STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

PITT COMMUNITY COLLEGE

WINTERVILLE, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2017

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 Roy Cooper, 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, 2017, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

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

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

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 and any organization that receives public funding. The Auditor also has the power to summon people to produce records and to answer questions under oath.

INDEPENDENT AUDITOR'S REPORT

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INDEPENDENT AUDITOR'S REPORT

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 (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, 2017, 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 Pitt Community College Foundation, Inc., are based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of 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. 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 respective financial position of Pitt Community College, and its discretely presented component unit, as of June 30, 2017, and the respective 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 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 February 20, 2018 on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control over financial reporting and compliance.

Beth A. Wood

Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

February 20, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Pitt Community College's Annual Financial Report provides an overview of the financial activities for the fiscal year ended June 30, 2017, with comparative data for the fiscal year ended June 30, 2016. 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, as well as deferred inflows and outflows of resources. The difference between total assets and deferred outflows less total liabilities and deferred inflows 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. deferred 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, 2016, to the ending cash on hand as of June 30, 2017.

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 year. Student enrollments continued to decline statewide this past year, with total budget FTE for the 58 community colleges dropping from 229,614 to 224,092, a 2.4% decrease. Pitt Community College's total budget FTE decreased by 1.1%, from 8,280 to 8,190 for 2016-2017. The majority of this decrease was due to the decline in FTE for our Basic Skills program, which declined by 19.3%, from 352 FTE to 284 FTE.

The College's total initial state allocation for 2016-2017 was $47,243,998, an increase of $731,503 from the previous year. This increase in budget was mainly due to legislative increases in employee pay in the amount of 1.5% salary increases, as well as an additional $155,350 to support the non-recurring increase in the retirement rates associated with the one-time supplement for retirees. The College ranks 7th in both initial state allocation and total FTE out of the 58 community colleges.

The College is nearing completion on what will be the largest building on campus, the Walter and Marie Williams's science building. This 70,000 square-foot building has an approximate cost of $17.4 million. This building will house state-of-the-art laboratories, classrooms, and a 120-seat lecture hall to support the science programs including biology, biotechnology, microbiology, geology, astronomy, physics, engineering, and robotics. Of the $17.4 million budget, $15.4 million is funded from the 2013 Pitt County bond referendum, with the remaining $2 million coming from an Economic Development Agency (EDA) grant from the U.S. Department of Commerce.

Statement of Net Position

The Statement of Net Position presents the financial position of the College at June 30, 2017, defined by the balances of assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. 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. Net position is grouped into three categories: investment in capital assets, restricted net position, and unrestricted net position. Restricted net position is classified as expendable and is made up primarily of contracts, grants, and gifts.

Condensed Statement of Net Position

	2017	2016	Increase (Decrease)
Assets			
Current Assets	$ 10,916,650	$ 10,510,762	$ 405,888
Capital Assets, Net of Depreciation	88,942,656	78,860,225	10,082,430
Other Noncurrent Assets	189,956	188,616	1,340
Total Assets	100,049,262	89,559,603	10,489,658
Deferred Outflows of Resources	13,118,128	3,033,433	10,084,695
Liabilities			
Current Liabilities	2,320,943	3,112,651	(791,708)
Long-Term Liabilities	20,673,810	8,842,147	11,831,663
Total Liabilities	22,994,753	11,954,798	11,039,955
Deferred Inflows of Resources	901,427	1,618,859	(717,432)
Net Position			
Investment in Capital Assets	88,942,656	78,860,225	10,082,430
Restricted	623,958	523,396	100,563
Unrestricted	(295,404)	(364,242)	68,838
Total Net Position	$ 89,271,210	$ 79,019,379	$ 10,251,831

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

- Total assets increased by $10,489,658 primarily due to the increase in capital assets, net of depreciation. This increase was largely the result of the increase in construction in progress of the Science building by $10,404,887. See the Capital Assets Section below for more details.
- Current assets increased by $405,888 due to an increase in current cash and cash equivalents. This was the result of maintaining a higher bookstore cash balance due to decreased purchases as a result of decreased enrollment and an increase in the parking fee.
- The increase of $10,084,695 of deferred outflows of resources, the increase of noncurrent liabilities of $11,782,436, and the decrease of $717,432 of deferred inflows of resources resulted from current year changes in GASB 68 pension recognition.
- The decrease of $791,708 of current liabilities is the result of not haveing construction payables associated with the Science building due to the project nearing completion.

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. Intradepartmental sales, services, and transfers are eliminated and depreciation of capital assets is recorded.

