

STATE OF NORTH CAROLINA

PAMLICO COMMUNITY COLLEGE

GRANTSBORO, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2013

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR

PAMLICO COMMUNITY COLLEGE

GRANTSBORO, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2013

STATE BOARD OF COMMUNITY COLLEGES

THE NORTH CAROLINA COMMUNITY COLLEGE SYSTEM

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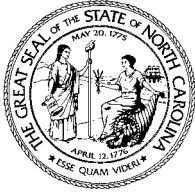
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Beth A. Wood, CPA
State Auditor

STATE OF NORTH CAROLINA
Office of the State Auditor

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 Pat McCrory, 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, 2013, 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.

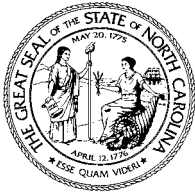
A handwritten signature in cursive script that reads "Beth A. Wood".

Beth A. Wood, CPA
State Auditor

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Office of the State Auditor



Beth A. Wood, CPA
State Auditor

2 S. Salisbury Street
20601 Mail Service Center
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Fax: (919) 807-7647
Internet
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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Pamlico Community College
Grantsboro, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of Pamlico Community College, a component unit of the State of North Carolina, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the College's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2013, and the changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters – Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 21, 2014, on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control over financial reporting and compliance.



Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

July 21, 2014

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, 2013. In addition to this analysis, management 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, 2013, 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 College's economic outlook.

The financial statements include, in addition to this MD&A, a Statement of Net Position, a Statement of Revenues, Expenses, and Changes in Net Position, a Statement of Cash Flows, and accompanying Notes to the Financial Statements. The Statement of Net Position presents all of the College's assets and liabilities, with the difference between the two reported as "net position." Over time, changes in net position measure whether the College's financial position is improving or not. The Statement of Revenues, Expenses, and Changes in Net Position present information showing how the net position 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 2012-2013 began its 51st year of serving the educational, cultural and personal interests of the people in this area.

The College's accreditation was reaffirmed in 2013 by the Southern Association of Colleges and Schools. This process confirmed that the College continues to provide education and training that meet the high standards of a secondary educational institution.

Condensed Statement of Net Position

The following chart compares the College's net position for the last two years:

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Condensed Statement of Net Position for the Years Ended June 30, 2013 and 2012

	2013	2012	Increase (Decrease)
Current Assets	\$ 925,351.54	\$ 974,615.70	\$ (49,264.16)
Other Assets	527,765.91	438,134.90	89,631.01
Capital Assets	<u>7,050,243.09</u>	<u>7,323,618.17</u>	<u>(273,375.08)</u>
Total Assets	<u>8,503,360.54</u>	<u>8,736,368.77</u>	<u>(233,008.23)</u>
Current Liabilities	<u>151,844.51</u>	<u>173,891.37</u>	<u>(22,046.86)</u>
Long-Term Liabilities	<u>159,608.85</u>	<u>172,314.19</u>	<u>(12,705.34)</u>
Total Liabilities	<u>311,453.36</u>	<u>346,205.56</u>	<u>(34,752.20)</u>
Net Position			
Invested in Capital Assets	7,050,243.09	7,323,618.17	(273,375.08)
Restricted	683,143.63	612,547.22	70,596.41
Unrestricted	<u>458,520.46</u>	<u>453,997.82</u>	<u>4,522.64</u>
Total Net Position	<u>\$ 8,191,907.18</u>	<u>\$ 8,390,163.21</u>	<u>\$ (198,256.03)</u>

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

The \$49,264.16 decrease in Current Assets is mainly split between declines in accounts receivable and inventories. Increases in the allowance for doubtful accounts led to declines in net accounts receivable. Better management of textbook inventory and reduced purchases of supplies led to the decline in Inventories and a corresponding increase in cash and cash equivalents. Cash and cash equivalents increases were almost offset by decreases in restricted cash and cash equivalents, which include the transfer of \$50,000 to investments.

Other Assets, which includes investments, increased by \$89,631.01. The increase is attributable to donations to the Foundation along with capital gains and dividend and interest income on those investments.

Capital Assets and Net Position Invested in Capital Assets decreased by \$273,375.08 during the year and is attributable to depreciation, plus the disposal of assets no longer in service.

Current Liabilities, which decreased by \$22,046.86, 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 \$12,705.34 decrease in Long-Term Liabilities relates to a decline in accumulated vacation and bonus leave earned by employees during the year.

