STATE OF
NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT OF

PIEDMONT COMMUNITY COLLEGE

ROXBORO, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2003

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR

FINANCIAL STATEMENT AUDIT REPORT OF

PIEDMONT COMMUNITY COLLEGE

ROXBORO, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2003

STATE OF NORTH CAROLINA
Office of the State Auditor

Ralph Campbell, Jr.
State Auditor

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AUDITOR'S TRANSMITTAL

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

This report presents the results of our financial statement audit of Piedmont 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 Piedmont 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 Piedmont 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 Piedmont 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.

Ralph Campbell, Jr.
State Auditor

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Ralph Campbell, Jr.
State Auditor

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Piedmont Community College
Roxboro, North Carolina

We have audited the accompanying basic financial statements of Piedmont 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 Piedmont 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 January 15, 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 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.

Ralph Campbell, Jr.
State Auditor

January 15, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Piedmont Community College's Annual Financial Report presents management's discussion and analysis of the College's financial activity during the fiscal years ended June 30, 2003 and June 30, 2002. College management has prepared this discussion, along with the financial statements and related notes. The financial statements, notes to the financial statements, and this discussion are the responsibility of College management.

The purpose of the management discussion and analysis (MD&A) is to identify significant transactions that have financial impact and to highlight favorable and unfavorable trends. This discussion and analysis should, however, be read in conjunction with, and is qualified in its entirety by the related financial statements and notes to the financial statements.

Using the Annual Report/Overview of Financial Statements

This annual report consists of a series of financial statements, prepared in accordance with the Governmental Accounting Standards Board Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities*, as amended by GASB Statements No. 37 and No. 38. These statements establish standards for external financial reporting for public colleges and universities and require that financial statements be presented on a consolidated basis to focus on the College as a whole, with resources classified for accounting and reporting purposes into four net asset categories.

One of the most important questions asked about college finances is whether the college as a whole is better off or worse off as a result of the year's activities. The key to understanding this question is the Statement of Net Assets, Statement of Revenues, Expenses, and Changes in Net Assets, and the Statement of Cash Flows. These statements present financial information in a form similar to that used by corporations. The college's net assets are one indicator of the college's financial health. Over time, increases or decreases in net assets is one indicator of the improvement or erosion of the college's financial health when considered with non-financial facts such as enrollment levels and the condition of the facilities.

Statement of Net Assets

The Statement of Net Assets presents college assets, liabilities and net assets as of the end of the fiscal year (i.e. June 30th). The assets and liabilities are divided into current and noncurrent portions. The differences between current and noncurrent assets and liabilities are discussed further in the notes to the financial statements. The Statement of Net Assets is prepared under the accrual basis of accounting, whereby revenues and assets are recognized when the service is provided and expenses and liabilities are recognized when others provide the service, regardless of when cash is exchanged.

From the data presented, readers of this statement are able to determine the assets available to continue the operations of the institution. They are also able to determine how much the institution owes vendors, investors and lending institutions. The Statement of Net Assets also provides a picture of the net assets (assets minus liabilities) and their availability for expenditure by the institution. Net assets are divided into three major categories: invested in capital assets; unrestricted net assets; and restricted net assets, which are reflected in two subcategories – expendable and nonexpendable. These three categories of net assets are discussed further in the notes to the financial statements.

A Condensed Statement of Net Assets is reflected below.