Condensed Statement of Revenue, Expense, and Changes in Net Position

	2017	2016	Increase (Decrease)
Operating Revenues			
Student Tuition and Fees, Net	$ 6,957,115	$ 7,037,364	$ (80,248)
Sales and Services, Net	1,755,988	1,789,394	(33,406)
Other Operating Revenues	205,235	182,173	23,062
Total Operating Revenues	8,918,339	9,008,931	(90,592)
Less Operating Expenses	73,587,261	69,928,558	3,658,703
Operating Loss	(64,668,922)	(60,919,627)	3,749,295
Nonoperating and Other Revenues (Expenses)			
State Aid	31,679,970	29,424,117	2,255,853
County Appropriations	5,695,626	5,495,326	200,300
Noncapital Grants	22,590,838	24,526,833	(1,935,995)
Other Nonoperating Revenues, Net	235,112	296,415	(61,303)
Capital Aid, Gifts, and Grants	14,719,208	6,523,979	8,195,229
Total Nonoperating and Other Revenues	74,920,753	66,266,670	8,654,083
Change in Net Position	10,251,831	5,347,042	12,403,378
Net Position - Beginning of Year	79,019,379	73,672,337	5,347,042
Net Position - End of Year	$ 89,271,210	$ 79,019,379	$ 10,251,831

Fiscal year 2016-2017 total revenues are $83,913,542 and total expenses are $73,661,711
Fiscal year 2015-2016 total revenues are $75,275,601 and total expenses are $69,928,558

Operating and Nonoperating Revenues

- Total operating revenues remained relatively unchanged for fiscal year 2017 with a nominal decrease of $90,592 due to decreased enrollment. Total operating expenses increased by $3,658,703 (additional explanation of this increase is provided in the following section of Operating Expenses). These changes resulted in an increase in the operating loss of $3,749,295.
- State aid increased by $2,255,853 due to the overall increase in the final state budget.
- Noncapital grants decreased by $1,935,995 due to the decrease in federal Pell revenue of $1,507,007, federal college work-study revenue of $208,403 and the federal supplemental education opportunity grant of $149,374.
- Capital aid, gifts, and grants increased by $8,195,229 due to the increase in county capital aid of $7,947,573, largely contributed to the construction funding of the Science building.

Operating Expenses

The College presents operating expenses by natural classification in the Statement of Revenues, Expenses, and Changes in Net Position. Salaries and benefits accounted for 62.09% of operating expenses, followed by scholarships and fellowships at 12.34%, supplies and materials at 11.52%, services at 10.16%, depreciation at 2.23%, and utilities at 1.65%.

	2017	2016	Increase (Decrease)
Salaries and Benefits	$ 45,691,410	$ 41,264,060	$ 4,427,350
Supplies and Materials	8,478,804	8,538,885	(60,081)
Services	7,478,725	7,384,554	94,172
Scholarships and Fellowships	9,083,311	9,868,677	(785,365)
Utilities	1,215,800	1,247,214	(31,415)
Depreciation	1,639,210	1,625,168	14,042
Total Operating Expenses	$ 73,587,261	$ 69,928,558	$ 3,658,703

Salaries and Benefits increased by $4,427,350 largely due to the net increase in the pension and retirement expense of $2,643,252. Salary expenditures from state funds increased by $1,711,365 due to the legislative increase for salaries of $600,344, the legislative increase for bonuses of $600,344, and an increase in retirement rates associated with the one-time supplement for retirees.

Scholarships and fellowships decreased by $785,365 largely due to the decrease in student financial aid expenses resulting from the decrease in enrollment.

Capital Assets

	2017	2016	Increase
Land	$ 6,384,445	$ 6,384,445	$ 0
Construction in Progress	16,033,940	5,528,339	10,505,601
Buildings	70,187,906	69,729,152	458,754
Machinery and Equipment	12,270,513	12,328,951	(58,438)
General Infrastructure	3,484,062	3,484,062	
Total Capital Assets	108,360,866	97,454,949	10,905,917
Less: Accumulated Depreciation	19,418,210	18,594,723	823,487
Total Capital Assets, Net	$ 88,942,656	$ 78,860,225	$ 10,082,430

As described above in the Financial Highlights section, the construction of the Science Building was the main contributor to the overall increase of the $10,082,430 to capital assets. The completion of the renovation project of the Law Enforcement Training Center resulted in the increase in buildings of $458,754 and a corresponding decrease to CIP. The following projects reflect the increases to CIP:

Science Building	$ 10,404,887
Law Enforcement Training Center	222,117
Everett Renovation	182,540
Early College High School	105,741
Trillium Smart Home	201
Greenville Annex Renovation	48,869
Total Increase in CIP	$ 10,964,356

Economic Outlook and Effects on Financial Positions

Tuition and state aid provide funds for the operational and administrative needs of the College based on the number of student FTE enrolled in the previous academic year or the two-year average FTE, whichever is greater. Therefore, student FTE is a critical component of the College's state funding. With the economy slowly recovering from the economic recession, it is not unusual or unexpected to see a decline in FTE as students return to the work force. The college has seen a decline in both fall and spring semester enrollments each year for the last three years. From the 2013 fall semester to the 2016 fall semester, FTE has declined 8.81% (from 3,668 to 3,345). From the 2014 spring semester to the 2017 spring semester, FTE has declined 14.75% (from 3,519 to 3,000). Fortunately, the N.C. General Assembly's approval of full funding for summer-term FTE in 2015 - 2016 has helped offset these FTE declines.

