

STATE OF NORTH CAROLINA

FINANCIAL STATEMENT REVIEW REPORT OF

PAMLICO COMMUNITY COLLEGE

GRANTSBORO, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2002

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR

FINANCIAL STATEMENT REVIEW REPORT OF

PAMLICO COMMUNITY COLLEGE

GRANTSBORO, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2002

STATE BOARD OF COMMUNITY COLLEGES

THE NORTH CAROLINA COMMUNITY COLLEGE SYSTEM

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Ralph Campbell, Jr.
State Auditor

STATE OF NORTH CAROLINA
Office of the State Auditor

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REVIEWER'S TRANSMITTAL

The Honorable Michael F. Easley, Governor
The General Assembly of North Carolina
Board of Trustees, Pamlico Community College

This report presents the results of our financial statement review of Pamlico Community College, a component unit of the State of North Carolina, for the year ended June 30, 2002. Our review was made by authority of Article 5A of Chapter 147 of the General Statutes.

The accounts and operations of the College are an integral part of the State's reporting entity represented in the State's *Comprehensive Annual Financial Report (CAFR)* and the State's *Single Audit Report*. In those reports, the State Auditor expresses an opinion on the State's financial statements. In the *Single Audit Report*, the State Auditor also presents the audit results on the State's internal controls and on the State's compliance with laws, regulations, contracts, and grants applicable to the State's financial statements and to its federal financial assistance programs.

As part of the work necessary for the CAFR and the *Single Audit Report*, the accounts and operations of the College were subjected to review procedures as we considered necessary. In addition, we performed review procedures that we considered necessary for us to report on the accompanying financial statements that relate solely to Pamlico Community College. The review procedures were conducted in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States.

The purpose of this report is to present the results of our review of the accompanying financial statements that relate solely to Pamlico Community College. Our reporting objectives and review results are:

- 1. Objective** - To disclose any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

Results - We are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America. These matters are more fully described in the Independent Accountant's Review Report on the financial statements.

REVIEWER'S TRANSMITTAL (CONCLUDED)

2. **Objective** – To present significant deficiencies, if any, in internal control over financial reporting which could adversely affect the College's ability to record, process, summarize, and report financial data in the financial statements and present instances of noncompliance, if any, with laws, regulations, contracts, or grants that came to our attention during our review of the financial statements.

Results - Our review disclosed no material weaknesses in internal control over financial reporting and no instances of noncompliance which require disclosure herein under *Government Auditing Standards*.

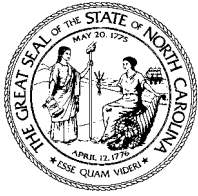
North Carolina General Statutes require the State Auditor to make reports available to the public. Copies of review reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.



Ralph Campbell, Jr.
State Auditor

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Ralph Campbell, Jr.
State Auditor

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INDEPENDENT ACCOUNTANT'S REVIEW REPORT

Board of Trustees
Pamlico Community College
Grantsboro, North Carolina

We have reviewed the accompanying Statement of Net Assets of Pamlico Community College, a component unit of the State of North Carolina, as of June 30, 2002, and the related Statement of Revenues, Expenses, and Changes in Net Assets and Statement of Cash Flows for the year then ended, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the College's management.

A review consists principally of inquiries of College personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis (MD&A) on pages 3 to 6 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. Such information has been subjected to the inquiry and analytical procedures applied in the review of the basic financial statements, and we are not aware of any material modifications that should be made thereto.

Our review was conducted for the purpose of expressing limited assurance that there are no material modifications that should be made to the basic financial statements in order for them to be in conformity with generally accepted accounting principles. Schedule 1 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the inquiry and analytical procedures applied in the review of the basic financial statements, and we are not aware of any material modifications that should be made thereto.

A handwritten signature in black ink that reads "Ralph Campbell, Jr." in a cursive script.

Ralph Campbell, Jr.
State Auditor

March 18, 2003

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Pamlico Community College, a two year institution located in Eastern North Carolina, is currently celebrating its 40th anniversary. The College is accredited by the Southern Association of Colleges and Schools. An on-site visit was completed in May, with final reporting and accreditation expected in December 2002.

The College initially began as a branch of Lenoir County Industrial Education Center. Since its inception, Pamlico Community College has grown to become an independent member of the North Carolina Community College System. The College is an integral part of the community. Recent growth can be attributed to a change in leadership and a renewed focus on its mission. Enrollment for fiscal year 2002 grew by approximately 11%, while fall enrollment for the 2003 fiscal year grew another 13% over the previous fall. The School is committed to providing accessible and affordable education for a changing global society. To meet the needs of a diverse community, various programs are offered for curriculum and continuing education students, as well as services to area businesses.

