

STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA



PAMLICO COMMUNITY COLLEGE

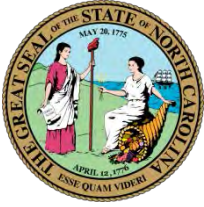
GRANTSBORO, NORTH CAROLINA
FINANCIAL STATEMENT AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2015

A COMPONENT UNIT OF THE STATE OF NORTH CAROLINA



NCOSA
The Taxpayers' Watchdog

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, Pamlico Community College

We have completed a financial statement audit of Pamlico Community College for the year ended June 30, 2015, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

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

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

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

Beth A. Wood, CPA
State Auditor



Beth A. Wood, CPA
State Auditor

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Article V, Chapter 147 of the *North Carolina General Statutes*, gives the Auditor broad powers to examine all books, records, files, papers, documents, and financial affairs of every state agency. The Auditor also has the power to summon people to produce records and to answer questions under oath.



INDEPENDENT AUDITOR'S REPORT

STATE OF NORTH CAROLINA
Office of the State Auditor



Beth A. Wood, CPA
State Auditor

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Pamlico Community College
Grantsboro, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of Pamlico Community College, a component unit of the State of North Carolina, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of Pamlico Community College Foundation, Inc., which represent 8.1 percent, 9.3 percent, and 0.9 percent, respectively, of the assets, net position, and revenues of the College. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Foundation, is 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 Pamlico Community College Foundation, Inc. were not audited in accordance with *Government Auditing Standards*.

INDEPENDENT AUDITOR'S REPORT

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 opinion.

Opinion

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 Pamlico Community College, as of June 30, 2015, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 11 to the financial statements, during the year ended June 30, 2015, Pamlico Community College adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 68. – *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27* and Statement No. 71 – *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*. Our opinion is not modified with respect to this matter.

Other Matters – Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and other required supplementary information, as listed in the table of contents, 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 April 27, 2016 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

April 27, 2016



MANAGEMENT'S DISCUSSION AND ANALYSIS

The annual financial statements of Pamlico Community College present the results of the College's financial activities for the fiscal year ended June 30, 2015. Management, in addition to this analysis, is responsible for the preparation of the accompanying basic financial statements, and Notes to the Financial Statements. Management's Discussion and Analysis (MD&A) should be read in conjunction with the financial statements and provides a general overview of the College's financial activity during the fiscal year. The MD&A is intended to aid the reader in interpreting the College's relative financial position as of the year ended June 30, 2015, as well as gauging performance from one period to the next. Condensed key financial and nonfinancial information will be highlighted for the reader followed by a discussion of the county's economic outlook.

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

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

About Pamlico Community College

Pamlico Community College (PCC) is a small two-year institution located in rural Eastern North Carolina that in 2014-2015 began its 53rd year of serving the educational, cultural and personal interests of the people in this area.

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

Condensed Statement of Net Position

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

Condensed Statement of Position
for the Years Ended June 30, 2015 and 2014

	2015	2014 As Restated	Increase (Decrease)
Current Assets	\$ 892,950.04	\$ 881,912.38	\$ 11,037.66
Capital Assets, Net	6,660,559.51	6,874,257.09	(213,697.58)
Other Noncurrent Assets	709,585.37	693,438.16	16,147.21
Total Assets	8,263,094.92	8,449,607.63	(186,512.71)
Deferred Outflows For Pension	345,080.84	283,425.00	61,655.84
Current Liabilities	161,332.94	147,372.56	13,960.38
Long-Term Liabilities	412,746.48	1,478,963.67	(1,066,217.19)
Total Liabilities	574,079.42	1,626,336.23	(1,052,256.81)
Deferred Inflows for Pensions	884,157.00		884,157.00
Net Position			
Invested in Capital Assets	6,660,559.51	6,874,257.09	(213,697.58)
Restricted	888,768.11	831,591.73	57,176.38
Unrestricted	(399,388.28)	(599,152.42)	199,764.14
Total Net Position	\$ 7,149,939.34	\$ 7,106,696.40	\$ 43,242.94

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

Current assets remained relatively the same from the prior year with a modest increase of \$11,037.66 from changes in accounts receivable. Other noncurrent assets increased by \$16,147.21 mainly due to Cash on hand for the design of the Johnson Building roof replacement.

Capital assets, net and invested in capital assets decreased by \$213,697.58 during the year and is attributable to depreciation and disposals of equipment, offset by purchases of new equipment. Capital assets are discussed in detail below.

The College has adopted GASB Statement 68 – *Accounting & Financial Reporting for Pensions*, as a result deferred outflows for pension is a new classification of asset, the \$345,080.84 represents PCC's portion of the state's pension plan assets.

Current liabilities, increased by \$13,960.38, which is attributable to an increase in the current portion of accumulated vacation and bonus leave expected to be paid to employees in the coming year, offset by a decline in accrued payroll due to a reduction in classes held during the Summer semester.

The \$1,066,217.19 decrease in long-term liabilities is the result of a change to GASB Standard No. 68 and the reduction from the prior year of PCC's share of the North Carolina State pension liability due to the overall funding of the pension.

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

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

Condensed Statements of Revenues, Expenses, and Changes in Net Position
for the Years Ended June 30, 2015 and 2014

	2015	2014*	Increase (Decrease)
Operating Revenues			
Student Tuition and Fees, Net	\$ 494,618.49	\$ 413,989.95	\$ 80,628.54
Sales and Services, Net	87,058.94	81,444.15	5,614.79
Total Operating Revenues	581,677.43	495,434.10	86,243.33
Less Operating Expenses	6,938,334.48	7,039,396.44	(101,061.96)
Operating Loss	(6,356,657.05)	(6,543,962.34)	187,305.29
Nonoperating Revenues			
State Aid	4,342,550.57	4,361,703.83	(19,153.26)
County Appropriations	562,411.00	547,993.00	14,418.00
Noncapital Grants	1,044,960.56	1,058,892.25	(13,931.69)
Noncapital Gifts	83,521.98	42,420.42	41,101.56
Investment Income	9,451.02	48,037.30	(38,586.28)
Capital Aid, Appropriations, and Grants	346,904.86	362,185.76	(15,280.90)
Additions to Endowments	10,100.00	10,795.00	(695.00)
Total Nonoperating and Capital Revenues	6,399,899.99	6,432,027.56	(32,127.57)
Change in Net Position	43,242.94	(111,934.78)	155,177.72
Net Position, Beginning of Year (Restated)	7,106,696.40	8,191,907.18	(1,085,210.78)
Less: Restatement		973,276.00	973,276.00
Net Position, End of Year	\$ 7,149,939.34	\$ 7,106,696.40	\$ 43,242.94

Fiscal Year 2013-2014 total revenues are \$6,927,461.66 and total expenses are \$7,039,396.44.
Fiscal Year 2014-2015 total revenues are \$6,981,577.42 and total expenses are \$6,938,334.48

The increase of \$80,628.54 in student tuition and fees, net, is related to the increase in cost of tuition and collection of fees for certifications. The slight increase of \$5,614.79 in sales and services, net is related to the increase in the prices of books.