With the passage of a $2 billion Connect NC bond referendum passed by the State of North Carolina, Pitt Community College received funding authorization of $8,376,397 from these funds. The College's first allocation of these funds was for the renovation of the C.W. Everett Building for $2,000,000. The 34,603 square foot Everett Building, home of PCC's library, was constructed in 1987 and is in need of up fitting and renovations to meet the needs of a more modern campus. Additionally, PCC's Disability Services division is now located in the Everett Building and renovations are needed to further accommodate this important department. Pitt County has also authorized $2,249,195, for a total funding of $4,249,195 for this renovation.

The College's second allocation of these funds will be for the 33,782 square foot Student Advancement Center for $4,000,000. This building will include multipurpose space to accommodate meetings, campus activities, and flexible classrooms. This area will include seating for up to 600 persons for student activities, special events, departmental meetings, and campus activities. It will also include a center for the college's VISIONS Program, a women's center, and offices for the alumni and development services, foundation, marketing, media relations, and student ambassadors. This project has an estimated cost of $8,545,500.

In August 2017, the Pitt Community College Foundation announced a $10 million capita-campaign drive to help pay the balance of the Student Advancement Center as well as raise additional funds for student scholarships. The Foundation has entered into a contract with Capital Development Services to provide a campaign assessment, and a campaign plan to help ensure a successful event.

Financial Statements

Pitt Community College
Statement of Net Position *Exhibit A-1*
June 30, 2017 *Page 1 of 2*

ASSETS		
Current Assets:		
Cash and Cash Equivalents	$	7,409,409.03
Restricted Cash and Cash Equivalents		561,797.69
Receivables, Net (Note 4)		1,860,606.34
Inventories		1,084,836.91
Total Current Assets		10,916,649.97
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		181,043.64
Restricted Due from Primary Government		8,912.42
Capital Assets - Nondepreciable (Note 5)		22,418,384.79
Capital Assets - Depreciable, Net (Note 5)		66,524,270.73
Total Noncurrent Assets		89,132,611.58
Total Assets		100,049,261.55
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Outflows Related to Pensions		13,118,127.89
LIABILITIES		
Current Liabilities:		
Accounts Payable and Accrued Liabilities (Note 6)		1,467,564.88
Due to Primary Government		29.60
Unearned Revenue		676,680.55
Long-Term Liabilities - Current Portion (Note 7)		176,667.55
Total Current Liabilities		2,320,942.58
Noncurrent Liabilities:		
Long-Term Liabilities (Note 7)		20,673,809.89
Total Liabilities		22,994,752.47
DEFERRED INFLOWS OF RESOURCES		
Deferred Inflows Related to Pensions		901,427.00

NET POSITION	
Investment in Capital Assets	88,942,655.52
Restricted for:	
Expendable:	
Scholarships and Fellowships	18,532.87
Loans	31,339.97
Capital Projects	83,990.82
Restricted for Specific Programs	434,162.25
Other	55,932.19
Unrestricted	(295,403.65)
Total Net Position	$ 89,271,209.97

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, 2017 — *Exhibit A-2*

REVENUES	
Operating Revenues:	
Student Tuition and Fees, Net (Note 8)	$ 6,957,115.20
Sales and Services, Net (Note 8)	1,755,988.23
Other Operating Revenues	205,235.41
Total Operating Revenues	8,918,338.84
EXPENSES	
Operating Expenses:	
Salaries and Benefits	45,691,409.77
Supplies and Materials	8,478,804.49
Services	7,478,725.44
Scholarships and Fellowships	9,083,311.43
Utilities	1,215,799.53
Depreciation	1,639,210.31
Total Operating Expenses	73,587,260.97
Operating Loss	(64,668,922.13)
NONOPERATING REVENUES (EXPENSES)	
State Aid	31,679,970.14
County Appropriations	5,695,626.00
Noncapital Grants - Student Financial Aid	18,943,495.41
Noncapital Grants	3,647,342.39
Noncapital Gifts	253,707.30
Investment Income	58,853.97
Other Nonoperating Expenses	(77,449.74)
Net Nonoperating Revenues	60,201,545.47
Loss Before Other Revenues	(4,467,376.66)
State Capital Aid	3,065,306.78
County Capital Aid	11,653,900.72
Increase in Net Position	10,251,830.84
NET POSITION	
Net Position, July 1, 2016	79,019,379.13
Net Position, June 30, 2017	$ 89,271,209.97

