



STATE OF NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT OF

PAMLICO COMMUNITY COLLEGE

GRANTSBORO, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2003

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR

FINANCIAL STATEMENT AUDIT REPORT OF

PAMLICO COMMUNITY COLLEGE

GRANTSBORO, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2003

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Ralph Campbell, Jr.
State Auditor

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Office of the State Auditor

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AUDITOR'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 audit of Pamlico Community College, a component unit of the State of North Carolina, for the year ended June 30, 2003. Our audit was made by authority of Article 5A of Chapter 147 of the *North Carolina 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 audit work necessary for the CAFR and the *Single Audit Report*, the accounts and operations of the College were subjected to audit procedures as we considered necessary. In addition, we performed auditing procedures that we considered necessary for us to report on the accompanying financial statements that relate solely to Pamlico Community College. The audit 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 audit on the accompanying financial statements that relate solely to Pamlico Community College. A summary of our reporting objectives and audit results is:

- 1. Objective** – To express an opinion on the accompanying financial statements that relate solely to Pamlico Community College.

Results - The accompanying financial statements present fairly, in all material respects, the amounts and disclosures made in accordance with accounting principles generally accepted in the United States of America. These matters are more fully described in the Independent Auditor's Report on the Financial Statements.

AUDITOR'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.

Results - Our tests disclosed no material weaknesses in internal control over financial reporting and no instances of noncompliance which require disclosure herein under *Government Auditing Standards*. These matters are more fully described in the Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting.

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.



Ralph Campbell, Jr.
State Auditor

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Ralph Campbell, Jr.
State Auditor

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Pamlico Community College
Grantsboro, North Carolina

We have audited the accompanying basic financial statements of Pamlico Community College, a component unit of the State of North Carolina, as of and for the year ended June 30, 2003, as listed in the table of contents. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Pamlico Community College as of June 30, 2003, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 19, 2004 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis (MD&A), as listed in the table of contents, 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. We have applied

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. 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 auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



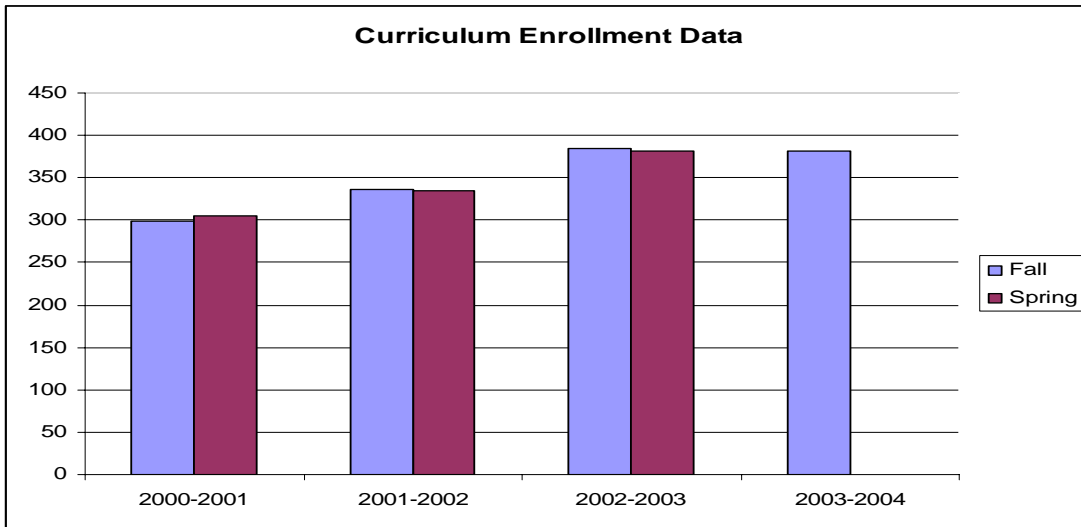
Ralph Campbell, Jr.
State Auditor

March 19, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

Pamlico Community College is a two-year Institution located in Eastern North Carolina and is currently celebrating its 40th anniversary. After a site visit in May 2002, Pamlico Community College was re-accredited by the Southern Association of Colleges and Schools in December of 2002. Pamlico Community College is an independent member of the North Carolina Community College System and is an integral part of the community.

