



STATE OF NORTH CAROLINA

PAMLICO COMMUNITY COLLEGE

GRANTSBORO, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2011

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR

A Component Unit of the State of North Carolina

PAMLICO COMMUNITY COLLEGE

GRANTSBORO, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2011

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Beth A. Wood, CPA
State Auditor

STATE OF NORTH CAROLINA
Office of the 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, Pamlico Community College

We have completed a financial statement audit of Pamlico Community College for the year ended June 30, 2011, 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.

The results of our tests disclosed no deficiencies in internal control over financial reporting that we consider to be material weaknesses in relation to our audit scope or any instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITOR’S REPORT	1
MANAGEMENT’S DISCUSSION AND ANALYSIS	3
BASIC FINANCIAL STATEMENTS	
College Exhibits	
A-1 Statement of Net Assets	11
A-2 Statement of Revenues, Expenses, and Changes in Net Assets	12
A-3 Statement of Cash Flows	13
Notes to the Financial Statements	15
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 <i>GOVERNMENT</i> <i>AUDITING STANDARDS</i>	29
ORDERING INFORMATION	31



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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Pamlico Community College
Grantsboro, North Carolina

We have audited the accompanying basic financial statements of Pamlico Community College, a component unit of the State of North Carolina, as of and for the year ended June 30, 2011, as listed in the table of contents. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audit.

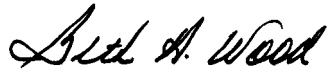
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit 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 provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Pamlico Community College as of June 30, 2011, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 10, 2012 on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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



Beth A. Wood, CPA
State Auditor

February 10, 2012

PAMLICO COMMUNITY COLLEGE MANAGEMENT'S DISCUSSION AND ANALYSIS

The annual financial statements of Pamlico Community College present the results of the College's financial activities for the fiscal year ended June 30, 2011. Management, in addition to this analysis, is responsible for the preparation of the accompanying basic financial statements, and Notes to the Financial Statements. Management's Discussion and Analysis (MD&A) should be read in conjunction with the financial statements and provides a general overview of the College's financial activity during the fiscal year. The MD&A is intended to aid the reader in interpreting the College's relative financial position as of the year ended June 30, 2011, as well as gauging performance from one period to the next. Condensed key financial and nonfinancial information will be highlighted for the reader followed by a discussion of the county's economic outlook.

The financial statements include in addition to this MD&A, a Statement of Net Assets, a Statement of Revenues, Expenses, and Changes in Net Assets, a Statement of Cash Flows, and accompanying Notes to the Financial Statements. The Statement of Net Assets presents all of the College's assets and liabilities, with the difference between the two reported as "net assets." Over time, changes in net assets measure whether the College's financial position is improving or not. The Statement of Revenues, Expenses, and Changes in Net Assets present information showing how the net assets changed during the fiscal year. The Statement of Cash Flows provides detail on the cash activity of the College during the year.

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

About Pamlico Community College

Pamlico Community College (PCC) is a small two-year institution located in rural Eastern North Carolina that in 2010-2011 began its 49th year of serving the educational, cultural and personal interests of the people in this area.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Condensed Statement of Net Assets

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

Condensed Statement of Assets
for the Year Ended June 30, 2011 and 2010

	2011	2010	Increase (Decrease)
Current Assets	\$ 1,034,513.03	\$ 1,089,491.82	\$ (54,978.79)
Other Assets	451,402.21	348,274.27	103,127.94
Capital Assets	7,537,991.69	7,731,439.20	(193,447.51)
Total Assets	9,023,906.93	9,169,205.29	(145,298.36)
Current Liabilities	181,610.48	189,543.22	(7,932.74)
Long-Term Liabilities	177,547.84	155,286.36	22,261.48
Total Liabilities	359,158.32	344,829.58	14,328.74
Net Assets			
Invested in Capital Assets	7,537,991.69	7,731,439.20	(193,447.51)
Restricted	564,162.80	631,150.32	(66,987.52)
Unrestricted	562,594.12	461,786.19	100,807.93
Total Net Assets	\$ 8,664,748.61	\$ 8,824,375.71	\$ (159,627.10)

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

The \$54,978.79 decrease in Current Assets and \$103,127.94 increase in Other Assets are partially attributable to the transfer of \$90,000 of Foundation Cash from the PCC Foundation Urgency Loan Fund which is a Current Asset to the Ned Delmar Endowment Fund which is a Noncurrent Asset. It was determined that the \$90,000 which was used to help fund day-to-day cash needs of the college was no longer needed, since adequate cash funds from other sources have accumulated over the years, and improvements to cash management processes have been implemented to better match daily cash inflows and outflows. The remainder of the change in Current Assets is the result of increases in funds from various sources such as the \$15,000 Counseling to Careers training grant from Jobs for the Future through the support of the Wal-Mart Foundation, and Accounts Receivable for tuition and books from students attending summer classes who will receive payments through their Pell grants in August. Inventory of books, supplies, and instructional materials, which is also included in Current Assets, were basically unchanged.

