexibility Reduction of \$1,009,836 and Reserve for Reversions of \$761,790.

The College's student enrollment continued to increase for the 2010 Fall term with a 10.15% increase in Curriculum FTE over the 2009 Fall term. With these significant enrollment increases over the past several years, the only concerns that Pitt Community College may have would be its ability to sustain these types of enrollment increases on an ongoing basis.

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

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In addition to the College's increases in its State, County and Federal funding, the College continues to seek additional funding from grant opportunities. The College was awarded a number of grants for this past fiscal year, the most significant of these being from the Office of the National Coordinator under the Department of Health and Human Services. In April 2010, the College was awarded \$20,190,112 for a two year award relating to Health Information Technology.

Pitt Community College continues to proceed with construction as outlined by its Master Plan as resources will allow. Construction was completed for the Herman Simon Building which opened in August, 2010. This facility is being used to accommodate the expanding Health Science student population and is located adjacent to the current Health Science facility in the Fulford Building.

Pitt Community College plans to begin construction on three new buildings in the 2010-2011 fiscal year. These buildings include:

1. The Construction and Industrial Complex
2. Maintenance, Grounds and Storage Facility Complex
3. Academic Classroom Building

Funding for these buildings will come from local funds which are generated from a prior year quarter-cent sales tax referendum.

***Pitt Community College***  
***Statement of Net Assets***  
***June 30, 2010***

***Exhibit A-1***

**ASSETS**

Current Assets:

Cash and Cash Equivalents	\$ 3,600,915.64
Restricted Cash and Cash Equivalents	1,014,493.21
Receivables, Net (Note 4)	837,569.40
Inventories	752,501.56
Notes Receivable, Net (Note 4)	4,485.00
	<hr/>
Total Current Assets	6,209,964.81

Noncurrent Assets:

Restricted Cash and Cash Equivalents	166,356.05
Restricted Due from Primary Government	361,238.10
Restricted Due from State of North Carolina Component Units	102,000.00
Capital Assets - Nondepreciable (Note 6)	12,504,155.98
Capital Assets - Depreciable, Net (Note 6)	36,058,639.39
	<hr/>
Total Noncurrent Assets	49,192,389.52
	<hr/>
Total Assets	55,402,354.33

**LIABILITIES**

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 7)	1,456,779.98
Due to Primary Government	1,125.90
Unearned Revenue	7,813.00
Long-Term Liabilities - Current Portion (Note 8)	126,678.00
	<hr/>
Total Current Liabilities	1,592,396.88

Noncurrent Liabilities:

Funds Held for Others	19,740.63
Long-Term Liabilities (Note 8)	1,565,935.41
	<hr/>
Total Noncurrent Liabilities	1,585,676.04
	<hr/>
Total Liabilities	3,178,072.92

**NET ASSETS**

Invested in Capital Assets	48,562,795.37
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	166,356.05
Expendable:	
Scholarships and Fellowships	350,987.45
Loans	89,272.30
Other	533,425.72
Unrestricted	2,521,444.52
	<hr/>
Total Net Assets	\$ 52,224,281.41

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

***Pitt Community College  
Statement of Revenues, Expenses, and  
Changes in Net Assets  
For the Fiscal Year Ended June 30, 2010***

***Exhibit A-2***

**REVENUES**

Operating Revenues:	
Student Tuition and Fees, Net (Note 9)	\$ 7,194,318.66
Federal Grants and Contracts	17,222.15
Sales and Services, Net (Note 9)	2,560,527.84
Other Operating Revenues	212,012.67
	<hr/>
Total Operating Revenues	9,984,081.32
	<hr/>

**EXPENSES**

Operating Expenses:	
Salaries and Benefits	31,102,996.82
Supplies and Materials	7,340,940.50
Services	3,934,024.95
Scholarships and Fellowships	10,813,151.49
Utilities	1,360,364.38
Depreciation	1,172,852.69
	<hr/>
Total Operating Expenses	55,724,330.83
	<hr/>
Operating Loss	(45,740,249.51)
	<hr/>