Total Full Time Equivalent Students for fiscal year 2003 grew by approximately 13% versus 11% for 2002. Recent growth can be attributed to a change in leadership and a renewed focus on its mission. Fall enrollment for the 2004 fiscal year is flat due primarily to an increase in Huskins Program offerings, offset by a decrease in attendance of prison classes. Pamlico County Correctional Facility is undergoing a transformation in its security level classification, which has caused a decrease in enrollment. As the reclassification concludes, we expect enrollment at the prison, to return to prior levels with the potential for expansion. Pamlico Community College and Pamlico county schools have collaborated to increase opportunities for Huskins Program participants, primarily by expanding the Criminal Justice Program. Various programs are offered for curriculum and continuing education students, as well as services to area businesses. Preparation has begun to implement a cosmetology program in the spring of 2004. Although construction on a new Cosmetology Lab has not been completed, students have enrolled to begin their basic course work for the program. Enrollment data for Campus, Huskins, Dual Enrolled and Prison Programs follows:



	2000-01	2001-02	2002-03
Fall	299	337	384
Spring	305	335	382

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Overview of Financial Statements

The basic financial statements are made of two components: the exhibits and the notes to the statements. These are described below.

Financial Statements

The Statement of Net Assets and Statement of Revenues, Expenses, and Changes in Net Assets are the two financial statements that report information about the College. The Statement of Net Assets presents all of the College's assets and liabilities, with the difference between the two reported as "net assets". Over time, changes in net assets measure whether the College's financial position is improving or deteriorating. The Statement of Revenues, Expenses, and Changes in Net Assets presents information showing how the net assets changed during the fiscal year.

The Notes to the Financial Statements

These provide additional information that is needed for a full understanding of the data provided in the statements. Notes may be found at the end of this report.

Discussion

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

	Net Assets for the Years Ended		
	June 30,		
	2003	2002	Increase (Decrease)
Current and Other Noncurrent Assets	\$ 1,236,284	\$ 976,025	\$ 260,259
Capital Assets, Net	2,606,543	2,662,547	(56,004)
Total Assets	3,842,827	3,638,572	204,255
Long-Term Liabilities	118,949	72,063	46,886
Other Liabilities	36,046	79,744	(43,698)
Total Liabilities	154,995	151,807	3,188
Net Assets			
Invested in Capital Assets	2,606,543	2,662,547	(56,004)
Restricted	467,337	212,735	254,602
Unrestricted	613,952	611,483	2,469
Total Net Assets	\$ 3,687,832	\$ 3,486,765	\$ 201,067

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Pamlico Community College has adequate financial resources to meet the present needs of its student population. The Statement of Net Assets is strong due to its high liquidity and virtually nonexistent debt. A cash balance of \$617,750 was available at year-end versus \$492,335 at June 30, 2002. This is due mainly to additional funding of \$250,000 by Pamlico County to aid in the renovation of the Johnson Building HVAC System. Spending for a Hurricane Shelter Retrofit (\$46,632 in FY 2003) and current capital projects (\$54,383) provide partial offsets. These expenses are anticipated to be reimbursed in fiscal year 2004. Receivables of \$115,000 are expected to be converted to cash as they are primarily from State and federal agencies. The College maintains endowment investments of \$254,500 that is comprised of real property donations for sale in area residential communities. Due from State consists of a \$48,000 Golden Leaf Grant, which will be utilized for training in Environmental Science. Short-term investments increased to \$27,155 in 2003 versus \$5,455 in 2002. This is the result of increased donations to the Pamlico Community College Foundation.

The increase in liability for annual leave is due mainly to a 10-day bonus to all permanent employees other than faculty, which do not earn annual leave. Invested in capital assets, net of related debt decreased from \$2,662,547 in 2002 to \$2,606,543 due mainly to timing of capitalization of assets versus current year depreciation.