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, 2017

CASH FLOWS FROM OPERATING ACTIVITIES	
Received from Customers	$ 9,337,620.38
Payments to Employees and Fringe Benefits	(44,694,964.58)
Payments to Vendors and Suppliers	(16,988,141.26)
Payments for Scholarships and Fellowships	(9,067,437.09)
Other Receipts	35,340.95
Net Cash Used by Operating Activities	(61,377,581.60)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Aid Received	31,679,970.14
County Appropriations	5,695,626.00
Noncapital Grants - Student Financial Aid	18,943,495.41
Noncapital Grants	3,883,726.53
Noncapital Gifts	253,707.30
William D. Ford Direct Lending Receipts	18,404,257.25
William D. Ford Direct Lending Disbursements	(18,404,257.25)
Net Cash Provided by Noncapital Financing Activities	60,456,525.38
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
State Capital Aid Received	3,065,306.78
County Capital Aid	11,653,900.72
Acquisition and Construction of Capital Assets	(12,621,486.56)
Net Cash Provided by Capital and Related Financing Activities	2,097,720.94
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment Income	58,853.97
Cash Provided by Investing Activities	58,853.97
Net Increase in Cash and Cash Equivalents	1,235,518.69
Cash and Cash Equivalents, July 1, 2016	6,916,731.67
Cash and Cash Equivalents, June 30, 2017	$ 8,152,250.36

Pitt Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2017

RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES

Operating Loss	$ (64,668,922.13)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	1,639,210.31
Nonoperating Other Income	35,340.95
Changes in Assets and Deferred Outflows of Resources:	
Receivables, Net	519,215.76
Inventories	72,690.50
Deferred Outflows for Pensions	(10,084,694.89)
Changes in Liabilities and Deferred Inflows of Resources:	
Accounts Payable and Accrued Liabilities	162,242.93
Due to Primary Government	(2.52)
Unearned Revenue	(84,059.88)
Net Pension Liability	11,782,436.00
Deferred Inflows for Pensions	(717,432.00)
Compensated Absences	(33,606.63)
Net Cash Used by Operating Activities	$ (61,377,581.60)

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	$ 7,409,409.03
Restricted Cash and Cash Equivalents	561,797.69
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	181,043.64
Total Cash and Cash Equivalents - June 30, 2017	$ 8,152,250.36

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Loss on Disposal of Capital Assets	$ (112,790.69)

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, 2017 — *Exhibit B-1*

ASSETS		
Current Assets		
Cash with State Treasurer	$	2,826,699.79
Cash in Private Institutions		1,451.61
Pledges Receivable, Current		147,600.00
Total Current Assets		2,975,751.40
Investments		
Cash and Cash Equivalents		67,662.45
Long-Term Investments		1,043,564.13
Total Investments		1,111,226.58
Property and Equipment		
Equipment		9,957.40
Software		4,360.00
Less: Accumulated Depreciation		(14,317.40)
Net Property and Equipment		0.00
Other Assets		
Net Pledges Receivable, Noncurrent		145,516.91
Grant Income Receivable		47,359.42
Total Other Assets		192,876.33
Total Assets	$	4,279,854.31
LIABILITIES AND NET ASSETS		
Current Liabiliites		
Accounts Payable	$	19,829.90
Accrued Wages and Benefits		13,659.01
Total Liabilities		33,488.91
Net Assets		
Unrestricted Net Assets		480,492.65
Temporarily Restricted Net Assets		1,995,324.87
Permanently Restricted Net Assets		1,770,547.88
Total Net Assets		4,246,365.40
Total Liabilities and Net Assets	$	4,279,854.31

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, 2017 *Exhibit B-2*

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Public Support and Revenues				
Support:				
Contributions	$ 380,237.51	$ 461,814.10	$ 25,500.00	$ 867,551.61
Contributions - In Kind		101,756.20		101,756.20
Discount on Pledges Receivable		(4,783.09)		(4,783.09)
Revenue:				
Income Earned on Investments	4,533.52	57,126.08	676.55	62,336.15
Fundraising Income	257,988.97			257,988.97
Net Assets Released from Restrictions:	740,730.89	(740,730.89)		
Total Support and Revenue	1,383,490.89	(124,817.60)	26,176.55	1,284,849.84
Expenses				
Contributions to Pitt Community College for:				
Scholarships & Minigrants	291,600.01			291,600.01
General Support for PCC Programs	131,142.39			131,142.39
Program Services	335,525.49			335,525.49
General Expenses	185,009.62			185,009.62
Fundraising Expenses	105,512.73			105,512.73
Total Expenses	1,048,790.24			1,048,790.24
Unrealized Gain on Investment			78,077.98	78,077.98
Reclassifications	(625,322.05)	520,478.05	104,844.00	
Change in Net Assets	(290,621.40)	395,660.45	209,098.53	314,137.58
Net Assets at Beginning of the Year	771,114.05	1,599,664.42	1,561,449.35	3,932,227.82
Net Assets at End of Year	$ 480,492.65	$ 1,995,324.87	$ 1,770,547.88	$ 4,246,365.40

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. Pitt 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 discretely presented in the College's financial statements. See below for further discussion of the College's component unit. Other related foundations and similar nonprofit corporations for which the College is not financially accountable are not part of the accompanying financial statements.

Discretely Presented Component Unit – Pitt Community College Foundation, Inc. (Foundation) is a legally separate, nonprofit 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 fundraising organization to supplement the resources that are available to the College in support of its programs. The Foundation board consists of 34 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 are restricted to the activities of the College by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of the College, the Foundation is considered a component unit of the College and is reported in separate financial statements because of the difference in its reporting model, as described below.