Pamlico Community College has adequate financial resources to meet the needs of its student population. The balance sheet is strong due to its high liquidity and virtually nonexistent debt. A cash balance of \$492,335 was available at year-end versus \$512,945 at June 30, 2001. Collections of receivables are expected to be converted to cash as they are primarily from state and federal agencies. The College maintains endowment investments of \$254,500 which is comprised of real property donations for sale in area residential communities. Net Capital Assets decreased from the year ending June 30, 2001 from \$4,062,231 to \$2,662,547 at June 30, 2002 due to a change in accounting practice. Due to conversion to Governmental Accounting Standard's Board requirements for financial reporting, depreciation was recognized for operating assets and the inventory for library books were expensed. Liabilities result mainly from accruals of annual leave for current employees. Another primary liability exists for the Hurricane Shelter Retrofit project. Pamlico Community College serves as a hurricane shelter for the citizens of Pamlico County. This project is being funded by the Federal Emergency Management Act.

Pamlico Community College experienced an improvement in operating revenues from the previous year. Operating Revenues grew approximately 73% to \$1.2M in fiscal year 2002, from \$874K in fiscal year 2001, due mainly to increases in Federal and State aid programs resulting from increased enrollment in all programs. Tuition and Fees, a component of Operating Revenues, decreased from \$256K in fiscal year 2001 to \$201K in fiscal year 2002, due to a change in accounting practice.

In conjunction with increased operating revenues, operating expenses increased from approximately \$3.6M to \$4.4M. Increases in related personnel expenses for additional instruction were realized due to increased enrollment. Increases in scholarships and fellowships increased from approximately \$450K in fiscal year 2001 to \$520K in fiscal year

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

2002 due to payouts for students as a result of increased enrollment. A change in accounting practice resulted in increased depreciation expense to \$130K. Nonoperating and other revenues increased due mainly to increases in State and county appropriations, offset by reductions in funding from the Pamlico Community College Foundation.

Current assets for fiscal year 2002 were approximately \$564K as compared to \$590K for fiscal year 2001. This results primarily from receivables from the State government being converted to cash and utilized for capital projects. Noncurrent assets decreased approximately \$1.5M due mainly to changes in accounting practice. Accumulated depreciation of \$1.3M for capital assets was recognized in fiscal year 2002. In addition, library books were expensed for \$510K. Completion of a maintenance shop for \$210K and the purchase of property in Bayboro for \$200K provided an offset.

Current liabilities for accounts payable and accrued liabilities increased approximately \$37K due mainly for commitments for a Hurricane Shelter Retrofit project. Pamlico Community College serves as a hurricane shelter for the citizens of Pamlico County during inclement weather. This project is funded by the Federal Emergency Management Act. Long-term liabilities are due to employee leave accruals. Pamlico Community College has no long-term debt or capital leases at this time.

Total Net assets are comprised mainly of investment of capital assets for \$2.7M in fiscal year 2002 versus \$3.9M for fiscal year 2001. The reduction is due to recognition of accumulated depreciation as a result in change of accounting practice.

Operating revenues have increased to \$1.18M in fiscal year 2002. This is due mainly to increases in enrollment experienced at the College. Federal Grants and Contracts increased approximately \$270 for fiscal year 2002 versus fiscal year 2001 due to increases in Pell Grants and SEOG Funds. State and Local Grants and Contracts increased from approximately \$86K in fiscal year 2001 to \$162K in fiscal year 2002 due to various repair and renovation projects for the College. Sales and Service increased approximately \$31K over fiscal year 2001 due to increased bookstore sales to students as a result of increased enrollment. Tuition and Fees decreased as a result in an accounting practice change for recording tuition remission and for recording fees collected from Self-Supporting classes as Sales and Services Revenues.

Non-operating revenues have increased approximately \$20K in fiscal year 2002 over fiscal year 2001 due mainly to increased allocations from state and local governments. Pamlico County increased its operating fund allocation approximately \$36K for the College, while the State increased funding by \$33K. Offsets were realized due to decreased funding from the Pamlico Community College Foundation and reduced income from investments of approximately \$10K.

Operating Expenses increased \$716K for fiscal year 2002 over fiscal year 2001. Personal Services grew approximately 6% due to required instruction for increased enrollment in College programs. Scholarships and fellowships increased due to needs of students for federal and state aid programs. Services decreased \$34K from fiscal year 2001 due to State

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

budget reductions. Depreciation of \$130K was recognized due to changes in accounting practice as required by implementation of Governmental Accounting Standards Board regulations.

Capital contributions from the State of North Carolina increased in fiscal year 2002 from fiscal year 2001. The increase was due to the purchase of the Bayboro, NC project. There were no contributions to endowment funds for fiscal year 2002. Endowment investments are recorded at fair market value at the time of the gift to the College. Pamlico Community College has real estate properties in residential communities totaling \$254,500.

Pamlico Community College realized an increase in Net Assets of \$368,915 for fiscal year 2002. This is a direct result of increased enrollment at the College. At first glance this appears to be a decrease from the previous year, however, depreciation expense of \$130K provides an offset which was not recognized in previous years.

Net Assets for fiscal year 2002 are stated at \$3.487M. This is a reduction from fiscal year 2001 of approximately \$1.9M. This is a result of restatements due to changes in accounting practice for accumulated depreciation and the decision to expense library books.

