STATE OF NORTH CAROLINA

PIEDMONT COMMUNITY COLLEGE

ROXBORO, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2013

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR

A Component Unit of the State of North Carolina

PIEDMONT COMMUNITY COLLEGE

ROXBORO, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2013

STATE OF NORTH CAROLINA

Office of the State Auditor

Beth A. Wood, CPA
State Auditor

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AUDITOR'S TRANSMITTAL

The Honorable Pat McCrory, Governor
The General Assembly of North Carolina
Board of Trustees, Piedmont Community College

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

Our consideration of internal control over financial reporting and compliance and other matters based on an audit of the financial statements disclosed a deficiency that is detailed in the Audit Findings and Responses section of this report. The College's response is included following the finding.

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

Beth A. Wood, CPA
State Auditor

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Piedmont Community College
Roxboro, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of Piedmont Community College, a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 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 opinions on these financial statements based on our audit. We did not audit the financial statements of Piedmont Community College Foundation, Inc., the College's discretely presented component unit. Those statements were audited by other auditors, whose report has been furnished to us, and our opinions, insofar as they relate to the amounts included for Piedmont Community College Foundation, Inc., are based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of Piedmont Community College Foundation, Inc. were not audited in accordance with *Government Auditing Standards*.

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.

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

Opinions

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of Piedmont Community College and its discretely presented component unit, 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 May 13, 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

Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

May 13, 2014

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This section of Piedmont Community College's Annual Financial Report presents management's discussion and analysis of the College's financial activity during the fiscal year ended June 30, 2013, with comparative data for the year ended June 30, 2012. College management has prepared this discussion, along with the financial statements and related notes. The financial statements, notes to the financial statements, and this discussion are the responsibility of College management.

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

Using the Annual Report/Overview of Financial Statements

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

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

Statement of Net Position

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

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

A condensed Statement of Net Position is reflected below:

	June 30, 2013	June 30, 2012 (as restated)	Increase (Decrease)
Assets:			
Current Assets	$ 1,458,019.98	$ 1,664,376.87	$ (206,356.89)
Noncurrent:			
Capital Assets, Net of Accumulated Depreciation	14,975,752.82	14,952,920.28	22,832.54
Other Noncurrent Assets	339,310.70	239,310.70	100,000.00
Total Assets	16,773,083.50	16,856,607.85	(83,524.35)
Liabilities:			
Current Liabilities	735,595.67	509,968.41	225,627.26
Noncurrent Liabilities	1,717,578.96	1,328,143.17	389,435.79
Total Liabilities	2,453,174.63	1,838,111.58	615,063.05
Net Position:			
Invested in Capital Assets	14,975,752.82	14,952,920.28	22,832.54
Restricted - Expendable	526,820.58	288,017.83	238,802.75
Unrestricted	(1,182,664.53)	(222,441.84)	(960,222.69)
Total Net Position	$ 14,319,908.87	$ 15,018,496.27	$ (698,587.40)

The total assets of the College decreased by $83,524.35 for the year (a decrease of $206,356.89 for current assets and an increase of $122,832.54 for noncurrent assets). The decrease in current assets was attributable to a decrease in cash and cash equivalents of $381,020.13 and a decrease in inventories of $38,392.00. The decreases in current assets were offset by increases in net receivables of $48,023.24 and receivables from State of North Carolina component units in the amount of $165,032.00. The decrease in cash was a result of the College being out of pocket but not yet reimbursed for costs related to the bookstore expansion project, county-funded capital purchases, and start-up costs for the Golden Leaf Grant. The increase in due from State of North Carolina component units is due to a receivable from the Golden Leaf grant.

The increase in capital assets, net of accumulated depreciation of $22,832.54, was primarily due to an increase in construction in progress of $425,168.35 for the bookstore renovation project and a net increase in machinery and equipment of $45,942.27. The increases in capital assets were offset by additional accumulated depreciation of $448,278.08. The increase of

$100,000.00 in other noncurrent assets is due to an increase in the receivable from the State for the bookstore expansion project.