**NONOPERATING REVENUES (EXPENSES)**

State Aid	21,516,094.24
County Appropriations	4,110,835.00
Noncapital Grants - Student Financial Aid	16,876,621.16
Noncapital Grants	748,444.34
Noncapital Gifts	283,416.46
Investment Income	65,739.73
Other Nonoperating Expenses	(90,789.24)
	<hr/>
Net Nonoperating Revenues	43,510,361.69
	<hr/>
Loss Before Other Revenues	(2,229,887.82)
	<hr/>
State Capital Aid	2,438,910.14
County Capital Aid	1,933,041.05
Capital Grants	146,939.06
Capital Gifts	2,555,628.62
	<hr/>
Increase in Net Assets	4,844,631.05

**NET ASSETS**

Net Assets, July 1, 2009 as Restated (Note 16)	47,379,650.36
	<hr/>
Net Assets, June 30, 2010	\$ 52,224,281.41
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The accompanying notes to the financial statements are an integral part of this statement.

***Pitt Community College  
Statement of Cash Flows  
For the Fiscal Year Ended June 30, 2010***

***Exhibit A-3***

**CASH FLOWS FROM OPERATING ACTIVITIES**

Received from Customers	\$ 10,049,240.96
Payments to Employees and Fringe Benefits	(30,961,724.15)
Payments to Vendors and Suppliers	(12,529,974.20)
Payments for Scholarships and Fellowships	(10,813,151.49)
Other Receipts	116,276.08
	<hr/>
Net Cash Used by Operating Activities	(44,139,332.80)

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

State Aid Received	21,516,094.24
County Appropriations	4,110,835.00
Noncapital Grants - Student Financial Aid	16,697,013.55
Noncapital Grants Received	1,301,640.90
Noncapital Gifts	283,416.46
	<hr/>
Cash Provided by Noncapital Financing Activities	43,909,000.15

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

State Capital Aid Received	3,112,292.76
County Capital Aid	1,933,041.05
Capital Grants Received	146,939.06
Capital Gifts Received	2,555,628.62
Acquisition and Construction of Capital Assets	(6,516,994.95)
	<hr/>
Net Cash Provided by Capital and Related Financing Activities	1,230,906.54

**CASH FLOWS FROM INVESTING ACTIVITIES**

Investment Income	65,739.73
	<hr/>
Cash Provided by Investing Activities	65,739.73

Net Increase in Cash and Cash Equivalents	1,066,313.62
Cash and Cash Equivalents, July 1, 2009	3,715,451.28
	<hr/>
Cash and Cash Equivalents, June 30, 2010	\$ 4,781,764.90

***Pitt Community College  
Statement of Cash Flows  
For the Fiscal Year Ended June 30, 2010***

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

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

Operating Loss	\$ (45,740,249.51)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation	1,172,852.69
Miscellaneous Nonoperating Income	(90,789.24)
Changes in Assets and Liabilities:	
Receivables, Net	272,836.16
Inventories	4,126.45
Prepaid Items	750.00
Accounts Payable and Accrued Liabilities	266,537.99
Due to Primary Government	71.48
Unearned Revenue	1,080.80
Funds Held for Others	(1,692.00)
Compensated Absences	(24,857.62)
	<u>(24,857.62)</u>
Net Cash Used by Operating Activities	<u>\$ (44,139,332.80)</u>

**RECONCILIATION OF CASH AND CASH EQUIVALENTS**

Current Assets:	
Cash and Cash Equivalents	\$ 3,600,915.64
Restricted Cash and Cash Equivalents	1,014,493.21
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	<u>166,356.05</u>
Total Cash and Cash Equivalents - June 30, 2010	<u>\$ 4,781,764.90</u>

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

Assets Acquired through Assumption of a Liability	\$ 128,850.13
Increase in Receivables Related to Nonoperating Income	179,607.61
Capital Asset Write-Offs	74,126.83