Pamlico Community College's financial position has improved from fiscal year 2001. Increases in enrollment and the resulting increased revenue have accounted for most of the transformation. The College has improved utilization of its resources due to these enrollment increases, which ultimately benefits the citizens of Pamlico County. The County has experienced economic deterioration in the farming and commercial fishing industry, which are the primary industries for the community. Pamlico County has an 18% poverty rate compared to the State average of 13%. Pamlico Community College has an opportunity to assist retraining of citizens in the area and help improve overall economic conditions. The 2000 census indicated a population of 12,934 which is a 13.8% increase over the previous census. This growth trend is expected to continue, with 73% of the population 65 years of age and demonstrates a need for continued service by the College.

Pamlico Community College has no long-term debt or capital leases. Capital assets added to the College over the past fiscal year include completion of a maintenance shop and purchase of commercial property in Bayboro, North Carolina. Upcoming capital projects include renovation and repair projects for the HVAC system in the Johnson Building on the main campus. This project is estimated to cost \$358K and is being funded by County appropriations (\$250K), with the remainder coming from State repair and renovation funds. In addition, repairs and renovations to the property in Bayboro are anticipated to construct a cosmetology lab. This program has been approved by the State Office and marketing research indicates strong interest from our market.

Pamlico Community College, although the smallest of our State's Colleges, has experienced a tremendous enrollment growth, over the past several years. In 2001-2002, our College had a 104 FTE growth in the areas of Curriculum, Continuing Ed., and Basic Skills. Our enrollment for the Fall of 2002-2003 indicates a 13% overall increase over last Fall, which

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

indicates another “record enrollment” for our College this year. Although good, this increase in students places extra demands on our facility, faculty, and staff. The need for additional classroom space, faculty, and support personnel is on the horizon.

The Paul H. Johnson Building on our main campus is 26 years old. In addition to the HVAC system renovation, a new roof is expected to be required within the next few years. The expected cost for this replacement is estimated at this time to be approximately \$250,000. The management will look to Pamlico County to provide funding in part or in whole.

As previously mentioned, a renovation of the recently purchased Bayboro facility is anticipated to begin to house our cosmetology program. It is estimated that the cost of renovations will be around \$225,000. We will use \$175,000 of our Bond money to pay for the majority of these renovations, with the remainder of the revenues coming from a foundation grant. We are appreciative of Southwestern Community College who donated most of the cosmetology furniture and equipment that is needed for our program, which has saved us approximately \$50,000. Other small projects that will impact on our expenditures are the relocation of our Small Business Center from our main campus to our Bayboro Center at an estimated cost of \$10,000 and repaving our parking lots on campus.

We have administered the required tuition fee increases, but at this date have not added any other fees that impact our students.

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

Pamlico Community College
Statement of Net Assets
June 30, 2002

Exhibit A

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 446,579.43
Restricted Cash and Cash Equivalents	12,336.99
Short-Term Investments	5,455.00
Receivables, Net (Note 3)	79,250.75
Inventories	19,430.04
Notes Receivable, Net (Note 3)	1,306.15
Total Current Assets	564,358.36

Noncurrent Assets:

Restricted Cash and Cash Equivalents	33,418.91
Restricted Due from Primary Government	123,748.00
Other Long-Term Investments	254,500.00
Capital Assets, Net (Note 4)	2,662,547.08
Total Noncurrent Assets	3,074,213.99
Total Assets	3,638,572.35

LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 5)	64,298.23
Due to Primary Government	2,336.00
Funds Held for Others	1,101.42
Long-Term Liabilities - Current Portion (Note 6)	12,008.40
Total Current Liabilities	79,744.05

Noncurrent Liabilities:

Long-Term Liabilities (Note 6)	72,063.20
Total Liabilities	151,807.25

NET ASSETS

Invested in Capital Assets, Net of Related Debt	2,662,547.08
Restricted For:	
Nonexpendable:	
Scholarships and Fellowships	20,904.75
Expendable:	
Scholarships and Fellowships	8,657.28
Loans	11,021.96
Capital Projects	157,731.44
Other	14,419.17
Unrestricted	611,483.42
Total Net Assets	\$ 3,486,765.10