Pamlico Community College has no long-term debt or capital leases at this time. Total net assets increased approximately \$200,000.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

The following chart depicts revenues of the College's activities for the fiscal year:

Operating Results for the Years Ended			
June 30,			
	2003	2002	Increase (Decrease)
Operating Revenues			
Tuition and Fees	\$ 241,411	\$ 201,185	\$ 40,226
Federal Grants and Contracts	603,129	683,524	(80,395)
State Grants and Contracts	79,332	161,894	(82,562)
Sales and Services	157,586	138,134	19,452
Other Operating Revenues	209		209
Total	1,081,667	1,184,737	(103,070)
Less Operating Expenses	4,760,559	4,352,080	408,479
Net Operating loss	(3,678,892)	(3,167,343)	(511,549)
Nonoperating Revenues			
State Aid	2,971,172	3,215,845	(244,673)
County Appropriations	524,766	274,766	250,000
Investment Income	18,337	15,111	3,226
Other	365,684	30,536	335,148
Total Nonoperating Revenues	3,879,959	3,536,258	343,701
Increase (Decrease) in Net Assets	201,067	368,915	(167,848)
Net Assets, Beginning of Year	3,486,765	3,117,850	368,915
Net Assets, End of Year	3,687,832	3,486,765	201,067
Total Revenues	\$ 4,961,626	\$ 4,720,995	\$ 240,631

Pamlico Community College experienced a decrease in operating revenues from the previous year of approximately \$100,000 due mainly to completion of the various construction projects. Tuition and fees, a component of operating revenues, increased \$40,000 in fiscal year 2003 due to increased enrollment. Sales and services show a \$19,000 increase from the sales of books and supplies.

Operating expenses increased from approximately \$4.4 million to \$4.7 million, due primarily to increases in related personnel expenses for additional instruction due to enrollment growth, as well as increases for scholarships and fellowships. Nonoperating revenues increased mainly due to increases in county appropriations for the HVAC System renovation. This

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

funding will count towards the local bond match requirements for the 2000 State Higher Education Bonds.

The following chart represents expenses of Pamlico Community College by activities for the fiscal year:

Operating Expenses			
June 30,			
	2003	2002	Increase (Decrease)
	<u> </u>	<u> </u>	<u> </u>
Operating Expenses			
Personal Services	\$ 3,168,009	\$ 2,955,435	\$ 212,574
Supplies and Materials	492,617	430,546	62,071
Services	301,461	251,705	49,756
Scholarships/Fellowships	595,323	520,053	75,270
Utilities	61,115	64,426	(3,311)
Depreciation	<u>142,034</u>	<u>129,915</u>	<u>12,119</u>
 Total	 <u>\$ 4,760,559</u>	 <u>\$ 4,352,080</u>	 <u>\$ 408,479</u>

Pamlico Community College's financial position has improved from fiscal year 2002. Increases in enrollment and investments by the county account for most of the transformation. The College is maximizing utilization of its resources, 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 the 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 due to the anticipated development of coastal residential properties. Gum Thicket is an example of one such development, which projects an additional 500 single-family homes by the year 2006.

The Paul H. Johnson Building on our main campus is 27 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

Capital Assets

At the end of the fiscal year 2003, the Statement of Net Assets reflected \$2,606,543, net of accumulated depreciation in a broad range of capital assets (see the table below). Depreciation charges for this fiscal year totaled \$142,034.

	Capital Assets, Net June 30,		Increase (Decrease)
	2003	2002	
Capital Assets			
Land	\$ 181,050	\$ 181,050	\$ 0
Buildings	3,387,178	3,326,366	60,812
Machinery and Equipment	489,453	462,134	27,319
Infrastructure	21,348	21,348	
Construction in Progress	44,731	60,662	(15,931)
Total	4,123,760	4,051,560	72,200
Less: Accumulated Depreciation	1,517,217	1,389,013	128,204
Net Capital Assets	<u>\$ 2,606,543</u>	<u>\$ 2,662,547</u>	<u>\$ (56,004)</u>