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Condensed Statements of Revenues, Expenses, and Changes in Net Position for the Years Ended June 30, 2012 and 2013

	2013	2012	Increase (Decrease)
Operating Revenues			
Student Tuition and Fees, Net	\$ 387,067.55	\$ 235,784.61	\$ 151,282.94
Sales and Services, Net	81,075.65	77,726.11	3,349.54
Total Operating Revenues	468,143.20	313,510.72	154,632.48
Nonoperating Revenues			
State Aid	4,181,845.32	4,175,928.02	5,917.30
County Appropriations	532,032.96	478,346.04	53,686.92
Noncapital Grants	1,117,173.28	1,117,266.26	(92.98)
Noncapital Gifts	83,953.61	99,707.91	(15,754.30)
Investment Income	25,886.83	2,880.00	23,006.83
State Capital Aid	13,846.27	206,928.18	(193,081.91)
Total Nonoperating and Capital Revenues	5,954,738.27	6,081,056.41	(126,318.14)
Total Revenues	6,422,881.47	7,507,838.76	(1,084,957.29)
Less Operating Expenses	6,621,137.50	6,706,719.55	(85,582.05)
Change in Net Position	(198,256.03)	801,119.21	(999,375.24)
Net Position, Beginning of Year	8,390,163.21	8,702,315.63	(312,152.42)
Net Position, End of Year	\$ 8,191,907.18	\$ 9,503,434.84	\$ (1,311,527.66)

The increase of \$151,282.94 in net Student Tuition and Fees is directly related to the increase in the number of students and an increase in the tuition rate. The increase of \$3,349.54 in net Sales and Services is also related to the increase in the number of students buying books and supplies in the College's bookstore.

County Appropriations increased by \$53,686.92 from the prior year. This basically restored the needed appropriations which were cut in fiscal year 2012, as prior year surplus' were used to bridge the funding gap.

The \$15,754.30 decrease in Noncapital Gifts is mainly the result of a very generous one-time \$50,000 gift from the Margaret Rawls Stancil Trust in the prior year, which was not matched in the current year by other sources.

Investment income increased by \$23,006.83 as a result of increases in capital gains, dividends, and interest income, all of which are the result of changes to investment policies adopted by the Pamlico Community College Foundation Board of Directors in the later part of fiscal year 2012.

State Capital Aid declined \$193,081.13. This decline is directly related to College's decision to transfer much of the State Capital Aid to operations since State Aid was cut due to economic conditions within the State.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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

Operating Expenses for the Years Ended June 30, 2013 and 2012

	2013	2012	Increase (Decrease)
Operating Expenses			
Salaries and Benefits	\$ 4,996,320.84	\$ 4,856,562.17	\$ 139,758.67
Supplies and Materials	346,954.54	603,595.50	(256,640.96)
Services	370,361.50	382,665.44	(12,303.94)
Scholarships and Fellowships	539,304.19	488,996.81	50,307.38
Utilities	108,827.11	111,311.91	(2,484.80)
Depreciation	259,369.32	263,587.72	(4,218.40)
Total Operating Expenses	<u>\$ 6,621,137.50</u>	<u>\$ 6,706,719.55</u>	<u>\$ (85,582.05)</u>

Total Operating Expenses decrease by \$85,582.05 from fiscal year 2012. Salaries and Benefits increased by \$139,758.67 due to a 1.2% salary increase and benefit costs increases for full time employees. Increases in student enrollment required corresponding increase in the number of adjunct faculty which contributed to the higher salary costs. The increase in enrollment also contributed to the \$50,307.38 increase in Scholarships and Fellowships.

Decreases in Supplies and Materials of \$256,640.96 and Services of \$12,303.94 are attributable to the decrease in allocations from the State. The decrease of \$4,218.40 in Depreciation is related to the reduction in purchases of replacement equipment over the past few years. All of these declines are directly attributable to economic conditions which dictated cuts in spending on supplies and equipment to fund the additional faculty needed to teach a greater number of students.

Capital Assets

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

Capital Assets for the Years Ended June 30, 2013 and 2012

	2013	2012	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	386,050.00	-
Capital Assets, Depreciable			
Buildings	8,555,717.57	8,555,717.57	-
Machinery & Equipment	825,976.18	966,940.49	(140,964.31)
General Infrastructure	89,942.65	89,942.65	-
Total Capital Assets, Depreciable	9,471,636.40	9,612,600.71	(140,964.31)
Less: Accumulated Depreciation	2,807,443.31	2,675,032.54	132,410.77
Capital Assets, Depreciable, Net	<u>6,664,193.09</u>	<u>6,937,568.17</u>	<u>(273,375.08)</u>
Capital Assets, Net	<u>\$ 7,050,243.09</u>	<u>\$ 7,323,618.17</u>	<u>\$ (273,375.08)</u>