Condensed Statement of Net Assets

	June 30, 2003	June 30, 2002
Assets:		
Current Assets	$ 1,279,603.94	$ 1,131,378.26
Noncurrent Capital Assets, Net of Accumulated Depreciation	6,655,661.32	6,107,983.09
Other Noncurrent Assets	73,360.85	9,060.43
Total Assets	8,008,626.11	7,248,421.78
Liabilities:		
Current Liabilities	369,264.55	281,515.41
Noncurrent Liabilities	500,679.08	463,329.84
Total Liabilities	869,943.63	744,845.25
Net Assets:		
Invested in Capital Assets	6,655,661.32	6,107,983.09
Restricted - Expendable	254,328.32	159,491.45
Unrestricted	228,692.84	236,101.99
Total Net Assets	$ 7,138,682.48	$ 6,503,576.53

The total assets of the College increased by $760,204.33 for the year (an increase of $148,225.68 for current assets and an increase of $611,978.65 for noncurrent assets). This increase was attributable to a decrease in Cash and Cash Equivalents of $89,548.41; an increase of $191,081.53 in Receivables; an increase of $47,878.93 in Inventories; a decrease of $1,186.37 in Notes Receivable; an increase of $64,300.42 in Restricted – Due from Primary Government; an increase in Construction in Progress of $723,289.83; an increase in Depreciable Capital Assets of $210,183.18; and Depreciation Expense of $385,794.78.

The total liabilities of the College increased by $125,098.48 for the year (an increase of $87,749.24 in Current Liabilities and an increase of $37,349.24 in Noncurrent Liabilities). This increase is attributable to an increase in Long-Term Liabilities (Accrual of Annual Leave for Employees) of $37,349.24; an increase in Accounts Payable of $79.482.02; and an increase in Funds Held for Others and Deferred Revenue of $8,267.12.

Statement of Revenues, Expenses, and Changes in Net Assets

Changes in total net assets as presented on the Statement of Net Assets are based on the activity presented in the Statement of Revenues, Expenses, and Changes in Net Assets. The purpose of the statement is to present the revenues earned by the institution, both operating and nonoperating, and the expenses incurred by the institution, operating and nonoperating, and any other revenues, expenses, gains, and losses earned or incurred by the institution.

Generally speaking, operating revenues are earned for providing goods and services to the various constituencies of the institution. Operating expenses are those expenses incurred to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the mission of the institution. Nonoperating revenues are revenues earned for which goods and services are not provided. State and county appropriations and noncapital grants are included as nonoperating revenues in accordance with GASB guidelines, even though these revenues are instrumental to the College's mission and operations. Nonoperating expenses are expenses not directly related to the normal operations of the College (e.g., interest expense and other fees on capital asset related debt). Capital contributions are reported separately after nonoperating revenues and expenses.

A Condensed Statement of Revenues, Expenses, and Changes in Net Assets is reflected below.

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

	June 30, 2003	June 30, 2002
Operating Revenue		
Tuition and Fees	$ 772,976.41	$ 1,252,763.97
Federal Grants and Contracts	3,208,342.44	2,994,487.05
Other	774,523.04	721,199.10
Total	4,755,841.89	4,968,450.12
Less Operating Expenses		
Personal Services	9,060,409.13	8,738,144.64
Supplies and Materials	1,352,263.38	1,260,600.49
Services	958,377.72	1,032,815.50
Scholarships and Fellowships	1,673,854.43	1,756,655.56
Utilities	227,804.85	252,803.15
Depreciation	385,794.78	372,302.41
Total	13,658,504.29	13,413,321.75
Operating Loss	(8,902,662.40)	(8,444,871.63)
Nonoperating Revenue		
State/Local Grants and Contracts	8,292,688.09	7,910,298.50
Investment Income	17,047.91	20,149.43
Gifts and Other	5,257.23	(2,190.30)
Total	8,314,993.23	7,928,257.63
Loss Before Other Revenue	(587,669.17)	(516,614.00)
Other Revenue	1,222,775.12	404,085.03
Increase (Decrease) in Net Assets	635,105.95	(112,528.97)
Net Assets, Beginning of Year, as Restated	6,503,576.53	6,616,105.50
Net Assets, End of Year	$ 7,138,682.48	$ 6,503,576.53

The State and local appropriations are not classified as operating revenue per GASB 35; therefore, the College will usually show a significant operating loss.