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, 2003

Exhibit A

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 313,911.19
Restricted Cash and Cash Equivalents	20,558.44
Short-Term Investments	27,155.00
Receivables, Net (Note 4)	115,245.67
Due from State of North Carolina Component Units	48,000.00
Inventories	19,896.12
Notes Receivable, Net (Note 4)	705.18
Total Current Assets	545,471.60

Noncurrent Assets:

Restricted Cash and Cash Equivalents	283,280.02
Restricted Due from Primary Government	153,032.00
Other Long-Term Investments	254,500.00
Capital Assets - Nondepreciable (Note 5)	225,780.84
Capital Assets - Depreciable, Net (Note 5)	2,380,762.45
Total Noncurrent Assets	3,297,355.31
Total Assets	3,842,826.91

LIABILITIES

Current Liabilities:

Accounts Payable	14,473.70
Funds Held for Others	2,904.85
Long-Term Liabilities - Current Portion (Note 6)	18,666.99
Total Current Liabilities	36,045.54

Noncurrent Liabilities:

Long-Term Liabilities (Note 6)	118,949.12
Total Noncurrent Liabilities	118,949.12
Total Liabilities	154,994.66

NET ASSETS

Invested in Capital Assets	2,606,543.29
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	20,904.75
Expendable:	
Scholarships and Fellowships	19,811.54
Loans	12,340.66
Capital Projects	366,279.53
Other	48,000.00
Unrestricted	613,952.48
Total Net Assets	\$ 3,687,832.25

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

<i>Pamlico Community College</i>		
<i>Statement of Revenues, Expenses, and</i>		
<i>Changes in Net Assets</i>		
<i>For the Fiscal Year Ended June 30, 2003</i>		<i>Exhibit B</i>
REVENUES		
Operating Revenues:		
Student Tuition and Fees	\$	241,410.83
Federal Grants and Contracts		603,129.39
State and Local Grants and Contracts		79,332.15
Sales and Services, Net (Note 9)		157,586.13
Other Operating Revenues		208.90
Total Operating Revenues		1,081,667.40
EXPENSES		
Operating Expenses:		
Personal Services		3,168,008.59
Supplies and Materials		492,617.11
Services		301,461.09
Scholarships and Fellowships		595,323.47
Utilities		61,115.41
Depreciation		142,033.82
Total Operating Expenses		4,760,559.49
Operating Loss		(3,678,892.09)
NONOPERATING REVENUES		
State Aid		2,848,505.13
County Appropriations		266,266.08
Noncapital Grants		130,119.02
Noncapital Gifts		48,687.66
Investment Income, Net		18,337.36
Net Nonoperating Revenues		3,311,915.25
Loss Before Other Revenues, Expenses, Gains, and Losses		(366,976.84)
State Capital Aid		122,666.83
County Capital Appropriations		258,499.92
Capital Grants		186,877.24
Increase in Net Assets		201,067.15
NET ASSETS		
Net Assets, July 1, 2002		3,486,765.10
Net Assets, June 30, 2003	\$	3,687,832.25
The accompanying notes to the financial statements are an integral part of this statement.		