Capital Assets, Net, and Net Assets – Invested In Capital Assets decreased by \$193,447.51 during the year and is attributable to depreciation, offset by the purchase of a washer and a dryer for firefighter turnout gear, a new server to improve web access for students, faculty, and staff, and welding equipment for the growing welding program. In addition the Foundation received a generous contribution of an original signed Ansel Adams photograph which has been valued at \$5,000.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Current Liabilities, which decreased by \$7,932.74, is mainly composed of salaries owed to instructors for teaching summer courses, Pell Grant payments owed to students, unearned tuition for summer programs, and the current portion of accumulated vacation and bonus leave expected to be paid to employees in the coming year.

The \$22,261.48 increase in Long-Term Liabilities relates to accumulated vacation and bonus leave earned by employees during the year.

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

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

Condensed Statements of Revenues, Expenses, and Changes in Net Assets
for the Year Ended June 30, 2011 and 2010

	2011	2010	Increase (Decrease)
Operating Revenues			
Student Tuition and Fees, Net	\$ 181,451.02	\$ 138,962.92	\$ 42,488.10
Sales and Services, Net	118,719.56	128,191.03	(9,471.47)
Other Operating Expenses		(25.00)	25.00
Total Operating Revenues	300,170.58	267,128.95	33,041.63
Less Operating Expenses	6,800,541.79	6,498,862.44	301,679.35
Operating Loss	(6,500,371.21)	(6,231,733.49)	(268,637.72)
Nonoperating Revenues			
State Aid	4,096,033.26	3,851,360.59	244,672.67
County Appropriations	519,345.96	519,999.96	(654.00)
Noncapital Grants	1,464,840.39	1,538,912.60	(74,072.21)
Noncapital Gifts	35,938.06	53,632.13	(17,694.07)
Investment Income	11,254.30	14,374.18	(3,119.88)
Capital Aid, Appropriations, and Grants	208,332.14	209,797.91	(1,465.77)
Capital Gifts	5,000.00		5,000.00
Additions to Endowment		9,137.43	(9,137.43)
Total Nonoperating and Capital Revenues	6,340,744.11	6,197,214.80	143,529.31
Change in Net Assets	(159,627.10)	(34,518.69)	(125,108.41)
Net Assets, Beginning of Year	8,824,375.71	8,858,894.40	(34,518.69)
Net Assets, End of Year	\$ 8,664,748.61	\$ 8,824,375.71	\$ (159,627.10)

The increase of \$42,488.10 in Student Tuition and Fees, Net, is directly related to the increase in enrollment. The decrease of \$9,471.47 in Sales and Services, Net relates to the fact that more students are taking classes online and buying their books and supplies online instead of through the college bookstore.

The increase of \$247,672.67 in State Aid can be attributed to higher enrollment. Curriculum based enrollment increased an average of 40 students over the Fall and Spring semesters from 09-10 to 10-11.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

The \$519,345.96 in County Appropriations was comparable to the prior year. In 2011, the college's maintenance staff began to apply a polymer coating to the 34 year old Johnson Building roof that is expected to seal the leaks that have plagued the building for the past ten years. This will give college administration time to acquire the necessary funding for a complete roof replacement.

The \$74,072.21 decrease in Noncapital Grants is related to a decline in federal, state, and private grants. Approximately one-half of the decrease is related to Pell Grants, while enrollment increased and the individual Pell award increased the number of students eligible for Pell Grants declined. Reflecting the challenges to the general economy, declines were experienced in federal and state grants: federal grants declining include Workforce Investment Act for Adult and Dislocated Worker, ARRA, and the Enhancement Grant, and state grants declining were NC Lottery Education Scholarship, NC Earn, and NC College.

The \$17,694.07 decline in Noncapital Gifts is a direct result of the economic decline in the region.

Investment Income decreased by \$3,119.88 as a result of declines in interest earned on the state short term investment fund account and the lower amount invested in the fund.