Operating revenue decreased overall by $212,608.23 but the component parts have varying balance changes. Tuition and Fees decreased by $479,787.56 primarily because of an increase in scholarship allowances. Federal grants and contracts had a $213,855.39 increase that was directly related to the Pell Grant, SEOG and College Work Study grants.

Operating expenses for fiscal year 2003 increased $245,182.54 over fiscal year 2002. Personal Services increased $322,264.49 due to the effects of contractual increases for faculty and staff salaries. Supplies and Materials accounted for a $91,662.89 increase due to reclassification of expenditures for software from prior presentation. Depreciation increased $13,492.37 due to the purchases of capital assets. Services decreased $74,437.78 primarily due to reclassification of expenditures for software costs. Utilities decreased $24,998.30 due to spending cuts.

Nonoperating and Other Revenue decreased by $1,205,425.69 in fiscal year 2003 from fiscal year 2002. The primary reasons for this increase are: State Aid increased by $239,342.21 due to a growth in FTE; County appropriations decreased $51,083.67 due to funding cuts; Noncapital Grants increased $194,131.05 because of additional funding; State Capital Aid increased $107,724.06; and County Capital Appropriations increased $710,966.03 because of a large County-funded capital project.

Statement of Cash Flows

The final statement presented by Piedmont Community College is the Statement of Cash Flows. This statement is divided into five parts and presents detailed information about the cash activity of the College during the year. The first part deals with operating cash flows and shows the net cash used by the operating activities of the institution. The second section reflects cash flows from noncapital financing activities. This section reflects the cash received and spent for nonoperating, noninvesting, and noncapital financing purposes. The third section deals with cash flows from capital and related financing activities. This section deals with the cash used for the acquisition and construction of capital and related items. The fourth section reflects the cash flows from investing activities and shows the purchases, proceeds, and interest received from investing activities. The fifth section reconciles the net cash used to the operating income or loss reflected on the Statement of Revenues, Expenses, and Changes in Net Assets.

A Condensed Statement of Cash Flows is reflected below.

Condensed Statement of Cash Flows

	June 30, 2003	June 30, 2002
Cash Provided (Used) by:		
Operating Activities	$ (8,614,878.05)	$ (8,046,841.00)
Noncapital Financing Activities	8,255,481.02	7,958,522.62
Capital and Related Financing Activities	252,461.94	191,985.09
Investing Activities	17,386.68	21,371.35
Net Change in Cash	(89,548.41)	125,038.06
Cash, Beginning of Year	821,471.12	696,433.06
Cash, End of Year	$ 731,922.71	$ 821,471.12

Major sources of funds included in operating activities are student tuition and fees $772,976.41, auxiliary sales and services $544,977.59, and contracts and grants $3,418,955.41. Major uses of funds included in operating activities are payments to employees $9,009,581.53, to vendors/suppliers $2,572,601.02, and for scholarships and fellowships $1,673,854.43.

The major source of funds included in noncapital financing activities is State appropriations $7,134,476.84, and county appropriations $887,130.33. The major sources of funds included in capital and related financing activities are State capital appropriations $469,115.95 and county capital appropriations $753,659.17. The major use is the acquisition and construction of capital assets $881,193.21.

Capital Asset and Debt Administration

Capital Assets. Piedmont Community College's investment in capital assets as of June 30, 2003 amounted to $6,655,661.32, net of accumulated depreciation. This investment in capital assets includes land, construction in progress, buildings, infrastructure, machinery, and equipment. Additions to capital assets were $933,473.01, deletions were $36,789.59, and net depreciation was $349,005.19.

Major capital asset events during the current fiscal year included the following:

- Approximately 95% completion of HVAC Replacement – Phase I at a cost of $723,289.83
- Machinery and equipment acquisitions totaling $210,183.18 for the fiscal year ending June 30, 2003.

