

# STATE OF NORTH CAROLINA

**PITT COMMUNITY COLLEGE**

**WINTERVILLE, NORTH CAROLINA**

**FINANCIAL STATEMENT AUDIT REPORT**

**FOR THE YEAR ENDED JUNE 30, 2013**

**OFFICE OF THE STATE AUDITOR**

**BETH A. WOOD, CPA**

**STATE AUDITOR**

**PITT COMMUNITY COLLEGE**

**WINTERVILLE, NORTH CAROLINA**

**FINANCIAL STATEMENT AUDIT REPORT**

**FOR THE YEAR ENDED JUNE 30, 2013**

**STATE BOARD OF COMMUNITY COLLEGES**

**THE NORTH CAROLINA COMMUNITY COLLEGE SYSTEM**

**DR. R. SCOTT RALLS, PRESIDENT**

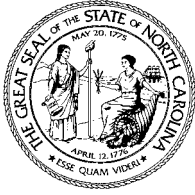
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**Beth A. Wood, CPA**  
State Auditor

STATE OF NORTH CAROLINA  
**Office of the State Auditor**

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**AUDITOR'S TRANSMITTAL**

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

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

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

Beth A. Wood, CPA  
State Auditor

# TABLE OF CONTENTS

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	PAGE
INDEPENDENT AUDITOR’S REPORT.....	1
MANAGEMENT’S DISCUSSION AND ANALYSIS.....	3
BASIC FINANCIAL STATEMENTS	
College Exhibits	
A-1 Statement of Net Position .....	11
A-2 Statement of Revenues, Expenses, and Changes in Net Position.....	13
A-3 Statement of Cash Flows .....	14
Component Unit Exhibits	
B-1 Statement of Financial Position .....	16
B-2 Statement of Activities.....	17
Notes to the Financial Statements .....	19
INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i> .....	35
ORDERING INFORMATION .....	37

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**INDEPENDENT AUDITOR'S REPORT**

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Board of Trustees  
Pitt Community College  
Winterville, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of Pitt Community College, a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 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 Pitt 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 the discretely presented component unit, 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 Pitt 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.

## INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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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 Pitt 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 March 18, 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

March 18, 2014

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

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This section of Pitt Community College's Annual Financial Report provides an overview of the financial activities for the fiscal year ended June 30, 2013, with comparative data for the fiscal year ended June 30, 2012. Information contained herein has been prepared for the purpose of identifying significant transactions, trends, and events that have impacted the fiscal health of the College and that may continue to exert influence in future years. It is recommended that this discussion and analysis be read in conjunction with the College's basic financial statements and the notes to the financial statements.

### **The Financial Statements**

This annual report consists of financial statements which are prepared in accordance with the Governmental Accounting Standards Board (GASB). They are prepared under the accrual basis of accounting, whereby revenues are recognized when earned, and expenses are recognized when an obligation has been incurred, regardless of when cash is exchanged. The financial statements presented include the Statement of Net Position, Statement of Revenues, Expenses, and Changes in Net Position and the Statement of Cash Flows.

The Statement of Net Position presents the current and long-term portions of assets and liabilities separately. The difference between total assets and total liabilities is net position and may provide a useful indicator of whether the financial position of the College is improving or deteriorating.

The Statement of Revenues, Expenses, and Changes in Net Position presents information showing how the net position changed during the fiscal year. All changes in net position are reported as soon as the change occurs, regardless of the timing of related cash flows. Therefore, revenues and expenses are reported in these statements for some items that will only result in cash flows in future fiscal periods (e.g. unearned revenue and earned but unused vacation leave).

The Statement of Cash Flows provides information regarding the College's cash receipts and cash payments during the reported period. This statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities. The statement reconciles the beginning cash on hand as of July 1, 2012, to the ending cash on hand as of June 30, 2013.

Management's Discussion and Analysis will concentrate on the Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position, using condensed versions for the purposes of this discussion.

### **Financial Highlights**

State funds for community colleges in North Carolina are appropriated by the N.C. General Assembly and distributions are made to colleges by the North Carolina State Board of Community Colleges based on Full-Time Equivalencies (FTE) earned in the prior academic

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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year. Despite trends of decreasing enrollments at community colleges across the State and nation due to an improving economy Pitt Community College continues to see increasing enrollments.

The total budgeted FTE for all 58 Community Colleges in North Carolina declined for the 2013-2014 fiscal year by 2.48%. However, Pitt Community College's total budget FTE for fiscal year 2013-2014 has increased from 7,768 to 8,220 (5.8%) from the preceding year.