The total liabilities of the College increased by $615,063.05 for the year (an increase of $225,627.26 in current liabilities and an increase of $389,435.79 in noncurrent liabilities). The increase in current liabilities was primarily due to the increased accounts payable for amounts owed to the contractor for the bookstore expansion project. Current liabilities also include recognition of a liability to the U.S. Department of Education of $61,652.40. The liability is the result of a program review conducted of the 2010 – 2011 and 2011 – 2012 award years of financial aid provided to students. There was also an increase in the amount of salaries payable to employees of the College. This increase and the increase in noncurrent liabilities for vacation leave, is directly related to a 1.2% across-the-board increase in salaries as well as an increase in the number of staff. In addition, the North Carolina Legislature granted 40 hours in bonus leave for 2013. Many employees used bonus leave instead of regular vacation leave. Total noncurrent liabilities also includes the noncurrent portion of the liability to the U.S. Department of Education in the amount $246,609.60.

Statement of Revenues, Expenses, and Changes in Net Position

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

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

A condensed Statement of Revenues, Expenses, and Changes in Net Position is reflected below:

	June 30, 2013	June 30, 2012 (as restated)	Increase (Decrease)
Operating Revenues:			
Student Tuition and Fees, Net	$ 1,540,056.37	$ 1,452,174.75	$ 87,881.62
Sales and Services, Net	487,759.90	556,105.26	(68,345.36)
Other Operating Revenues	14,757.11	20,193.32	(5,436.21)
Total Operating Revenues	2,042,573.38	2,028,473.33	14,100.05
Less Operating Expenses:			
Salaries and Benefits	16,154,413.51	15,604,628.92	549,784.59
Supplies and Materials	1,893,152.31	2,422,948.70	(529,796.39)
Services	1,599,074.53	1,470,112.48	128,962.05
Scholarships and Fellowships	2,143,261.98	2,830,913.63	(687,651.65)
Utilities	324,604.76	307,791.93	16,812.83
Depreciation	524,745.65	628,005.95	(103,260.30)
Total Operating Expenses	22,639,252.74	23,264,401.61	(625,148.87)
Operating Loss	(20,596,679.36)	(21,235,928.28)	639,248.92
Nonoperating Revenues (Expenses):			
State Aid	12,459,719.18	12,001,835.47	457,883.71
County Appropriations	1,246,263.00	1,225,929.00	20,334.00
Noncapital Grants - Student Financial Aid	4,235,460.80	5,200,539.50	(965,078.70)
Noncapital Grants and Investment Income	1,935,593.92	1,598,310.30	337,283.62
Refund to Grantors	(308,262.00)		(308,262.00)
Other Nonoperating Revenues	19,064.75	69,024.12	(49,959.37)
Net Nonoperating Revenues	19,587,839.65	20,095,638.39	(507,798.74)
Loss Before Other Revenues	(1,008,839.71)	(1,140,289.89)	131,450.18
Capital Contributions	310,252.31	1,379,737.31	(1,069,485.00)
Increase (Decrease) in Net Position	(698,587.40)	239,447.42	(938,034.82)
Net Position Beginning of Year, as Restated	15,018,496.27	14,600,103.86	418,392.41
Restatement		178,944.99	(178,944.99)
Net Assets, End of Year	$ 14,319,908.87	$ 15,018,496.27	$ (698,587.40)

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

Operating revenues increased overall by $14,100.05. Student tuition and fees revenues increased due to an increase in the tuition rate per credit hour. The increase in student tuition and fees revenue was offset by a decrease in sales and revenues due to a decline in bookstore revenues. Bookstore revenues were greatly impacted by the lower utilization and the temporary move of the bookstore as renovation and expansion took place.

Operating expenses for fiscal year 2013 decreased $625,148.87 over fiscal year 2012. Supplies and materials decreased $529,796.39 due to a concentrated effort to reduce spending due to a reduction in funding. Scholarships and fellowships decreased $687,651.65 primarily due to a decrease in the amount of federal Pell grants received in 2013. The significant decreases in operating expenses were offset by increases in salaries and benefits of $549,784.59 due to a 1.2 % across the board increase in salaries; a $500 per employee bonus; a catch-up payment on educational incentive bonuses; and an increase in staff in the Security, Information Technology, Adult Basic Skills, Plant Maintenance/Operations, and General Administration departments.

Nonoperating and capital revenues decreased by $1,577,283.74 in fiscal year 2013 from fiscal year 2012. There were some wide swings in the components of these categories.