Capital Aid, Appropriation and Grants declined slightly. While the state allocated more funds to purchase equipment during 2010-2011, the state also required community colleges to revert 2% of the original funding allocation, PCC decided to use a portion of the state allocation for equipment to satisfy this reversion. The reversion amount was \$88,492.

Capital Gifts represents the generous donation of an Ansel Adams original handmade gelatin silver photograph valued at \$5,000 to the Foundation.

The following chart represents the operating expenses of PCC by activity:

Operating Expenses for the Year Ended June 30, 2011 and 2010			
	2011	2010	Increase (Decrease)
Operating Expenses			
Personal Services	\$ 4,773,235.69	\$ 4,405,067.64	\$ 368,168.05
Supplies and Materials	608,902.70	569,782.05	39,120.65
Services	423,318.08	351,129.95	72,188.13
Scholarships and Fellowships	642,732.14	790,210.73	(147,478.59)
Utilities	118,972.47	119,206.54	(234.07)
Depreciation	233,380.71	263,465.53	(30,084.82)
Total Operating Expenses	<u>\$ 6,800,541.79</u>	<u>\$ 6,498,862.44</u>	<u>\$ 301,679.35</u>

Operating Expenses increased by \$301,679.35 from fiscal year 2010. This increase is directly attributable to the continuing growth in curriculum enrollment. Personal Services increased by \$368,168.05 due to the increase in the number of instructors and benefit costs for full time staff and faculty. Salaries for full time staff remained stable as continuing poor economic conditions limited salary increases to only significant changes in job responsibilities.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Supplies and Materials cost increases are attributable to an increase in allocation from the state for equipment and the cost of the polymer coating for the Johnson Building roof. The increase in Services of \$72,188.13 is partly attributed to the cost of the polymer material that is being used to coat the roof of the Johnson Building, faculty and staff training and development. The decrease of \$30,084.29 in Depreciation is related to the prospective extension of the useful lives of equipment whose useful life was scheduled to end in 2010-2011 fiscal year.

Capital Assets

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

Capital Assets for the Year Ended June 30, 2011 and 2010			
	2011	2010	Increase (Decrease)
Capital Assets, Nondepreciable			
Land	\$ 381,050.00	\$ 381,050.00	\$ 0.00
Art, literature, and artifacts	5,000.00		5,000.00
Total Capital Assets, Nondepreciable	386,050.00	381,050.00	5,000.00
Capital Assets, Depreciable			
Buildings	8,555,717.57	8,555,717.57	
Machinery & Equipment	1,010,096.77	975,163.57	34,933.20
General Infrastructure	89,942.65	89,942.65	
Total Capital Assets, Depreciable	9,655,756.99	9,620,823.79	34,933.20
Less: Accumulated Depreciation	2,503,815.30	2,270,434.59	233,380.71
Capital Assets, Depreciable, Net	7,151,941.69	7,350,389.20	(198,447.51)
Capital Assets, Net	\$ 7,537,991.69	\$ 7,731,439.20	\$ (193,447.51)

The increase in Machinery and Equipment is due to the purchase of a new server to accommodate expanding system needs, firefighter's turnout gear washer and dryer, and welding equipment for the expanding Welding programs.

The roof on the Paul H. Johnson Building on the main campus is 34 years old and is in need of replacement. The Facilities Master Plan, completed in June 2008, estimates the replacement cost to be approximately \$515,000. Included in the College's 2011 budget request to Pamlico County was a request to fund the cost to replace the existing roof. However, this capital funding request was not approved. In the 2012 budget the county agreed to allocate an additional \$75,000, from prior years' allocations, for a polymer coating to seal the leaking roof and give the College time to acquire the funding necessary to replace the roof.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Economic Outlook

During this past year, PCC began to organize its effort to meet the challenge of reaffirmation of the college's accreditation through the Southern Association of Colleges and Schools Commission on Colleges. Every aspect of the College will be examined through the reaffirmation process. Faculty and staff will be involved in gathering and documenting the required information for the Compliance Certification report. The process will be completed by the Spring of 2013 with the report from the Commission on Colleges. This report is a public statement that the College continues to have the capacity to provide effective programs and services based on agreed upon requirements.