The College's total initial state allocation for 2012-2013 was \$40,631,757, an increase of only \$421,554 over the previous year. A new formula allocation model from the North Carolina Community College System now recognizes different funding levels for different curriculums. This allows for higher funding for curriculum FTE in high cost areas of health care, technical education, and lab-based science courses. The College was fortunate to receive full funding in its 2012-2013 state appropriations in order to offset budget cuts (Management Flexibility Reduction), which it received in the amount of \$2,258,505.

During the previous fiscal year, the College completed construction on three major buildings. This funding opportunity came about due to a quarter-cent sales tax referendum which was passed in Pitt County in November 2007. These buildings include:

- Facility Services - This building houses the maintenance, mailroom, shipping, receiving, and purchasing departments. The building was placed in service in September 2011 with a final approximate cost of \$3,722,000.
- Construction and Industrial Complex – The Automotive Technology and the Building Construction Technology curriculums are in this building. The building was placed in service in January 2012 with a final approximate cost of \$7,701,000.
- Academic Classroom Building (Charles E. Russell Building) - This building is a general academic classroom building to include classrooms, offices, laboratory space, mechanic rooms, and data rooms. The building was placed in service in August 2012 with a final approximate cost of \$8,713,000.

The financial implications of these construction projects, which were mainly completed in the prior year, significantly influence a number of variances that are created in comparison to the current year's data.

### **Statement of Net Position**

The Statement of Net Position presents the financial position of the College at June 30, 2013, defined by the balances of assets, liabilities, and assets net of liabilities. Assets are classified as current or noncurrent and cash is further identified as unrestricted or restricted. Current assets include those resources available to meet current obligations and operating requirements while noncurrent assets are to be held to meet future needs. Capital assets are shown net of depreciation. Assets, net of liabilities, are grouped into three categories: investment in capital assets, restricted net position, and unrestricted net position. Restricted net position is further classified as nonexpendable or expendable. Endowments and other



## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

funds comprise the nonexpendable restricted net position and expendable restricted net position is made up primarily of contracts, grants, and gifts.

### Condensed Statement of Net Position

	2013	2012	Increase (Decrease)
<b>Assets</b>			
Current Assets	\$ 10,162,622.36	\$ 9,306,450.86	\$ 856,171.50
Capital Assets, Net of Depreciation	69,109,064.21	68,985,216.01	123,848.20
Other Noncurrent Assets	2,162,926.51	509,249.29	1,653,677.22
Total Assets	<u>81,434,613.08</u>	<u>78,800,916.16</u>	<u>2,633,696.92</u>
<b>Liabilities</b>			
Current Liabilities	3,035,834.01	3,095,469.72	(59,635.71)
Noncurrent Liabilities	1,278,628.63	1,346,608.08	(67,979.45)
Total Liabilities	<u>4,314,462.64</u>	<u>4,442,077.80</u>	<u>(127,615.16)</u>
<b>Net Position</b>			
Investment in Capital Assets	69,109,064.21	68,985,216.01	123,848.20
Restricted	2,989,083.35	1,204,474.03	1,784,609.32
Unrestricted	5,022,002.88	4,169,148.32	852,854.56
Total Net Position	<u>\$ 77,120,150.44</u>	<u>\$ 74,358,838.36</u>	<u>\$ 2,761,312.08</u>

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

- Total net position increased by \$2,761,312, mainly due to increases to total assets. Receivables related to the Department of Education increased by \$626,834. An increase in both students and the tuition rates also led to Student Receivables increasing by \$331,196. Due to unreimbursed construction projects in the prior year, noncurrent restricted cash and cash equivalents has increased in the current year by \$344,198.
- Offsetting decreases in receivables of \$343,470 are related to the Department of Health and Human Services Health Information Technology award which had reduced expenditures from its sub-recipients for the 2012-2013 fiscal year.
- Other noncurrent assets increased by \$1,653,677 mainly due to an increase in receivables from primary government of \$1,100,000 relating to the Student Goes Expansion project.