- State aid increased by $457,883.71 due to the College using most funds received from the State for operating purposes rather than utilizing the equipment portion for capital purposes.
- County appropriations increased $20,334.00 due to a funding increase from Person County.
- Noncapital grants - student financial aid and noncapital grants decreased $626,751.10 primarily due to a decrease of $916,265.35 in funding from federal Pell grants. The decrease was offset by additional funding from the TRIO and Golden Leaf grants.
- Refund to grantors nonoperating expense increased $308,262.00 due to recognition of a long-term liability due to the U.S. Department of Education at year end.
- State capital aid decreased by $809,530.78. This decrease was the result of a state budget flexibility provision which allowed the College to transfer state capital funds to current operating to cover operating costs for the current year.
- County capital aid increased by $80,397.61 due to additional funding from Person and Caswell counties for capital purchases during the 2013 fiscal year.
- Capital grants decreased $340,351.83 in fiscal year 2013 from fiscal year 2012 due to the completion of the two energy grant projects funded by federal recovery funds (ARRA grants) in the prior year.

Capital Assets and Debt Administration

Piedmont Community College's investment in capital assets as of June 30, 2013 amounted to $14,975,752.82, net of accumulated depreciation. This investment in capital assets includes land, construction in progress, buildings, general infrastructure, and machinery and equipment. The change in capital assets for the year was an increase of $22,832.54. The increase was attributable to an increase in construction in progress of $425,168.35 and a net increase in machinery and equipment of $45,942.27. The increases in capital assets were offset by a net increase in accumulated depreciation of $448,278.08.

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

- The increase in construction in progress is due to increased costs associated with the bookstore renovation and expansion project. Open construction commitments total $59,303.50 at June 30, 2013, the largest portion of which is due to the bookstore project.

- The net increase in machinery and equipment totaled $45,942.27, which resulted from equipment purchases during the year.
- The net increase in accumulated depreciation was attributable to the depreciation assessed on current year equipment purchases and existing capital assets.

Capital Assets, Net

	June 30, 2013	June 30, 2012 (as restated)	Increase
Capital Assets:			
Land	$ 194,856.15	$ 194,856.15	$ 0.00
Construction in Progress	483,668.35	58,500.00	425,168.35
Buildings	15,665,293.71	15,665,293.71	
Infrastructure	3,247,471.57	3,247,471.57	
Machinery and Equipment	3,269,344.40	3,223,402.13	45,942.27
Total Capital Assets	22,860,634.18	22,389,523.56	471,110.62
Less Accumulated Depreciation	7,884,881.36	7,436,603.28	448,278.08
Capital Assets, Net	$ 14,975,752.82	$ 14,952,920.28	$ 22,832.54

Long-term debt totaled $1,877,798.24 at June 30, 2013, compared to $1,438,976.15 in the prior year, an increase of $438,822.09. This change primarily resulted from a $130,560.09 increase in vacation leave due to salary increases as previously discussed, as well as, new debt with the repayment of federal awards totaling $308,262.00 to the U.S. Department of Education. For more information about the College's long-term debt, refer to Note 6 of the notes to the financial statements.

Economic and Other Factors Impacting Future Periods

The economic position of Piedmont Community College is closely tied to the State of North Carolina. State aid constituted 57 percent of total College revenues and is the largest source of funding. As the economic recovery continues, the College is experiencing declining enrollment. State aid is directly tied to enrollment. The College enrollment has also declined with the changes to Corrections Education and the Huskins programs as well as legislatively-mandated changes to enrollment requirements for the Career and College Promise program. The College has entered into Career and College Promise agreements with Caswell and Person County Schools. These agreements allow high school students to attend Piedmont Community College; however, the more rigorous enrollment requirements have resulted in fewer students able to attend Piedmont Community College while still in high school.

The biggest challenges facing the College continue to be the level of federal, state, and local support and assessment and reallocation of available resources.