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

See Independent Accountant's Review Report

<i>Pamlico Community College</i>		
<i>Statement of Revenues, Expenses, and Changes in Net Assets</i>		
<i>For the Fiscal Year Ended June 30, 2002</i>		<i>Exhibit B</i>
REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net	\$	201,184.87
Federal Grants and Contracts		683,524.15
State and Local Grants and Contracts		161,894.38
Sales and Services, Net		138,133.90
Total Operating Revenues		1,184,737.30
EXPENSES		
Operating Expenses:		
Personal Services		2,955,435.05
Supplies and Materials		430,546.55
Services		251,705.30
Scholarships and Fellowships		520,052.73
Utilities		64,425.63
Depreciation		129,915.12
Total Operating Expenses		4,352,080.38
Operating Loss		(3,167,343.08)
NONOPERATING REVENUES (EXPENSES):		
State Aid		2,718,197.40
County Appropriations		266,266.00
Noncapital Grants		13,145.00
Noncapital Gifts, Net		14,807.21
Investment Income, Net		15,111.45
Other Nonoperating Revenues		2,583.54
Net Nonoperating Revenues		3,030,110.60
Loss Before Other Revenues, Expenses, Gains, and Losses		(137,232.48)
State Capital Aid		497,647.38
County Capital Appropriations		8,500.00
Increase in Net Assets		368,914.90
NET ASSETS		
Net Assets, July 1, 2001 as Restated (Note 13)		3,117,850.20
Net Assets, June 30, 2002	\$	3,486,765.10
The accompanying notes to the financial statements are an integral part of this statement.		
See Independent Accountant's Review Report		

<i>Pamlico Community College</i>		
<i>Statement of Cash Flows</i>		
<i>For the Fiscal Year Ended June 30, 2002</i>		<i>Exhibit C</i>
CASH FLOWS FROM OPERATING ACTIVITIES		
Received from Customers	\$	1,189,891.39
Payments to Employees and Fringe Benefits		(2,963,037.05)
Payments to Vendors and Suppliers		(889,995.00)
Payments for Scholarships and Fellowships		(519,562.83)
Loans Issued to Students		(6,979.79)
Collection of Loans to Students		8,724.70
Other Receipts		6,606.15
Net Cash Used by Operating Activities		(3,174,352.43)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State Aid Received		2,718,197.40
County Appropriations		266,266.00
Noncapital Grants Received		13,145.00
Noncapital Gifts and Endowments Received		11,472.21
Net Cash Provided by Noncapital Financing Activities		3,009,080.61
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
State Capital Aid Received		497,647.38
County Capital Appropriations		8,500.00
Capital Grants Received		66,276.27
Acquisition and Construction of Capital Assets		(468,002.96)
Net Cash Provided by Capital and Related Financing Activities		104,420.69
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Sales and Maturities of Investments		24,900.00
Interest on Investments		15,341.58
Net Cash Provided by Investing Activities		40,241.58
Net Decrease in Cash and Cash Equivalents		(20,609.55)
Cash and Cash Equivalents, July 1, 2001		512,944.88
Cash and Cash Equivalents, June 30, 2002	\$	492,335.33

<i>Pamlico Community College</i>		
<i>Statement of Cash Flows</i>		<i>Exhibit C</i>
<i>For the Fiscal Year Ended June 30, 2002</i>		<i>Page 2</i>
RECONCILIATION OF OPERATING LOSS TO NET		
CASH USED BY OPERATING ACTIVITIES:		
Operating Loss	\$	(3,167,343.08)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense		129,915.12
Provision for Uncollectible Loans and Writeoffs		226.41
Miscellaneous Nonoperating Income		2,583.54
Changes in Assets and Liabilities:		
Receivables, Net		6,861.99
Inventories		(640.49)
Notes Receivable, Net		526.91
Accounts Payable and Accrued Liabilities		(19,670.58)
Due to Primary Government		2,088.50
Deferred Revenue		(136,110.16)
Funds Held for Others		4,022.61
Compensated Absences		3,186.80
Net Cash Used by Operating Activities	\$	<u>(3,174,352.43)</u>
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:		
Assets Acquired Through a Gift		3,635.00
Change in Fair Value of Investments		(7,300.00)
Increase in Receivables Related to Nonoperating Income		129,567.56
The accompanying notes to the financial statements are an integral part of this statement.		
See Independent Accountant's Review Report		

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002

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, the financial reporting entity includes both the primary government and all of its component units. An organization other than a primary government serves as a nucleus for a reporting entity when it issues separate financial statements. Pamlico Community College is a component unit of the North Carolina Community College System which is a part of the primary government 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 component units for which the College's Board of Trustees is financially accountable. Although legally separate, Pamlico Community College Foundation, Inc. is reported as if it were part of the College.

The Foundation is governed by a 14-member board. The Foundation's purpose is to aid, support, and promote teaching, research, and service in the various educational, scientific, scholarly, professional, artistic, and creative endeavors of the College. Because the elected directors of the Foundation are appointed by the members of the Pamlico Community College Board of Trustees and the Foundation's sole purpose is to benefit Pamlico Community College, its financial statements have been blended with those of the College.

Separate financial statements for the Foundation may be obtained from the College Controller's Office, P.O. Box 185, Grantsboro, NC 28529, or by calling (252) 249-1851. Other related foundations and similar non-profit corporations for which the College is not financially accountable are not part of the accompanying financial statements.

- 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 Governmental Accounting Standards Board (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*

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Public Colleges and Universities effective for the College's year ended June 30, 2002, the full scope of the College's activities is considered to be a single business-type activity (BTA) 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. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the College does not apply Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, for proprietary activities, unless the GASB amends its pronouncements to specifically adopt FASB pronouncements issued after that date.