During the year, PCC chose to opt out of the Federal Loan program. However, students were able to take advantage of various scholarships and grant funding. The most significant sources were: Federal Pell Grants which exceeded \$1 million, North Carolina State grants of more than \$25,000, and the Golden Leaf Scholarship of more than \$16,000. The sources of funds available for students include but not limited to: Divorced Fees, Displaced Homemaker, Workforce Investment Act Adult and Dislocated Worker, Childcare, and Federal Supplemental Educational Opportunity Grant.

The Pamlico Community College Foundation continued its generous support with over \$11,000 in scholarships for students, \$4,000 in awards for faculty and staff development, and \$3,000 in enrollment enhancement.

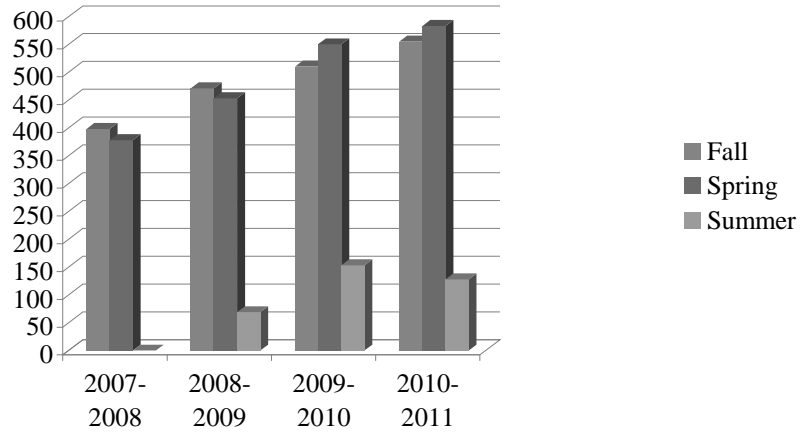
The College's students are benefiting from a two year \$120,000 grant from The GlaxoSmithKline Foundation. This grant, which ends December 31, 2011, recognizes what has become known as the "Pamlico Model" programs and supports the Student Success Center. The goal of the "Pamlico Model" is to improve the retention and success rates of students, especially those who are academically at-risk.

Student enrollment increased during Fall 2010 and Spring 2011 semesters, by 9% and 6% respectively, over comparable periods in the prior year. This increase can be partially attributed to the high unemployment in the county, and the successful introduction of new programs. As displayed in the graph and chart below, the College expanded its opportunities to curriculum students during the past three summers.

Student enrollment data for curriculum programs: Associate in Arts, Associate in Applied Science, Diploma, and Certificate are as follows (unduplicated headcount):

MANAGEMENT’S DISCUSSION AND ANALYSIS (CONTINUED)

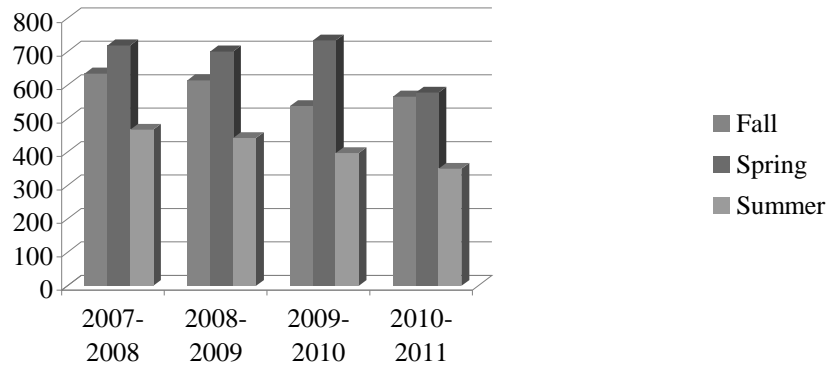
Student Enrollment Per Semester - Curriculum



	2007-2008	2008-2009	2009-2010	2010-2011
Student Count				
Fall	398	471	510	555
Spring	378	453	550	583
Summer	-	69	153	128

Student enrollment data for Continuing Education programs which include: Occupational Extension, Basic Skills, Cultural Enrichment, and the Small Business Center are as follows (unduplicated headcount):

Student Enrollment Per Semester - Continuing Education



	2007-2008	2008-2009	2009-2010	2010-2011
Student Count				
Fall	635	615	538	566
Spring	719	701	734	578
Summer	467	442	397	415

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

The county has experienced economic decline in the farming and commercial fishing industry, which are primary industries for the community. The unemployment rate in Pamlico County was 9.3% in June 2011, which is a decrease of .5% from the previous year. In June 2011, North Carolina's statewide unemployment was 10.4%. The U. S. Census Bureau reports the population of Pamlico County as 13,504 for 2010, a small increase in population of 1.6% since the year 2000. The area expects to experience growth since the completion of the widening of NC Hwy 55 to five lanes, the main thoroughfare into the county.