Capital Assets, Net

	June 30, 2003	June 30, 2002
Capital Assets		
Land	$ 153,654.15	$ 153,654.15
Construction in Progress	740,359.83	17,070.00
Buildings	8,594,600.00	8,594,600.00
Infrastructure	716,255.18	716,255.18
Equipment	1,659,216.11	1,485,822.52
Total	11,864,085.27	10,967,401.85
Less Accumulated Depreciation	5,208,423.95	4,859,418.76
Capital Assets, Net	$ 6,655,661.32	$ 6,107,983.09

Long-Term Debt. The College did not incur any long-term debt for fiscal years ending June 30, 2003 and 2002, other than current and noncurrent accrued vacation leave of $635,782.78 at June 30, 2003.

Economic and Other Factors Impacting Future Periods

The economic position of Piedmont Community College is closely tied to the State of North Carolina. State aid and State capital aid comprise 53 percent of total College revenues and are the largest source of funding. As the national economy has slowed down, the State economy has followed. Plant closures and layoffs and changes in the tobacco industry have caused State revenues to decrease. This will most likely result in smaller increases in State appropriations for higher education. The specific impact on the College is uncertain; however, due to increased funding for enrollment increases it is felt there will not be a significant impact on College operations.

The biggest challenges facing the College are:

- the level of federal, State, and local support;
- implementation of the new administrative computing system; and
- assessment and reallocation of available resources.

Requests for Information

This financial report is designed to provide a general overview of Piedmont Community College's finances for all those with an interest. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Piedmont Community College, Vice President for Administrative Services, PO Box 1197, 1715 College Drive, Roxboro, North Carolina 27573.

Piedmont Community College
Statement of Net Assets
June 30, 2003 ***Exhibit A***

ASSETS		
Current Assets:		
Cash and Cash Equivalents	$	563,467.96
Restricted Cash and Cash Equivalents		168,454.75
Receivables (Note 3)		361,221.10
Inventories		184,178.25
Notes Receivable (Note 3)		2,281.88
Total Current Assets		1,279,603.94
Noncurrent Assets:		
Restricted Due from Primary Government		73,360.85
Capital Assets - Nondepreciable, Net (Note 4)		894,013.98
Capital Assets - Depreciable, Net (Note 4)		5,761,647.34
Total Noncurrent Assets		6,729,022.17
Total Assets		8,008,626.11
LIABILITIES		
Current Liabilities:		
Accounts Payable and Accrued Liabilities (Note 5)		212,824.39
Deferred Revenue		1,151.04
Funds Held for Others		20,185.42
Long-Term Liabilities - Current Portion (Note 6)		135,103.70
Total Current Liabilities		369,264.55
Noncurrent Liabilities:		
Long-Term Liabilities (Note 6)		500,679.08
Total Noncurrent Liabilities		500,679.08
Total Liabilities		869,943.63
NET ASSETS		
Invested in Capital Assets		6,655,661.32
Restricted for:		
Expendable:		
Scholarships and Fellowships		500.00
Loans		5,791.16
Capital Projects		103,790.47
Other		144,246.69
Unrestricted		228,692.84
Total Net Assets	$	7,138,682.48

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

Piedmont Community College
Statement of Revenues, Expenses, and Changes in Net Assets
For the Fiscal Year Ended June 30, 2003

		Exhibit B
REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net (Note 8)	$	772,976.41
Federal Grants and Contracts		3,208,342.44
State and Local Grants and Contracts		210,612.97
Sales and Services, Net (Note 8)		544,977.59
Other Operating Revenues		18,932.48
Total Operating Revenues		4,755,841.89
EXPENSES		
Operating Expenses:		
Personal Services		9,060,409.13
Supplies and Materials		1,352,263.38
Services		958,377.72
Scholarships and Fellowships		1,673,854.43
Utilities		227,804.85
Depreciation		385,794.78
Total Operating Expenses		13,658,504.29
Operating Loss		(8,902,662.40)
NONOPERATING REVENUES		
State Aid		7,134,476.84
County Appropriations		887,130.33
Noncapital Grants		271,080.92
Noncapital Gifts, Net (Note 8)		5,257.23
Investment Income, Net		17,047.91
Net Nonoperating Revenues		8,314,993.23
Loss Before Other Revenues, Expenses, Gains, and Losses		(587,669.17)
State Capital Aid		469,115.95
County Capital Appropriations		753,659.17
Increase in Net Assets		635,105.95
NET ASSETS		
Net Assets, July 1, 2002		6,503,576.53
Net Assets, June 30, 2003	$	7,138,682.48

