



STATE OF NORTH CAROLINA

FINANCIAL STATEMENT REVIEW REPORT OF

PIEDMONT COMMUNITY COLLEGE

ROXBORO, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2004

OFFICE OF THE STATE AUDITOR

LESLIE W. MERRITT, JR., CPA, CFP

STATE AUDITOR

FINANCIAL STATEMENT REVIEW REPORT OF

PIEDMONT COMMUNITY COLLEGE

ROXBORO, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2004

STATE BOARD OF COMMUNITY COLLEGES

THE NORTH CAROLINA COMMUNITY COLLEGE SYSTEM

H. MARTIN LANCASTER, PRESIDENT

BOARD OF TRUSTEES

ROY T. BROOKS, CHAIRMAN

TOM GILLIAM, VICE CHAIRMAN

**GORDON ALLEN
RONALD K. BOOKER
BELLE BOOTH
SHEILA CARDEN
DONOVAN HARPER
LARRY JOHNSON**

**ARNOLD ROGERS
GAIL STILLWELL
JOSIAH THOMAS
CLEVE WAGSTAFF
LARRY WILKERSON
DONALD WILSON**

ADMINISTRATIVE OFFICERS

DR. H. JAMES OWEN, PRESIDENT

WILLIAM R. BARNES, VICE PRESIDENT FOR ADMINISTRATIVE SERVICES



STATE OF NORTH CAROLINA
Office of the State Auditor

Leslie W. Merritt, Jr., CPA, CFP
State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601
Telephone: (919) 807-7500
Fax: (919) 807-7647
Internet
<http://www.ncauditor.net>

REVIEWER'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 review of Piedmont Community College, a component unit of the State of North Carolina, for the year ended June 30, 2004. Our review was made by authority of Article 5A of Chapter 147 of the *North Carolina General Statutes* and was conducted in accordance with *Statements on Standards for Accounting and Review Services* issued by the American Institute of Certified Public Accountants. The objective of a review is to achieve limited assurance that there are no material modifications that should be made to the financial statements in order for the statements to be in conformity with accounting principles generally accepted in the United States of America.

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

As part of the work necessary for the CAFR and the *Single Audit Report*, the accounts and operations of the College were subjected to review procedures, as we considered necessary. In addition, we performed review procedures that we considered necessary for us to report on the accompanying financial statements that relate solely to Piedmont Community College. As a result of our review, we are not aware of any material modifications necessary for the accompanying financial statements to be in conformity with accounting principles generally accepted in the United States of America. These matters are more fully described in the Independent Accountant's Review Report on the financial statements.

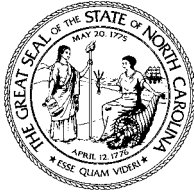
North Carolina General Statutes require the State Auditor to make reports available to the public. Copies of review reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.

Leslie W. Merritt, Jr.

Leslie W. Merritt, Jr., CPA, CFP
State Auditor

TABLE OF CONTENTS

	PAGE
INDEPENDENT ACCOUNTANT’S REVIEW REPORT	1
MANAGEMENT’S DISCUSSION AND ANALYSIS	3
FINANCIAL STATEMENTS	
Exhibits	
A-1 Statement of Net Assets	11
A-2 Statement of Revenues, Expenses, and Changes in Net Assets	12
A-3 Statement of Cash Flows	13
B-1 Statement of Financial Position	15
B-2 Statement of Activities	16
Notes to the Financial Statements	19
SUPPLEMENTARY INFORMATION	
Schedule	
1 Schedule of General Obligation Bond Project Authorizations, Budgets, and Expenditures.....	34
DISTRIBUTION OF REVIEW REPORT	35



STATE OF NORTH CAROLINA
Office of the State Auditor

Leslie W. Merritt, Jr., CPA, CFP
State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601
Telephone: (919) 807-7500
Fax: (919) 807-7647
Internet
<http://www.ncauditor.net>

INDEPENDENT ACCOUNTANT'S REVIEW REPORT

Board of Trustees
Piedmont Community College
Roxboro, North Carolina

We have reviewed the accompanying financial statements of Piedmont Community College, a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 2004, which collectively comprise Piedmont Community College's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the College's management. We did not review the financial statements of Piedmont Community College Foundation, Inc., the College's discretely presented component unit. Those financial statements were audited by other accountants whose report thereon has been furnished to us, and our report, insofar as it relates to the amounts included for the discretely presented component unit, is based on the report of the other accountants.