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

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

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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

	2013	2012	Increase (Decrease)
<b>Operating Revenues</b>			
Student Tuition and Fees, Net	\$ 8,590,018.06	\$ 9,229,538.07	\$ (639,520.01)
Sales and Services, Net	2,429,566.21	2,528,360.98	(98,794.77)
Other Operating Revenues	338,568.53	633,687.51	(295,118.98)
Total Operating Revenues	11,358,152.80	12,391,586.56	(1,033,433.76)
<b>Less Operating Expenses</b>	72,043,564.31	71,829,984.29	213,580.02
<b>Operating Loss</b>	(60,685,411.51)	(59,438,397.73)	(1,247,013.78)
<b>Nonoperating and Other Revenues</b>			
State Aid	23,563,131.73	22,739,231.65	823,900.08
County Appropriations	4,650,872.00	4,300,381.00	350,491.00
Noncapital Grants	30,877,019.05	29,151,790.39	1,725,228.66
Other Nonoperating Revenues, Net	611,117.56	397,592.84	213,524.72
Capital Aid, Gifts and Grants	3,744,583.25	13,454,454.93	(9,709,871.68)
Total Nonoperating and Other Revenues	63,446,723.59	70,043,450.81	(6,596,727.22)
<b>Change in Net Position</b>	2,761,312.08	10,605,053.08	(7,843,741.00)
Net Position - Beginning of Year	74,358,838.36	63,753,785.28	10,605,053.08
Net Position - End of Year	\$ 77,120,150.44	\$ 74,358,838.36	\$ 2,761,312.08

### Operating and Nonoperating Revenues

Total operating revenues decreased by \$1,033,434. Actual tuition receipts (gross receipts) for the current year increased by \$1,025,080 due to an increase in students and an increase in the tuition rates. In-state tuition increased for the 2012-2013 fiscal year from \$66.50 per credit hour to \$69.00 per credit hour and the out-of-state tuition increased from \$258.50 per credit hour to \$261.00 per credit hour. However, due to an increase in tuition discounts and allowances of \$1,746,419, net tuition and fees decreased by \$639,520.

Capital Aid, Gifts, and Grants decreased by \$9,709,872. This was the result of significant capital projects funded by the county in the prior year. County capital aid decreased from \$9,571,382 in the prior year to \$924,097 in 2012-2013. In addition, the state capital aid expenditures for 2012-2013 declined by \$1,053,206 from the previous year. This was due to the College transferring \$1,100,000 from its equipment funds to capital projects in the current year in order to partially fund the Goess Student Expansion project.

### Operating Expenses

The College presents expenses by natural classification in the Statement of Revenues, Expenses, and Changes in Net Position. Personal services accounted for 54.43% of operating expenses, followed by scholarships and fellowships at 16.27%, services at 13.45%, supplies and materials at 11.47%, utilities at 2.20%, and depreciation costs at 2.17%.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

	<u>2013</u>	<u>2012</u>	<u>Increase (Decrease)</u>
Salaries and Benefits	\$ 39,216,031.25	\$ 37,502,104.52	\$ 1,713,926.73
Supplies and Materials	8,263,856.02	9,030,645.61	(766,789.59)
Services	9,690,187.16	11,153,350.29	(1,463,163.13)
Scholarships and Fellowships	11,723,092.02	11,449,556.27	273,535.75
Utilities	1,584,372.40	1,404,431.78	179,940.62
Depreciation	1,566,025.46	1,289,895.82	276,129.64
<b>Total Operating Expenses</b>	<u>\$ 72,043,564.31</u>	<u>\$ 71,829,984.29</u>	<u>\$ 213,580.02</u>

The moderate increase of \$213,580 in total operating expenses can be attributed to both increases and decreases in the various categories of operating expenses. Salaries and Benefits increased by \$1,713,927 due to an increase in total payroll of \$1,331,886, which was caused by a 3% raise given to all employees of the College. In addition, the employer matching retirement percentage increased from 13.12% to 14.23%, as well as an increase in the annual medical insurance expense from \$4,931 to \$5,192 per full-time employee, resulting in an increase in employer related expenses.

Supplies and Materials decreased by \$766,790. In 2011-2012, there was significant non-capitalized equipment expenditures in the amount of \$2,587,741 mainly relating to purchases of equipment needed for the new buildings in that year. These non-capitalized equipment expenditures decreased by \$1,452,973 in the 2012-2013 fiscal year. Offsetting this decrease in equipment was an increase in College Store books and supplies of \$668,493.

Services decreased by \$1,463,163 mainly due to expenditures relating to a Department of Health and Human Services Health Information Technology award being greater in 2011-2012 than 2012-2013 (\$6,747,898 and \$4,464,704 respectively). This award was initially scheduled to end in the 2011-2012 fiscal year, but the College was given an extension in the 2012-2013 fiscal year that resulted in less expenditures.