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



***Pitt Community College Foundation, Inc.***  
***Statement of Financial Position***  
***June 30, 2010***

***Exhibit B-1***

**ASSETS**

Current Assets	
Cash and Cash Equivalents/Cash With State Treasurer	\$ 2,129,026.20
Certificates of Deposit	42,588.71
Treasury Note (P. Chenier)	7,008.04
	<hr/>
Total Current Assets	2,178,622.95
Property and Equipment	
Equipment	9,957.40
Software	4,360.00
Less: Accumulated Depreciation	(14,317.40)
	<hr/>
Total Property and Equipment	0.00
Other Assets	
Pledges Receivable, Net	1,264,908.34
Discounts - Pledges Receivable	(239.54)
	<hr/>
Total Other Assets	1,264,668.80
	<hr/>
Total Assets	<u><u>\$ 3,443,291.75</u></u>

**LIABILITIES**

Accounts Payable	<u>\$ 9,183.62</u>
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**NET ASSETS**

Unrestricted	263,052.37
Temporarily Restricted	2,415,081.50
Permanently Restricted	755,974.26
	<hr/>
Total Net Assets	3,434,108.13
	<hr/>
Total Liabilities and Net Assets	<u><u>\$ 3,443,291.75</u></u>

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

***Pitt Community College Foundation, Inc.***  
***Statement of Activities***  
***For the Fiscal Year Ended June 30, 2010***

***Exhibit B-2***

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
<b>REVENUES, GAINS AND OTHER SUPPORT</b>				
Contributions	\$ 0.00	\$ 199,085.12	\$ 55,469.80	\$ 254,554.92
Interest and Dividends	5,535.00	31,663.25	1,249.00	38,447.25
Net Decrease in Fair Value of Investments			(148.99)	(148.99)
Fund Raising Income	230,288.65	52,804.23		283,092.88
Adjustment for Uncollectible Pledges		(1,000,000.00)		(1,000,000.00)
Net Assets Released from Restrictions	2,121,375.86	(2,121,375.86)		
Total Revenues, Gains and Other Support	<u>2,357,199.51</u>	<u>(2,837,823.26)</u>	<u>56,569.81</u>	<u>(424,053.94)</u>
<b>EXPENSES</b>				
Contributions to Pitt Community College for:				
Scholarships	146,453.06			146,453.06
Construction Projects	1,871,713.47			1,871,713.47
Program Services	97,562.72			97,562.72
General and Administrative	37,586.08			37,586.08
Student Activities	4,341.78			4,341.78
Fund Raising	84,925.56			84,925.56
Total Expenses	<u>2,242,582.67</u>			<u>2,242,582.67</u>
Increase in Net Assets	114,616.84	(2,837,823.26)	56,569.81	(2,666,636.61)
<b>NET ASSETS</b>				
Net Assets at Beginning of Year	<u>148,435.53</u>	<u>5,252,904.76</u>	<u>699,404.45</u>	<u>6,100,744.74</u>
Net Assets at End of Year	<u>\$ 263,052.37</u>	<u>\$ 2,415,081.50</u>	<u>\$ 755,974.26</u>	<u>\$ 3,434,108.13</u>

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

**PITT COMMUNITY COLLEGE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES**

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

The accompanying financial statements present all funds of the College and its component unit 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 is reported in separate financial statements because of its use of a different GAAP reporting model and to emphasize its legal separateness.

**Discretely Presented Component Unit** - Pitt Community College Foundation, Inc. is a not-for-profit corporation and is reported as a discretely presented component unit based on the nature and significance of its relationship to the College. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the College in support of its programs. The Foundation board consists of 32 members. Although the College does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, that the Foundation holds and invests are restricted to the activities of the College by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of the College, the Foundation is considered a component unit of the College and is reported in separate financial statements because of the difference in its reporting model, as described below.

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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, 2010, the Foundation distributed \$1,891,713.47 to the College for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from Ricky D. Brown, Business Manager, Pitt Community College, or the Business Office of the Pitt Community College Foundation, Inc.

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.