The decrease of \$19,153.26 in state aid can be attributed to lower enrollment over the past two years.

The increase in county appropriations of \$14,418.00 is mainly to cover the costs associated with maintaining buildings.

The decrease of \$13,931.69 in noncapital grants is the result of a decline in enrollment and the corresponding reduction in the amount received from Pell. The reduction in Pell was offset by increases on North Carolina grants including the lottery as well as Veteran's Affairs grants.

The \$41,101.56 increase in noncapital gifts is the result of increased gifts for scholarships from various individuals and organizations. The State Employees Credit Union scholarship awards were among the largest gifts equaling \$14,250.00.

Investment income decreased by \$38,586.28 as a result of decreases in capital gains, offset by increases from dividends, and interest income on investments maintained by Pamlico Community College Foundation.

State capital aid, appropriation and grants decreased by \$15,280.90. This is mainly attributed to the fact that a decrease of \$61,255.90 in state capital aid for the design of the new roof for

MANAGEMENT'S DISCUSSION AND ANALYSIS

the Johnson Building was received in 2014. Offsetting the decrease was an increase in capital allocation of \$45,975.00 from Pamlico County for construction of the Johnson Building roof.

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

	2015	2014	Increase (Decrease)
Operating Expenses			
Salaries and Benefits	\$ 4,924,051.97	\$ 5,039,617.99	\$ (115,566.02)
Supplies and Materials	671,087.76	596,459.11	74,628.65
Services	441,834.13	470,266.72	(28,432.59)
Scholarships and Fellowships	551,825.44	559,250.36	(7,424.92)
Utilities	104,709.40	119,511.44	(14,802.04)
Depreciation	244,825.78	254,290.82	(9,465.04)
Total Operating Expenses	<u>\$ 6,938,334.48</u>	<u>\$ 7,039,396.44</u>	<u>\$ (101,061.96)</u>

Total operating expenses decrease by \$101,061.96. Salaries and benefits decreased by \$115,566.02, which is attributed to a reduction in the number of part-time employees. The increase in supplies and materials of \$74,628.65 represents purchases of minor equipment for various programs. The decrease in services of \$28,432.59 is related to contracted services that are not incurred every year. The \$14,802.04 decline in utilities is related to savings caused by the College replacing all of its electrical lighting with more energy efficient lighting over the past couple of years. The decrease of \$9,465.04 in depreciation is related to the reduction in purchases of replacement equipment over the past few years.

Capital Assets

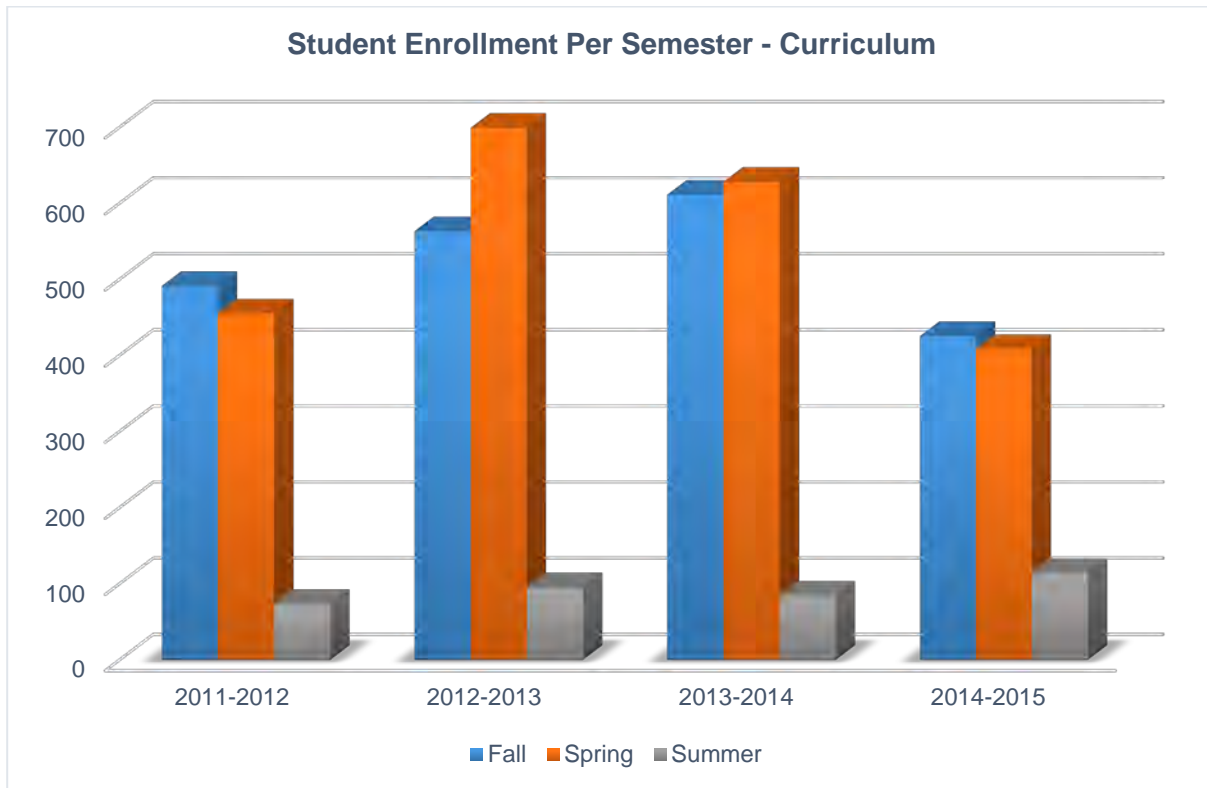
The following chart depicts the College's capital assets for the last two years:

	2015	2014	Increase (Decrease)
Capital Assets, Nondepreciable			
Land	\$ 381,050.00	\$ 381,050.00	\$ 0.00
Art	5,000.00	5,000.00	
Total Capital Assets, Nondepreciable	<u>386,050.00</u>	<u>386,050.00</u>	
Capital Assets, Depreciable			
Buildings	8,555,717.57	8,555,717.57	
Machinery & Equipment	847,866.60	904,281.00	(56,414.40)
General Infrastructure	89,942.65	89,942.65	
Total Capital Assets, Depreciable	9,493,526.82	9,549,941.22	(56,414.40)
Less: Accumulated Depreciation	<u>3,219,017.31</u>	<u>3,061,734.13</u>	<u>157,283.18</u>
Capital Assets, Depreciable, Net	<u>6,274,509.51</u>	<u>6,488,207.09</u>	<u>(213,697.58)</u>
Capital Assets, Net	<u>\$ 6,660,559.51</u>	<u>\$ 6,874,257.09</u>	<u>\$ (213,697.58)</u>

The \$56,414.40 decrease in machinery and equipment is due to the retirement of equipment that is no longer in service, offset by purchases of equipment for the Electrical, Esthetics, and Fire Training Programs. Accumulated depreciation increased by \$157,283.18 representing current year depreciation, this is offset by the removal of depreciation associated with equipment that was retired during the year.