### Capital Assets

	<u>2013</u>	<u>2012</u>	<u>Increase (Decrease)</u>
Land	\$ 6,384,444.75	\$ 6,384,444.75	\$ 0.00
Construction in Progress	154,231.96	8,984,362.66	(8,830,130.70)
Buildings	64,637,902.68	54,873,759.80	9,764,142.88
Machinery and Equipment	9,762,413.45	9,210,824.78	551,588.67
General Infrastructure	2,987,400.67	2,957,247.67	30,153.00
<b>Total Capital Assets</b>	83,926,393.51	82,410,639.66	1,515,753.85
Less: Accumulated Depreciation	14,817,329.30	13,425,423.65	1,391,905.65
<b>Total Capital Assets, net</b>	<u>\$ 69,109,064.21</u>	<u>\$ 68,985,216.01</u>	<u>\$ 123,848.20</u>

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

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As described above in the Financial Highlights section, Pitt Community College has completed several major buildings in the prior fiscal year. In addition to these buildings, several other smaller projects have been completed as well or are still in progress. The overall decrease to Construction in Progress (CIP) of \$8,830,131 includes both additions and deductions to CIP.

The following projects were the increases to CIP:

	<u>Amount</u>
Academic Classroom Building	\$ 298,005
Warren Roof Replacement	280,289
Masonry/Welding Renovation	165,094
Other 7 projects	<u>345,767</u>
<b>Total increases to CIP</b>	<b><u><u>\$ 1,089,155</u></u></b>

The following projects were the major decreases to CIP, which also explains the increase to the Buildings category when it was moved from CIP into Assets:

	<u>Amount</u>
Academic Classroom Building	\$ 8,712,593
Campus Police Building	495,238
Warren Roof Replacement	280,289
Other 5 projects	<u>431,165</u>
<b>Total decreases to CIP</b>	<b><u><u>\$ 9,919,285</u></u></b>

Outstanding commitments on construction contracts at June 30, 2013, were \$560,683.

### **Economic Outlook and Effects on Financial Position**

Pitt Community College remains the most crowded of the 58 community colleges in North Carolina. The average assignable square footage of instructional and library facilities per student within North Carolina community colleges is 4.09 square foot per student. For Pitt Community College, the average is 2.42 square foot per student.

Being the most crowded college with an increasing enrollment, Pitt Community College continues to review its Facility Master Plan and will continue fulfilling this plan as resources will allow. The College has received approval from the State Board of Community Colleges to proceed with its next capital project which will include a 15,000 square foot expansion of the Goess Student Center. This addition, with an estimated cost of \$3,575,000, will house the College bookstore, career services, and a student study center.

As stated previously, the local quarter-cent sales tax revenue allowed funding for the College to construct its last three buildings. Since this revenue stream has been exhausted at this time and is not expected to become available until 2020, the College looked elsewhere for

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

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additional funds. On July 8, 2013, the Pitt County Board of Commissioners approved the College's request for a \$19,900,000 bond referendum, which was passed on the November 5, 2013, ballot. The funds generated by the issuance of general obligation bonds will be directed for the construction of an \$18,000,000 science building and the \$1,900,000 purchase and renovation of a local facility for the Basic Law Enforcement Training Center.

The 56,000 square foot science building will include Biotechnology, Physics, Astronomy, Geology, Biology, Chemistry, and Pre-Engineering/Industrial Training. The Basic Law Enforcement Training Center will provide approximately 15,000 square feet for classrooms, simulations, and physical fitness training for law enforcement students and officers. Even with these potential additions, the College will have a long way to go to address its needs for additional classroom space.

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***Pitt Community College***  
***Statement of Net Position***  
***June 30, 2013***

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

**ASSETS**

Current Assets:

Cash and Cash Equivalents	\$ 5,129,662.76
Restricted Cash and Cash Equivalents	1,142,709.12
Receivables, Net (Note 4)	2,762,880.62
Inventories	1,119,707.96
Prepaid Items	3,176.90
Notes Receivable, Net (Note 4)	4,485.00

Total Current Assets	10,162,622.36
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Noncurrent Assets:

Restricted Cash and Cash Equivalents	514,013.01
Restricted Due from Primary Government	1,108,913.50
Restricted Due from State of North Carolina Component Units	540,000.00
Capital Assets - Nondepreciable (Note 5)	6,538,676.71
Capital Assets - Depreciable, Net (Note 5)	62,570,387.50

Total Noncurrent Assets	71,271,990.72
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Total Assets	81,434,613.08
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**DEFERRED OUTFLOWS OF RESOURCES**