- E. Receivables** - Receivables consist of tuition and fees charged to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from the federal government, State and local governments and private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants. Receivables are recorded net of estimated uncollectible amounts.
- F. Inventories** - Inventories, consisting of expendable supplies and merchandise for resale are valued at cost using the first-in, first-out method.
- G. Capital Assets** - Capital assets are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. The value of assets constructed includes all material direct and indirect construction costs.

The College capitalizes assets that have a value or cost of \$5,000 or greater 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 50 to 75 years for general infrastructure, 25 to 50 years for buildings, and 5 to 25 years for equipment.

- H. Restricted Assets** - Certain resources are reported as restricted assets because restrictions on asset use change the nature or normal understanding of the availability of the asset. Resources that are not available for current operations and are reported as restricted include resources restricted or designated for the acquisition or construction of capital assets and resources whose use is limited by external parties or statute.
- I. Noncurrent Long-Term Liabilities** - Noncurrent long-term liabilities include compensated absences that will not be paid within the next fiscal year.
- J. Compensated Absences** - The College's policy is to record the cost of vacation leave when earned. The policy provides for a maximum accumulation of unused vacation leave of 30 days which can be carried forward each July 1 or for which an employee can be paid upon

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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 July 1 plus the leave earned, less the leave taken between July 1 and June 30 reduced by the amount of vacation leave transferred to sick leave.

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

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.

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

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

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

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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system in place at the College.

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

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

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

**N. Internal Sales Activities** - Certain institutional auxiliary operations provide goods and services to College departments, as well as to its customers. These institutional auxiliary operations include activities such as the bookstore and the copy center. In addition, the College has other miscellaneous sales and service units that operate 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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auxiliary operations and sales and service units and, if significant, allocating any residual balances to those departments receiving the goods and services during the year.

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

### NOTE 2 - DEPOSITS AND INVESTMENTS

All funds of the College are deposited in board-designated official depositories and are required to be collateralized in accordance with *North Carolina General Statute* 115D-58.7. Official depositories may be established with any bank or savings and loan association whose principal office is located in North Carolina. Also, the College may establish time deposit accounts, money market accounts, and certificates of deposit. The amount shown on the Statement of Net Assets as cash and cash equivalents includes cash on hand totaling \$8,590.00, and deposits in private financial institutions with a carrying value of \$216,000.00 and a bank balance of \$565,839.07.

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, 2010, 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



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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, 2010, the amount shown on the Statement of Net Assets as cash and cash equivalents includes \$4,557,174.90 which represents the College's equity position in the State Treasurer's Short-Term Investment Fund. At June 30, 2010, the amount shown on the Statement of Financial Position of the Pitt Community College Foundation, Inc., the College's discretely presented component unit, as cash and cash equivalents includes \$2,129,026.20 which represents the Foundation's equity position in the State Treasurer's Short-Term Investment Fund. The Short-Term Investment Fund (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission and does not have a credit rating) had a weighted average maturity of 1.6 years as of June 30, 2010. 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.osc.nc.gov/> 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.

### NOTE 3 - DONOR RESTRICTED ENDOWMENTS

The College's endowment assets are pooled with State agencies and similar institutions in short-term investments with the State Treasurer's Cash and Investment Pool and are reported as restricted cash and cash equivalents - noncurrent on the accompanying financial statements. If a donor has not provided specific instructions, State law permits the Board of Trustees to authorize for expenditure the net appreciation, realized, and unrealized, of the assets of the endowment funds. Annual payouts from the College's endowment funds are based on an adopted spending policy, which limits spending to 100% of the interest earnings unless the donor has stipulated otherwise. At June 30, 2010, net appreciation of \$2,402.00 was available to be spent, all of which was

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

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spent, all of which was restricted to specific purposes.