The Foundation reports its financial results under the Financial Accounting Standards Board (FASB) Codification. As such, certain revenue recognition criteria and presentation features are different from the Governmental Accounting Standards Board (GASB) revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information in the College's financial reporting entity for these differences.

During the year ended June 30, 2017, the Foundation distributed $422,742.40 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 aid, 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. Additional information regarding the fair value measurement of deposits held by the State Treasurer in the STIF is disclosed in Note 3.

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

F. **Inventories** - Inventories, consisting of expendable supplies, are valued at cost using the first-in, first-out method. Merchandise for resale is valued at the lower of cost or market using the retail inventory method.

G. **Capital Assets** - Capital assets are stated at cost at date of acquisition or acquisition value at date of donation in the case of gifts. Donated capital assets acquired prior to July 1, 2015 are stated at fair value as of the date of donation. 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	25-100 years
Machinery and Equipment	5-30 years
General Infrastructure	35-75 years

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 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 2016 *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 10 for further information regarding the College's policies for recognizing liabilities, expenses, and deferred outflows of resources and deferred inflows of resources related to pensions.

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 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. Deferred Outflows/Inflows of Resources – In addition to assets, the Statement of Net Position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. Deferred outflows for pensions qualifies for reporting in this category.

In addition to liabilities, the Statement of Net Position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resource (revenue) until then. Deferred inflows for pensions qualifies for reporting in this category.

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 - **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 of resources and deferred 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. **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 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.

P. **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.

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 $3,205.00, and deposits in private financial institutions with a carrying value of $569,100.00 and a bank balance of $886,369.82.

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, 2017, 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 (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, 2017, the amount shown on the Statement of Net Position as cash and cash equivalents includes $7,579,945.36, 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 or subject to any other regulatory oversight and does not have a credit rating) had a weighted average maturity of 1.6 years as of June 30, 2017. Assets and shares of the STIF are valued at 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 North Carolina Department of State Treasurer Investment Programs' separately issued audit report. This separately issued report can be obtained from the Department of State Treasurer, 3200 Atlantic Avenue, Raleigh, NC 27604 or can be accessed from the Department of State Treasurer's website at https://www.nctreasurer.com/ in the Audited Financial Statements section.

Component Unit – Investments of the College's discretely presented component unit, the Foundation, are subject to and restricted by G.S. 36E "Uniform Prudent Management of Institutional Funds Act" (UPMIFA) and any requirements placed on them by contract or donor agreements. Because the Foundation reports under the FASB reporting model, disclosures of the various investment risk are not required. The following is an analysis of investments by type:

At June 30, 2017	Amount
Cash and Equivalents	$ 67,662.45
Fixed Income Mutual Funds	223,807.37
Equity Mutual Funds	521,604.58
Other Investment Funds	298,152.18
Total Investments	$ 1,111,226.58

NOTE 3 - FAIR VALUE MEASUREMENTS

College - To the extent available, the College's investments are recorded at fair value as of June 30, 2017. GASB Statement No. 72, *Fair Value Measurement and Application*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Inputs are used in applying the various valuation techniques and take into account the assumptions that market participants use to make valuation decisions. Inputs may include price information, credit data, interest and yield curve data, and other factors specific to the financial instrument. Observable inputs reflect market data obtained from independent sources. In contrast, unobservable inputs reflect the entity's assumptions about how market participants would value the financial instrument. Valuation techniques should maximize the use of observable inputs to the extent available.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used for financial instruments measured at fair value on a recurring basis:

Level 1	Investments whose values are based on quoted prices (unadjusted) for identical assets in active markets that a government can access at the measurement date.
Level 2	Investments with inputs – other than quoted prices included within Level 1 – that are observable for an asset, either directly or indirectly.
Level 3	Investments classified as Level 3 have unobservable inputs and may require a degree of professional judgment.

Short-Term Investment Fund - At year-end, all of the College's investments valued at $7,579,945.36 were held in the STIF which is a Level 2 investment. Ownership interest of the STIF is determined on a fair market valuation basis as of fiscal year end in accordance with the STIF operating procedures. Valuation of the underlying assets is performed by the custodian.

Component Unit - Pitt Community College Foundation, Inc. records its financial instruments in accordance with the fair value guidance as established by the Financial Accounting Standard Board ("FASB"). In accordance with this guidance, fair value is defined as the price the Foundation would receive from the sale of an asset, or pay to transfer a liability, in a timely transaction with an independent buyer in a principal market. This guidance establishes a three-tier hierarchy to distinguish between various types of inputs used in determining the value of the Foundation's investments and liabilities. The inputs are summarized in three levels as outlined below:

Level 1	Quoted prices (unadjusted) in active markets for identical assets and liabilities. Level 1 assets include fixed income mutual funds, equity mutual funds and money market funds. Valuations of these instruments do not require a high degree of judgment as the valuations are based on quoted prices in active markets that are readily available.
Level 2	Quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities that are not active; and inputs other than quoted prices that are observable, such as models or other valuation methodologies. Valuations in this category are inherently less reliable than quoted market prices due to the degree of subjectivity involved in determining appropriate methodologies and the applicable underlying assumptions.