Student enrollment decreased during the Fall 2014 and Spring 2015 semesters by 30% and 35%, over comparable periods in the prior year. Summer 2015 enrollment increased 36% over the prior year. As displayed in the graph below the increases and decreases are generally attributed to programs expanded to high school students taking college level courses. The decline in high school students taking college level courses is the result of other community colleges offering similar courses to students in their service area.

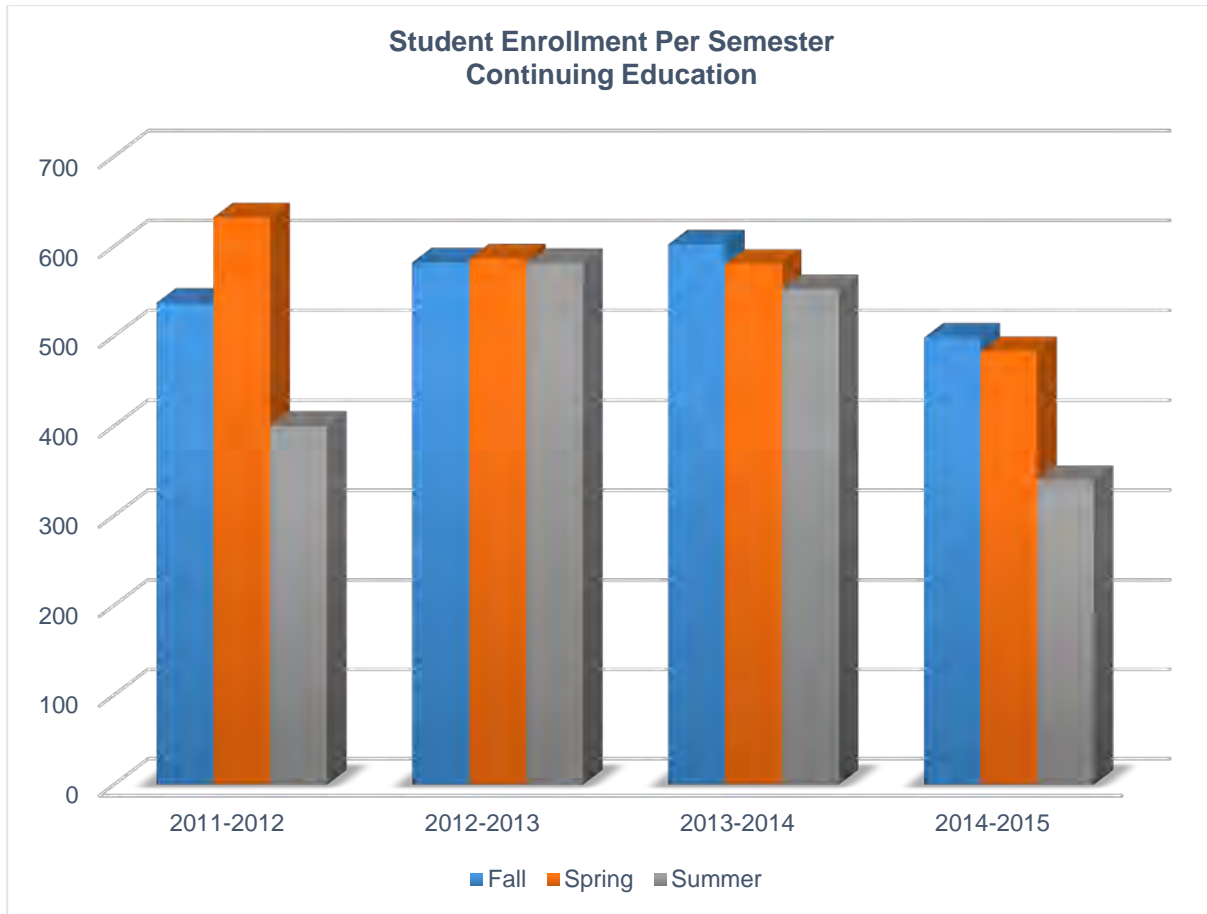
Student enrollment data for curriculum programs: Associate in Arts, Associate in Applied Science, Diploma, and Certificate are as follows (unduplicated headcount):



	2011-2012	2012-2013	2013-2014	2014-2015
Student Count				
Fall	491	563	611	425
Spring	455	699	628	408
Summer	73	91	84	114

As displayed in the graph below, student enrollment declined in the most recent year from prior years as a result of changes to the reporting of enrollment in Small Business Center classes. These classes are no longer considered part of the Continuing Education programs.

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



	2011-2012	2012-2013	2013-2014	2014-2015
Student Count				
Fall	537	582	602	498
Spring	632	586	580	483
Summer	400	581	552	339

During the year, students were able to take advantage of various scholarships and grant funding. The most significant sources were: Federal Pell Grants which was \$763,167.06, North Carolina State grants of \$43,375.12, and the Golden Leaf Scholarship of \$13,343.40. Other sources of funds available for students include but not limited to: Divorced Fees, Workforce Investment Act Adult and Dislocated Worker, Childcare, and Federal Supplemental Educational Opportunity Grant.

The Pamlico Community College Foundation continued its generous support with \$22,299.99 in scholarships and loans to students, \$2,657.21 in awards for faculty and staff development, and \$2,948.13 for student recruiting and retention.

Economic Outlook

The county has experienced economic decline in the farming and commercial fishing industry, which have been the primary industries for the community. The unemployment rate in Pamlico County was 6.5% in June 2015, which is a slight increase of .1% from the previous year. In June 2015, North Carolina's statewide unemployment was 6.1%. The U. S. Census Bureau reports the population estimate of Pamlico County as 12,948 for 2015, a decrease of 5 people from the prior year.

The overall budget provided for PCC for fiscal year ending June 30, 2015 increased from the prior year. Given the declines in enrollment this increase helped to fund program growth particularly in vocational training. The State continues to require community colleges to reduce the amount appropriated by 5.7% as a Management Flexibility Reduction. Expected declines in enrollment and the State's fiscal situation continues to provide uncertainty for the amount of state funding to be received by the College in future years. The College continues to focus on maintaining existing grants and is seeking new grants for additional funding. County funding for 2015 maintenance and custodial operations increased from the prior year, and is adequate for current needs.