Deferred Outflows of Resources	0.00
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**LIABILITIES**

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 6)	2,407,517.10
Due to Primary Government	76.54
Unearned Revenue	403,693.64
Long-Term Liabilities - Current Portion (Note 7)	224,546.73

Total Current Liabilities	3,035,834.01
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Noncurrent Liabilities:

Funds Held for Others	25,864.77
Long-Term Liabilities (Note 7)	1,252,763.86

Total Noncurrent Liabilities	1,278,628.63
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Total Liabilities	4,314,462.64
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**DEFERRED INFLOWS OF RESOURCES**

Deferred Inflows of Resources	0.00
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***Pitt Community College  
Statement of Net Position  
June 30, 2013***

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

**NET POSITION**

Net Investment in Capital Assets	69,109,064.21
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	169,815.05
Expendable:	
Loans	34,959.28
Capital Projects	1,426,933.14
Restricted for Specific Programs	979,434.85
Other	377,941.03
Unrestricted	<u>5,022,002.88</u>
Total Net Position	<u><u>\$ 77,120,150.44</u></u>

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



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

***Exhibit A-2***

**REVENUES**

Operating Revenues:

Student Tuition and Fees, Net (Note 8)	\$ 8,590,018.06
Federal Grants and Contracts	78,998.08
Nongovernmental Grants and Contracts	12,092.40
Sales and Services, Net (Note 8)	2,429,566.21
Other Operating Revenues	247,478.05

Total Operating Revenues	11,358,152.80
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**EXPENSES**

Operating Expenses:

Salaries and Benefits	39,216,031.25
Supplies and Materials	8,263,856.02
Services	9,690,187.16
Scholarships and Fellowships	11,723,092.02
Utilities	1,584,372.40
Depreciation	1,566,025.46

Total Operating Expenses	72,043,564.31
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Operating Loss	(60,685,411.51)
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**NONOPERATING REVENUES**

State Aid	23,563,131.73
County Appropriations	4,650,872.00
Noncapital Grants - Student Financial Aid	22,342,815.32
Noncapital Grants	8,534,203.73
Noncapital Gifts	260,565.77
Investment Income	27,600.72
Other Nonoperating Revenues	322,951.07

Total Nonoperating Revenues	59,702,140.34
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Loss Before Other Revenues	(983,271.17)
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State Capital Aid	2,662,229.39
County Capital Aid	924,096.61
Capital Grants	158,257.25

Increase in Net Position	2,761,312.08
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**NET POSITION**

Net Position, July 1, 2012	74,358,838.36
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Net Position, June 30, 2013	\$ 77,120,150.44
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The accompanying notes to the financial statements are an integral part of this statement.

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

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

**CASH FLOWS FROM OPERATING ACTIVITIES**

Received from Customers	\$ 10,743,148.90
Payments to Employees and Fringe Benefits	(39,192,437.36)
Payments to Vendors and Suppliers	(19,792,785.04)
Payments for Scholarships and Fellowships	(11,723,092.02)
Other Receipts	322,952.09
	<u>322,952.09</u>
Net Cash Used by Operating Activities	<u>(59,642,213.43)</u>

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

State Aid Received	23,563,131.73
County Appropriations	4,650,872.00
Noncapital Grants - Student Financial Aid	22,254,754.95
Noncapital Grants Received	7,954,482.83
Noncapital Gifts Received	260,565.77
William D. Ford Direct Lending Receipts	24,081,572.00
William D. Ford Direct Lending Disbursements	(24,081,572.00)
	<u>24,081,572.00</u>
Net Cash Provided by Noncapital Financing Activities	<u>58,683,807.28</u>

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

State Capital Aid Received	1,895,862.13
County Capital Aid	924,096.61
Capital Grants Received	158,257.25
Acquisition and Construction of Capital Assets	(1,689,873.66)
	<u>(1,689,873.66)</u>
Net Cash Provided by Capital and Related Financing Activities	<u>1,288,342.33</u>

**CASH FLOWS FROM INVESTING ACTIVITIES**

Investment Income	<u>27,600.72</u>
Cash Provided by Investing Activities	<u>27,600.72</u>
Net Increase in Cash and Cash Equivalents	357,536.90
Cash and Cash Equivalents, July 1, 2012	<u>6,428,847.99</u>
Cash and Cash Equivalents, June 30, 2013	<u>\$ 6,786,384.89</u>