<i>Pamlico Community College</i>		
<i>Statement of Cash Flows</i>		
<i>For the Fiscal Year Ended June 30, 2003</i>		<i>Exhibit C</i>
CASH FLOWS FROM OPERATING ACTIVITIES		
Received from Customers	\$	1,085,245.50
Payments to Employees and Fringe Benefits		(3,124,922.64)
Payments to Vendors and Suppliers		(862,422.75)
Payments for Scholarships and Fellowships		(617,262.23)
Loans Issued to Students		(843.50)
Collection of Loans to Students		1,444.47
Other Receipts		1,803.43
Net Cash Used by Operating Activities		(3,516,957.72)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State Aid Received		2,848,505.13
County Appropriations		266,266.08
Noncapital Grants Received		82,119.02
Noncapital Gifts and Endowments Received		19,987.66
Net Cash Provided by Noncapital Financing Activities		3,216,877.89
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
State Capital Aid Received		122,666.83
County Capital Appropriations		258,499.92
Capital Grants Received		139,958.38
Acquisition and Construction of Capital Assets		(120,968.34)
Net Cash Provided by Capital and Related Financing Activities		400,156.79
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Sales and Maturities of Investments		7,000.00
Investment Income		18,337.36
Net Cash Provided by Investing Activities		25,337.36
Net Increase in Cash and Cash Equivalents		125,414.32
Cash and Cash Equivalents, July 1, 2002		492,335.33
Cash and Cash Equivalents, June 30, 2003	\$	617,749.65
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating Loss	\$	(3,678,892.09)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense		142,033.82
Changes in Assets and Liabilities:		
Receivables, Net		(18,360.66)
Inventories		(466.08)
Notes Receivable, Net		600.97
Accounts Payable and Accrued Liabilities		(17,221.62)
Funds Held for Others		1,803.43
Compensated Absences		53,544.51
Net Cash Used by Operating Activities	\$	(3,516,957.72)

<i>Pamlico Community College</i>		
<i>Statement of Cash Flows</i>		<i>Exhibit C</i>
<i>For the Fiscal Year Ended June 30, 2003</i>		<i>Page 2</i>
RECONCILIATION OF CASH AND CASH EQUIVALENTS		
Current Assets:		
Cash and Cash Equivalents	\$	313,911.19
Restricted Cash and Cash Equivalents		20,558.44
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		283,280.02
Total Cash and Cash Equivalents - June 30, 2003	\$	617,749.65
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES		
Assets Acquired through a Gift	\$	28,700.00
Capital Asset Write-offs		(13,829.82)
Increase in Receivables Related to Nonoperating Income		101,415.45
The accompanying notes to the financial statements are an integral part of this statement.		

**PAMLICO COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003**

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 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 is reported as if it were part of the College.

The Foundation is governed by a 13-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, N.C. 28529, or by calling (252) 249-1851. Other related foundations and similar nonprofit 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*

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 (BTA) and accordingly, is reported within a single column in the basic financial statements.

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.

- 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.
- 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 portfolio. 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 provider’s 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 valued 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 more than one year. Library books are generally not considered to have a useful life of more than one year unless part of a collection and are expensed in the year of acquisition.

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 – Unexpended capital contributions are classified as restricted assets because their use is limited by donor/grantor agreements. Certain other assets are classified as restricted because their use is limited by external parties or statute.

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.

In addition to the vacation leave described above, compensated absences includes the accumulated unused portion of the special annual leave bonus awarded by the College to all full-time permanent employees as of September 30, 2002. The unused portion of this leave remains available until used, notwithstanding the limitation on annual leave carried forward described above.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

Invested in Capital Assets – This represents the College’s total investment in 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.

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. **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 Assets. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the College’s principal ongoing operations. Operating revenues include activities that have characteristics of exchange transactions, such as (1) student tuition and fees, (2) sales and services of auxiliary enterprises, and (3) certain federal, State and local grants and contracts. Operating expenses are all expense transactions incurred other than those related to capital and noncapital financing or investing activities as defined by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*.

Nonoperating revenues include activities that have the characteristics of nonexchange transactions. Revenues from nonexchange transactions and State aid that represent subsidies or gifts to the College, as well as investment income, are considered nonoperating since these are either

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

investing, capital or noncapital financing activities. Capital contributions are presented separately after nonoperating revenues and expenses.