The overall budget provided for PCC for fiscal year ending June 30, 2011 increased as a result of higher enrollment, but the State required community colleges to reduce the amount appropriated by 5% as a Management Flexibility Reduction, and an additional 2% was reverted in February of 2011, for a total reversion of 7%. The State's fiscal situation continues to provide uncertainty for the amount of State funding to be received by the College. The College continues to focus on maintaining existing grants and is seeking new grants for additional funding. County funding for 2011 operations is the same as 2010. County appropriations for 2012 will be \$40,000 less than 2011, although funds have been released from prior year allocations to cover this reduction.

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

Pamlico Community College
Statement of Net Assets
June 30, 2011

Exhibit A-1

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 517,197.47
Restricted Cash and Cash Equivalents	214,823.13
Receivables, Net (Note 4)	206,310.93
Inventories	96,181.50
	<hr/>
Total Current Assets	1,034,513.03

Noncurrent Assets:

Restricted Cash and Cash Equivalents	450,290.33
Restricted Due from Primary Government	1,111.88
Capital Assets - Nondepreciable (Note 5)	386,050.00
Capital Assets - Depreciable, Net (Note 5)	7,151,941.69
	<hr/>
Total Noncurrent Assets	7,989,393.90

Total Assets	<hr/> <hr/> 9,023,906.93
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LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 6)	133,328.68
Due to Primary Government	2,124.00
Unearned Revenue	15,345.01
Funds Held for Others	3,316.36
Long-Term Liabilities - Current Portion (Note 7)	27,496.43
	<hr/>
Total Current Liabilities	181,610.48

Noncurrent Liabilities:

Long-Term Liabilities (Note 7)	177,547.84
	<hr/>

Total Liabilities	<hr/> <hr/> 359,158.32
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NET ASSETS

Invested in Capital Assets	7,537,991.69
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Restricted for:

Nonexpendable:

Scholarships and Fellowships	285,561.78
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Expendable:

Scholarships and Fellowships	56,880.27
Loans	45,711.74
Capital Projects	75,840.43
Instructional Technology Programs	60,956.45
Other	39,212.13

Unrestricted	<hr/> 562,594.12
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Total Net Assets	<hr/> <hr/> <hr/> \$ 8,664,748.61
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The accompanying notes to the financial statements are an integral part of this statement.

***Pamlico Community College
Statement of Revenues, Expenses, and
Changes in Net Assets
For the Fiscal Year Ended June 30, 2011***

Exhibit A-2

REVENUES

Operating Revenues:	
Student Tuition and Fees, Net (Note 9)	\$ 181,451.02
Sales and Services, Net (Note 9)	118,719.56
	<hr/>
Total Operating Revenues	300,170.58
	<hr/>

EXPENSES

Operating Expenses:	
Salaries and Benefits	4,773,235.69
Supplies and Materials	608,902.70
Services	423,318.08
Scholarships and Fellowships	642,732.14
Utilities	118,972.47
Depreciation	233,380.71
	<hr/>
Total Operating Expenses	6,800,541.79
	<hr/>
Operating Loss	(6,500,371.21)
	<hr/>

NONOPERATING REVENUES

State Aid	4,096,033.26
County Appropriations	519,345.96
Noncapital Grants - Federal Student Financial Aid	1,159,598.95
Noncapital Grants	305,241.44
Noncapital Gifts	35,938.06
Investment Income	11,254.30
	<hr/>
Net Nonoperating Revenues	6,127,411.97
	<hr/>
Loss Before Other Revenues	(372,959.24)
	<hr/>
State Capital Aid	208,332.14
Capital Gifts	5,000.00
	<hr/>
Decrease in Net Assets	(159,627.10)
	<hr/>

NET ASSETS

Net Assets, July 1, 2010	8,824,375.71
	<hr/>
Net Assets, June 30, 2011	\$ 8,664,748.61
	<hr/> <hr/>