***Pitt 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	\$ (60,685,411.51)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	1,566,025.46
Miscellaneous Nonoperating Income	322,951.07
Changes in Assets and Liabilities:	
Receivables, Net	(591,666.53)
Inventories	(165,992.06)
Prepaid Items	(225.60)
Accounts Payable and Accrued Liabilities	(52,595.97)
Due to Primary Government	36.98
Unearned Revenue	(23,337.37)
Funds Held for Others	1.02
Compensated Absences	(11,998.92)
	<u>(11,998.92)</u>
Net Cash Used by Operating Activities	<u>\$ (59,642,213.43)</u>

**RECONCILIATION OF CASH AND CASH EQUIVALENTS**

Current Assets:	
Cash and Cash Equivalents	\$ 5,129,662.76
Restricted Cash and Cash Equivalents	1,142,709.12
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	<u>514,013.01</u>
Total Cash and Cash Equivalents - June 30, 2013	<u>\$ 6,786,384.89</u>

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

Increase in Receivables Related to Nonoperating Income	1,394,427.63
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The accompanying notes to the financial statements are an integral part of this statement.

***Pitt Community College Foundation, Inc***  
***Statement of Financial Position***  
***June 30, 2013***

***Exhibit B-1***

**ASSETS**

Cash and Cash Equivalents	\$	2,534,594.71
Pledges Receivable		900.00
Total Assets		<u>2,535,494.71</u>

**LIABILITIES**

Accounts Payable and Accrued Expenses		<u>6,333.40</u>
Total Liabilities		<u>6,333.40</u>

**NET ASSETS**

Unrestricted		729,427.15
Temporarily Restricted		866,425.83
Permanently Restricted		<u>933,308.33</u>
Total Net Assets	\$	<u><u>2,529,161.31</u></u>

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

***Pitt Community College Foundation, Inc***  
***Statement of Activities***  
***For the Fiscal Year Ended June 30, 2013***

***Exhibit B-2***

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>REVENUES AND SUPPORT</b>				
Contributions	\$ 206,933.21	\$ 125,974.53	\$ 4,735.00	\$ 337,642.74
Contribution in Kind		10,668.00		10,668.00
Income Earned on Investments	3,295.00	4,668.00	3,670.00	11,633.00
Fundraising Income	244,452.18			244,452.18
Net Assets Released from Restrictions	555,287.10	(555,287.10)		
Total Revenues and Support	<u>1,009,967.49</u>	<u>(413,976.57)</u>	<u>8,405.00</u>	<u>604,395.92</u>
<b>EXPENSES</b>				
Contributions to Pitt Community College				
Scholarships & Minigrants	276,674.76			276,674.76
General Support for PCC programs	15,636.25			15,636.25
Equipment, Furnishings, Other In-Kind	15,367.13			15,367.13
Program Services	143,130.61			143,130.61
General Expenses	50,716.60			50,716.60
Fund Raising	110,987.28			110,987.28
Total Expenses	<u>612,512.63</u>			<u>612,512.63</u>
Adj. For Pledges Deemed Uncollectible		(903,560.68)		(903,560.68)
Changes in Net Assets	397,454.86	(1,317,537.25)	8,405.00	(911,677.39)
<b>NET ASSETS</b>				
Net Assets at Beginning of Year	<u>331,972.29</u>	<u>2,183,963.08</u>	<u>924,903.33</u>	<u>3,440,838.70</u>
Net Assets at End of Year	<u>\$ 729,427.15</u>	<u>\$ 866,425.83</u>	<u>\$ 933,308.33</u>	<u>\$ 2,529,161.31</u>

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

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**PITT COMMUNITY COLLEGE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES**

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

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

**Discretely Presented Component Unit** - Pitt Community College Foundation, Inc. (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 36 members. Although the College does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, that the Foundation holds and invests is 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) Codifications. 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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information in the College's financial reporting entity for these differences.

During the year ended June 30, 2013, the Foundation distributed \$307,678.14 to the College for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from Ricky D. Brown, Chief Financial Officer, Pitt Community College, or the Business Office of the Pitt Community College Foundation, Inc.

- B. Basis of Presentation** - The accompanying financial statements are presented in accordance with accounting principles generally accepted in the United States of America as prescribed by the 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. 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



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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allowable expenditures made pursuant to contracts and grants. Receivables are recorded net of estimated uncollectible amounts.

- F. Inventories** - Inventories, consisting of expendable supplies, and merchandise for resale are valued at cost using the first-in, first-out method.
- G. Capital Assets** - Capital assets are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. The value of assets constructed includes all material direct and indirect construction costs.