Level 3 Unobservable inputs for the valuation of the asset or liability. Level 3 assets include investments for which there is little, if any, market activity. These inputs require significant management judgment or estimation. These financial instruments have inputs that cannot be validated by readily determinable market data and generally involve considerable judgment by management.

A professional investment advisor manages investments with periodic review by the Foundation's Board of Directors and the Finance and Investment Committee. The organization's governance does not believe the investments selected pose unusual market or credit risks. The Foundation maintains a written investment policy to ensure proper oversight.

At year-end, Pitt Community College Foundation, Inc. has an investment in the STIF valued at $2,826,699.79 which is a Level 2 investment. Ownership interest of the STIF is determined on a fair market valuation basis as of fiscal year end in accordance with the STIF operating procedures. Valuation of the underlying assets is performed by the custodian.

All other investments of the Foundation are Level 1 investments. The fair value of those investments at June 30, 2017 was comprised of the following:

	Fair Value
Cash and Cash Equivalets	$ 67,662.45
Fixed Income Mutual Funds	223,807.37
Equity Mutual Funds	521,604.58
Other Investment Funds	298,152.18
Total of Investments	$ 1,111,226.58

Debt and Equity Securities: Debt and equity securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2017, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	$ 1,767,332.83	$ 461,976.65	$ 1,305,356.18
Student Sponsors	49,059.62		49,059.62
Accounts	189,014.35		189,014.35
Intergovernmental	317,176.19		317,176.19
Total Current Receivables	$ 2,322,582.99	$ 461,976.65	$ 1,860,606.34

NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2017, is presented as follows:

	Balance July 1, 2016	Increases	Decreases	Balance June 30, 2017
Capital Assets, Nondepreciable:				
Land and Permanent Easements	$ 6,384,444.75	$ 0.00	$ 0.00	$ 6,384,444.75
Construction in Progress	5,528,338.87	10,964,355.51	458,754.34	16,033,940.04
Total Capital Assets, Nondepreciable	11,912,783.62	10,964,355.51	458,754.34	22,418,384.79
Capital Assets, Depreciable:				
Buildings	69,729,151.64	458,754.34		70,187,905.98
Machinery and Equipment	12,328,951.29	870,075.55	928,514.02	12,270,512.82
General Infrastructure	3,484,062.24			3,484,062.24
Total Capital Assets, Depreciable	85,542,165.17	1,328,829.89	928,514.02	85,942,481.04
Less Accumulated Depreciation for:				
Buildings	14,314,306.76	1,118,556.48		15,432,863.24
Machinery and Equipment	3,633,756.53	474,533.51	815,723.33	3,292,566.71
General Infrastructure	646,660.04	46,120.32		692,780.36
Total Accumulated Depreciation	18,594,723.33	1,639,210.31	815,723.33	19,418,210.31
Total Capital Assets, Depreciable, Net	66,947,441.84	(310,380.42)	112,790.69	66,524,270.73
Capital Assets, Net	$ 78,860,225.46	$ 10,653,975.09	$ 571,545.03	$ 88,942,655.52

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2017, were as follows:

	Amount
Current Accounts Payable and Accrued Liabilities:	
Accounts Payable	$ 617,972.04
Accrued Payroll	849,592.84
Total Current Accounts Payable and Accrued Liabilities	$ 1,467,564.88

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, 2017, is presented as follows:

	Balance July 1, 2016	Additions	Reductions	Balance June 30, 2017	Current Portion
Net Pension Liability	$ 7,290,796.00	$ 11,782,436.00	$ 0.00	$ 19,073,232.00	$ 0.00
Compensated Absences	1,810,852.07	1,373,023.67	1,406,630.30	1,777,245.44	176,667.55
Total Long-Term Liabilities	$ 9,101,648.07	$ 13,155,459.67	$ 1,406,630.30	$ 20,850,477.44	$ 176,667.55

Additional information regarding the net pension liability is included in Note 10.

NOTE 8 - REVENUES

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

	Gross Revenues	Internal Sales Eliminations	Less Scholarship Discounts	Less Allowance for Uncollectibles	Net Revenues
Operating Revenues:					
Student Tuition and Fees, Net	$ 15,035,333.94	$ 0.00	$ 8,052,067.00	$ 26,151.74	$ 6,957,115.20
Sales and Services:					
Sales and Services of Auxiliary Enterprises:					
Copy Center	$ 172,652.07	$ 172,652.07	$ 0.00	$ 0.00	$ 0.00
Bookstore	4,691,539.96	23,548.45	3,164,163.89	4,797.06	1,499,030.56
Athletics	18,299.78				18,299.78
Other	21,941.70				21,941.70
Sales and Services of Education and Related Activities	216,716.19				216,716.19
Total Sales and Services, Net	$ 5,121,149.70	$ 196,200.52	$ 3,164,163.89	$ 4,797.06	$ 1,755,988.23