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

***Pamlico Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2011***

***Exhibit A-3
Page 1 of 2***

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 291,717.70
Payments to Employees and Fringe Benefits	(4,755,884.75)
Payments to Vendors and Suppliers	(1,169,282.08)
Payments for Scholarships and Fellowships	(678,127.36)
Collection of Loans to Students	1,657.65
Other Receipts	114.55
	<hr/>
Net Cash Used by Operating Activities	(6,309,804.29)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Aid Received	4,096,033.26
County Appropriations	519,345.96
Noncapital Grants - Federal Student Financial Aid	1,159,598.95
Noncapital Grants Received	337,926.24
Noncapital Gifts	35,938.06
	<hr/>
Cash Provided by Noncapital Financing Activities	6,148,842.47

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

State Capital Aid Received	208,332.14
Acquisition and Construction of Capital Assets	(34,933.20)
	<hr/>
Net Cash Provided by Capital and Related Financing Activities	173,398.94

CASH FLOWS FROM INVESTING ACTIVITIES

Investment Income	11,254.30
	<hr/>
Cash Provided by Investing Activities	11,254.30

Net Increase in Cash and Cash Equivalents	23,691.42
Cash and Cash Equivalents, July 1, 2010	1,158,619.51
	<hr/>
Cash and Cash Equivalents, June 30, 2011	\$ 1,182,310.93

***Pamlico Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2011***

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

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

Operating Loss	\$ (6,500,371.21)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	233,380.71
Changes in Assets and Liabilities:	
Receivables, Net	(47,735.25)
Inventories	1,286.44
Notes Receivable, Net	1,657.65
Accounts Payable and Accrued Liabilities	(21,217.34)
Due to Primary Government	2,124.00
Unearned Revenue	3,408.85
Funds Held for Others	592.85
Compensated Absences	17,069.01
Net Cash Used by Operating Activities	<u>\$ (6,309,804.29)</u>

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	\$ 517,197.47
Restricted Cash and Cash Equivalents	214,823.13
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	<u>450,290.33</u>
Total Cash and Cash Equivalents - June 30, 2011	<u>\$ 1,182,310.93</u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through a Gift	\$ 5,000.00
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The accompanying notes to the financial statements are an integral part of this statement.

PAMLICO COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

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

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

Blended Component Unit - The Pamlico Community College Foundation (Foundation) is governed by a 12 member board consisting of 2 ex officio directors and 10 elected directors. The Foundation's purpose is to aid, support, and promote teaching, research, and service in the various educational, scientific, scholarly, professional, artistic, and creative endeavors of the College. Because the elected directors of the Foundation are appointed by the members of the Pamlico Community College Board of Trustees and the Foundation's sole purpose is to benefit Pamlico Community College, its financial statements have been blended with those of the College.

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

- C. Basis of Accounting** - The financial statements of the College have been prepared using the economic resource measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred, regardless of the timing of the cash flows.

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

- D. Cash and Cash Equivalents** - This classification includes undeposited receipts, petty cash, cash on deposit with private bank accounts, and deposits held by the State Treasurer in the short-term investment fund. The short-term investment fund maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.
- E. 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 the lower of cost or market using the last invoice cost method.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- 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. Interest costs incurred are capitalized during the period of construction.

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

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

The Ansel Adams art collection is capitalized at fair value at the date of donation. This collection is considered inexhaustible and is therefore not depreciated.

- 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 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 consists of 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 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

NOTE 2 - DEPOSITS AND INVESTMENTS

All funds of the College are deposited in board-designated official depositories and are required to be collateralized in accordance with *North Carolina General Statute* 115D-58.7. Official depositories may be established with any bank or savings and loan association whose principal office is located in North Carolina. Also, the College may establish time deposit accounts, money market accounts, and certificates of deposit. The amount shown on the Statement of Net Assets as cash and cash equivalents includes cash on hand totaling \$510.00, and deposits in private financial institutions with a carrying value of \$216,988.52, and a bank balance was \$345,941.67.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 2011, 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 (STIF); obligations of or fully guaranteed by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain nonguaranteed federal agencies; prime quality commercial paper bearing specified ratings; specified bills of exchange; certain savings certificates; 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 of custodian.