Requests for Information

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

Piedmont Community College
Statement of Net Position
June 30, 2013 — *Exhibit A-1*

ASSETS		
Current Assets:		
Cash and Cash Equivalents	$	679,483.21
Restricted Cash and Cash Equivalents		60,790.65
Receivables, Net (Note 3)		269,687.31
Due from State of North Carolina Component Units		165,032.00
Inventories		283,026.81
Total Current Assets		1,458,019.98
Noncurrent Assets:		
Restricted Due from Primary Government		339,310.70
Capital Assets - Nondepreciable (Note 4)		678,524.50
Capital Assets - Depreciable, Net (Note 4)		14,297,228.32
Total Noncurrent Assets		15,315,063.52
Total Assets		16,773,083.50
DEFERRED OUTFLOWS OF RESOURCES		
Total Deferred Outflows of Resources		0.00
LIABILITIES		
Current Liabilities:		
Accounts Payable and Accrued Liabilities (Note 5)		476,625.71
Unearned Revenue		71,294.25
Funds Held for Others		27,456.43
Long-Term Liabilities - Current Portion (Note 6)		160,219.28
Total Current Liabilities		735,595.67
Noncurrent Liabilities:		
Long-Term Liabilities (Note 6)		1,717,578.96
Total Liabilities		2,453,174.63
DEFERRED INFLOWS OF RESOURCES		
Total Deferred Inflows of Resources		0.00
NET POSITION		
Investment in Capital Assets		14,975,752.82
Restricted for:		
Expendable:		
Scholarships and Fellowships		19,340.58
Loans		759.82
Capital Projects		309,116.10
Restricted for Specific Programs		197,604.08
Unrestricted		(1,182,664.53)
Total Net Position	$	14,319,908.87

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

Piedmont Community College
Statement of Revenues, Expenses, and
Changes in Net Position
For the Fiscal Year Ended June 30, 2013 ***Exhibit A-2***

REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net (Note 8)	$	1,540,056.37
Sales and Services, Net (Note 8)		487,759.90
Other Operating Revenues		14,757.11
Total Operating Revenues		2,042,573.38
EXPENSES		
Operating Expenses:		
Salaries and Benefits		16,154,413.51
Supplies and Materials		1,893,152.31
Services		1,599,074.53
Scholarships and Fellowships		2,143,261.98
Utilities		324,604.76
Depreciation		524,745.65
Total Operating Expenses		22,639,252.74
Operating Loss		(20,596,679.36)
NONOPERATING REVENUES (EXPENSES)		
State Aid		12,459,719.18
County Appropriations		1,246,263.00
Noncapital Grants - Student Financial Aid		4,235,460.80
Noncapital Grants		1,933,761.33
Refund to Grantors		(308,262.00)
Investment Income		1,832.59
Other Nonoperating Revenues		19,064.75
Net Nonoperating Revenues		19,587,839.65
Loss Before Other Revenues		(1,008,839.71)
State Capital Aid		215,444.70
County Capital Aid		94,807.61
Decrease in Net Position		(698,587.40)
NET POSITION		
Net Position, July 1, 2012 as Restated (Note 14)		15,018,496.27
Net Position, June 30, 2013	$	14,319,908.87

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

Piedmont Community College
Statement of Cash Flows — *Exhibit A-3*
For the Fiscal Year Ended June 30, 2013 — *Page 1 of 2*

CASH FLOWS FROM OPERATING ACTIVITIES	
Received from Customers	$ 2,001,709.96
Payments to Employees and Fringe Benefits	(15,983,033.39)
Payments to Vendors and Suppliers	(3,735,206.29)
Payments for Scholarships and Fellowships	(2,143,261.98)
Other Receipts	54,413.50
Net Cash Used by Operating Activities	(19,805,378.20)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Aid Received	12,459,719.18
County Appropriations	1,246,263.00
Noncapital Grants - Student Financial Aid	4,235,460.80
Noncapital Grants Received	1,816,883.01
William D. Ford Direct Lending Receipts	1,949,298.82
William D. Ford Direct Lending Disbursements	(1,949,298.82)
Net Cash Provided by Noncapital Financing Activities	19,758,325.99
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
State Capital Aid Received	115,444.70
County Capital Aid	37,982.00
Acquisition and Construction of Capital Assets	(489,282.57)
Net Cash Used by Capital and Related Financing Activities	(335,855.87)
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment Income	1,887.95
Net Decrease in Cash and Cash Equivalents	(381,020.13)
Cash and Cash Equivalents, July 1, 2012	1,121,293.99
Cash and Cash Equivalents, June 30, 2013	$ 740,273.86

RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES

Operating Loss	$	(20,596,679.36)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense		524,745.65
Miscellaneous Nonoperating Income		52,396.63
Changes in Assets and Liabilities:		
Receivables, Net		(39,406.67)
Inventories		38,392.00
Accounts Payable and Accrued Liabilities		84,053.34
Unearned Revenue		(1,456.75)
Funds Held for Others		2,016.87
Compensated Absences		130,560.09
Net Cash Used by Operating Activities	$	(19,805,378.20)