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

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

The Management's Discussion and Analysis, 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. Such information has been subjected to the inquiry and analytical procedures applied in the review of the basic financial statements, and we are not aware of any material modifications that should be made thereto.

INDEPENDENT ACCOUNTANT'S REVIEW REPORT (CONCLUDED)

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

Leslie W. Merritt, Jr.

Leslie W. Merritt, Jr., CPA, CFP
State Auditor

April 8, 2005

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, 2004, and June 30, 2003. 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 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.

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, No. 38 and No. 39. 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 nonfinancial 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 30). 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

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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

	<u>June 30, 2004</u>	<u>June 30, 2003</u>
Assets:		
Current Assets	\$ 1,300,325.73	\$ 1,279,603.94
Noncurrent Capital Assets, Net of Accumulated Depreciation	6,706,119.21	6,655,661.32
Other Noncurrent Assets	<u>2,842,648.96</u>	<u>73,360.85</u>
Total Assets	10,849,093.90	8,008,626.11
Liabilities:		
Current Liabilities	464,566.06	369,264.55
Noncurrent Liabilities	<u>723,425.97</u>	<u>500,679.08</u>
Total Liabilities	1,187,992.03	869,943.63
Net Assets:		
Invested in Capital Assets	6,706,119.21	6,655,661.32
Restricted Expendable	3,069,254.15	254,328.32
Unrestricted	<u>(114,271.49)</u>	<u>228,692.84</u>
Total Net Assets	<u>\$ 9,661,101.87</u>	<u>\$ 7,138,682.48</u>

The total assets of the College increased by \$2,840,467.79 for the year (an increase of \$20,721.79 for current assets and an increase of \$2,819,746.00 for noncurrent assets). This increase was attributable to an increase in Cash and Cash Equivalents of \$172,816.58; a decrease of \$171,139.51 in Receivables; an increase of \$20,000.00 in Due from State of N.C. Component Units; a decrease of \$3,394.42 in Inventories; an increase of \$2,439.14 in Notes Receivable; an increase of \$2,769,288.11 in Restricted Due from Primary Government; a decrease in Construction in Progress of \$509,940.84; an increase in Depreciable Capital Assets of \$944,607.86; and an increase in Accumulated Depreciation of \$384,209.13.

The total liabilities of the College increased by \$318,048.40 for the year (an increase of \$95,301.51 in Current Liabilities and an increase of \$222,746.89 in Noncurrent Liabilities). This increase is attributable to an increase in the accrual of compensated absences for employees of \$278,294.07; a decrease in Accounts Payable of \$19,219.98; a decrease in Funds Held for Others of \$617.13 and an increase in Deferred Revenue of \$59,591.44.

INDEPENDENT ACCOUNTANT'S REVIEW REPORT (CONTINUED)

Statement of Revenues, Expenses, and Changes in Net Assts

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.

INDEPENDENT ACCOUNTANT'S REVIEW REPORT (CONTINUED)

A condensed statement of revenues, expenses, and changes in net assets is reflected below:

**CONDENSED STATEMENT OF REVENUES,
EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2004, AND JUNE 30, 2003**

	<u>June 30, 2004</u>	<u>June 30, 2003</u>
Operating Revenue		
Tuition and Fees	\$ 1,180,248.99	\$ 772,976.41
Federal Grants and Contracts	3,456,051.09	3,208,342.44
Other	<u>924,950.90</u>	<u>774,523.04</u>
Total	5,561,250.98	4,755,841.89
Less Operating Expenses		
Salaries and Benefits	10,034,760.26	9,060,409.13
Supplies and Materials	1,432,202.54	1,352,263.38
Services	1,211,794.71	958,377.72
Scholarships and Fellowships	2,100,309.51	1,673,854.43
Utilities	243,816.20	227,804.85
Depreciation	<u>384,209.13</u>	<u>385,794.78</u>
Total	15,407,092.35	13,658,504.29
Operating Loss	(9,845,841.37)	(8,902,662.40)
Nonoperating Revenue		
State/Local Grants and Contracts	8,838,906.11	8,292,688.09
Investment Income	10,535.58	17,047.91
Gifts and Other	<u>11,044.24</u>	<u>5,257.23</u>
	8,860,485.93	8,314,993.23
Loss Before Other Revenue	(985,355.44)	(587,669.17)
Other Revenue	<u>3,507,774.83</u>	<u>1,222,775.12</u>
Increase in Net Assets	2,522,419.39	635,105.95
Net Assets, Beginning of Year	<u>7,138,682.48</u>	<u>6,503,576.53</u>
Net Assets, End of Year	<u><u>\$ 9,661,101.87</u></u>	<u><u>\$ 7,138,682.48</u></u>