At June 30, 2011, the amount shown on the Statement of Net Assets as cash and cash equivalents includes \$964,812.41, 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 1.9 years as of June 30, 2011. 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 "Reports," or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 2011, net appreciation of \$5,296.35 was available to be spent, of which \$5,079.88 was restricted to specific purposes.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2011 were as follows:

	<u>Gross Receivables</u>	<u>Less Allowance for Doubtful Accounts</u>	<u>Net Receivables</u>
Current Receivables:			
Students	\$ 71,813.14	\$ 1,545.05	\$ 70,268.09
Intergovernmental	88,567.61		88,567.61
Other	<u>47,475.23</u>		<u>47,475.23</u>
Total Current Receivables	<u>\$ 207,855.98</u>	<u>\$ 1,545.05</u>	<u>\$ 206,310.93</u>
Notes Receivable - Current:			
Institutional Student Loan Programs	<u>\$ 15,601.65</u>	<u>\$ 15,601.65</u>	<u>\$ 0.00</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2011 is presented as follows:

	Balance July 1, 2010	Increases	Decreases	Balance June 30, 2011
Capital Assets, Nondepreciable:				
Land	\$ 381,050.00	\$ 0.00	\$ 0.00	\$ 381,050.00
Art, Literature, and Artifacts		5,000.00		5,000.00
Total Capital Assets, Nondepreciable	381,050.00	5,000.00		386,050.00
Capital Assets, Depreciable:				
Buildings	8,555,717.57			8,555,717.57
Machinery and Equipment	975,163.57	34,933.20		1,010,096.77
General Infrastructure	89,942.65			89,942.65
Total Capital Assets, Depreciable	9,620,823.79	34,933.20		9,655,756.99
Less Accumulated Depreciation for:				
Buildings	1,780,432.25	174,500.16		1,954,932.41
Machinery and Equipment	461,634.37	54,574.83		516,209.20
General Infrastructure	28,367.97	4,305.72		32,673.69
Total Accumulated Depreciation	2,270,434.59	233,380.71		2,503,815.30
Total Capital Assets, Depreciable, Net	7,350,389.20	(198,447.51)		7,151,941.69
Capital Assets, Net	\$ 7,731,439.20	\$ (193,447.51)	\$ 0.00	\$ 7,537,991.69

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2011 were as follows:

	Amount
Accounts Payable	\$ 72,786.70
Accrued Payroll	60,541.98
Total Accounts Payable and Accrued Liabilities	\$ 133,328.68

NOTE 7 - LONG-TERM LIABILITIES

A summary of changes in the long-term liabilities for the year ended June 30, 2011 is presented as follows:

	Balance July 1, 2010	Additions	Reductions	Balance June 30, 2011	Current Portion
Compensated Absences	\$ 187,975.26	\$ 163,353.68	\$ 146,284.67	\$ 205,044.27	\$ 27,496.43

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 8 - OPERATING LEASE OBLIGATIONS

The College entered into operating leases for copiers. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2011:

<u>Fiscal Year</u>	<u>Amount</u>
2012	\$ 11,796.00
2013	11,796.00
2014	7,308.00
2015	7,308.00
Total Minimum Lease Payments	<u><u>\$ 38,208.00</u></u>

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

NOTE 9 - REVENUES

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

	<u>Gross Revenues</u>	<u>Less Scholarship Discounts</u>	<u>Allowance for Uncollectibles</u>	<u>Net Revenues</u>
Operating Revenues:				
Student Tuition and Fees	<u>\$ 529,496.80</u>	<u>\$ 346,500.73</u>	<u>\$ 1,545.05</u>	<u>\$ 181,451.02</u>
Sales and Services:				
Sales and Services of Auxiliary Enterprises:				
Bookstore	\$ 262,889.01	\$ 189,956.76	\$ 0.00	\$ 72,932.25
Other	45,787.31			45,787.31
Total Sales and Services	<u>\$ 308,676.32</u>	<u>\$ 189,956.76</u>	<u>\$ 0.00</u>	<u>\$ 118,719.56</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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	\$ 2,336,081.25	\$ 118,403.61	\$ 55,040.55	\$ 0.00	\$ 0.00	\$ 0.00	\$ 2,509,525.41
Academic Support	744,289.36	38,890.37	56,682.57				839,862.30
Student Services	381,042.61	8,547.13	16,356.75				405,946.49
Institutional Support	1,055,186.18	169,169.16	204,747.29				1,429,102.63
Operations and Maintenance of Plant	248,771.56	21,194.95	82,916.02		118,972.47		471,855.00
Student Financial Aid			355.00	642,732.14			643,087.14
Auxiliary Enterprises	7,864.73	252,697.48	7,219.90				267,782.11
Depreciation						233,380.71	233,380.71
Total Operating Expenses	<u>\$ 4,773,235.69</u>	<u>\$ 608,902.70</u>	<u>\$ 423,318.08</u>	<u>\$ 642,732.14</u>	<u>\$ 118,972.47</u>	<u>\$ 233,380.71</u>	<u>\$ 6,800,541.79</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.