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:		
Cash and Cash Equivalents	$	679,483.21
Restricted Cash and Cash Equivalents		60,790.65
Total Cash and Cash Equivalents - June 30, 2013	$	740,273.86

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through Assumption of a Liability	$	91,627.50
Increase in Receivables Related to Nonoperating Income		273,703.93
Loss on Disposal of Capital Assets		33,331.88

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

Piedmont Community College Foundation, Inc.
Statement of Financial Position
June 30, 2013 — *Exhibit B-1*

ASSETS		
Current Assets		
Cash and Cash Equivalents	$	188,463
Accounts Receivable		686
Pledges Receivable/Promises		6,290
Total Current Assets		195,439
Long-Term Assets		
Investments		1,172,552
Total Assets	$	1,367,991
LIABILITIES and NET ASSETS		
Current Liabilities		
Scholarships Payable	$	79,856
Total Liabilities		79,856
Net Assets		
Unrestricted		606,444
Temporarily Restricted		26,538
Permanently Restricted		655,153
Total Net Assets		1,288,135
Total Liabilities and Net Assets	$	1,367,991

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

Piedmont Community College Foundation, Inc.
Statement of Activities
For the Fiscal Year Ended June 30, 2013 — *Exhibit B-2*

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals
REVENUE AND OTHER SUPPORT				
Scholarship Contributions	$ 0	$ 49,425	$ 3,284	$ 52,709
President's Club Dues	26,244			26,244
Campus Fund Drive	5,736			5,736
In-kind Contributions	8,784			8,784
Other Contributions		110,680		110,680
Golf Classic Tournament	32,915			32,915
Interest Earned on Cash Deposits	112			112
Investment Income	140,877			140,877
Sales Tax Refund	1,410			1,410
Miscellaneous and Other Fundraising	14,085			14,085
Net Assets Released from Restrictions:				
Satisfaction of Program Restrictions	131,338	(131,338)		
Total Revenue and Other Support	361,501	28,767	3,284	393,552
EXPENSES				
Programs:				
Scholarships	77,631			77,631
Faculty and Staff Development	3,750			3,750
College Programs	38,770			38,770
Other Foundation Expenses	10,454			10,454
Management and General	81,144			81,144
Fundraising	17,533			17,533
Total Expenses	229,282			229,282
Increase in Net Assets	132,219	28,767	3,284	164,270
Net Assets, July 1, 2012	474,225	(2,229)	651,869	1,123,865
Net Assets, June 30, 2013	$ 606,444	$ 26,538	$ 655,153	$ 1,288,135

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

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

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

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

Discretely Presented Component Unit – Piedmont Community College Foundation, Inc. (Foundation) is a legally separate not-for-profit corporation and is reported as a discretely presented component unit based on the nature and significance of its relationship to the College.

The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the College in support of its programs. The Foundation board consists of 25 directors. Although the College does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, that the Foundation holds and invests are restricted to the activities of the College by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of the College, the Foundation is considered a component unit of the College and is reported in separate financial statements because of the difference in its reporting model, as described below.

The Foundation is a private not-for-profit organization that reports its financial results under the Financial Accounting Standards Board (FASB) Codification. As such, certain revenue recognition criteria and presentation features are different from the Governmental Accounting Standards Board (GASB) revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information in the College's financial reporting entity for these differences.

During the year ended June 30, 2013, the Foundation distributed $138,282.17 to the College for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from the Executive Director of the Piedmont Community College Foundation, Inc., P.O. Box 1101, 1715 College Drive, Roxboro, NC 27573.

B. **Basis of Presentation** - The accompanying financial statements are presented in accordance with accounting principles generally accepted in the United States of America as prescribed by the 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 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. **Receivables** - Receivables consist of tuition and fees charged to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from the federal government, state and local governments, and private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants. Receivables are recorded net of estimated uncollectible amounts.

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

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

The College capitalizes assets that have a value or cost of $5,000 or greater at the date of acquisition and an estimated useful life of more than one year.

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

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 includes compensated absences and federal awards payable 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 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 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 - 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.

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 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.

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 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 (1) student tuition and fees, and (2) sales and services of auxiliary enterprises. Operating expenses are all expense transactions incurred other than those related to capital and noncapital financing or investing activities as defined by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*.