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



FINANCIAL STATEMENTS

Pamlico Community College
Statement of Net Position
June 30, 2015

Exhibit A-1
Page 1 of 2

ASSETS

Current Assets:

Cash and Cash Equivalents	\$	540,373.27
Restricted Cash and Cash Equivalents		137,569.22
Receivables, Net (Note 4)		98,922.50
Inventories		106,808.13
Prepaid Items		9,276.92
Total Current Assets		<u>892,950.04</u>

Noncurrent Assets:

Restricted Cash and Cash Equivalents		244,115.17
Restricted Due from Primary Government		59,700.00
Restricted Investments		405,770.20
Capital Assets - Nondepreciable (Note 5)		386,050.00
Capital Assets - Depreciable, Net (Note 5)		6,274,509.51
Total Noncurrent Assets		<u>7,370,144.88</u>
Total Assets		<u>8,263,094.92</u>

DEFERRED OUTFLOWS OF RESOURCES

Deferred Outflows Related to Pensions		<u>345,080.84</u>
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LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 6)		72,766.35
Unearned Revenue		29,929.53
Funds Held for Others		2,026.78
Long-Term Liabilities - Current Portion (Note 7)		56,610.28
Total Current Liabilities		<u>161,332.94</u>

Noncurrent Liabilities:

Long-Term Liabilities (Note 7)		<u>412,746.48</u>
Total Liabilities		<u>574,079.42</u>

DEFERRED INFLOWS OF RESOURCES

Deferred Inflows Related to Pensions		<u>884,157.00</u>
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Pamlico Community College
Statement of Net Position
June 30, 2015

Exhibit A-1
Page 2 of 2

NET POSITION

Investment in Capital Assets	6,660,559.51
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	537,318.52
Expendable:	
Scholarships and Fellowships	47,744.19
Loans	47,352.27
Capital Projects	180,861.11
Other	75,492.02
Unrestricted	<u>(399,388.28)</u>
Total Net Position	<u><u>\$ 7,149,939.34</u></u>

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

Pamlico Community College
Statement of Revenues, Expenses, and
Changes in Net Position
For the Fiscal Year Ended June 30, 2015

Exhibit A-2

REVENUES

Operating Revenues:	
Student Tuition and Fees, Net (Note 9)	\$ 494,618.49
Sales and Services, Net (Note 9)	70,903.29
Other Operating Revenues	16,155.65
	<hr/>
Total Operating Revenues	581,677.43
	<hr/>

EXPENSES

Operating Expenses:	
Salaries and Benefits	4,924,051.97
Supplies and Materials	671,087.76
Services	441,834.13
Scholarships and Fellowships	551,825.44
Utilities	104,709.40
Depreciation	244,825.78
	<hr/>
Total Operating Expenses	6,938,334.48
	<hr/>
Operating Loss	(6,356,657.05)
	<hr/>

NONOPERATING REVENUES

State Aid	4,342,550.57
County Appropriations	562,411.00
Noncapital Grants - Student Financial Aid	961,092.49
Noncapital Grants	83,868.07
Noncapital Gifts	83,521.98
Investment Income (Net of Investment Expense of \$4,474.35)	9,451.02
	<hr/>
Net Nonoperating Revenues	6,042,895.13
	<hr/>
Loss Before Other Revenues	(313,761.92)
	<hr/>
State Capital Aid	300,929.86
County Capital Aid	45,975.00
Additions to Endowments	10,100.00
	<hr/>
Increase in Net Position	43,242.94

NET POSITION

Net Position, July 1, 2014 as Restated (Note 15)	<hr/> 7,106,696.40
Net Position, June 30, 2015	\$ <hr/> <hr/> 7,149,939.34

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

Pamlico Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2015

Exhibit A-3
Page 1 of 2

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 571,902.23
Payments to Employees and Fringe Benefits	(5,150,158.02)
Payments to Vendors and Suppliers	(1,226,304.18)
Payments for Scholarships and Fellowships	(546,053.64)
Other Payments	(2,060.99)
	<hr/>
Net Cash Used by Operating Activities	(6,352,674.60)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Aid Received	4,342,550.57
County Appropriations	562,411.00
Noncapital Grants - Student Financial Aid	961,092.49
Noncapital Grants	78,010.63
Noncapital Gifts and Endowments	93,621.98
	<hr/>
Cash Provided by Noncapital Financing Activities	6,037,686.67

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

State Capital Aid Received	337,229.86
County Capital Aid	45,975.00
Acquisition of Capital Assets	(31,128.20)
	<hr/>
Net Cash Provided by Capital and Related Financing Activities	352,076.66

CASH FLOWS FROM INVESTING ACTIVITIES

Investment Income	7,865.75
Purchase of Investments and Related Fees	(4,474.35)
	<hr/>
Net Cash Provided by Investing Activities	3,391.40

Net Increase in Cash and Cash Equivalents	40,480.13
Cash and Cash Equivalents, July 1, 2014	881,577.53
	<hr/>
Cash and Cash Equivalents, June 30, 2015	\$ 922,057.66

Pamlico Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2015

Exhibit A-3
Page 2 of 2

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

Operating Loss	\$ (6,356,657.05)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	244,825.78
Provision for Uncollectible Loans	894.38
Pension Expense	115,413.00
Changes in Assets, Liabilities, and Deferred Outflows of Resources:	
Receivables, Net	(6,322.00)
Inventories	1,629.86
Prepaid Items	(7,289.92)
Accounts Payable and Accrued Liabilities	(29,097.24)
Unearned Revenue	760.84
Funds Held for Others	(503.23)
Deferred Outflows - Contributions After the Measurement Date	(304,810.84)
Compensated Absences	(11,518.18)
	<u>(11,518.18)</u>
Net Cash Used by Operating Activities	<u>\$ (6,352,674.60)</u>

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	\$ 540,373.27
Restricted Cash and Cash Equivalents	137,569.22
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	<u>244,115.17</u>
Total Cash and Cash Equivalents - June 30, 2015	<u>\$ 922,057.66</u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Change in Fair Value of Investments	\$ 6,059.62
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The accompanying notes to the financial statements are an integral part of this statement.



NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

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

The accompanying financial statements present all funds of the College and its component unit for which the College's Board of Trustees is financially accountable. The College's component unit is blended in the College's financial statements. See below for further discussion of the College's component unit.

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

Separate financial statements for the Foundation may be obtained from the College Controller's Office, Post Office Box 185, Grantsboro, North Carolina 28529, or by calling (252) 249-1851.