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

Piedmont Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2003 — **Exhibit C**

CASH FLOWS FROM OPERATING ACTIVITIES		
Received from Customers	$	4,632,856.48
Payments to Employees and Fringe Benefits		(9,009,581.53)
Payments to Vendors and Suppliers		(2,572,601.02)
Payments for Scholarships and Fellowships		(1,673,854.43)
Loans Issued to Students		(11,869.63)
Collection of Loans to Students		13,056.00
Other Receipts		7,116.08
Net Cash Used by Operating Activities		(8,614,878.05)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State Aid Received		7,134,476.84
County Appropriations		887,130.33
Noncapital Grants Received		228,616.62
Noncapital Gifts and Endowments Received		5,257.23
Net Cash Provided by Noncapital Financing Activities		8,255,481.02
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
State Capital Aid Received		469,115.95
County Capital Appropriations		753,659.17
Capital Grants Received		(89,119.97)
Acquisition and Construction of Capital Assets		(881,193.21)
Net Cash Provided by Capital and Related Financing Activities		252,461.94
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment Income		17,386.68
Net Cash Provided by Investing Activities		17,386.68
Net Decrease in Cash and Cash Equivalents		(89,548.41)
Cash and Cash Equivalents, July 1, 2002		821,471.12
Cash and Cash Equivalents, June 30, 2003	$	731,922.71
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating Loss	$	(8,902,662.40)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense		385,794.78
Changes in Assets and Liabilities:		
Receivables, Net		(124,136.45)
Inventories		(47,878.93)
Notes Receivable, Net		1,186.37
Accounts Payable and Accrued Liabilities		27,202.22
Deferred Revenue		1,151.04
Funds Held for Others		7,116.08
Compensated Absences		37,349.24
Net Cash Used by Operating Activities	$	(8,614,878.05)

Piedmont Community College		
Statement of Cash Flows		***Exhibit C***
For the Fiscal Year Ended June 30, 2003		***Page 2***
RECONCILIATION OF CASH AND CASH EQUIVALENTS		
Current Assets:		
Cash and Cash Equivalents	$	563,467.96
Restricted Cash and Cash Equivalents		168,454.75
Total Cash and Cash Equivalents - June 30, 2003	$	731,922.71
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES		
Assets Acquired through Assumption of a Liability	$	52,279.80
Increase in Receivables Related to Nonoperating Income		131,584.27
The accompanying notes to the financial statements are an integral part of this Statement.		

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NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity - The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their constituents for their actions. As required by accounting principles generally accepted in the United States of America, 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. Piedmont 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 for which the College's Board of Trustees is financially accountable. Related foundations and similar nonprofit corporations for which the College is not financially accountable are not part of the accompanying financial statements. These entities are not included because they are separately incorporated and there are neither common directors nor other evidence of common control.

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 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, money market 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. 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, private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants. Accounts and notes receivable are recorded at book value with no provision for doubtful accounts considered necessary.

F. Inventories – Inventories, consisting of expendable supplies and merchandise for resale, are stated at cost using the last invoice cost method.

G. Capital Assets – Capital assets are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. The 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 method over the estimated useful lives of the assets, generally 15 years for general infrastructure, 40 years for buildings, and 5 to 15 years for equipment.

H. 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.

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

J. **Compensated Absences** - The College's policy is to record the cost of vacation leave when earned. The policy provides for a maximum accumulation of unused vacation leave of 30 days which can be carried forward each 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.