**NOTE 4 - RECEIVABLES**

Receivables at June 30, 2010 were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
<b>Current Receivables:</b>			
Students	\$ 1,113,700.11	\$ 569,433.77	\$ 544,266.34
Accounts	59,058.39		59,058.39
Intergovernmental	234,244.67		234,244.67
<b>Total Current Receivables</b>	<b>\$ 1,407,003.17</b>	<b>\$ 569,433.77</b>	<b>\$ 837,569.40</b>
<b>Notes Receivable - Current:</b>			
Institutional Student Loan Programs	\$ 12,021.62	\$ 7,536.62	\$ 4,485.00

**NOTE 5 - COMPONENT UNIT PLEDGES RECEIVABLE**

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

The Foundation received proceeds of \$1,356,525.00 from pledged funds during the 2009-10 fiscal year. The present value was determined using a .02% discount rate. The discount is \$239.54, and gives a net pledges receivable balance of \$1,264,668.80. Due to the limited number of donors, and their perceived reliability, there will be no allowance for doubtful accounts. The yearly breakdown for the pledges receivable account is as follows:

	Balance
1 Year or Less	\$ 1,253,108.34
1 to 5 Years	11,560.46
	<b>\$ 1,264,668.80</b>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 6 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2010 is presented as follows:

	Balance July 1, 2009	Increases	Decreases	Balance June 30, 2010
Capital Assets, Nondepreciable:				
Land	\$ 6,421,880.21	\$ 0.00	\$ 0.00	\$ 6,421,880.21
Construction in Progress	717,049.33	5,505,104.22	139,877.78	6,082,275.77
<b>Total Capital Assets, Nondepreciable</b>	<b>7,138,929.54</b>	<b>5,505,104.22</b>	<b>139,877.78</b>	<b>12,504,155.98</b>
Capital Assets, Depreciable:				
Buildings	38,409,293.48	137,686.53		38,546,980.01
Machinery and Equipment	6,514,137.18	925,297.67	74,126.83	7,365,308.02
General Infrastructure	2,662,761.40	2,191.25		2,664,952.65
Total Capital Assets, Depreciable	47,586,192.06	1,065,175.45	74,126.83	48,577,240.68
Less Accumulated Depreciation for:				
Buildings	8,605,842.44	765,963.72		9,371,806.16
Machinery and Equipment	2,343,202.49	363,741.11	74,126.83	2,632,816.77
General Infrastructure	470,830.50	43,147.86		513,978.36
Total Accumulated Depreciation	11,419,875.43	1,172,852.69	74,126.83	12,518,601.29
<b>Total Capital Assets, Depreciable, Net</b>	<b>36,166,316.63</b>	<b>(107,677.24)</b>		<b>36,058,639.39</b>
<b>Capital Assets, Net</b>	<b>\$ 43,305,246.17</b>	<b>\$ 5,397,426.98</b>	<b>\$ 139,877.78</b>	<b>\$ 48,562,795.37</b>

### NOTE 7 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30 2010 were as follows:

	Amount
Accounts Payable	\$ 409,201.11
Accrued Payroll	892,382.31
Intergovernmental Payables	155,196.56
<b>Total Accounts Payable and Accrued Liabilities</b>	<b>\$ 1,456,779.98</b>

### NOTE 8 - LONG-TERM LIABILITIES

A summary of changes in the long-term liabilities for the year ended June 30, 2010 is presented as follows:

	Balance July 1, 2009	Additions	Reductions	Balance June 30, 2010	Current Portion
Compensated Absences	\$ 1,717,471.03	\$ 743,248.36	\$ 768,105.98	\$ 1,692,613.41	\$ 126,678.00

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 9 - REVENUES

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

	Gross Revenues	Internal Sales Eliminations	Less Scholarship Discounts	Less Allowance for Uncollectibles	Net Revenues
<b>Operating Revenues:</b>					
<b>Student Tuition and Fees</b>	\$ 11,260,560.47	\$ 0.00	\$ 3,915,076.01	\$ 151,165.80	\$ 7,194,318.66
<b>Sales and Services:</b>					
Sales and Services of Auxiliary Enterprises:					
Copy Center	\$ 256,413.33	\$ 235,200.59	\$ 0.00	\$ 0.00	\$ 21,212.74
Bookstore	4,056,343.68	36,410.80	1,976,548.82	81,396.97	1,961,987.09
Athletics	19,976.24				19,976.24
Preschool	365,516.91				365,516.91
Other	12,686.50				12,686.50
Sales and Services of Education and Related Activities	179,148.36				179,148.36
<b>Total Sales and Services</b>	<u>\$ 4,890,085.02</u>	<u>\$ 271,611.39</u>	<u>\$ 1,976,548.82</u>	<u>\$ 81,396.97</u>	<u>\$ 2,560,527.84</u>