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

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

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

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

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

- D. Cash and Cash Equivalents** - This classification includes undeposited receipts, petty cash, cash on deposit with private bank accounts, and deposits held by the State Treasurer in the short-term investment fund (STIF). The STIF maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.
- E. Investments** - Investments generally are reported at fair value, as determined by quoted market prices. Because of the inherent uncertainty in the use of estimates, values that are based on estimates may differ from the values that would have been used had a ready market existed for the investments. The net increase (decrease) in the fair value of investments is recognized as a component of investment income.
- F. Receivables** - Receivables consist of tuition and fees charged to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from the federal government, state and local governments, private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants. Receivables are recorded net of estimated uncollectible amounts.
- G. Inventories** - Inventories, consisting of expendable supplies, and merchandise for resale is valued at the lower of cost or market using the last invoice cost method.
- H. Capital Assets** - Capital assets are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. The value of assets constructed includes all material direct and indirect construction costs.

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

Depreciation is computed using the straight-line method over the estimated useful lives of the assets in the following manner:

Asset Class	Estimated Useful Life
Buildings	25-50 years
Machinery & Equipment	5-25 years
General Infrastructure	15-75 years

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

- I. **Restricted Assets** - Certain resources are reported as restricted assets because restrictions on asset use change the nature or normal understanding of the availability of the asset. Resources that are not available for current operations and are reported as restricted include resources restricted for the acquisition or construction of capital assets, resources whose use is limited by external parties or statute, and endowment and other restricted investments.
- J. **Noncurrent Long-Term Liabilities** - Noncurrent long-term liabilities include net pension liability and compensated absences that will not be paid within the next fiscal year.

The net pension liability represents the College's proportionate share of the collective net pension liability reported in the State of North Carolina's 2014 *Comprehensive Annual Financial Report*. This liability represents the College's portion of the collective total pension liability less the fiduciary net position of the Teachers' and State Employees' Retirement System. See Note 11 for further information regarding the College's policies for recognizing liabilities, expenses, and deferred outflows and inflows related to pensions.

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

In addition to the vacation leave described above, compensated absences include the accumulated unused portion of the special annual leave bonuses awarded by the North Carolina General Assembly. The bonus leave balance on December 31 is retained by employees and

transferred into the next calendar year. It is not subject to the limitation on annual leave carried forward described above and is not subject to conversion to sick leave.

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

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

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

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

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

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

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

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

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

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

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

NOTE 2 - DEPOSITS AND INVESTMENTS

- A. Deposits** - The College is required by *North Carolina General Statute 147-77* to deposit any funds collected or received that belong to the State of North Carolina with the State Treasurer or with a depository institution in the name of the State Treasurer. All funds of the College, other than those required to be deposited with the State Treasurer, are deposited in board-designated official depositories and are required to be collateralized in accordance with *North Carolina General Statute 115D-58.7*. Official depositories may be established with any bank or savings and loan association whose principal office is located in North Carolina. Also, the College may establish time deposit accounts, money market accounts, and certificates of deposit. Cash on hand at June 30, 2015 was \$752.00. The carrying amount of the College's deposits not with the State Treasurer was \$223,380.07, and the bank balance was \$243,330.45.

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, 2015, the College's bank balance was fully covered by federal depository insurance.

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

Generally, funds belonging to the College may be invested in any form of investment established or managed by certain investment advisors pursuant to G.S. 115D-58.6(d1) or in the form of investments pursuant to G.S. 159-30(c), as follows: a commingled investment pool established and administered by the State Treasurer pursuant to G.S. 147-69.3 (STIF); obligations of or fully guaranteed by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain nonguaranteed federal agencies; prime quality commercial paper bearing specified ratings; specified bills of exchange; certain savings certificates; The North Carolina Capital Management Trust, an SEC registered mutual fund; repurchase agreements; and evidences of ownership of, or fractional undivided interests in, future interest and principal payments on either direct obligations of or fully guaranteed by the United States government, which are held by a specified bank or trust company or any state in the capacity of custodian.

At June 30, 2015, the amount shown on the Statement of Net Position as cash and cash equivalents includes \$697,925.59, 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 1.5 years as of June 30, 2015. 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.

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

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

The following table presents the fair value of investments by type at June 30, 2015.

Investments

Investment Type	Fair Value
Mutual Funds	\$ 405,770.20

C. Reconciliation of Deposits and Investments - A reconciliation of deposits and investments for the College to the basic financial statements as of June 30, 2015, is as follows:

Cash on Hand	\$ 752.00
Carrying Amount of Deposits with Private Financial Institutions	223,380.07
Investments in the Short-Term Investment Fund	697,925.59
Restricted Investments	<u>405,770.20</u>
Total Deposits and Investments	<u>\$ 1,327,827.86</u>
Deposits	
Current:	
Cash and Cash Equivalents	\$ 540,373.27
Restricted Cash and Cash Equivalents	137,569.22
Noncurrent:	
Restricted Cash and Cash Equivalents	244,115.17
Restricted Investments	<u>405,770.20</u>
Total Deposits and Investments	<u>\$ 1,327,827.86</u>

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, 2015, net appreciation of \$9,428.32 was available to be spent, of which \$9,383.49 was classified in net position restricted expendable as it is restricted for specific purposes. The remaining portion of net appreciation available to be spent is classified as unrestricted net position.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2015, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	\$ 156,119.01	\$ 111,774.82	\$ 44,344.19
Student Sponsors	28,800.00		28,800.00
Accounts	9,817.96		9,817.96
Intergovernmental	12,011.80		12,011.80
Other	3,948.55		3,948.55
Total Current Receivables	<u>\$ 210,697.32</u>	<u>\$ 111,774.82</u>	<u>\$ 98,922.50</u>

NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2015 is presented as follows:

	Balance July 1, 2014	Increases	Decreases	Balance June 30, 2015
Capital Assets, Nondepreciable:				
Land	\$ 381,050.00	\$ 0.00	\$ 0.00	\$ 381,050.00
Art	5,000.00			5,000.00
Total Capital Assets, Nondepreciable	<u>386,050.00</u>			<u>386,050.00</u>
Capital Assets, Depreciable:				
Buildings	8,555,717.57			8,555,717.57
Machinery and Equipment	904,281.00	31,128.20	87,542.60	847,866.60
General Infrastructure	89,942.65			89,942.65
Total Capital Assets, Depreciable	<u>9,549,941.22</u>	<u>31,128.20</u>	<u>87,542.60</u>	<u>9,493,526.82</u>
Less Accumulated Depreciation for:				
Buildings	2,478,432.89	174,500.16		2,652,933.05
Machinery and Equipment	537,894.65	66,012.10	87,542.60	516,364.15
General Infrastructure	45,406.59	4,313.52		49,720.11
Total Accumulated Depreciation	<u>3,061,734.13</u>	<u>244,825.78</u>	<u>87,542.60</u>	<u>3,219,013.31</u>
Total Capital Assets, Depreciable, Net	<u>6,488,207.09</u>	<u>(213,697.58)</u>		<u>6,274,509.51</u>
Capital Assets, Net	<u>\$ 6,874,257.09</u>	<u>\$ (213,697.58)</u>	<u>\$ 0.00</u>	<u>\$ 6,660,559.51</u>