The State and local appropriations are not classified as operating revenue per GASB Statement No. 35; therefore, the College will usually show a significant operating loss.

INDEPENDENT ACCOUNTANT'S REVIEW REPORT (CONTINUED)

Operating revenue increased overall by \$805,409.09 but the component parts have varying balance changes. The largest component changes were as follows:

- Tuition and Fees increased by \$407,272.58 primarily because of a decrease in scholarship allowances and an increase in students.
- Federal grants and contracts had a \$247,708.65 increase that was directly related to the Pell Grant, SEOG and College Work Study grants.
- Other income increased by \$150,427.86 primarily because of an increase in bookstore sales and childcare receipts.

Operating expenses for fiscal year 2004 increased \$1,748,588.06 over fiscal year 2003. Salaries and Benefits increased \$974,351.13 due to the effects of contractual increases for faculty and staff salaries. Supplies and Materials accounted for a \$79,939.16 increase due to increased supply costs. Scholarships and Fellowships increased \$426,455.08 due to Pell Grant activity. Depreciation decreased \$1,585.65 due to capital assets, which were fully depreciated. Services increased \$253,416.99 due to increased costs. Utilities increased \$16,011.35 due to increased costs.

Nonoperating and Other Revenue increased by \$2,830,492.41 in fiscal year 2004 from fiscal year 2003. The primary reasons for this increase are:

- State Aid increased by \$439,266.17 due to a growth in FTE.
- County appropriations increased \$53,280.67 due to funding increases.
- Noncapital Grants increased \$53,671.18 because of additional funding.
- State Capital Aid increased \$2,936,494.79 because of State construction projects, which are in progress.
- County Capital Appropriations decreased \$703,750.08 because of a large county-funded capital project, which was completed in fiscal year 2003.

There were no Restatements for the years ending June 30, 2004, or June 30, 2003.

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

INDEPENDENT ACCOUNTANT'S REVIEW REPORT (CONTINUED)

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 FOR THE YEARS ENDED JUNE 30, 2004, AND JUNE 30, 2003

	<u>June 30, 2004</u>	<u>June 30, 2003</u>
Cash Provided (Used) by:		
Operating Activities	\$ (8,996,039.94)	\$ (8,614,878.05)
Noncapital Financing Activities	8,832,774.89	8,255,481.02
Capital and Related Financing Activities	325,253.72	252,461.94
Investing Activities	<u>10,827.91</u>	<u>17,386.68</u>
Net Change in Cash	172,816.58	(89,548.41)
Cash, Beginning of Year	<u>731,922.71</u>	<u>821,471.12</u>
Cash, End of Year	<u>\$ 904,739.29</u>	<u>\$ 731,922.71</u>

Major sources of funds included in operating activities are student tuition and fees, \$1,180,248.99; auxiliary sales and services, \$722,349.03; and contracts and grants, \$3,617,555.80. Major uses of funds included in operating activities are payments to employees, \$9,729,472.76; to vendors/suppliers, \$2,875,342.86; and scholarships and fellowships, \$2,100,309.51.

The major source of funds included in noncapital financing activities is State appropriations, \$7,573,743.01; county appropriations, \$940,411.00; and noncapital grants, \$308,406.64. The major sources of funds included in capital and related financing activities are State capital appropriations, \$636,322.63; county capital appropriations, \$49,909.09; and capital grants, \$127,926.97. The major use is the acquisition and construction of capital assets, \$493,124.56.