- D. Cash and Cash Equivalents** – This classification appears on the Statement of Net Assets and the Statement of Cash Flows and includes petty cash, cash on deposit with private bank accounts, and short-term investments with the State Treasurer's Cash and Investment Pool (a governmental external investment pool). The short-term investment portfolio maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.
- E. Investments** - This classification includes real estate and other asset holdings by the Foundation. Real estate not held by a governmental external investment pool and other asset holdings are reported at cost, if purchased, or at fair value or appraised value at date of gift, if donated.
- F. Receivables** – Receivables consist of tuition and fees charges 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 that are verifiable, measurable, and expected to be collected and available for expenditures for which the resource providers conditions have been satisfied. Receivables are recorded net of estimated uncollectible amounts.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

G. Inventories – Inventories, consisting of expendable supplies and merchandise for resale, are stated at the lower of cost or market value using the last invoice method.

H. Capital Assets – Capital assets are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. The College capitalizes assets that have a value or cost in excess of \$5,000 at the date of acquisition and an expected useful life of one or more years. Library books are expensed.

Depreciation is computed using the straight-line and/or units of output method over the estimated useful lives of the assets, generally 15 to 30 years for general infrastructure, 20 to 40 years for buildings, and 5 to 15 years for equipment.

I. Restricted Assets – Restricted assets represent assets whose use is restricted by external parties or by law through constitutional provisions or enabling legislation.

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

K. Compensated Absences - The College's policy is to record the cost of vacation leave when earned. The policy provides for a maximum accumulation of unused vacation leave of 30 days which can be carried forward each January 1st or for which an employee can be paid upon termination of employment. 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 30th equals the leave carried forward at the previous December 31st plus the leave earned, less the leave taken between January 1st and June 30th.

When classifying compensated absences into current and noncurrent, leave is considered taken using a last in, first out method.

L. Net Assets – The College's net assets are classified as follows:

Invested in Capital Assets, Net of Related Debt – This represents the College's total investment in capital assets, net of outstanding debt obligations related to those capital assets.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Restricted Net Assets – Expendable – Expendable restricted net assets include resources for which the College is legally or contractually obligated to spend in accordance with restrictions imposed by external parties.

Unrestricted Net Assets – Unrestricted net assets include resources derived from student tuition and fees, sales and services, unrestricted gifts, and interest income.

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

- M. Scholarship Discounts** – Student tuition and fees revenues and certain other revenues from College charges are reported net of scholarship discounts in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. 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 either operating or nonoperating revenues in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. 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 presents its revenues and expenses as operating or nonoperating based on recognition definitions from GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*. Operating activities are those activities that are necessary and essential to the mission of the College. Operating revenues include all charges to customers, grants received for student financial assistance, and interest earned on loans. Grants received for student financial assistance are considered operating revenues because they provide resources for student charges, and such programs are necessary and essential to the mission of the College. Revenues from nonexchange transactions and state appropriations that represent subsidies or gifts to the College, as well as investment income, are considered nonoperating since these are either capital or noncapital financing or investing activities. Operating expenses are all expense transactions incurred other than those related to capital or noncapital financing or

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

investing activities. Revenues received for capital financing activities, as well as related expenses, are considered neither operating nor nonoperating activities and are presented after nonoperating activities on the accompanying Statement of Revenues, Expenses, and Changes in Net Assets.

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

NOTE 2 - DEPOSITS AND INVESTMENTS

- A. Deposits** - All funds of the College are deposited in board-designated official depositories and are required to be collateralized in accordance with 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 or with the State Treasurer’s Cash and Investment Pool. Also, the College may establish time deposit accounts, money market accounts, and certificates of deposit. At year-end, cash on hand was \$260.00. The carrying amount of cash on deposit was \$492,075.33 and the bank balance was \$557,700.98.

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.

Cash on deposit at year end consisted of the following:

	<u>Book Balance</u>	<u>Bank Balance</u>
Cash on Deposit with State Treasurer	\$ 456,638.84	\$ 436,586.90
Cash on Deposit with Private Financial Institutions	<u>35,436.49</u>	<u>121,114.08</u>
	<u>\$ 492,075.33</u>	<u>\$ 557,700.98</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The cash on deposit with the State Treasurer is pooled with state agencies and similar institutions in short-term investments with the State Treasurer's Cash and Investment Pool. These moneys are invested in accordance with General Statutes 147-69.1(c) and 147-69.2, and as required by law are "readily convertible into cash." All investments of the fund are held either by the Department of State Treasurer or its agent in the State's name. The fund's uninvested cash is either covered by federal depository insurance or, pursuant to 20 NCAC 7, is collateralized under either the dedicated or pooling method.

The financial statements and disclosures for the State Treasurer's Cash and Investment Pool are included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.state.nc.us/> and clicking on "Financial Reports", or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

Of the cash on deposit with private financial institutions at June 30, 2002, \$100,000.00 of the bank balance was covered by federal depository insurance and \$21,114.08 was covered by collateral held by an authorized escrow agent in the name of the State Treasurer (pooling method).