### NOTE 10 - OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	\$ 19,850,191.43	\$ 2,917,997.39	\$ 1,289,355.60	\$ 10,181.30	\$ 5,565.81	\$ 0.00	\$ 24,073,291.53
Academic Support	3,642,634.05	324,339.33	278,598.46				4,245,571.84
Student Services	2,482,467.92	175,462.61	195,995.94	70,777.69			2,924,704.16
Institutional Support	3,213,020.43	275,581.65	958,510.25	1,445.90	6,352.45		4,454,910.68
Operations and Maintenance of Plant	1,062,619.56	222,344.18	962,168.58		1,348,446.12		3,595,578.44
Student Financial Aid	227,009.78	719.28	42,533.04	10,702,566.90			10,972,829.00
Auxiliary Enterprises	625,053.65	3,424,496.06	206,863.08	28,179.70			4,284,592.49
Depreciation						1,172,852.69	1,172,852.69
<b>Total Operating Expenses</b>	<u>\$ 31,102,996.82</u>	<u>\$ 7,340,940.50</u>	<u>\$ 3,934,024.95</u>	<u>\$ 10,813,151.49</u>	<u>\$ 1,360,364.38</u>	<u>\$ 1,172,852.69</u>	<u>\$ 55,724,330.83</u>

### 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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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, 2010, these rates were set at 3.57% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the College had a total payroll of \$25,824,608.00, of which \$20,682,621.07 was covered under the Teachers' and State Employees' Retirement System. Total employer and employee contributions for pension benefits for the year were \$738,369.57 and \$1,240,969.25, respectively.

Required employer contribution rates for the years ended June 30, 2009, and 2008, were 3.36% and 3.05%, respectively, while employee contributions were 6% each year. The College made 100% of its annual required contributions for the years ended June 30, 2010, 2009, and 2008, which were \$738,369.57, \$676,799.28, and \$586,803.78, respectively.

The Teachers' and State Employees' Retirement System's financial information is included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.nc.gov/> 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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College. The voluntary contributions by employees amounted to \$102,351.98 for the year ended June 30, 2010.

IRC Section 401(k) Plan - All members of the Teachers' and State Employees' Retirement System are eligible to enroll in the Supplemental Retirement Income Plan, a defined contribution plan, created under Internal Revenue Code Section 401(k). All costs of administering the Plan are the responsibility of the Plan participants. No costs are incurred by the College except for a 5% employer contribution for the College's law enforcement officers, which is mandated under General Statute 143-166.30(e). Total employer contributions on behalf of College law enforcement officers for the year ended June 30, 2010, were \$13,059.20. The voluntary contributions by employees amounted to \$269,933.00 for the year ended June 30, 2010.

### 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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on a pay-as-you-go basis, are determined by the General Assembly.

For the current fiscal year the College contributed 4.5% of the covered payroll under the Teachers' and State Employees' Retirement System to the Fund. Required contribution rates for the years ended June 30, 2009, and 2008, were 4.1% and 4.1%, respectively. The College made 100% of its annual required contributions to the Plan for the years ended June 30, 2010, 2009, and 2008, which were \$930,717.95, \$825,856.26, and \$788,818.19, 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.osc.nc.gov/> 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 by the General Assembly. For the fiscal year ended June 30, 2010, 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, 2009, and 2008, were .52% and .52%, respectively. The College made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2010, 2009, and 2008, which were \$107,549.63, \$104,742.75, and \$100,045.23, 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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 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 million deductible per occurrence. Reinsurance is purchased by the fund to cover catastrophic events in excess of the \$10 million deductible. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

State-owned vehicles 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. Employee dishonesty and computer fraud losses for employees paid from county and institutional funds 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



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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.