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

N. Internal Sales Activities - Certain institutional auxiliary operations provide goods and services to College departments, as well as to its customers. These institutional auxiliary operations include activities such as a copy center. In addition, the College has other miscellaneous sales and service units that operated either on a reimbursement or charge basis. All internal sales activities to College departments from auxiliary operations and sales and service units have been eliminated in the accompanying financial statements. These eliminations are recorded by removing the revenue and expense in the auxiliary operations and sales and service units and, if significant, allocating any residual balances to those departments receiving the goods and services during the year.

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 appropriations and county capital appropriations do not revert and are available for future use by the College.

NOTE 2 - DEPOSITS AND INVESTMENTS

College - 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. The amount shown on the Statement of Net Position as cash and cash equivalents includes cash on hand totaling $770.00, and deposits in private financial institutions with a carrying value of $343,468.43 and a bank balance of $595,311.84.

The North Carolina Administrative Code (20 NCAC 7) requires all depositories to collateralize public deposits in excess of federal depository insurance coverage by using one of two methods, dedicated or pooled. Under the dedicated method, a separate escrow account is established by each depository in the name of each local governmental unit and the responsibility of monitoring collateralization rests with the local unit. Under the pooling method, each depository establishes an escrow account in the name of the State Treasurer to secure all of its public deposits. This method shifts the monitoring responsibility from the local unit to the State Treasurer.

Custodial credit risk is the risk that in the event of a bank failure, the College's deposits may not be returned to it. As of June 30, 2013, 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 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, 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 $396,035.43, 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 State Treasurer's STIF) 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) 707-0500.

Component Unit - Investments of the College's discretely presented component unit, Piedmont Community College Foundation, Inc. (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. Because the Foundation reports under the FASB reporting model, disclosures of the various investment risks are not required. The fair value of the Foundation's investments, consisting of equity securities and mutual funds, was $ 1,172,552 at June 30, 2013.

NOTE 3 - RECEIVABLES

Receivables at June 30, 2013, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	$ 533,267.15	$ 400,881.47	$ 132,385.68
Student Sponsors	10,775.14		10,775.14
Accounts	37,691.63		37,691.63
Intergovernmental	88,707.53		88,707.53
Investment Earnings	127.33		127.33
Total Current Receivables	$ 670,568.78	$ 400,881.47	$ 269,687.31

NOTE 4 - 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 (as restated, Note 14)	Increases	Decreases	Balance June 30, 2013
Capital Assets, Nondepreciable:				
Land	$ 194,856.15	$ 0.00	$ 0.00	$ 194,856.15
Construction in Progress	58,500.00	425,168.35		483,668.35
Total Capital Assets, Nondepreciable	253,356.15	425,168.35		678,524.50
Capital Assets, Depreciable:				
Buildings	15,665,293.71			15,665,293.71
Machinery and Equipment	3,223,402.13	155,741.72	109,799.45	3,269,344.40
General Infrastructure	3,247,471.57			3,247,471.57
Total Capital Assets, Depreciable	22,136,167.41	155,741.72	109,799.45	22,182,109.68
Less Accumulated Depreciation for:				
Buildings	5,428,347.73	317,078.50		5,745,426.23
Machinery and Equipment	1,537,081.70	141,685.67	76,467.57	1,602,299.80
General Infrastructure	471,173.85	65,981.48		537,155.33
Total Accumulated Depreciation	7,436,603.28	524,745.65	76,467.57	7,884,881.36
Total Capital Assets, Depreciable, Net	14,699,564.13	(369,003.93)	33,331.88	14,297,228.32
Capital Assets, Net	$ 14,952,920.28	$ 56,164.42	$ 33,331.88	$ 14,975,752.82

NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	Amount
Accounts Payable	$ 122,357.76
Accrued Payroll	354,267.95
Total Accounts Payable and Accrued Liabilities	$ 476,625.71

NOTE 6 - 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	$ 1,438,976.15	$ 1,017,267.26	$ 886,707.17	$ 1,569,536.24	$ 98,566.88
Federal Awards Payable		308,262.00		308,262.00	61,652.40
Total Long-Term Liabilities	$ 1,438,976.15	$ 1,325,529.26	$ 886,707.17	$ 1,877,798.24	$ 160,219.28

Federal awards payable are the result of an onsite program review conducted by the U.S. Department of Education of the 2010-2011 and 2011-2012 award years of financial aid provided to students of Piedmont Community College (PCC). The U.S. Department of Education asserted that it was owed $616,580.00 for Final Program Review Determination for violations of practice and policy in regards to the awarding of financial aid to students of PCC. After a thorough review and engagement of the Dow Lohnes law firm from Washington, D.C., PCC appealed the U.S. Department of Education's decision. On March 26, 2014, the U.S. Department of Education agreed to settle the liability for $308,262.00. As a result, a liability has been booked at June 30, 2013 for $308,262.00. The liability will be repaid over a five year period.