K. **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 – 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.

L. **Scholarship Discounts –** Student tuition and fees revenues and certain other revenues from College charges are reported net of scholarship discounts in the accompanying Statement of Revenues, Expenses, and Changes in Net 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.

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 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 copy centers. 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 by the College.

NOTE 2 - 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 $470.00. The carrying amount of cash on deposit was $731,452.71 and the bank balance was $811,853.38.

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:

	Book Balance	Bank Balance
Cash on Deposit with State Treasurer	$ 351,503.21	$ 351,503.21
Cash on Deposit with Private Financial Institutions	379,949.50	460,350.17
	$ 731,452.71	$ 811,853.38

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, $360,350.17 was covered by collateral held by an authorized escrow agent in the name of the State Treasurer (pooling method).

NOTE 3 - RECEIVABLES

Receivables at June 30, 2003 were as follows:

	Amount
Current Receivables:	
Students	$ 61,947.48
Accounts	30,882.91
Intergovernmental	267,313.56
Investment Earnings	1,077.15
Total Current Receivables	$ 361,221.10
Notes Receivable:	
Notes Receivable - Current:	
Institutional Student Loan Programs	$ 2,281.88

NOTE 4 - 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	Increases	Decreases	Balance June 30, 2003
Capital Assets, Nondepreciable:				
Land	$ 153,654.15	$ 0.00	$ 0.00	$ 153,654.15
Construction in Progress	17,070.00	723,289.83		740,359.83
Total Capital Assets, Nondepreciable	170,724.15	723,289.83		894,013.98
Capital Assets, Depreciable:				
Buildings	8,594,600.00			8,594,600.00
Machinery and Equipment	1,485,822.52	210,183.18	36,789.59	1,659,216.11
General Infrastructure	716,255.18			716,255.18
Total Capital Assets, Depreciable	10,796,677.70	210,183.18	36,789.59	10,970,071.29
Less Accumulated Depreciation:				
Buildings	3,861,370.36	214,864.92		4,076,235.28
Machinery and Equipment	855,365.83	143,055.66	36,789.59	961,631.90
General Infrastructure	142,682.57	27,874.20		170,556.77
Total Accumulated Depreciation	4,859,418.76	385,794.78	36,789.59	5,208,423.95
Total Capital Assets, Depreciable, Net	5,937,258.94	(175,611.60)	0.00	5,761,647.34
Capital Assets, Net	$ 6,107,983.09	$ 547,678.23	$ 0.00	$ 6,655,661.32

NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2003 were as follows:

	Amount
Accounts Payable	$ 97,956.64
Accrued Payroll	114,867.75
Total Accounts Payable and Accrued Liabilities	$ 212,824.39

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	$ 598,433.54	$ 509,156.89	$ 471,807.65	$ 635,782.78	$ 135,103.70

NOTE 7 - OPERATING LEASE OBLIGATIONS

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

Fiscal Year	Amount
2004	$ 8,281.80
2005	8,281.80
2006	8,281.80
Total Minimum Lease Payments	$ 24,845.40

Rental expense for all operating leases during the year was $16,146.20.

NOTE 8 - REVENUES

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

	Gross Revenues	Internal Sales Eliminations	Less Scholarship Discounts	Net Revenues
Operating Revenues:				
Student Tuition and Fees	$ 1,231,629.63	$ 0.00	$ 458,653.22	$ 772,976.41
Sales and Services:				
Sales and Services of Auxiliary Enterprises:				
Bookstore	$ 729,050.23	$ 123,368.74	$ 306,232.62	$ 299,448.87
Other	50,399.79			50,399.79
Sales and Services of Education and Related Activities	243,569.06	48,440.13		195,128.93
Total Sales and Services	$ 1,023,019.08	$ 171,808.87	$ 306,232.62	$ 544,977.59
Nonoperating - Noncapital Gifts	$ 5,257.23	$ 0.00	$ 0.00	$ 5,257.23