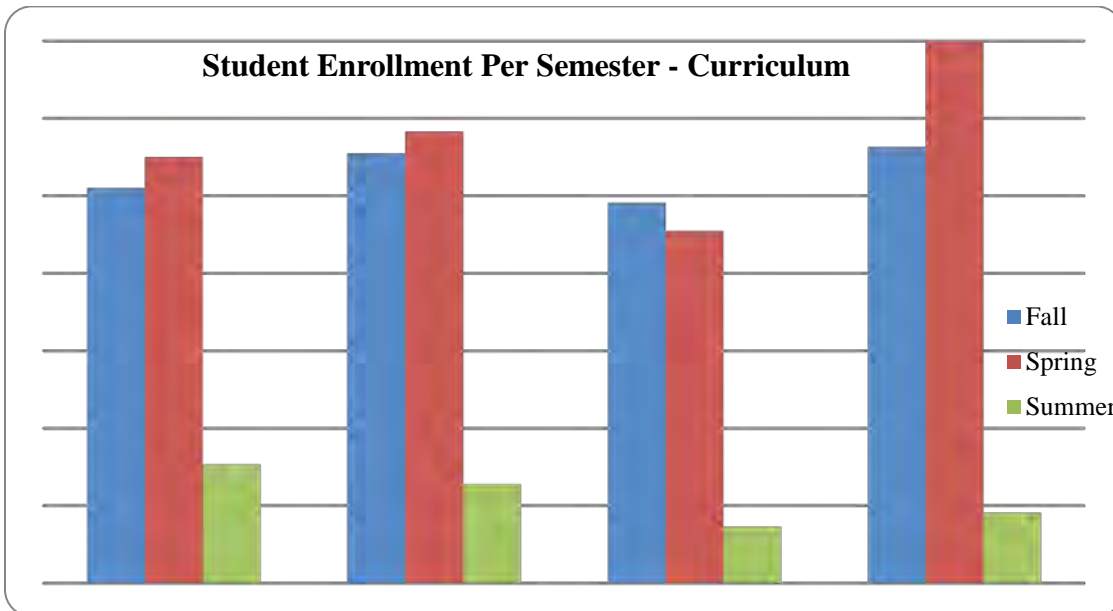
MANAGEMENT’S DISCUSSION AND ANALYSIS (CONTINUED)

The \$140,964.31 decrease in Machinery and Equipment is due to the retirement of assets which were removed from service. The increase in Accumulated Depreciation of \$132,410.77 is the result of two items: current year depreciation of \$259,369.32 offset by the reduction in accumulated depreciation of \$126,958.55 for assets removed from service.

The roof on the Paul H. Johnson Building on the main campus is 35 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 2013 budget request to Pamlico County Commissioners was a request to fund the cost to replace the existing roof. However, this capital funding request was not approved at that time. The same request was made in the College’s 2014 budget request and the Pamlico County Commissioners did approve a plan to borrow the funds needed. This plan will be managed throughout 2014 with the goal to replace the roof later in the fiscal 2014.

Student enrollment increased during Fall 2012 and Spring 2013 semesters, by 14.7% and 53.6% respectively, over comparable periods in the prior year. This increase is mainly attributable to enrollment increases in the Career and College Promise Program directed to high school students, and reclassification of students enrolled at Pamlico Correctional Institution from Continuing Education to Curriculum. Hurricane Irene negatively impacted enrollment in 2011-2012, as some enrolled students did not return to classes after the hurricane.

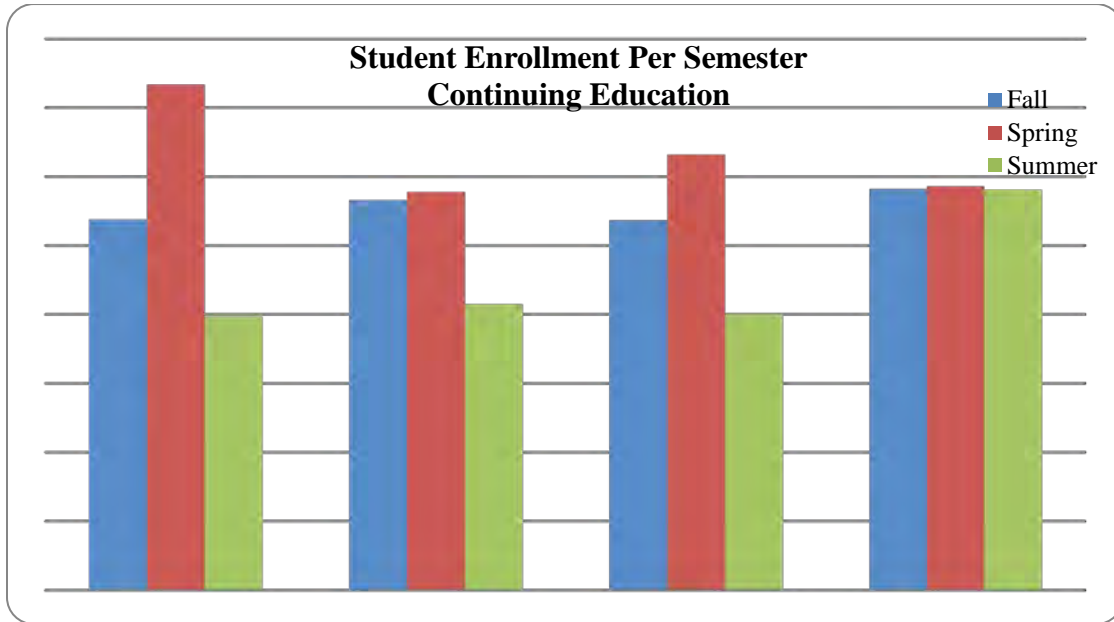
Student enrollment data for curriculum programs: Associate in Arts, Associate in Applied Science, Diploma, and Certificate are as follows (unduplicated headcount):