NOTE 7 - OPERATING LEASE OBLIGATIONS

The College entered into operating leases for equipment and property. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2013:

Fiscal Year	Amount
2014	$ 42,470.41
2015	42,470.41
2016	35,295.57
2017	1,498.77
Total Minimum Lease Payments	$ 121,735.16

Rental expense for all operating leases during the year was $45,599.43.

NOTE 8 - REVENUES

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

	Gross Revenues	Internal Sales Eliminations	Less Scholarship Discounts	Less Allowance for Uncollectibles	Net Revenues
Operating Revenues:					
Student Tuition and Fees	$ 3,409,646.23	$ 0.00	$ 1,468,708.39	$ 400,881.47	$ 1,540,056.37
Sales and Services:					
Sales and Services of Auxiliary Enterprises:					
Bookstore	$ 1,260,423.43	$ 169,802.61	$ 855,836.91	$ 0.00	$ 234,783.91
Other	226,540.55	82,916.48			143,624.07
Sales and Services of Education and Related Activities	109,351.92				109,351.92
Total Sales and Services	$ 1,596,315.90	$ 252,719.09	$ 855,836.91	$ 0.00	$ 487,759.90

NOTE 9 - 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	$ 9,478,134.18	$ 716,967.41	$ 729,387.76	$ 0.00	$ 0.00	$ 0.00	$ 10,924,489.35
Public Service			3,919.78				3,919.78
Academic Support	1,847,082.76	102,664.51	49,955.32				1,999,702.59
Student Services	972,300.32		84,459.44				1,056,759.76
Institutional Support	2,892,067.03	111,628.67	496,711.26				3,500,406.96
Operations and Maintenance of Plant	579,204.75	79,370.74	202,304.82		324,604.76		1,185,485.07
Student Financial Aid				2,143,261.98			2,143,261.98
Auxiliary Enterprises	385,624.47	882,520.98	32,336.15				1,300,481.60
Depreciation						524,745.65	524,745.65
Total Operating Expenses	$ 16,154,413.51	$ 1,893,152.31	$ 1,599,074.53	$ 2,143,261.98	$ 324,604.76	$ 524,745.65	$ 22,639,252.74

NOTE 10 - PENSION PLANS

A. Retirement Plans - Each permanent full-time employee, as a condition of employment, is a member of the Teachers' and State Employees' Retirement System. The Teachers' and State Employees' Retirement System (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 $12,449,180.04, of which $10,827,691.21 was covered under the TSERS. Total employer and employee contributions for pension benefits for the year were $901,946.68 and $649,661.47, 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 required contributions for the years ended June 30, 2013, 2012, and 2011, which were $901,946.68, $767,741.49, and $551,753.48, 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 $17,183.96 for the year ended June 30, 2013.

Internal Revenue Code Section 401(k) Plan - All members of the Teachers' and State Employees' Retirement System are eligible to enroll in the Supplemental Retirement Income Plan, a defined contribution plan, created under Internal Revenue Code Section 401(k). All costs of administering the Plan are the responsibility of the Plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to $87,393.88 for the year ended June 30, 2013.

Internal Revenue Code Section 403(b) and 403(b)(7) Plans - Eligible College employees can participate in tax sheltered annuity plans created under Internal Revenue Code Sections 403(b) and 403(b)(7). The employee's eligible contributions, made through salary reduction agreements, are exempt from federal and state income taxes until the annuity is received or the contributions are withdrawn. These plans are exclusively for employees of colleges and certain charitable and other nonprofit institutions. All costs of administering and funding these plans are the responsibility of the Plan participants. The plan administrator is VALIC. No costs are incurred by the College. The voluntary contributions by employees amounted to $1,500.00 for the year ended June 30, 2013.