NOTE 9 - OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	$ 5,802,332.83	$ 983,939.65	$ 469,486.13	$ 0.00	$ 0.00	$ 0.00	$ 7,255,758.61
Research	19,131.27	(11,180.17)	9,815.54				17,766.64
Public Service		318.93	2,479.66				2,798.59
Academic Support	925,598.50	59,356.81	39,907.14				1,024,862.45
Student Services	410,417.54	33,345.11	2,952.90				446,715.55
Institutional Support	1,325,383.57	80,369.32	232,246.63				1,637,999.52
Operations and Maintenance of Plant	499,475.58	55,359.76	162,741.14		227,804.85		945,381.33
Student Financial Aid			32,388.00	1,673,854.43			1,706,242.43
Auxiliary Enterprises	78,069.84	150,753.97	6,360.58				235,184.39
Depreciation						385,794.78	385,794.78
Total Operating Expenses	$ 9,060,409.13	$ 1,352,263.38	$ 958,377.72	$ 1,673,854.43	$ 227,804.85	$ 385,794.78	$ 13,658,504.29

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 $7,539,287.92, of which $6,597,940.01 was covered under the Teachers' and State Employees' Retirement System. Total employee contributions for pension benefits for the year were $395,876.35. 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, $129,594.75, and $328,806.09, 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 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 $32,407.20 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 $70,753.00 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 $18,265.80 for the year ended June 30, 2003.

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 $155,051.61. 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 $34,309.49. The College assumes no liability for long-term disability benefits under the Plan other than its contribution. Additional detailed information about the DIPNC is disclosed in the State of North Carolina's *Comprehensive Annual Financial Report*.

NOTE 12 - RISK MANAGEMENT

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

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 contracts with private insurance companies. 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. Losses from county and institutional fund paid employees are covered by contracts with private insurance companies.

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.

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 $319,160.17 and on other purchases were $17,229.08 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 $4,683,567.00 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.

NOTE 14 - PIEDMONT COMMUNITY COLLEGE FOUNDATION

The Piedmont Community College Foundation is a separately incorporated nonprofit foundation associated with the College. This organization serves as the primary fundraising arm of the College through which individuals, corporations, and other organizations support College programs by providing scholarships, fellowships, faculty salary supplements, and unrestricted funds to specific departments and the College's overall academic environment. The College's financial statements do not include the assets, liabilities, net assets, or operational transactions of the Foundation, except for the distributions made and benefits provided by the Foundation. The distributions received and/or benefits provided approximated $50,024.03 for the year ended June 30, 2003.

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

Schedule 1

Capital Improvement Projects	Projected Start Date	General Obligation Bonds Authorized	Other Sources	Total Project Budget	Amount Expended	Percent Completed	Expected Completion Date
Projects Approved by the State Board							
Renovate Gym	Feb 2003	$ 1,447,857.00	$ 0.00	$ 1,447,857.00	$ 21,720.00	1.50%	Mar 2005
Classroom/Labs and Student Service/Learning Center	Feb 2003	1,567,922.00		1,567,922.00	22,817.50	1.46%	Mar 2005
Projects Not Started - To Be Funded in Future Years							
Renovate Student Complex	Mar 2004	1,405,690.00		1,405,690.00			May 2006
Renovate Auditorium	Mar 2004	334,476.00		334,476.00			Jan 2006
Total All Projects		$ 4,755,945.00	$ 0.00	$ 4,755,945.00	$ 44,537.50		

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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STATE OF NORTH CAROLINA
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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
Piedmont Community College
Roxboro, North Carolina

We have audited the financial statements of Piedmont 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 January 15, 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 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.

Ralph Campbell, Jr.
State Auditor

January 15, 2004

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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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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. H. James Owen	President, Piedmont Community College
Mr. William R. Barnes	Vice President for Administrative Services Piedmont Community College
Mr. Roy T. Brooks	Chairman, Board of Trustees Piedmont Community College

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Mr. James D. Johnson	Director, Fiscal Research Division

March 5, 2004

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