- B. Investments** – At June 30, 2002, The Pamlico Community College Foundation, Inc., held \$259,955.00 in investments consisting of real estate (\$254,500.00) and personal property (\$5,455.00). These investments are not categorized as to risk. Investments of the College's component unit, the Foundation, are restricted only by the requirements placed on them by contract or donor/pool participant agreements.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 3 - RECEIVABLES

Receivables at June 30, 2002 were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	\$ 3,504.60	\$ 0.00	\$ 3,504.60
Accounts	22,143.07		22,143.07
Intergovernmental	51,785.05		51,785.05
Investment Earnings	1,818.03		1,818.03
Total Current Receivables	\$ 79,250.75	\$ 0.00	\$ 79,250.75
Notes Receivable - Current:			
Institutional Student Loan Programs	\$ 6,192.79	\$ 4,886.64	\$ 1,306.15

NOTE 4 - CAPITAL ASSETS

A summary of changes in the capital assets is presented as follows:

	Balance July 1, 2001	Increases	Decreases	Balance June 30, 2002
Capital Assets, Non-Depreciable:				
Land	\$ 69,050.00	\$ 112,000.00	\$ 0.00	\$ 181,050.00
Construction in Progress	44,630.22	51,786.05	35,754.46	60,661.81
Total Capital Assets, Non-Depreciable	113,680.22	163,786.05	35,754.46	241,711.81
Capital Assets, Depreciable:				
Buildings	3,021,289.27	305,077.22		3,326,366.49
Machinery and Equipment	408,067.27	54,066.50		462,133.77
General Infrastructure	9,347.94	12,000.00		21,347.94
Total Capital Assets, Depreciable	3,438,704.48	371,143.72		3,809,848.20
Less Accumulated Depreciation:				
Buildings	1,099,144.84	86,260.08		1,185,404.92
Machinery and Equipment	152,080.57	42,943.38		195,023.95
General Infrastructure	7,872.40	711.66		8,584.06
Total Accumulated Depreciation	1,259,097.81	129,915.12		1,389,012.93
Total Capital Assets, Depreciable, Net	2,179,606.67	241,228.60		2,420,835.27
Capital Assets, Net	\$ 2,293,286.89	\$ 405,014.65	\$ 35,754.46	\$ 2,662,547.08

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2002 were as follows:

	Amount
Accounts Payable	\$ 53,920.33
Accrued Payroll	10,377.90
Total Accounts Payable and Accrued Liabilities	\$ 64,298.23

NOTE 6 - LONG-TERM LIABILITIES

A summary of changes in the long-term liabilities is presented as follows:

	Balance July 1, 2001	Additions	Reductions	Balance June 30, 2002	Current Portion
Compensated Absences	\$ 80,884.80	\$ 87,450.31	\$ 84,263.51	\$ 84,071.60	\$ 12,008.40

NOTE 7 - 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	\$ 1,393,176.81	\$ 55,453.02	\$ 54,371.57	\$ 0.00	\$ 0.00	\$ 0.00	\$ 1,503,001.40
Public Service	54,478.81	2,269.67	8,407.28				65,155.76
Academic Support	447,322.39	44,877.17	26,170.56				518,370.12
Student Services	232,326.58	7,575.55	25,845.05				265,747.18
Institutional Support	686,210.40	122,981.03	92,061.55				901,252.98
Operations and Maintenance of Plant	130,881.24	82,632.04	22,356.04				235,869.32
Student Financial Aid	10,831.04	4,428.32	10,284.52	520,052.73			545,596.61
Auxiliary Enterprises	207.78	110,329.75	12,208.73		64,425.63		187,171.89
Depreciation						129,915.12	129,915.12
Total Operating Expenses	\$ 2,955,435.05	\$ 430,546.55	\$ 251,705.30	\$ 520,052.73	\$ 64,425.63	\$ 129,915.12	\$ 4,352,080.38

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 8 - PENSION PLANS

- A. **Retirement Plans** - Each permanent full-time employee, as a condition of employment, is a member of the Teachers' and State Employees' Retirement System. The Teachers' and State Employees' Retirement System (System) is a multiple-employer cost sharing defined benefit pension plan administered by the North Carolina State Treasurer.

After five years of creditable service, members of the Teachers' and State Employees' Retirement System qualify for a vested deferred benefit. Employees who retire on or after age 65 and complete 5 years of membership service (age 55 and 5 years of creditable service for law enforcement officers), reach age 60 with 25 years of membership service, or complete 30 years of creditable service receive a retirement allowance of 1.81% of an average final compensation (based on the 4 consecutive years that produce the highest average) multiplied by the number of years of creditable service. Employees may retire with reduced benefits if they reach age 50 with 20 years of creditable service or reach age 60 with 5 years of creditable service (age 50 with 15 years creditable service for law enforcement officers).