NOTE 11 - OTHER POSTEMPLOYMENT BENEFITS

A. Health Benefits - The College participates in the Comprehensive Major Medical Plan (the Plan), a cost-sharing, multiple-employer defined benefit health care plan that provides postemployment health insurance to eligible former employees. Eligible former employees include long-term disability beneficiaries of the Disability Income Plan of North Carolina and retirees of the Teachers' and State Employees' Retirement System. Coverage eligibility varies depending on years of contributory membership service in their retirement system prior to disability or retirement.

The Plan's benefit and contribution provisions are established by 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 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 $573,867.63, $515,955.31, and $548,395.96, 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 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. The required contribution rate for the years ended June 30, 2012, and 2011 was .52% for both years. The College made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2013, 2012, and 2011, which were $47,641.84, $53,659.35, and $58,197.12, respectively. The College assumes no liability for long-term disability benefits under the Plan other than its contribution.

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

NOTE 12 - RISK MANAGEMENT

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

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

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

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

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

NOTE 13 - COMMITMENTS

The College has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were $59,303.50 at June 30, 2013.

NOTE 14 - NET POSITION RESTATEMENT

As of July 1, 2012, net position as previously reported was restated as follows:

		Amount
July 1, 2012 Net Position as Previously Reported	$	14,839,551.28
Restatement:		
Record capital asset donations and related accumulated depreciation from a prior period		178,944.99
July 1, 2012 Net Position as Restated	$	15,018,496.27

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STATE OF NORTH CAROLINA
Office of the State Auditor

Beth A. Wood, CPA
State Auditor

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

Board of Trustees
Piedmont Community College
Roxboro, 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 Piedmont Community College, a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 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 May 13, 2014. Our report includes a reference to other auditors who audited the financial statements of Piedmont Community College Foundation, Inc., as described in our report on the College's financial statements. The financial statements of Piedmont Community College Foundation, Inc. were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with Piedmont Community College Foundation, Inc.

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 opinions 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Audit Findings and Responses section, we identified a deficiency in internal control that we consider to be a material weakness.

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)

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. We consider the deficiency described in the finding in the accompanying Audit Findings and Responses section to be a material weakness.

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.*

College's Response to Finding

The College's response to the finding identified in our audit is described in the accompanying Audit Findings and Responses section. The College's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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

May 13, 2014

AUDIT FINDINGS AND RESPONSES

Matters Related to Financial Reporting

The following audit finding was identified during the current audit and describes a condition that represents a deficiency in internal control.

DEFICIENCIES IN FINANCIAL REPORTING

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

a. The College overstated noncapital grants – student financial aid and scholarships and fellowships by $1,949,299. This misstatement was the result of the College incorrectly reporting revenue and expense activity associated with the Federal Direct Loan program.

b. The College understated noncapital grants by $1,459,011 and overstated noncapital gifts and noncapital grants – student financial aid by $1,454,866 and $4,145, respectively, due to classification errors.

c. The College understated net receivables and student tuition and fees by $94,469. In addition, the College failed to establish an allowance for those accounts receivable estimated to be uncollectible. As a result, gross amounts reported for the College's receivables and revenues notes were understated by $495,350, while the related allowances for these disclosures were understated by $400,881.

d. The College overstated state aid and understated noncapital grants by $474,750 due to a misclassification and posting errors related to federal pass-through funds.

e. The College overstated current restricted cash and cash equivalents and understated current unrestricted cash and cash equivalents by $280,985. This misclassification was the result of the College's failure to properly classify cash for interfund borrowing.

Recommendation: The College should place greater emphasis on the year-end financial reporting process and reviews over that process. The College should strengthen internal controls to ensure the completeness and accuracy of the financial statements and notes.

College's Response: Piedmont Community College has begun work to strengthen its internal controls over year-end financial reporting processes and reviews by working with the North Carolina Community College System subject matter experts as well as other North Carolina community college experts. Training has occurred and will continue with increased focus ensuring the financial statements and notes are complete and accurate in accordance with generally accepted accounting principles.

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ORDERING INFORMATION

Copies of this report may be obtained by contacting the:

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https://itunes.apple.com/us/app/nc-state-auditor-hotline/id567315745

For additional information contact:
Bill Holmes
Director of External Affairs
919-807-7513

This audit required 861.5 audit hours at an approximate cost of $65,474.