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2015, were as follows:

	<u>Amount</u>
Current Accounts Payable and Accrued Liabilities:	
Accounts Payable	\$ 18,965.21
Accrued Payroll	<u>53,801.14</u>
Total Current Accounts Payable and Accrued Liabilities	<u><u>\$ 72,766.35</u></u>

NOTE 7 - LONG-TERM LIABILITIES

Changes in Long-Term Liabilities - A summary of changes in the long-term liabilities for the year ended June 30, 2015, is presented as follows:

	Balance July 1, 2014 (As Restated)	Additions	Reductions	Balance June 30, 2015	Current Portion
Net Pension Liability	\$ 1,256,701.00	\$ 0.00	\$ 1,011,899.00	\$ 244,802.00	\$ 0.00
Compensated Absences	<u>236,072.94</u>	<u>221,836.55</u>	<u>233,354.73</u>	<u>224,554.76</u>	<u>56,610.28</u>
Total Long-Term Liabilities	<u><u>\$ 1,492,773.94</u></u>	<u><u>\$ 221,836.55</u></u>	<u><u>\$ 1,245,253.73</u></u>	<u><u>\$ 469,356.76</u></u>	<u><u>\$ 56,610.28</u></u>

Additional information regarding the net pension liability is included in Note 11.

NOTE 8 - OPERATING LEASE OBLIGATIONS

The College entered into operating leases for copiers. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2015:

<u>Fiscal Year</u>	<u>Amount</u>
2016	\$ 15,264.00
2017	11,548.00
2018	<u>6,348.00</u>
Total Minimum Lease Payments	<u><u>\$ 33,160.00</u></u>

Rental expense for all operating leases during the year was \$15,264.00.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 9 - REVENUES

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

	Gross Revenues	Less Scholarship Discounts	Less Allowance for Uncollectibles	Net Revenues
Operating Revenues:				
Student Tuition and Fees	\$ 782,129.00	\$ 295,539.84	\$ (8,029.33)	\$ 494,618.49
Sales and Services:				
Sales and Services of Auxiliary Enterprises:				
Bookstore	\$ 190,516.31	\$ 147,131.27	\$ 0.00	\$ 43,385.04
Other	27,518.25			27,518.25
Total Sales and Services	\$ 218,034.56	\$ 147,131.27	\$ 0.00	\$ 70,903.29

NOTE 10 - OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Equipment	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	\$ 2,483,636.51	\$ 135,444.00	\$ 67,362.65	\$ 0.00	\$ 0.00	\$ 0.00	\$ 2,686,443.16
Academic Support	743,090.52	197,518.53	45,512.96				986,122.01
Student Services	423,670.88	15,970.47	26,348.61				465,989.96
Institutional Support	887,378.29	43,501.17	207,990.26				1,138,869.72
Operations and Maintenance of Plant	252,795.65	102,091.98	80,312.51		104,709.40		539,909.54
Student Financial Aid			470.81	551,825.44			552,296.25
Auxiliary Enterprises	18,067.12	176,561.61	13,836.33				208,465.06
Depreciation						244,825.78	244,825.78
Pension Expense	115,413.00						115,413.00
Total Operating Expenses	\$ 4,924,051.97	\$ 671,087.76	\$ 441,834.13	\$ 551,825.44	\$ 104,709.40	\$ 244,825.78	\$ 6,938,334.48

NOTE 11 - PENSION PLAN

Defined Benefit Plan

Plan Administration: The State of North Carolina administers the Teachers' and State Employees' Retirement System (TSERS) plan. This plan is a cost-sharing, multiple-employer, defined benefit plan established by the State to provide pension benefits for general employees and law enforcement officers (LEOs) of the State, general employees and LEOs of its component units, and employees of Local Education Agencies (LEAs) and charter schools not in the reporting entity. Membership is comprised of employees of the State (state agencies and institutions), universities, community colleges, and certain proprietary component units along with the LEAs and charter schools. Benefit provisions are established by General Statute 135-5 and may be amended only by the North Carolina General Assembly.

Benefits Provided: TSERS provides retirement and survivor benefits. Retirement benefits are determined as 1.82% of the member's average final

compensation times the member's years of creditable service. A member's average final compensation is calculated as the average of a member's four highest consecutive years of compensation. General employee plan members are eligible to retire with full retirement benefits at age 65 with five years of creditable service, at age 60 with 25 years of creditable service, or at any age with 30 years of creditable service. General employee plan members are eligible to retire with partial retirement benefits at age 50 with 20 years of creditable service or at age 60 with five years of creditable service. Survivor benefits are available to eligible beneficiaries of general members who die while in active service or within 180 days of their last day of service and who also have either completed 20 years of creditable service regardless of age, or have completed five years of service and have reached age 60. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions. The plan does not provide for automatic post-retirement benefit increases. Increases are contingent upon actuarial gains of the plan.

Contributions: Contribution provisions are established by General Statute 135-8 and may be amended only by the North Carolina General Assembly. Employees are required to contribute 6% of their compensation. The contribution rate for employers is set each year by the NC General Assembly in the Appropriations Act based on the actuarially-determined rate recommended by the actuary. The College's contractually-required contribution rate for the year ended June 30, 2015 was 9.15% of covered payroll. The College's contributions to the pension plan were \$304,810.84, and employee contributions were \$199,875.96 for the year ended June 30, 2015.

The TSERS Plan's financial information, including all information about the plan's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fiduciary net position, is included in the State of North Carolina's fiscal year 2014 *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.

TSERS Basis of Accounting: The financial statements of the TSERS plan were prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has a legal requirement to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan. The plan's fiduciary net position was determined on the same basis used by the pension plan.

Methods Used to Value TSERS Investment: Pursuant to *North Carolina General Statutes*, the State Treasurer is the custodian and administrator of the retirement systems. The State Treasurer maintains various investment portfolios in its Investment Pool. The pension trust funds are the primary participants in the Long-term Investment portfolio and the sole participants in

the External Fixed Income Investment, Equity Investment, Real Estate Investment, Alternative Investment, Credit Investment, and Inflation Protection Investment portfolios. The investment balance of each pension trust fund represents its share of the fair market value of the net position of the various portfolios within the pool. Detailed descriptions of the methods and significant assumptions regarding investments of the State Treasurer are provided in the 2014 *Comprehensive Annual Financial Report*.

Net Pension Liability: At June 30, 2015, the College reported a liability of \$244,802.00 for its proportionate share of the collective net pension liability. The net pension liability was measured as of June 30, 2014. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2013, and update procedures were used to roll forward the total pension liability to June 30, 2014. The College's proportion of the net pension liability was based on the present value of future salaries for the College relative to the present value of future salaries for all participating employers, actuarially-determined. As of June 30, 2014, the College's proportion was .02088%, which was an increase of 0.87% from its proportion measured as of June 30, 2013.