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

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 35 to 75 years for general infrastructure, 25 to 100 years for buildings, and 5 to 30 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 include compensated absences that will not be paid within the next fiscal year.
- J. Compensated Absences** - The College's policy is to record the cost of vacation leave when earned. The policy provides for a maximum accumulation of unused vacation leave of 30 days which can be carried forward each July 1 or for which an employee can be paid upon termination of employment. When classifying compensated absences into current and noncurrent, leave is considered taken using a last-in, first-out (LIFO) method. Also, any accumulated vacation leave in excess of 30 days at year-end is converted to sick leave. Under this policy, the accumulated vacation leave for each employee at June 30 equals the leave carried forward at the previous July 1 plus the leave earned, less the leave taken between July 1 and June 30.

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)

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leave balance on June 30 is retained by employees and transferred into the next fiscal year. It is not subject to the limitation on annual leave carried forward described above and is not subject to conversion to sick leave.

There is no liability for unpaid accumulated sick leave because the College has no obligation to pay sick leave upon termination or retirement. However, additional service credit for retirement pension benefits is given for accumulated sick leave upon retirement.

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

**Net 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.

**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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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, (2) sales and services of auxiliary enterprises, and (3) certain federal, state, and local grants and contracts. Operating expenses are all expense transactions incurred other than those related to capital and noncapital financing or investing activities as defined by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*.

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

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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### NOTE 2 - DEPOSITS AND INVESTMENTS

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 \$9,020.00 and deposits in private financial institutions with a carrying value of \$369,000.00 and a bank balance of \$1,031,582.43.

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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 \$6,408,364.89 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.

### 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 \$693.00 was available to be spent, all of which was classified in net position as restricted for scholarships and fellowships.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 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>
<b>Current Receivables:</b>			
Students	\$ 1,167,958.59	\$ 109,745.80	\$ 1,058,212.79
Student Sponsors	79,811.95		79,811.95
Accounts	418,451.99		418,451.99
Intergovernmental	1,206,403.89		1,206,403.89
<b>Total Current Receivables</b>	<u>\$ 2,872,626.42</u>	<u>\$ 109,745.80</u>	<u>\$ 2,762,880.62</u>
<b>Notes Receivable - Current:</b>			
Institutional Student Loan Programs	<u>\$ 12,021.62</u>	<u>\$ 7,536.62</u>	<u>\$ 4,485.00</u>

### NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2013, is presented as follows:

	<u>Balance July 1, 2012</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2013</u>
Capital Assets, Nondepreciable:				
Land and Permanent Easements	\$ 6,384,444.75	\$ 0.00	\$ 0.00	\$ 6,384,444.75
Construction in Progress	8,984,362.66	1,089,155.00	9,919,285.70	154,231.96
<b>Total Capital Assets, Nondepreciable</b>	<u>15,368,807.41</u>	<u>1,089,155.00</u>	<u>9,919,285.70</u>	<u>6,538,676.71</u>
Capital Assets, Depreciable:				
Buildings	54,873,759.80	9,764,142.88		64,637,902.68
Machinery and Equipment	9,210,824.78	725,708.48	174,119.81	9,762,413.45
General Infrastructure	2,957,247.67	30,153.00		2,987,400.67
<b>Total Capital Assets, Depreciable</b>	<u>67,041,832.25</u>	<u>10,520,004.36</u>	<u>174,119.81</u>	<u>77,387,716.80</u>
Less Accumulated Depreciation				
Buildings	10,999,290.52	1,132,377.51		12,131,668.03
Machinery and Equipment	2,013,465.10	375,534.43	174,119.81	2,214,879.72
General Infrastructure	412,668.03	58,113.52		470,781.55
<b>Total Accumulated Depreciation</b>	<u>13,425,423.65</u>	<u>1,566,025.46</u>	<u>174,119.81</u>	<u>14,817,329.30</u>
<b>Total Capital Assets, Depreciable, Net</b>	<u>53,616,408.60</u>	<u>8,953,978.90</u>		<u>62,570,387.50</u>
<b>Capital Assets, Net</b>	<u>\$ 68,985,216.01</u>	<u>\$ 10,043,133.90</u>	<u>\$ 9,919,285.70</u>	<u>\$ 69,109,064.21</u>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	Amount
Accounts Payable	\$ 896,047.78
Accrued Payroll	1,221,847.73
Intergovernmental Payables	289,621.59
<b>Total Accounts Payable and Accrued Liabilities</b>	<b>\$ 2,407,517.10</b>