Benefit and contribution provisions for the Teachers' and State Employees' Retirement System are established by North Carolina General Statute 135-5 and 135-8 and may be amended only by the North Carolina General Assembly. Employer and member contributions rates are set each year by the North Carolina General Assembly based on annual actuarial valuations. For the year ended June 30, 2002, these rates were set at 1.97% of covered payroll for employers and 6% of covered payroll for members.

For the year ended June 30, 2002, the College had a total payroll of \$2,520,963.68, of which \$2,226,062.24 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were \$133,563.86 and \$43,853.43, respectively. The College made one hundred percent of its annual required contributions for the years ended June 30, 2002, 2001, and 2000, which were \$43,853.43, \$103,531.51, and \$153,406.64, respectively.

The Teachers' and State Employees' Retirement System's financial information is included in the State of North Carolina *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

home page <http://www.osc.state.nc.us/> and clicking on “Financial Reports”, or by calling the State Controller’s Financial Reporting Section at (919) 981-5454.

B. Deferred Compensation and Supplemental Retirement Income Plans

IRC Section 457 Plan - The State of North Carolina offers its permanent employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 through the North Carolina Public Employee Deferred Compensation Plan (the Plan). The Plan permits each participating employee to defer a portion of his or her salary until future years. The deferred compensation is available to employees upon separation from service, death, disability, retirement, or financial hardships if approved by the Board of Trustees of the Plan. The Board, a part of the North Carolina Department of Administration, maintains a separate fund for the exclusive benefit of the participating employees and their beneficiaries, *the North Carolina Public Employee Deferred Compensation Trust Fund*. The Board also contracts with an external third party to perform certain administrative requirements and to manage the trust fund’s assets. All costs of administering and funding the Plan are the responsibility of the Plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to \$13,628.76 for the year ended June 30, 2002.

IRC Section 401(k) Plan - All members of the Teachers’ and State Employees’ Retirement System are eligible to enroll in the Supplemental Retirement Income Plan, a defined contribution plan, created under Internal Revenue Code Section 401(k). All costs of administering the plan are the responsibility of the Plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to \$14,156.66 for the year ended June 30, 2002.

IRC Section 403(b) and 403(b)(7) Plans - Eligible College employees can participate in tax sheltered annuity plans created under Internal Revenue Code Sections 403(b) and 403(b)(7). The employee’s eligible contributions, made through salary reduction agreements, are exempt from federal and state income taxes until the annuity is received or the contributions are withdrawn. These plans are exclusively for employees of colleges and certain charitable and other non-profit institutions. All costs of administering and funding these plans are the responsibility of the Plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to \$2,600.00 for the year ended June 30, 2002.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 9 - OTHER POSTEMPLOYMENT BENEFITS

A. Health Care for Long-Term Disability Beneficiaries and Retirees -

The College participates in State-administered programs which provide 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. These benefits were established by Chapter 135, Article 3, Part 3, of the General Statutes and may be amended only by the North Carolina General Assembly. Funding for the health care benefit for long-term disability beneficiaries and retirees is financed on a pay-as-you-go basis. The College contributed 2.35% of the covered payroll under the Teachers' and State Employees' Retirement System for these health care benefits. For the fiscal year ended June 30, 2002, the College's total contribution to the Plan was \$52,312.46. 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*.

B. Long-Term Disability - The College participates in the Disability Income Plan of North Carolina (DIPNC). Established by Chapter 135, Article 6, of the General Statutes, DIPNC provides short-term and long-term disability benefits to eligible members of the Teachers' and State Employees' Retirement System. Long-term disability income benefits are advance funded on an actuarially determined basis using the one-year term cost method. The College contributes .52% of covered payroll under the Teachers' and State Employees' Retirement System to the DIPNC. For the fiscal year ended June 30, 2002, the College's total contribution to the DIPNC was \$11,575.52. 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 10 - 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Tort claims of up to \$500,000 are self-insured under the authority of the State Tort Claims Act. In addition, the State provides excess public officers' and employees' liability insurance up to \$11,000,000 via contract with a private insurance company. The premium, based on a composite rate, is paid by the North Carolina Community College System Office directly to the private insurer.

Fire and other property losses are covered by the Public School Insurance Fund, a State-administered public entity risk pool. This fund is financed by premiums and interest and reinsures losses greater than \$10,000,000 per occurrence. The excess insurer provides property coverage up to \$30,000,000 per location annually. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

State-owned vehicles used for instructional purposes are covered by liability insurance handled by the State Department of Insurance. Liability insurance for other college-owned vehicles are covered by contracts with private insurance companies.

The College is protected for losses from employee dishonesty and computer fraud for employees paid in whole or in part from State funds. The blanket honesty bond is with a private insurance company and is handled by the North Carolina Department of Insurance with coverage of \$5,000,000 per occurrence and a \$50,000 deductible. All employees are covered under a blanket policy for employee dishonesty and fraud with a private insurance company. Limits of the coverage are \$15,000 per occurrence and a \$100 deductible.