Actuarial Assumptions: The following table presents the actuarial assumptions used to determine the total pension liability for the TSERS plan at the actuarial valuation date:

Valuation Date	12/31/2013
Inflation	3%
Salary Increases*	4.25% - 9.10%
Investment Rate of Return**	7.25%

* Salary increases include 3.5% inflation and productivity factor.

** Investment rate of return is net of pension plan investment expense, including inflation.

TSERS currently uses mortality tables that vary by age, gender, employee group (i.e. teacher, general, law enforcement officer) and health status (i.e. disabled and healthy). The current mortality rates are based on published tables and based on studies that cover significant portions of the U.S. population. The healthy mortality rates also contain a provision to reflect future mortality improvements.

The actuarial assumptions used in the December 31, 2013 valuations were based on the results of an actuarial experience study for the period January 1, 2005 through December 31, 2009.

Future ad hoc Cost of Living Adjustment (COLA) amounts are not considered to be substantively automatic and are therefore not included in the measurement.

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields

across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2014 (the valuation date) are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed Income	2.5%
Global Equity	6.1%
Real Estate	5.7%
Alternatives	10.5%
Credit	6.8%
Inflation Protection	3.7%

The information above is based on 30-year expectations developed with the consulting actuary for the 2013 asset, liability and investment policy study for the North Carolina Retirement Systems. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.19%. All rates of return and inflation are annualized.

Discount Rate: The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate: The following presents the net pension liability of the plan calculated using the discount rate of 7.25%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.25%) or 1-percentage point higher (8.25%) than the current rate:

<u>Net Pension Liability (Asset)</u>		
<u>1% Decrease (6.25%)</u>	<u>Current Discount Rate</u>	<u>1% Increase (8.25%)</u>
\$ 1,757,354.97	\$ 244,802.00	\$ (1,032,329.54)

Deferred Inflows of Resources and Deferred Outflows of Resources Related to Pensions: For the year ended June 30, 2015, the College recognized pension expense of \$115,413.00. At June 30, 2015, the College reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Employer Balances of Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions by Classification:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Actual and Expected Experience	\$ 0.00	\$ 57,062.00
Changes of Assumptions		
Net Difference Between Projected and Actual Earnings on Pension Plan Investments		827,095.00
Change in Proportion and Differences Between Agency's Contributions and Proportionate Share of Contributions	40,270.00	
Contributions Subsequent to the Measurement Date	304,810.84	
Total	<u>\$ 345,080.84</u>	<u>\$ 884,157.00</u>

\$304,810.84 of the amount reported as deferred outflows of resources related to pensions will be included as a reduction of the net pension liability in the fiscal year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Schedule of the Net Amount of the Employer's Balances of Deferred Outflows of Resources and Deferred Inflows of Resources That will be Recognized in Pension Expense:

Year ended June 30:	Amount
2016	\$ (211,205.00)
2017	(211,205.00)
2018	(211,205.00)
2019	(210,272.00)
Total	<u>\$ (843,887.00)</u>

NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS

A. Health Benefits - The College participates in the Comprehensive Major Medical Plan (the Plan), a cost-sharing, multiple-employer defined benefit health care plan that provides postemployment health insurance to eligible former employees. Eligible former employees include long-term disability beneficiaries of the Disability Income Plan of North Carolina and retirees of the Teachers' and State Employees' Retirement System

(TSERS). 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 TSERS 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 5.49% of the covered payroll under TSERS to the Fund. Required contribution rates for the years ended June 30, 2014, and 2013, were 5.4% and 5.3%, respectively. The College made 100% of its annual required contributions to the Plan for the years ended June 30, 2015, 2014, and 2013, which were \$182,886.51, \$176,121.73, and \$177,205.40, 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 TSERS. 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, 2015, the College made a statutory contribution of .41% of covered payroll under TSERS to the DIPNC. Required

contribution rates for the years ended June 30, 2014, and 2013, were .44% in both years. The College made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2015, 2014, and 2013, which were \$13,658.19, \$14,350.66, and \$14,711.39, respectively. The College assumes no liability for long-term disability benefits under the Plan other than its contribution.

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

NOTE 13 - RISK MANAGEMENT

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

A. Public Entity Risk Pool

Public School Insurance Fund

Fire and other property losses are covered by the Public School Insurance Fund (Fund), a state-administered public entity risk pool. The Fund is financed by premiums and interest collected through membership participation and retains a \$10 million deductible per occurrence. Reinsurance is purchased by the Fund to cover catastrophic events in excess of the \$10 million deductible. Membership insured property is covered under an all risk coverage contract. Building and contents are valued under a replacement cost basis. No coinsurance penalties apply. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

B. Employee Benefit Plans

1. State Health Plan

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.

2. Death Benefit Plan of North Carolina

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.

C. Other Risk Management and Insurance Activities**1. Automobile Insurance**

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.

2. Employee Dishonesty and Computer Fraud

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

3. Statewide Workers' Compensation Program

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.

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.

4. Other Insurance Held by the College

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

NOTE 14 - BLENDED COMPONENT UNIT

Condensed combining information for the College's blended component unit for the year ended June 30, 2015, is presented as follows:

*Condensed Statement of Net Position
June 30, 2015*

	Pamlico Community College	Pamlico Community College Foundation, Inc.	Total
ASSETS			
Current Assets	\$ 763,267.04	\$ 129,683.00	\$ 892,950.04
Capital Assets	6,655,559.51	5,000.00	6,660,559.51
Other Noncurrent Assets	172,266.85	537,318.52	709,585.37
Total Assets	<u>7,591,093.40</u>	<u>672,001.52</u>	<u>8,263,094.92</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>345,080.84</u>		<u>345,080.84</u>
LIABILITIES			
Current Liabilities	157,317.94	4,015.00	161,332.94
Noncurrent Liabilities	412,746.48		412,746.48
Total Liabilities	<u>570,064.42</u>	<u>4,015.00</u>	<u>574,079.42</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>884,157.00</u>		<u>884,157.00</u>
NET POSITION			
Net Investment in Capital Assets	6,655,559.51	5,000.00	6,660,559.51
Restricted - Nonexpendable		537,318.52	537,318.52
Restricted - Expendable	300,252.59	51,197.00	351,449.59
Unrestricted	(473,859.28)	74,471.00	(399,388.28)
Total Net Position	<u>\$ 6,481,952.82</u>	<u>\$ 667,986.52</u>	<u>7,149,939.34</u>

*Condensed Statement of Revenues, Expenses, and
Changes in Net Position
For the Fiscal Year Ended June 30, 2015*