- N. **Internal Sales Activities** – Certain institutional auxiliary operations provide goods and services to College departments, as well as to its customers. These institutional auxiliary operations include activities such as central stores. In addition, the College has other miscellaneous sales and service units that operated either on a reimbursement or charge basis. All internal sales activities to College departments from auxiliary operations and sales and service units have been eliminated in the accompanying financial statements. These eliminations are recorded by removing the revenue and expense in the auxiliary operations and sales and service units and, if significant, allocating any residual balances to those departments receiving the goods and services during the year.
- O. **County Appropriations** - County appropriations are provided to the College primarily to fund its plant operation and maintenance function and to fund construction projects, motor vehicle purchases, and maintenance of equipment. Unexpended county current 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 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 \$617,489.65 and the bank balance was \$709,365.08.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Cash on deposit at year end consisted of the following:

	Book Balance	Bank Balance
Cash on Deposit with State Treasurer	\$ 362,593.92	\$ 350,748.81
Cash on Deposit with Private Financial Institutions	<u>254,895.73</u>	<u>358,616.27</u>
	<u>\$ 617,489.65</u>	<u>\$ 709,365.08</u>

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 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 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 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, 2003, \$100,000.00 of the bank balance was covered by federal depository insurance and \$258,616.27 was covered by collateral held by an authorized escrow agent in the name of the State Treasurer (pooling method).

- B. Investments** – At June 30, 2003, the Pamlico Community College Foundation, Inc., held \$281,655.00 in investments consisting of real estate (\$254,500.00) and personal property (\$27,155.00). These investments are not categorized as to risk. Investments of the College's component unit, the Foundation, are subject to and restricted by General Statute 36B "Uniform Management of Institutional Funds Act" (UMIFA) and any requirements placed on them by contract or donor agreements.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 3 - DONOR RESTRICTED ENDOWMENTS

The College's endowment assets are pooled with State agencies and similar institutions in short-term investments with the State Treasurer's Cash and Investment Pool and are reported as restricted cash and cash equivalents – noncurrent on the accompanying financial statements. If a donor has not provided specific instructions, State law permits the Board of Trustees to authorize for expenditure the net appreciation, realized and unrealized, of the assets of the endowment funds. Annual payouts from the College's endowment funds are based on an adopted spending policy, which limits spending to 100% of the interest earnings unless the donor has stipulated otherwise. At June 30, 2003, net appreciation of \$943.97 was available to be spent, of which \$943.97 was restricted to specific purposes.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2003 were as follows:

	<u>Gross Receivables</u>	<u>Less Allowance for Doubtful Accounts</u>	<u>Net Receivables</u>
Current Receivables:			
Students	\$ 6,114.60	\$ 1,218.00	\$ 4,896.60
Accounts	144.70		144.70
Intergovernmental	82,896.12		82,896.12
Investment Earnings	1,818.03		1,818.03
Other	25,490.22		25,490.22
	<u>\$ 116,463.67</u>	<u>\$ 1,218.00</u>	<u>\$ 115,245.67</u>
Total Current Receivables			
Notes Receivable:			
Notes Receivable - Current:			
Institutional Student Loan Programs	<u>\$ 5,591.82</u>	<u>\$ 4,886.64</u>	<u>\$ 705.18</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2003, is presented as follows:

	Balance July 1, 2002	Adjustments	Increases	Decreases	Balance June 30, 2003
Capital Assets, Nondepreciable:					
Land	\$ 181,050.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 181,050.00
Construction in Progress	60,661.81	(60,812.18)	44,881.21		44,730.84
Total Capital Assets, Nondepreciable	241,711.81	(60,812.18)	44,881.21		225,780.84
Capital Assets, Depreciable:					
Buildings	3,326,366.49	60,812.18			3,387,178.67
Machinery and Equipment	462,133.77		41,148.82	13,829.82	489,452.77
General Infrastructure	21,347.94				21,347.94
Total Capital Assets, Depreciable	3,809,848.20	60,812.18	41,148.82	13,829.82	3,897,979.38
Less Accumulated Depreciation:					
Buildings	1,185,404.92		95,282.39		1,280,687.31
Machinery and Equipment	195,023.95		45,639.75	13,829.82	226,833.88
General Infrastructure	8,584.06		1,111.68		9,695.74
Total Accumulated Depreciation	1,389,012.93		142,033.82	13,829.82	1,517,216.93
Total Capital Assets, Depreciable, Net	2,420,835.27	60,812.18	(100,885.00)		2,380,762.45
Capital Assets, Net	\$ 2,662,547.08	\$ 0.00	\$ (56,003.79)	\$ 0.00	\$ 2,606,543.29