	2009-2010	2010-2011	2011-2012	2012-2013
Student Count				
Fall	510	555	491	563
Spring	550	583	455	699
Summer	153	128	73	91

MANAGEMENT’S DISCUSSION AND ANALYSIS (CONTINUED)

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):



	2009-2010	2010-2011	2011-2012	2012-2013
Student Count				
Fall	538	566	537	582
Spring	734	578	632	586
Summer	397	415	400	581

During the year, students were able to take advantage of various scholarships and grant funding. The most significant was \$802,135.55 of Federal Pell Grants. Other sources of state and federal grants available for students include but not limited to: Golden LEAF scholarships, Divorced Fees, Displaced Homemaker, Workforce Investment Act Adult and Dislocated Worker, Childcare, and Federal Sup Educational Opportunity Grant.

The Pamlico Community College Foundation continued its generous support with \$17,200.40 in scholarships and loans to students, \$2,558.43 in awards for faculty and staff development, and \$2,336.39 for student recruiting and retention.

Economic Outlook

The County has experienced economic decline in the farming and commercial fishing industries, which are the primary industries for the community. The unemployment rate in Pamlico County was 8.9% in June 2013, which is a decrease of .9% from the previous year. In June 2013, North Carolina’s statewide unemployment was 8.8%. The U. S. Census Bureau reports the population estimate of Pamlico County was 13,074 for 2012, an increase in population of 140 or 1.1% since the year 2000.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

Although County funding for 2013 maintenance and custodial operations increased from the prior year, the overall state and county budget provided for PCC for fiscal year ending June 30, 2013 decreased from the prior year. Given the significant increase in enrollment this decrease in funding put considerable strain on program growth. The State's required 5% Management Flexibility Reduction negatively impacts program growth and the College's ability to provide needed services to the community. North Carolina's uncertain fiscal situation continues to impact the College's ability to plan for improvements to services and infrastructure, thus reinforcing the need for the College to focus on maintaining existing grants and seeking new grants for additional funding.

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.

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Pamlico Community College
Statement of Net Position
June 30, 2013

Exhibit A-1

ASSETS

Current Assets:	
Cash and Cash Equivalents	\$ 544,128.76
Restricted Cash and Cash Equivalents	153,092.01
Receivables, Net (Note 4)	142,658.93
Inventories	80,989.30
Notes Receivable, Net (Note 4)	4,482.54
Total Current Assets	<u>925,351.54</u>
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	183,149.34
Restricted Investments	344,616.57
Capital Assets - Nondepreciable (Note 5)	386,050.00
Capital Assets - Depreciable, Net (Note 5)	6,664,193.09
Total Noncurrent Assets	<u>7,578,009.00</u>
Total Assets	<u>8,503,360.54</u>

DEFERRED OUTFLOWS OF RESOURCES

Total Deferred Outflows of Resources	<u>0.00</u>
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LIABILITIES

Current Liabilities:	
Accounts Payable and Accrued Liabilities (Note 6)	80,496.23
Unearned Revenue	27,821.89
Funds Held for Others	2,596.44
Long-Term Liabilities - Current Portion (Note 7)	40,929.95
Total Current Liabilities	<u>151,844.51</u>
Noncurrent Liabilities:	
Long-Term Liabilities (Note 7)	159,608.85
Total Noncurrent Liabilities	<u>159,608.85</u>
Total Liabilities	<u>311,453.36</u>

DEFERRED INFLOWS OF RESOURCES

Total Deferred Inflows of Resources	<u>0.00</u>
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NET POSITION

Investment in Capital Assets	7,050,243.09
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	465,222.63
Expendable:	
Scholarships and Fellowships	42,366.21
Loans	50,698.71
Capital Projects	74,802.98
Other	50,053.10
Unrestricted	<u>458,520.46</u>
Total Net Position	<u>\$ 8,191,907.18</u>

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 Position
For the Fiscal Year Ended June 30, 2013***

Exhibit A-2

REVENUES

Operating Revenues:

Student Tuition and Fees, Net (Note 9)	\$ 387,067.55
Sales and Services, Net (Note 9)	81,075.65

Total Operating Revenues	468,143.20
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EXPENSES

Operating Expenses:

Salaries and Benefits	4,996,320.84
Supplies and Materials	346,954.54
Services	370,361.50
Scholarships and Fellowships	539,304.19
Utilities	108,827.11
Depreciation	259,369.32

Total Operating Expenses	6,621,137.50
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Operating Loss	(6,152,994.30)
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NONOPERATING REVENUES

State Aid	4,181,845.32
County Appropriations	532,032.96
Noncapital Grants - Student Financial Aid	1,030,771.12
Noncapital Grants	86,402.16
Noncapital Gifts	83,953.61
Investment Income	25,886.83