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, 2011, these rates were set at 4.93% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the College had a total payroll of \$3,820,381.19, of which \$3,212,699.94 was covered under the Teachers' and State Employees' Retirement System. Total employer and employee contributions for pension benefits for the year were \$158,386.11 and \$192,762.00, respectively.

Required employer contribution rates for the years ended June 30, 2010 and 2009, were 3.57% and 3.36%, respectively, while employee contributions were 6% each year. The College made 100% of its annual required contributions for the years ended June 30, 2011, 2010, and 2009, which were \$158,386.11, \$112,428.54, and \$105,105.19, respectively.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 "Reports," or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

- B. Deferred Compensation and Supplemental Retirement Income Plans - IRC Section 457 Plan** - The State of North Carolina offers its permanent employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 through the North Carolina Public Employee Deferred Compensation Plan (the Plan). The Plan permits each participating employee to defer a portion of his or her salary until future years. The deferred compensation is available to employees upon separation from service, death, disability, retirement, or financial hardships if approved by the Board of Trustees of the Plan. The Board, a part of the North Carolina Department of Administration, maintains a separate fund for the exclusive benefit of the participating employees and their beneficiaries, *the North Carolina Public Employee Deferred Compensation Trust Fund*. The Board also contracts with an external third party to perform certain administrative requirements and to manage the trust fund's assets. All costs of administering and funding the Plan are the responsibility of the Plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to \$5,703.84 for the year ended June 30, 2011.

IRC Section 401(k) Plan - All members of the Teachers' and State Employees' Retirement System are eligible to enroll in the Supplemental Retirement Income Plan, a defined contribution plan, created under Internal Revenue Code Section 401(k). All costs of administering the Plan are the responsibility of the Plan participants. The voluntary contributions by employees amounted to \$50,261.96 for the year ended June 30, 2011.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

For the current fiscal year the College contributed 4.9% of the covered payroll under the Teachers' and State Employees' Retirement System to the Fund. Required contribution rates for the years ended June 30, 2010 and 2009 were 4.5% and 4.1%, respectively. The College made 100% of its annual required contributions to the Plan for the years ended June 30, 2011, 2010, and 2009, which were \$157,422.30, \$141,716.65, and \$128,253.56, 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 "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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

year ended June 30, 2011, 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, 2010 and 2009, were .52% and .52%, respectively. The College made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2011, 2010, and 2009, which were \$16,706.04, \$16,376.15, and \$16,266.28, respectively. The College assumes no liability for long-term disability benefits under the Plan other than its contribution.

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

NOTE 13 - RISK MANAGEMENT

The College is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These exposures to loss are handled via a combination of methods, including participation in State-administered insurance programs, purchase of commercial insurance, and self-retention of certain risks. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

The risk of tort claims of up to \$1,000,000 is 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 \$10,000,000 deductible per occurrence. Reinsurance is purchased by the fund to cover catastrophic events in excess of the \$10,000,000 deductible. Property is covered under an all risk coverage contract. Buildings and contents are valued under a replacement cost basis. No coinsurance penalties apply. There have been no significant reductions in insurance coverage from the previous year.

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

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

for other College-owned vehicles is covered by contracts with private insurance companies.

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

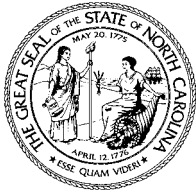
The College purchased malpractice insurance for students in medical-related fields from private insurance companies through the North Carolina Department of Insurance. Coverage is provided at \$1,000,000 per occurrence with a limit of \$5,000,000.

College employees and retirees are provided comprehensive major medical care benefits. Coverage is funded by contributions to the State Health Plan (Plan), a discretely presented component unit 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.



Beth A. Wood, CPA
State Auditor

STATE OF NORTH CAROLINA
Office of the 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
Pamlico Community College
Grantsboro, North Carolina

We have audited the financial statements of Pamlico Community College, a component unit of the State of North Carolina, as of and for the year ended June 30, 2011, which collectively comprise the College's basic financial statements and have issued our report thereon dated February 10, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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 possibility that a material misstatement of the College's financial statements will not be prevented, or detected and corrected on a timely basis.

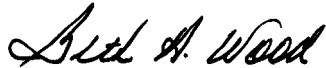
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

**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)**

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*.

This report is intended solely for the information and use of management of the College, the Board of Trustees, others within the entity, the State Board of Community Colleges, the Governor, the 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 10, 2012

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