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

Term life insurance (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 14 - COMMITMENTS

The College has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were \$25,112,673.34 and on other purchases were \$314,009.07 at June 30, 2010.

### NOTE 15 - CHANGE IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2010, the College implemented the following pronouncement issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*.

GASB Statement No. 51, requires reporting certain intangible assets as capital assets.

## NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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### NOTE 16 - NET ASSET RESTATEMENT

As of July 1, 2009, net assets as previously reported was restated as follows:

	<u>Amount</u>
July 1, 2009 Net Assets as Previously Reported	\$ 46,762,143.45
Restatement:	
To Correct Prior Year Unrecorded Tuition and Fees Revenue	<u>617,506.91</u>
July 1, 2009 Net Assets as Restated	<u><u>\$ 47,379,650.36</u></u>



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**

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Board of Trustees  
Pitt Community College  
Winterville, North Carolina

We have audited the financial statements of Pitt Community College, a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 2010, which collectively comprise the College's basic financial statements and have issued our report thereon dated February 24, 2011. Our report was modified to include a reference to other auditors.

As discussed in Note 15 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 51, *Accounting and Financial Reporting for Intangible Assets* during the year ended June 30, 2010.

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

Internal Control Over Financial Reporting

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

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable

**INDEPENDENT AUDITOR'S REPORT  
ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
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possibility that a material misstatement of the College's financial statements will not be prevented, or detected and corrected on a timely basis.

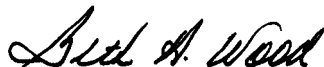
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a deficiency in internal control over financial reporting that we consider to be significant deficiency in internal control over financial reporting. A significant deficiency is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the Audit Findings and Responses section of this report to be a significant deficiency.

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 College's responses to the finding 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

February 24, 2011

## **AUDIT FINDINGS AND RESPONSES**

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

The following audit finding was identified during the current audit and describe conditions that represent a significant deficiency in internal control. The finding was also reported in the prior audit.

#### DEFICIENCIES IN FINANCIAL REPORTING

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

- a. The College did not follow the North Carolina Community College System Office guidelines for closing out student accounts receivable. As a result, the beginning net assets and tuition and fees revenues were understated by \$617,507 and \$44,931, respectively. In addition, accounts payable was overstated by \$662,438 and unrestricted net assets were understated by \$44,931.
- b. The College incorrectly recorded the portion of federal student financial aid due back to the Department of Education. This error resulted in understatement of scholarships and fellowships expense and overstatement of accounts receivable by \$118,148.
- c. The College duplicated the recording of a \$53,973 grant receivable. This caused receivables and federal grants and contracts revenues to be overstated by that amount.
- d. The College did not properly classify net asset balances. As a result, restricted net assets were understated and unrestricted net assets were overstated by \$132,340.
- e. The College incorrectly recorded its increase in allowance for doubtful accounts as bad debt expense. This caused operating revenue and other nonoperating expenses to be overstated by \$232,563.
- f. Minor misstatements were also made in the Notes to the Financial Statements and Management's Discussion and Analysis.

*Recommendation:* The College should place greater emphasis on the year-end financial reporting process and strengthen internal controls to ensure the accuracy and completeness of the financial statements. This process should include an independent review of supporting journal entries. Further, the College should consider whether its accounting staff could benefit from additional training on financial reporting matters.

*College Response:* The College concurs with the audit finding and recommendation. The College agrees to improve its year-end procedures by utilizing additional review processes for

## **AUDIT FINDINGS AND RESPONSES (CONCLUDED)**

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its manual journal entries and the financial statement preparation and review process. The College concurs with the recommendation the ongoing training for our accounting staff enhances our ability to keep abreast of changing accounting policies and procedures.

## ORDERING INFORMATION

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