Total Nonoperating Revenues	5,940,892.00
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Loss Before Other Revenues	(212,102.30)
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State Capital Aid	13,846.27
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Decrease in Net Position	(198,256.03)
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NET POSITION

Net Position, July 1, 2012	8,390,163.21
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Net Position, June 30, 2013	\$ 8,191,907.18
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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, 2013

Exhibit A-3
Page 1 of 2

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 515,818.57
Payments to Employees and Fringe Benefits	(5,016,606.91)
Payments to Vendors and Suppliers	(811,865.75)
Payments for Scholarships and Fellowships	(552,146.26)
Collection of Loans to Students	982.56
Other Payments	(2,300.64)
	<hr/>
Net Cash Used by Operating Activities	(5,866,118.43)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Aid Received	4,181,845.32
County Appropriations	532,032.96
Noncapital Grants - Student Financial Aid	948,402.38
Noncapital Grants Received	171,861.92
Noncapital Gifts Received	83,953.61
	<hr/>
Cash Provided by Noncapital Financing Activities	5,918,096.19

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

State Capital Aid Received	14,958.15
	<hr/>
Cash Provided by Capital and Related Financing Activities	14,958.15

CASH FLOWS FROM INVESTING ACTIVITIES

Investment Income	3,005.67
Purchase of Investments and Related Fees	(75,000.00)
	<hr/>
Net Cash Used by Investing Activities	(71,994.33)

Net Decrease in Cash and Cash Equivalents	(5,058.42)
Cash and Cash Equivalents, July 1, 2012	885,428.53
	<hr/>
Cash and Cash Equivalents, June 30, 2013	\$ 880,370.11

***Pamlico Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2013***

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

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

Operating Loss	\$ (6,152,994.30)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	259,369.32
Provision for Uncollectible Loans and Write-Offs	8,540.66
Changes in Assets and Liabilities:	
Receivables, Net	28,283.36
Inventories	24,452.17
Notes Receivable, Net	982.56
Accounts Payable and Accrued Liabilities	(26,221.57)
Due to Primary Government	(3,461.00)
Unearned Revenue	6,549.94
Funds Held for Others	(2,300.64)
Compensated Absences	(9,318.93)
	<hr/>
Net Cash Used by Operating Activities	<u><u>\$ (5,866,118.43)</u></u>

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	\$ 544,128.76
Restricted Cash and Cash Equivalents	153,092.01
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	183,149.34
	<hr/>
Total Cash and Cash Equivalents - June 30, 2013	<u><u>\$ 880,370.11</u></u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Change in Fair Value of Investments	16,906.79
Loss on Disposal of Capital Assets	(14,005.76)

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

PAMLICO COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

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

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

Blended Component Unit - Although legally separate, the Pamlico Community College Foundation, Inc. (Foundation) is reported as if it was part of the College. The 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. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the College in support of its programs. 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 Business Office, Post Office Box 185, Grantsboro, North Carolina 28529, or by calling (252) 249-1851.

Condensed combining information regarding the blended component unit is provided in Note 14.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- 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 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.

- 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, include 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 (STIF). The STIF maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.

- E. Investments** - Investments generally are reported at fair value, as determined by quoted market prices. Because of the inherent uncertainty in the use of estimates, values that are based on estimates may differ from the values that would have been used had a ready market existed for the investments. The net increase (decrease) in the fair value of investments is recognized as a component of investment income.

- F. Receivables** - Receivables consist of tuition and fees charged to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from the federal government, state and local governments, and private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants. Receivables are recorded net of estimated uncollectible amounts.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

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.

Depreciation is computed using the straight-line over the estimated useful lives of the assets, generally 15 to 75 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.

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

J. Noncurrent Long-Term Liabilities - Noncurrent long-term liabilities consist of compensated absences that will not be paid within the next fiscal year.

K. Compensated Absences - The College's policy is to record the cost of vacation leave when earned. The policy provides for a maximum accumulation of unused vacation leave of 30 days which can be carried forward each January 1 or for which an employee can be paid upon termination of employment. When classifying compensated absences into current and noncurrent, leave is considered taken using a last-in, first-out (LIFO) method. Also, any accumulated vacation leave in excess of 30 days at year-end is converted to sick leave. Under this policy, the accumulated vacation leave for each employee at June 30 equals the leave carried forward at the previous December 31 plus the leave earned, less the leave taken between January 1 and June 30.

In addition to the vacation leave described above, compensated absences include the accumulated unused portion of the special annual leave bonuses awarded by the North Carolina General Assembly. The bonus

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

leave balance on December 31 is retained by employees and transferred into the next calendar year. It is not subject to the limitation on annual leave carried forward described above and is not subject to conversion to sick leave. There is no liability for unpaid accumulated sick leave because the College has no obligation to pay sick leave upon termination or retirement. However, additional service credit for retirement pension benefits is given for accumulated sick leave upon retirement.