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	$ 27,406,668.73	$ 3,471,639.14	$ 1,819,566.94	$ 0.00	$ 0.00	$ 0.00	$ 32,697,874.81
Academic Support	6,815,780.07	377,524.87	732,976.67				7,926,281.61
Student Services	4,629,051.43	273,148.24	401,264.50				5,303,464.17
Institutional Support	4,947,184.63	305,054.77	1,590,821.47		5,534.75		6,848,595.62
Operations and Maintenance of Plant	1,298,622.22	302,647.62	2,545,209.12		1,210,264.78		5,356,743.74
Student Financial Aid	192,367.25		25,280.00	9,083,311.43			9,300,958.68
Auxiliary Enterprises	401,735.44	3,748,789.85	363,606.74				4,514,132.03
Depreciation						1,639,210.31	1,639,210.31
Total Operating Expenses	$ 45,691,409.77	$ 8,478,804.49	$ 7,478,725.44	$ 9,083,311.43	$ 1,215,799.53	$ 1,639,210.31	$ 73,587,260.97

NOTE 10 - PENSION PLANS

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 pension 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 that elect to join the Retirement System. Benefit provisions are established byGeneral 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 annual pay. The contribution rate for employers is set each year by the North Carolina 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, 2017 was 9.98% of covered payroll. Employee contributions to the pension plan were $1,745,514.43, and the College's contributions were $2,903,372.33 for the year ended June 30, 2017.

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 2016 *Comprehensive Annual Financial Report*. An electronic version of this report is available on the North Carolina Office of the State Controller's website at http://www.osc.nc.gov/ 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 Fixed Income Asset Class includes the Long-Term Investment and External Fixed Income Investment Portfolios. The Global Equity Asset Class includes the Equity Investment Portfolio. 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 2016 *Comprehensive Annual Financial Report*.

Net Pension Liability: At June 30, 2017, the College reported a liability of $19,073,232.00 for its proportionate share of the collective net pension liability. The net pension liability was measured as of June 30, 2016. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2015, and update procedures were used to roll forward the total pension liability to June 30, 2016. 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, 2016, the College's proportion was 0.20752%, which was an increase of .00968 from its proportion measured as of June 30, 2015.

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	12/31/2015
Inflation	3%
Salary Increases*	3.50% - 8.10%
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, 2015 valuations were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014.

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, 2016 (the valuation date) are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return
Fixed Income	1.4%
Global Equity	5.3%
Real Estate	4.3%
Alternatives	8.9%
Credit	6.0%
Inflation Protection	4.0%

The information in the preceding table is based on 30-year expectations developed with the consulting actuary and is part of the asset, liability, and investment policy of 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 3.05%. Return projections do not include any excess return expectations over benchmark averages. 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 at June 30, 2016 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:

Net Pension Liability		
1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
$ 35,873,063.00	$ 19,073,232.00	$ 4,946,876.00

Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions: For the year ended June 30, 2017, the College recognized pension expense of $3,880,915.00. At June 30, 2017, 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	$ 901,427.00
Changes of Assumptions	2,812,838.00	
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	6,802,125.56	
Change in Proportion and Differences Between Agency's Contributions and Proportionate Share of Contributions	599,792.00	
Contributions Subsequent to the Measurement Date	2,903,372.33	
Total	$ 13,118,127.89	$ 901,427.00

The amount of $2,903,372.33 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, 2018. 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
2018	$ 1,676,513.00
2019	1,693,726.00
2020	3,828,452.00
2021	2,114,637.56
Total	$ 9,313,328.56

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 (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 period July 1, 2016 through December 31, 2016, the College contributed 5.60% of the covered payroll under TSERS to the Fund, and for the period January 1, 2017 through June 30, 2017, the College contributed 6.02% of the covered payroll under TSERS to the Fund. Required contribution rates for the years ended June 30, 2016, and 2015, were 5.60% and 5.49%, respectively. The College made 100% of its annual required contributions to the Plan for the years ended June 30, 2017, 2016, and 2015, which were $1,689,936.01, $1,548,872.75, and $1,437,671.02, 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 on the North Carolina Office of the State Controller's website at http://www.osc.nc.gov/ 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, 2017, the College made a statutory contribution of .38% of covered payroll under TSERS to the DIPNC. Required contribution rates for the years ended June 30, 2016, and 2015, were .41% in both years. The College made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2017, 2016, and 2015, which were $110,549.25, $113,399.61, and $107,367.05, 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.

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. Public Officers' and Employees' Liability Insurance

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.

3. 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 $100,000 deductible. Employee dishonesty and computer fraud losses for employees paid from county and institutional funds are covered by contracts with private insurance companies.

4. **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.

5. **Other Insurance Held by the College**

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.

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 $1,070,641.17 and on other purchases were $466,613.94 at June 30, 2017.

NOTE 14 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2017, the College implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*

GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*

GASB Statement No. 82, *Pension Issues – An amendment of GASB Statement No. 67, No. 68, and No. 73*

GASB Statement No. 73 establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, *Accounting and Financial Reporting for Pensions,* as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68. It also amends certain provisions of Statement No. 67, *Financial Reporting for Pension Plans,* and Statement 68 for pension plans and pensions that are within their respective scopes.