NOTE 6 - LONG-TERM LIABILITIES

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

	Balance July 1, 2002	Additions	Reductions	Balance June 30, 2003	Current Portion
Compensated Absences	\$ 84,071.60	\$ 146,969.45	\$ 93,424.94	\$ 137,616.11	\$ 18,666.99

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 7 - OPERATING LEASE OBLIGATIONS

Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2003:

<u>Fiscal Year</u>	<u>Amount</u>
2004	\$ 3,626.16
2005	3,626.16
2006	<u>1,813.08</u>
Total Minimum Lease Payments	<u>\$ 9,065.40</u>

Rental expense for all operating leases during the year was \$1,208.72.

NOTE 8 - REVENUES

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

	<u>Gross Revenues</u>	<u>Internal Sales Eliminations</u>	<u>Net Revenues</u>
Sales and Services:			
Sales and Services of Auxiliary Enterprises:			
Bookstore	\$ 130,540.73	\$ 0.00	\$ 130,540.73
Central Supply	9,793.21	9,793.21	
Other	<u>27,045.40</u>		<u>27,045.40</u>
Total Sales and Services	<u>\$ 167,379.34</u>	<u>\$ 9,793.21</u>	<u>\$ 157,586.13</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 9 - OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	\$ 1,515,933.08	\$ 67,797.04	\$ 25,787.20	\$ 0.00	\$ 0.00	\$ 0.00	\$ 1,609,517.32
Public Service	61,780.94	6,906.48	8,903.51				77,590.93
Academic Support	503,103.97	33,374.04	12,085.01				548,563.02
Student Services	238,008.58	3,381.88	23,732.93				265,123.39
Institutional Support	668,148.23	86,870.91	157,985.34				913,004.48
Operations and Maintenance of Plant	129,998.47	157,187.39	28,090.38		61,115.41		376,391.65
Student Financial Aid	51,035.32	384.69	26,568.70	595,323.47			673,312.18
Auxiliary Enterprises		136,714.68	18,308.02				155,022.70
Depreciation						142,033.82	142,033.82
Total Operating Expenses	<u>\$ 3,168,008.59</u>	<u>\$ 492,617.11</u>	<u>\$ 301,461.09</u>	<u>\$ 595,323.47</u>	<u>\$ 61,115.41</u>	<u>\$ 142,033.82</u>	<u>\$ 4,760,559.49</u>

NOTE 10 - PENSION PLANS

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

Benefit and contribution provisions for the Teachers' and State Employees' Retirement System are established by *North Carolina General Statutes* 135-5 and 135-8 and may be amended only by the North Carolina General Assembly. Employer and member contribution rates are set each year by the North Carolina General Assembly based on annual actuarial valuations. For the year ended June 30, 2003, the General Assembly required no contribution by employers and 6% of covered payroll for members.

For the year ended June 30, 2003, the College had a total payroll of \$2,668,501.56, of which \$2,382,350.29 was covered under the Teachers' and State Employees' Retirement System. Total employee contributions for pension benefits for the year were \$142,941.01. No employer contributions were required. The College made one hundred percent of its annual required contributions for the years ended June 30, 2003, 2002, and 2001, which were \$0.00, \$43,853.43, and \$103,531.51, respectively.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

- 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 \$11,103.76 for the year ended June 30, 2003.

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 \$18,118.16 for the year ended June 30, 2003.

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 nonprofit 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 \$2,359.28 for the year ended June 30, 2003.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 11 - 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, 2003, the College's total contribution to the Plan was \$55,985.23. 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, 2003, the College's total contribution to the DIPNC was \$12,388.22. 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

fiscal years. 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 incurs a \$10 million self-insured deductible per occurrence, subject to a \$20 million annual aggregate. Reinsurance is purchased by the fund to cover catastrophic events in excess of the \$10 million deductible. 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 is covered by contracts with private insurance companies.

The College is protected for losses from employee dishonesty and computer fraud for employees paid in whole or in part from State funds. 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 \$10,000 per occurrence and a \$250 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.