L. Net Position - The College's net position is classified as follows:

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

Restricted Net Position - Nonexpendable - Nonexpendable restricted net position includes 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 Position - Expendable - Expendable restricted net position includes resources for which the College is legally or contractually obligated to spend in accordance with restrictions imposed by external parties.

Unrestricted Net Position - Unrestricted net position includes resources derived from student tuition and fees, sales and services, unrestricted gifts, and interest income.

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

M. Scholarship Discounts - Student tuition and fees revenues and certain other revenues from College charges are reported net of scholarship discounts in the accompanying Statement of Revenues, Expenses, and Changes in Net Position. 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 nonoperating revenues in the accompanying Statement of Revenues, Expenses, and Changes in Net Position. To the extent that revenues from these programs are used to satisfy tuition, fees, and other charges, the College has recorded a scholarship discount.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

N. Revenue and Expense Recognition - The College classifies its revenues and expenses as operating or nonoperating in the accompanying Statement of Revenues, Expenses, and Changes in Net Position. 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 student tuition and fees and sales and services of auxiliary enterprises. Operating expenses are all expense transactions incurred other than those related to capital and noncapital financing or investing activities as defined by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*.

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

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

NOTE 2 - DEPOSITS AND INVESTMENTS

A. Deposits – The College is required by *North Carolina General Statute 147-77* to deposit any funds collected or received that belong to the State of North Carolina with the State Treasurer or with a depository institution in the name of the State Treasurer. All funds of the College, other than those required to be deposited with the State Treasurer, 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. Cash on hand at June 30, 2013 was \$560. The carrying amount of the College's deposits not with the State Treasurer was \$174,009.61, and the bank balance was \$184,002.38.

The North Carolina Administrative Code (20 NCAC 7) requires all depositories to collateralize public deposits in excess of federal depository

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 2013, all of the College's bank balance was covered by federal depository insurance.

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

Generally, funds belonging to the College may be invested in any form of investment established or managed by certain investment advisors pursuant to G.S. 115D-58.6 (d1) or 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, 2013, the amount shown on the Statement of Net Position as cash and cash equivalents includes \$705,800.50, which represents the College's equity position in the State Treasurer's Short-Term Investment Fund (STIF). The STIF (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, 2013. Assets and shares of the STIF are valued at amortized cost, which approximates fair value. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the STIF) are included in the State of North Carolina's *Comprehensive Annual Financial Report*.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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) 707-0500.

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

Investments of the College’s blended component unit, the Pamlico Community College Foundation, are subject to and restricted by G.S. 36E “Uniform Prudent Management of Institutional Funds Act” (UPMIFA) and any requirements placed on them by contract or donor agreements.

The following table presents the fair value of investments by type at June 30, 2013, for the Foundation’s investments.

Investments	
Investment Type	<u>Fair Value</u>
Mutual Funds	<u>\$ 344,616.57</u>

C. Reconciliation of Deposits and Investments - A reconciliation of deposits and investments for the College to the basic financial statements as of June 30, 2013, is as follows:

Cash on Hand	\$ 560.00
Carrying Amount of Deposits with Private Financial Institutions	174,009.61
Investments in the Short-term Investment Fund	705,800.50
Other Investments	<u>344,616.57</u>
Total Deposits and Investments	<u><u>\$ 1,224,986.68</u></u>
Current:	
Cash and Cash Equivalents	\$ 544,128.76
Restricted Cash and Cash Equivalents	153,092.01
Noncurrent:	
Restricted Cash and Cash Equivalents	183,149.34
Restricted Investments	<u>344,616.57</u>
Total Deposits and Investments	<u><u>\$ 1,224,986.68</u></u>

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, 2013, net appreciation of \$7,668.66 was available to be spent, of which \$7,015.12 was classified in net assets as restricted nonexpendable for scholarships and fellowships, as it is restricted for specific purposes. Of the remaining net appreciation available to be spent, \$573.45 is classified as restricted expendable and \$80.09 is classified as unrestricted net position.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2013, were as follows:

	<u>Gross Receivables</u>	<u>Less Allowance for Doubtful Accounts</u>	<u>Net Receivables</u>
Current Receivables:			
Students	\$ 132,366.38	\$ 71,055.02	\$ 61,311.36
Student Sponsors	5,482.75		5,482.75
Intergovernmental	13,144.98		13,144.98
Accounts	59,448.10		59,448.10
Other	3,271.74		3,271.74
Total Current Receivables	<u>\$ 213,713.95</u>	<u>\$ 71,055.02</u>	<u>\$ 142,658.93</u>
Notes Receivable - Current:			
Institutional Student Loan Programs	<u>\$ 15,640.94</u>	<u>\$ 11,158.40</u>	<u>\$ 4,482.54</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, 2013, is presented as follows:

	Balance July 1, 2012	Increases	Decreases	Balance June 30, 2013
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	386,050.00			386,050.00
Capital Assets, Depreciable:				
Buildings	8,555,717.57			8,555,717.57
Machinery and Equipment	966,940.49		140,964.31	825,976.18
General Infrastructure	89,942.65			89,942.65
Total Capital Assets, Depreciable	9,612,600.71		140,964.31	9,471,636.40
Less Accumulated Depreciation for:				
Buildings	2,129,432.57	174,500.16		2,303,932.73
Machinery and Equipment	508,820.42	80,555.64	126,958.55	462,417.51
General Infrastructure	36,779.55	4,313.52		41,093.07
Total Accumulated Depreciation	2,675,032.54	259,369.32	126,958.55	2,807,443.31
Total Capital Assets, Depreciable, Net	6,937,568.17	(259,369.32)	14,005.76	6,664,193.09
Capital Assets, Net	\$ 7,323,618.17	\$ (259,369.32)	\$ 14,005.76	\$ 7,050,243.09

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2013, were as follows:

	Amount
Current Accounts Payable and Accrued Liabilities:	
Accounts Payable	\$ 19,155.26
Accrued Payroll	61,340.97
Total	\$ 80,496.23

NOTE 7 - CHANGES IN LONG-TERM LIABILITIES

A summary of changes in the long-term liabilities for the year ended June 30, 2013, is presented as follows:

	Balance July 1, 2012	Additions	Reductions	Balance June 30, 2013	Current Portion
Compensated Absences	\$ 209,857.73	\$ 165,223.33	\$ 174,542.26	\$ 200,538.80	\$ 40,929.95

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, 2013:

Fiscal Year	Amount
2014	\$ 17,319.12
2015	8,916.00
2016	8,916.00
2017	8,916.00
Total Minimum Lease Payments	\$ 44,067.12

Rental expense for all operating leases during the year was \$17,319.12.

NOTE 9 - REVENUES

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

	Gross Revenues	Less Scholarship Discounts	Less Allowance For Uncollectibles*	Net Revenues
Operating Revenues:				
Student Tuition and Fees	\$ 766,879.63	\$ 355,263.79	\$ 24,548.29	\$ 387,067.55
Sales and Services				
Sales and Services of Auxiliary Enterprises:				
Bookstore	\$ 207,381.57	\$ 160,145.16	\$ 0.00	\$ 47,236.41
Other	33,839.24			33,839.24
Total Sales and Services	\$ 241,220.81	\$ 160,145.16	\$ 0.00	\$ 81,075.65

*Note: The Allowance for Uncollectibles is equivalent to the change in the Allowance for Doubtful Accounts, excluding items such as direct write-offs.

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	\$ 2,602,992.09	\$ 83,635.52	\$ 75,339.09	\$ 0.00	\$ 0.00	\$ 0.00	\$ 2,761,966.70
Academic Support	668,109.65	13,786.51	36,183.02				718,079.18
Student Services	354,709.33	5,020.59	5,037.03				364,766.95
Institutional Support	1,111,830.27	30,847.21	180,677.50				1,323,354.98
Operations and Maintenance of Plant	245,952.58	28,061.92	69,116.44		108,827.11		451,958.05
Student Financial Aid			794.50	539,304.19			540,098.69
Auxiliary Enterprises	12,726.92	185,602.79	3,213.92				201,543.63
Depreciation						259,369.32	259,369.32
Total Operating Expenses	<u>\$ 4,996,320.84</u>	<u>\$ 346,954.54</u>	<u>\$ 370,361.50</u>	<u>\$ 539,304.19</u>	<u>\$ 108,827.11</u>	<u>\$ 259,369.32</u>	<u>\$ 6,621,137.50</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 (TSERS) 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 a 14-member Board of Trustees, with the State Treasurer serving as Chairman of the Board.

Benefit and contribution provisions for the TSERS 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, 2013, these rates were set at 8.33% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the College had a total payroll of \$3,924,280.73, of which \$3,343,498.07 was covered under the TSERS. Total employer and employee contributions for pension benefits for the year were \$278,513.39 and \$200,609.88, respectively.

Required employer contribution rates for the years ended June 30, 2012, and 2011, were 7.44% and 4.93%, respectively, while employee contributions were 6% each year. The College made 100% of its annual

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

required contributions for the years ended June 30, 2013, 2012, and 2011, which were \$278,513.39, \$241,722.03, and \$158,368.11, respectively.

The TSERS' 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) 707-0500.

- B. Deferred Compensation and Supplemental Retirement Income Plans** - Internal Revenue Code 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 \$400 for the year ended June 30, 2013.

Internal Revenue Code Section 401(k) Plan - All members of the TSERS are eligible to enroll in the Supplemental Retirement Income Plan, a defined contribution plan, created under Internal Revenue Code Section 401(k). All costs of administering the Plan are the responsibility of the Plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to \$46,821.60 for the year ended June 30, 2013.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

eligibility varies depending on years of contributory membership service in their retirement system prior to disability or retirement.

The Plan's benefit and contribution provisions are established by Chapter 135, Article 3B, 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 established by the North Carolina General Assembly.