GASB Statement No. 74 establishes new accounting and financial reporting requirements for defined benefit other post employment benefit (OPEB) plans that replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, Statement 43, and Statement No. 50, *Pension Disclosures*. This Statement also includes requirements to address financial reporting for assets accumulated for purposes of providing defined benefit OPEB through OPEB plans that are *not* administered through trusts that meet the specified criteria.

GASB Statement No. 82 addresses certain issues with respect to Statements No. 67, *Financial Reporting for Pension Plans* , No. 68, *Accounting and Financial Reporting for Pensions,* and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68.* Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

REQUIRED SUPPLEMENTARY INFORMATION

Pitt Community College
Required Supplementary Information
Schedule of the Proportionate Net Pension Liability
Teachers' and State Employees' Retirement System
Last Four Fiscal Years ***Exhibit C-1***

	2016	2015	2014	2013
Proportionate Share Percentage of Collective Net Pension Liability	0.20752%	0.19784%	0.18850%	0.18320%
Proportionate Share of TSERS Collective Net Pension Liability	$ 19,073,232.00	$ 7,290,796.00	$ 2,210,014.00	$ 11,122,107.00
Covered Payroll	$ 27,658,442.01	$ 26,187,086.06	$ 25,321,054.62	$ 24,899,639.11
Net Pension Liability as a Percentage of Covered Payroll	68.96%	27.84%	8.73%	44.67%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	87.32%	94.64%	98.24%	90.60%

Pitt Community College
Required Supplementary Information
Schedule of College Contributions
Teachers' and State Employees' Retirement System
Last Ten Fiscal Years ***Exhibit C-2***

	2017	2016	2015	2014	2013
Contractually Required Contribution	$ 2,903,372.33	$ 2,530,747.44	$ 2,396,118.37	$ 2,200,399.65	$ 2,074,139.94
Contributions in Relation to the Contractually Determined Contribution	2,903,372.33	2,530,747.44	2,396,118.37	2,200,399.65	2,074,139.94
Contribution Deficiency (Excess)	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Covered Payroll	$ 29,091,907.12	$ 27,658,442.01	$ 26,187,086.06	$ 25,321,054.62	$ 24,899,639.11
Contributions as a Percentage of Covered Payroll	9.98%	9.15%	9.15%	8.69%	8.33%

	2012	2011	2010	2009	2008
Contractually Required Contribution	$ 1,791,053.75	$ 1,152,677.92	$ 738,369.57	$ 676,799.28	$ 586,803.78
Contributions in Relation to the Contractually Determined Contribution	1,791,053.75	1,152,677.92	738,369.57	676,799.28	586,803.78
Contribution Deficiency (Excess)	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Covered Payroll	$ 24,073,303.08	$ 23,380,890.97	$ 20,682,621.07	$ 20,142,835.70	$ 19,239,468.17
Contributions as a Percentage of Covered Payroll	7.44%	4.93%	3.57%	3.36%	3.05%

Note: Changes in benefit terms, methods, and assumptions are presented in the Notes to Required Supplementary Information (RSI) schedule following the pension RSI tables.

Pitt Community College
Notes to Required Supplementary Information
Schedule of College Contributions
Teachers' and State Employees' Retirement System
Last Ten Fiscal Years

Changes of Benefit Terms:

Cost of Living Increase

2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
N/A	N/A	1.00%	N/A	N/A	N/A	2.20%	2.20%	3.00%	2.00%

Changes of assumptions. In 2008, 2012, and 2015, the actuarial assumptions were updated to more closely reflect actual experience. In 2015, the North Carolina Retirement Systems' consulting actuaries performed the quinquennial investigation of each retirement systems' actual demographic and economic experience (known as the "Experience Review"). The Experience Review provides the basis for selecting the actuarial assumptions and methods used to determine plan liabilities and funding requirements. The most recent Experience Review examined each plan's experience during the period between January 1, 2010, and December 31, 2014. Based on the findings, the Board of Trustees of the Teachers' and State Employees' Retirement System adopted a number of new actuarial assumptions and methods. The most notable changes to the assumptions include updates to the mortality tables and the mortality improvement projection scales to reflect reduced rates of mortality and significant increases in mortality improvements. These assumptions were adjusted to reflect the mortality projection scale MP-2015, released by the Society of Actuaries in 2015. In addition, the assumed rates of retirement, salary increases, and rates of termination from active employment were reduced to more closely reflect actual experience.

The Notes to Required Supplementary Information reflects information included in the State of North Carolina’s 2016 *Comprehensive Annual Financial Report*.

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
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 (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, 2017, and the related notes to the financial statements, which collectively comprise the College's basic financial statements, and have issued our report thereon dated February 20, 2018. 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 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

Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

February 20, 2018

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For additional information contact:
Brad Young
Director of External Affairs
919-807-7513

This audit required 340 hours at an approximate cost of $35,020.