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 (CONCLUDED)

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

NOTE 13 - COMMITMENTS AND CONTINGENCIES

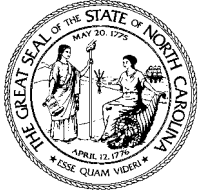
- A. Commitments** - The College has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were \$584,790.58 and on other purchases were \$402.52 at June 30, 2003.
- B. Community College General 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 were authorized for issuance 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 of \$2,240,247 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.

***Pamlico Community College
Schedule of General Obligation Bond Project Authorizations,
Budgets, and Expenditures
For Project-to-Date as of June 30, 2003*** ***Schedule 1***

	Projected	General	Other	Total	Amount	Percent	Expected
Capital Improvement Projects	Start	Obligation Bonds	Sources	Project	Expended	Completed	Completion
	Date	Authorized		Budget			Date
<i>Projects Approved by the State Board</i>							
Cosmetology Building (1224)	Jul 2001	\$ 400,000.00	\$ 0.00	\$ 400,000.00	\$ 219,416.94	54.85%	Jan 2004
<i>Projects Pending Approval by the State Board</i>							
Miscellaneous Repairs and Renovations	Jul 2003	233,376.00		233,376.00			Jan 2005
Life Long Learning Center	Jan 2005	1,837,555.00	1,264,466.00	3,102,021.00			Mar 2007
Total All Projects		<u>\$ 2,470,931.00</u>	<u>\$ 1,264,466.00</u>	<u>\$ 3,735,397.00</u>	<u>\$ 219,416.94</u>		

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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Ralph Campbell, Jr.
State Auditor

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Office of the State Auditor

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

Board of Trustees
Pamlico Community College
Grantsboro, North Carolina

We have audited the financial statements of Pamlico Community College, a component unit of the State of North Carolina, as of and for the year ended June 30, 2003, and have issued our report thereon dated March 19, 2004.

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.

Compliance

As part of obtaining reasonable assurance about whether the College's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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 that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the College's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being

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

audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Board of Trustees and the State Board of Community Colleges, management and staff of the College, the Governor, the State Controller, the General Assembly, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.



Ralph Campbell, Jr.
State Auditor

March 19, 2004

DISTRIBUTION OF AUDIT REPORT

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.

EXECUTIVE BRANCH

The Honorable Michael F. Easley	Governor of North Carolina
The Honorable Beverly M. Perdue	Lieutenant Governor of North Carolina
The Honorable Richard H. Moore	State Treasurer
The Honorable Roy A. Cooper, III	Attorney General
Mr. David T. McCoy	State Budget Officer
Mr. Robert L. Powell	State Controller
Mr. H. Martin Lancaster	President, North Carolina Community College System
Dr. F. Marion Altman, Jr.	President, Pamlico Community College
Ms. Virginia Traver	Vice President for Administrative Services Pamlico Community College
Ms. Louise Muse	Chairman, Board of Trustees Pamlico Community College

LEGISLATIVE BRANCH

Appointees to the Joint Legislative Commission on Governmental Operations

President Pro Tempore	Speaker of the House
Senator Marc Basnight, Co-Chair	Representative James B. Black, Co-Chair
Senator Charles W. Albertson	Representative Richard T. Morgan, Co-Chair
Senator Patrick J. Ballantine	Representative Martha B. Alexander
Senator Daniel G. Clodfelter	Representative Rex L. Baker
Senator Walter H. Dalton	Representative Bobby H. Barbee, Sr.
Senator Charlie S. Dannelly	Representative Harold J. Brubaker
Senator James Forrester	Representative Debbie A. Clary
Senator Linda Garrou	Representative E. Nelson Cole
Senator Wilbur P. Gulley	Representative James W. Crawford, Jr.
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Senator David W. Hoyle	Representative W. Pete Cunningham
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Senator Robert A. Rucho	Representative William C. Owens, Jr.
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Other Legislative Officials

Mr. James D. Johnson	Director, Fiscal Research Division
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May 11, 2004

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