Employees and retirees are provided health care coverage by the Comprehensive Major Medical Plan (Plan), a component unit of the State. The Plan is funded by employer and employee contributions and is administered by a third-party contractor. Effective for the October 1, 2001 through September 30, 2002 year, the Plan no longer offers health coverage through HMO plans.

The State Board of Community Colleges makes the necessary arrangements to carry out the provisions of the Workers' Compensation Act which are applicable to employees whose wages are paid in whole or in part from State funds. The College purchases workers' compensation insurance for employees whose salaries or wages are paid by the board entirely from County or Institutional Funds.

Term life insurance of \$25,000 to \$50,000 is provided to eligible workers. This self-insured death benefit program is administered by the State Treasurer and funded via employer contributions.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Additional details on the State-administered risk management programs are disclosed in the State's *Comprehensive Annual Financial Report*, issued by the Office of the State Controller.

NOTE 11 - COMMITMENTS AND CONTINGENCIES

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 \$8,875.76 at June 30, 2002.

B. Community College General Obligation Bonds - The 1999-2000 Session of the General Assembly of North Carolina authorized the issuance of six hundred million dollars of general obligation bonds of the State, as subsequently approved by a vote of qualified voters of the State, to provide funds for capital improvements for the North Carolina Community College System. The funds authorized are to be used solely to construct new buildings and to renovate and modernize existing buildings on the North Carolina Community College System campuses. The bond legislation specifies the amount of bond funding for each College campus as well as the intended amount for new construction and repair and replacement. The legislation further provides that the State Board of Community Colleges shall be responsible for the approval of projects in accordance with provisions of the legislation. The bonds are authorized to be issued over a six-year period beginning in 2001 at a level not to exceed amounts provided in the legislation. Using a cash flow financing approach, The Community College System's Office (CCSO), establishes annual amounts not to exceed for each approved project. The amounts not to exceed are subject to change due to actual cash availability and needs during the year. Subsequent to the bond sales and the availability of bond proceeds, CCSO notifies the Office of State Budget and Management (OSBM) of the amount not to exceed for the total of the approved projects. Within this amount, based on an official request of cash needs from the State Board of Community Colleges, OSBM authorizes allotments. These allotments are then recorded to specific community college allotment accounts by the CCSO. The College records the allotments as revenue on the accompanying financial statements. The College's remaining authorization \$2,269,531.00 is contingent on future bond sales and CCSO allotment approval. Because of uncertainty and time restrictions the remaining authorization is not recorded as an asset or revenue on the accompanying financial statements.

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

NOTE 12 - ACCOUNTING CHANGES

Effective July 1, 2001, the College implemented 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 financial statement presentation required by these Statements is a single-column enterprise activity rather than the fund-group perspective previously reported. Significant accounting changes in order to comply with the new requirements include adopting depreciation on capital assets, reporting revenues net of discounts and allowances, eliminating inter-fund activities, classifying activities as operating or nonoperating, classifying assets and liabilities as current or noncurrent, and prorating summer school activities to periods earned.

In addition, the College implemented GASB Statement No. 38, *Certain Financial Statement Note Disclosures*. Changes in existing disclosures include more detailed information on debt service requirements, obligations under leases, and short-term debt. New disclosures include variable debt interest information and the major components of receivable and payable balances.

NOTE 13 - NET ASSET RESTATEMENT

As referred to in Note 12, the College implemented 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*.

July 1, 2001 Fund Equity as previously reported	\$ 5,016,709.37
Implementation of GASB 34/35	<u>1,898,859.17</u>
July 1, 2001 Net Assets as Restated	<u>\$ 3,117,850.20</u>

***Pamlico Community College
Schedule of General Obligation Bond Project Authorizations,
Budgets, and Expenditures
For Project-to-Date as of June 30, 2002***

Schedule 1

Capital Improvement Projects	Projected Start Date	General Obligation Bonds Authorized	Other Sources	Total Project Budget	Amount Expended	Percent Completed	Expected Completion Date
<i>Projects Approved by the State Board</i>							
Repair & Renovations	01/2002	\$ 233,376.00	\$ 0.00	\$ 233,376.00	\$ 0.00		07/2003
Purchase Buildings & Renovate	07/2001	350,000.00		350,000.00	200,000.00	57.14%	01/2004
Life Long Learning Center	01/2005	1,887,555.00	1,264,466.00	3,152,021.00			03/2007
Total All Projects		\$ 2,470,931.00	\$ 1,264,466.00	\$ 3,735,397.00	\$ 200,000.00		

Note: The 1999-2000 Session of the General Assembly of North Carolina authorized the issuance of six hundred million dollars of general obligation bonds of the State, as subsequently approved by a vote of qualified voters of the State, to provide funds for capital improvements for the North Carolina Community College System. The projects listed on this schedule are those funded or to be funded by bond proceeds from the general obligation bonds authorized by Senate Bill 912.

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In accordance with General Statutes 147-64.5 and 147-64.6(c)(14), copies of this report have been distributed to the public officials listed below. Additional copies are provided to other legislators, state officials, the press, and the general public upon request.

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April 15, 2003

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