For the current fiscal year the College contributed 5.30% of the covered payroll under the Teachers' and State Employees' Retirement System to the Fund. Required contribution rates for the years ended June 30, 2012, and 2011, were 5.0% and 4.9%, respectively. The College made 100% of its annual required contributions to the Plan for the years ended June 30, 2013, 2012, and 2011, which were \$177,205.40, \$162,447.60, and \$157,422.30, 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) 707-0500.

- 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 2013, the College made a statutory contribution of .44% of covered payroll under the Teachers' and State Employees' Retirement System to the DIPNC. Required contribution rates for the years ended June 30, 2012, and 2011, were .52% and .52%, respectively. The College made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2013, 2012, and 2011, which were \$14,711.39, \$16,894.55, and \$16,706.04, 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 per claimant 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 (Fund), a state-administered public entity risk pool. The Fund is financed by premiums and interest collected through membership participation and retains a \$10 million deductible per occurrence. Reinsurance is purchased by the Fund to cover catastrophic events in excess of the \$10 million deductible. Membership insured property is covered under an all risk coverage contract. Building 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 and settled claims have not exceeded coverage in any of the past three fiscal years.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 14 - BLENDED COMPONENT UNIT

Condensed combining information for the College's blended component unit for the year ended June 30, 2013, is presented as follows:

***Condensed Statement of Net Position
June 30, 2013***

	Pamlico Community College Foundation Inc.	Eliminations	Total
ASSETS			
Current Assets	\$ 151,085	\$ 0	\$ 151,085
Capital Assets	5,000		5,000
Other Noncurrent Assets	465,223		465,223
	<hr/>	<hr/>	<hr/>
Total Assets	621,308		621,308
	<hr/>	<hr/>	<hr/>
Deferred Outflows of Resources			
	<hr/>	<hr/>	<hr/>
LIABILITIES			
Current Liabilities	3		3
	<hr/>	<hr/>	<hr/>
Total Liabilities	3		3
	<hr/>	<hr/>	<hr/>
Deferred Inflows of Resources			
	<hr/>	<hr/>	<hr/>
NET POSITION			
Net Investment in Capital Assets	5,000		5,000
Restricted - Expendable	514,281		514,281
Unrestricted	102,024		102,024
	<hr/>	<hr/>	<hr/>
Total Net Position	\$ 621,305	\$ 0	\$ 621,305
	<hr/>	<hr/>	<hr/>

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

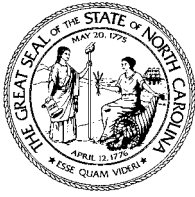
***Condensed Statement of Revenues, Expenses, and
Changes in Net Position
For the Fiscal Year Ended June 30, 2013***

	Pamlico Community College Foundation Inc.	Eliminations	Total
OPERATING REVENUES			
Fundraising and Special Events	\$ 29,492	\$ (29,492)	\$ 0
Total Operating Revenues	<u>29,492</u>	<u>(29,492)</u>	<u></u>
OPERATING EXPENSES			
Operating Expenses	42,460		42,460
Total Operating Expenses	<u>42,460</u>		<u>42,460</u>
Operating Income (Loss)	<u>(12,968)</u>	<u>(29,492)</u>	<u>(42,460)</u>
NONOPERATING REVENUES			
Noncapital Gifts	90,866	29,492	120,358
Interest Income	8,373	(8,373)	
Return on Investments	15,881	(15,881)	
Investment Income		<u>24,254</u>	<u>24,254</u>
Nonoperating Revenues	<u>115,120</u>	<u>29,492</u>	<u>144,612</u>
Increase (Decrease) in Net Position	102,152		102,152
NET POSITION			
Net Position, July 1, 2012	<u>519,153</u>		<u>519,153</u>
Net Position, June 30, 2013	<u>\$ 621,305</u>	<u>\$ 0</u>	<u>\$ 621,305</u>

***Condensed Statement of Cash Flows
June 30, 2013***

Net Cash Used by Operating Activities	\$ (15,102)
Net Cash Provided by Noncapital Financing Activities	90,866
Net Cash Used by Investing Activities	<u>(73,628)</u>
Net Increase in Cash and Cash Equivalents	2,136
Cash and Cash Equivalents, July 1, 2012	<u>265,968</u>
Cash and Cash Equivalents, June 30, 2013	<u>\$ 268,104</u>

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Office of the State Auditor

Beth A. Wood, CPA
State Auditor

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

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

Board of Trustees
Pamlico Community College
Grantsboro, North Carolina

We have audited, in accordance with the 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, 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, 2013, and the related notes to the financial statements, which collectively comprise the College's basic financial statements, and have issued our report thereon dated July 21, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the College's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the College's internal control.

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. 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.

**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)**


Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the College's financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the College's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

July 21, 2014

ORDERING INFORMATION

Copies of this report may be obtained by contacting the:

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

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Facsimile: 919-807-7647

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For additional information contact:

Bill Holmes
Director of External Affairs
919-807-7513