### NOTE 7 - 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	\$ 1,489,309.51	\$ 1,140,195.93	\$ 1,152,194.85	\$ 1,477,310.59	\$ 224,546.73

### 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 Change in Allowance for Uncollectibles*	Net Revenues
<b>Operating Revenues:</b>					
<b>Student Tuition and Fees</b>	\$ 16,946,586.48	\$ 0.00	\$ 8,372,305.82	\$ (15,737.40)	\$ 8,590,018.06
<b>Sales and Services:</b>					
Sales and Services of Auxiliary Enterprises:					
Copy Center	\$ 272,695.00	\$ 179,391.70	\$ 0.00	\$ 0.00	\$ 93,303.30
Bookstore	5,770,360.59	33,854.68	3,905,484.20	(13,735.70)	1,844,757.41
Athletic	23,477.23				23,477.23
Preschool	352,491.22				352,491.22
Other	20,011.70				20,011.70
Sales and Services of Education and Related Activities	95,525.35				95,525.35
<b>Total Sales and Services</b>	\$ 6,534,561.09	\$ 213,246.38	\$ 3,905,484.20	\$ (13,735.70)	\$ 2,429,566.21

\*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 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	\$ 25,451,258.26	\$ 2,277,739.10	\$ 6,273,781.83	\$ 117,875.55	\$ 0.00	\$ 0.00	\$ 34,120,654.74
Academic Support	4,544,480.20	290,841.48	307,244.46				5,142,566.14
Student Services	3,202,616.19	227,348.11	228,506.10	52,650.98			3,711,121.38
Institutional Support	3,939,189.93	238,718.85	1,091,529.47	3,778.50	5,445.50		5,278,662.25
Operations and Maintenance of Plant	1,139,901.86	575,333.07	1,349,734.97		1,578,926.90		4,643,896.80
Student Financial Aid	207,414.24	238.18	52,616.89	11,457,609.05			11,717,878.36
Auxiliary Enterprises	731,170.57	4,653,637.23	386,773.44	91,177.94			5,862,759.18
Depreciation						1,566,025.46	1,566,025.46
<b>Total Operating Expenses</b>	<b>\$ 39,216,031.25</b>	<b>\$ 8,263,856.02</b>	<b>\$ 9,690,187.16</b>	<b>\$ 11,723,092.02</b>	<b>\$ 1,584,372.40</b>	<b>\$ 1,566,025.46</b>	<b>\$ 72,043,564.31</b>

### 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 \$31,210,739.35, of which \$24,899,639.11 was covered under the TSERS. Total employer and employee contributions for pension benefits for the year were \$2,074,139.94 and \$1,493,978.35, 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,



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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which were \$2,074,139.94, \$1,791,053.75, and \$1,152,677.92, 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 \$80,838.00 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 except for a 5% employer contribution for the College's law enforcement officers, which is mandated under *General Statute* 143-166.30(e). Total employer contributions on behalf of College law enforcement officers for the year ended June 30, 2013, were \$12,551.83. The voluntary contributions by employees amounted to \$329,860.00 for the year ended June 30, 2013.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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### 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 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 \$1,319,680.88, \$1,203,665.15, and \$1,145,663.66, 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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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**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. 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 \$109,558.41, \$125,181.18, and \$121,580.63, 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 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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.

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. Employee dishonesty and computer fraud losses for employees paid from county and institutional funds are covered by contracts with private insurance companies.

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

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

Term life insurance (death benefits) of \$25,000 to \$50,000 is provided to eligible workers. This Death Benefit Plan is administered by the State

## NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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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 \$560,683.45 and on other purchases were \$71,084.78 at June 30, 2013.

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**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**

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Board of Trustees  
Pitt Community College  
Winterville, 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 Pitt Community College, a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 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 March 18, 2014. Our report includes a reference to other auditors who audited the financial statements of Pitt Community College Foundation, Inc., as described in our report on the College's financial statements. The financial statements of Pitt 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 Pitt 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 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

**INDEPENDENT AUDITOR'S REPORT  
ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN  
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GOVERNMENT AUDITING STANDARDS (CONCLUDED)**

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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.

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

March 18, 2014



## ORDERING INFORMATION

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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

Telephone: 919-807-7500

Facsimile: 919-807-7647

Internet: <http://www.ncauditor.net>

To report alleged incidents of fraud, waste or abuse in state government contact the:

Office of the State Auditor Fraud Hotline: 1-800-730-8477

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For additional information contact:

Bill Holmes  
Director of External Affairs  
919-807-7513