	Pamlico Community College	Pamlico Community College Foundation, Inc.	Eliminations	Total
OPERATING REVENUES				
Student Tuition and Fees	\$ 494,618.49	\$ 0.00	\$ 0.00	\$ 494,618.49
Sales and Services, Net	70,903.29			70,903.29
Fundraising and Special Events		44,546.00	(44,546.00)	0.00
Other Operating Revenues	16,155.65			16,155.65
Total Operating Revenues	<u>581,677.43</u>	<u>44,546.00</u>	<u>(44,546.00)</u>	<u>581,677.43</u>
OPERATING EXPENSES				
Operating Expenses	6,634,076.70	59,432.00		6,693,508.70
Depreciation	244,825.78			244,825.78
Total Operating Expenses	<u>6,878,902.48</u>	<u>59,432.00</u>		<u>6,938,334.48</u>
Operating Loss	<u>(6,297,225.05)</u>	<u>(14,886.00)</u>	<u>(44,546.00)</u>	<u>(6,356,657.05)</u>
NONOPERATING REVENUES				
State Aid	4,342,550.57			4,342,550.57
County Appropriations	562,411.00			562,411.00
Noncapital Gifts	37,975.98	11,100.00	34,446.00	83,521.98
Noncapital Grants	1,044,960.56			1,044,960.56
Investment Income	2,082.02	7,369.00		9,451.02
Net Nonoperating Revenues	<u>5,989,980.13</u>	<u>18,469.00</u>	<u>34,446.00</u>	<u>6,042,895.13</u>
Capital Contributions	346,904.86			346,904.86
Additions to Endowments			10,100.00	10,100.00
Increase in Net Position	39,659.94	3,583.00		43,242.94
NET POSITION				
Net Position, July 1, 2014 (As Restated)	6,442,292.88	664,403.52		7,106,696.40
Net Position, June 30, 2015	<u>\$ 6,481,952.82</u>	<u>\$ 667,986.52</u>	<u>\$ 0.00</u>	<u>\$ 7,149,939.34</u>

*Condensed Statement of Cash Flows
June 30, 2015*

	Pamlico Community College	Pamlico Community College Foundation, Inc.	Total
Net Cash Used by Operating Activities	\$ (6,342,446.60)	\$ (10,228.00)	\$ (6,352,674.60)
Net Cash Provided by Noncapital Financing Activities	6,026,586.67	11,100.00	6,037,686.67
Net Cash Provided by Capital and Related Financing Activities	352,076.66		352,076.66
Net Cash Provided by Investing Activities	2,081.40	1,310.00	3,391.40
Net Increase in Cash and Cash Equivalents	38,298.13	2,182.00	40,480.13
Cash and Cash Equivalents, July 1, 2014	623,978.53	257,599.00	881,577.53
Cash and Cash Equivalents, June 30, 2015	<u>\$ 662,276.66</u>	<u>\$ 259,781.00</u>	<u>\$ 922,057.66</u>

NOTE 15 - NET POSITION RESTATEMENT

As of July 1, 2014, net position as previously reported was restated as follows:

	<u>Amount</u>
July 1, 2014 Net Position as Previously Reported	\$ 8,079,972.40
Restatement:	
Record the College's Net Pension Liability and Pension Related Deferred Outflows of Resources per GASB 68 Requirements	<u>(973,276.00)</u>
July 1, 2014 Net Position as Restated	<u>\$ 7,106,696.40</u>



REQUIRED SUPPLEMENTARY INFORMATION

**Pamlico Community College
 Required Supplementary Information
 Schedule of the Proportionate Net Pension Liability
 Teachers' and State Employees' Retirement System
 Last Two Fiscal Years**

Exhibit B-1

	<u>2014</u>	<u>2013</u>
Proportionate Share Percentage of Collective Net Pension Liability	0.02088%	0.02070%
Proportionate Share of TSERS Collective Net Pension Liability	\$ 244,802.00	\$ 1,256,701.00
Covered-Employee Payroll	\$ 3,261,513.47	\$ 3,343,498.07
Net Pension Liability as a Percentage of Covered-Employee Payroll	7.51%	37.59%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	98.24%	90.60%

**Pamlico Community College
 Required Supplementary Information
 Schedule of College Contributions
 Teachers' and State Employees' Retirement System
 Last Ten Fiscal Years**

Exhibit B-2

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Contractually Required Contribution	\$ 304,810.84	\$ 283,425.52	\$ 278,513.39	\$ 241,722.03	\$ 158,386.11
Contributions in Relation to the Contractually Determined Contribution	<u>304,810.84</u>	<u>283,425.52</u>	<u>278,513.39</u>	<u>241,722.03</u>	<u>158,386.11</u>
Contribution Deficiency (Excess)	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>
Covered-Employee Payroll	\$ 3,331,266.03	\$ 3,261,513.47	\$ 3,343,498.07	\$ 3,248,952.02	\$ 3,212,699.94
Contributions as a Percentage of Covered-Employee Payroll	9.15%	8.69%	8.33%	7.44%	4.93%

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Contractually Required Contribution	\$ 112,428.54	\$ 105,105.19	\$ 91,134.59	\$ 73,196.40	\$ 59,453.36
Contributions in Relation to the Contractually Determined Contribution	<u>112,428.54</u>	<u>105,105.19</u>	<u>91,134.59</u>	<u>73,196.40</u>	<u>59,453.36</u>
Contribution Deficiency (Excess)	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>
Covered-Employee Payroll	\$ 3,149,258.81	\$ 3,128,130.72	\$ 2,988,019.34	\$ 2,751,744.43	\$ 2,540,741.88
Contributions as a Percentage of Covered-Employee Payroll	3.57%	3.36%	3.05%	2.66%	2.34%

Pamlico Community College
Notes to Required Supplementary Information
Schedule of College Contributions
Teachers' and State Employees' Retirement System

For the Fiscal Year Ended June 30, 2015

Changes of Benefit Terms:

<u>Cost of Living Increase</u>								
<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
N/A	1.00%	N/A	N/A	N/A	2.20%	2.20%	3.00%	2.00%

Changes of assumptions. In 2008, and again in 2012, the rates of withdrawal, mortality, service retirement and salary increase for active members and the rates of mortality for beneficiaries were adjusted to more closely reflect actual experience. Assumptions for leave conversions and loads were also revised in 2012.



INDEPENDENT AUDITOR'S REPORT

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
Pamlico Community College
Grantsboro, North Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Pamlico Community College, a component unit of the State of North Carolina, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the College's basic financial statements, and have issued our report thereon dated April 27, 2016. The financial statements of Pamlico 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 Pamlico 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.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the College's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a

deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

April 27, 2016

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For additional information contact:
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This audit required 295 audit hours at an approximate cost of \$29,205.00.