Capital Asset and Debt Administration

Capital Assets. Piedmont Community College's investment in capital assets as of June 30, 2004, amounted to \$6,706,119.21, net of accumulated depreciation. This investment in capital assets includes land, construction in progress, buildings, infrastructure, machinery and equipment. Additions to capital assets were \$438,886.61, deletions were \$50,632.10, and net depreciation was \$337,796.62.

INDEPENDENT ACCOUNTANT'S REVIEW REPORT (CONTINUED)

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

- Cumulative expenditures at June 30, 2004, of \$230,418.99 on construction projects in progress. Completion of HVAC Replacement Phase I Project at a total cost of \$801,343.94;
- Various machinery and equipment acquisitions totaling \$147,483.51 for the fiscal year ending June 30, 2004.

CAPITAL ASSETS, NET AS OF JUNE 30, 2004, AND JUNE 30, 2003

	<u>June 30, 2004</u>	<u>June 30, 2003</u>
Capital Assets		
Land	\$ 153,654.15	\$ 153,654.15
Construction in Progress	230,418.99	740,359.83
Buildings	8,594,600.00	8,594,600.00
Infrastructure	1,517,599.12	716,255.18
Equipment	<u>1,756,067.52</u>	<u>1,659,216.11</u>
	12,252,339.78	11,864,085.27
Less Accumulated Depreciation	<u>5,546,220.57</u>	<u>5,208,423.95</u>
Net Capital Assets	<u>\$ 6,706,119.21</u>	<u>\$ 6,655,661.32</u>

Long-Term Debt. The College did not incur any long-term debt for fiscal years ending June 30, 2004, and 2003, other than the liability for compensated absences, which is \$914,076.85 at June 30, 2004.

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 61 percent of total College revenues and are the largest source of funding. The State economy has stabilized as the national economy has stabilized. The College has continued to have enrollment increases and it is felt that the future funding for the College will continue to grow.

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.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

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, P. O. Box 1197, 1715 College Drive, Roxboro, North Carolina 27573.

Piedmont Community College
Statement of Net Assets
June 30, 2004

Exhibit A-1

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 739,938.92
Restricted Cash and Cash Equivalents	164,800.37
Receivables (Note 3)	190,081.59
Due from State of North Carolina Component Units	20,000.00
Inventories	180,783.83
Notes Receivable (Note 3)	4,721.02

Total Current Assets	<u>1,300,325.73</u>
----------------------	---------------------

Noncurrent Assets:

Restricted Due from Primary Government	2,842,648.96
Capital Assets - Nondepreciable (Note 4)	384,073.14
Capital Assets - Depreciable, Net (Note 4)	<u>6,322,046.07</u>

Total Noncurrent Assets	<u>9,548,768.17</u>
-------------------------	---------------------

Total Assets	<u>10,849,093.90</u>
--------------	----------------------

LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 5)	193,604.41
Deferred Revenue	60,742.48
Funds Held for Others	19,568.29
Long-Term Liabilities - Current Portion (Note 6)	<u>190,650.88</u>

Total Current Liabilities	<u>464,566.06</u>
---------------------------	-------------------

Noncurrent Liabilities:

Long-Term Liabilities (Note 6)	<u>723,425.97</u>
--------------------------------	-------------------

Total Liabilities	<u>1,187,992.03</u>
-------------------	---------------------

NET ASSETS

Invested in Capital Assets	6,706,119.21
----------------------------	--------------

Restricted for:

Nonexpendable:

Expendable:

Scholarships and Fellowships	1,124.53
Loans	6,061.35
Capital Projects	2,902,240.11
Other	159,828.16

Unrestricted	<u>(114,271.49)</u>
--------------	---------------------

Total Net Assets	<u>\$ 9,661,101.87</u>
------------------	------------------------

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, 2004***

Exhibit A-2

REVENUES

Operating Revenues:

Student Tuition and Fees, Net (Note 8)	\$ 1,180,248.99
Federal Grants and Contracts	3,456,051.09
State and Local Grants and Contracts	161,504.71
Sales and Services, Net (Note 8)	722,349.03
Other Operating Revenues	41,097.16

Total Operating Revenues	<u>5,561,250.98</u>
--------------------------	---------------------

EXPENSES

Operating Expenses:

Salaries and Benefits	10,034,760.26
Supplies and Materials	1,432,202.54
Services	1,211,794.71
Scholarships and Fellowships	2,100,309.51
Utilities	243,816.20
Depreciation	384,209.13

Total Operating Expenses	<u>15,407,092.35</u>
--------------------------	----------------------

Operating Loss	<u>(9,845,841.37)</u>
----------------	-----------------------

NONOPERATING REVENUES

State Aid	7,573,743.01
County Appropriations	940,411.00
Noncapital Grants	324,752.10
Noncapital Gifts	10,214.24
Investment Income, Net	10,535.58
Other Nonoperating Revenues	830.00

Net Nonoperating Revenues	<u>8,860,485.93</u>
---------------------------	---------------------

Loss Before Other Revenues	(985,355.44)
----------------------------	--------------

State Capital Aid	3,405,610.74
County Capital Appropriations	49,909.09
Capital Grants	52,255.00

Increase in Net Assets	2,522,419.39
------------------------	--------------

NET ASSETS

Net Assets, July 1, 2003	<u>7,138,682.48</u>
--------------------------	---------------------

Net Assets, June 30, 2004	<u><u>\$ 9,661,101.87</u></u>
---------------------------	-------------------------------

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, 2004

Exhibit A-3

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 5,712,363.09
Payments to Employees and Fringe Benefits	(9,729,472.76)
Payments to Vendors and Suppliers	(2,875,342.86)
Payments for Scholarships and Fellowships	(2,100,309.51)
Loans Issued to Students	(10,366.56)
Collection of Loans to Students	6,875.79
Other Receipts	212.87

Net Cash Used by Operating Activities	<u>(8,996,039.94)</u>
---------------------------------------	-----------------------

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Aid Received	7,573,743.01
County Appropriations	940,411.00
Noncapital Grants Received	308,406.64
Noncapital Gifts and Endowments Received	10,214.24

Net Cash Provided by Noncapital Financing Activities	<u>8,832,774.89</u>
--	---------------------

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

State Capital Aid Received	636,322.63
County Capital Appropriations	49,909.09
Capital Grants Received	127,926.97
Proceeds from Sale of Capital Assets	4,219.59
Acquisition and Construction of Capital Assets	(493,124.56)

Net Cash Provided by Capital and Related Financing Activities	<u>325,253.72</u>
---	-------------------

CASH FLOWS FROM INVESTING ACTIVITIES

Investment Income	10,827.91
-------------------	-----------

Net Cash Provided by Investing Activities	<u>10,827.91</u>
---	------------------

Net Increase in Cash and Cash Equivalents	172,816.58
Cash and Cash Equivalents, July 1, 2003	<u>731,922.71</u>

Cash and Cash Equivalents, June 30, 2004	<u><u>\$ 904,739.29</u></u>
--	-----------------------------

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

Operating Loss	\$ (9,845,841.37)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities	
Depreciation Expense	384,209.13
Provision for Uncollectible Loans and Write-Offs	1,051.63
Miscellaneous Nonoperating Income	830.00
Changes in Assets and Liabilities:	
Receivables, Net	91,520.67
Due from Community College Component Units	3,394.42
Notes Receivable, Net	(3,490.77)
Accounts Payable and Accrued Liabilities	35,017.97
Deferred Revenue	59,591.44
Funds Held for Others	(617.13)
Compensated Absences	278,294.07

Net Cash Used by Operating Activities	<u><u>\$ (8,996,039.94)</u></u>
---------------------------------------	---------------------------------

Piedmont Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2004

Exhibit A-3
Page 2

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:

Cash and Cash Equivalents	\$ 739,938.92
Restricted Cash and Cash Equivalents	<u>164,800.37</u>

Total Cash and Cash Equivalents - June 30, 2004	<u>\$ 904,739.29</u>
---	----------------------

NONCASH CAPITAL ACTIVITIES

Increase in Receivables Related to Nonoperating Income	<u>\$ 2,789,288.11</u>
--	------------------------

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

Piedmont Community College Foundation, Inc.
Statement of Financial Position
June 30, 2004

Exhibit B-1

	Foundation
ASSETS	
Cash and Cash Equivalents	\$ 130,936.00
Certificates of Deposit	25,318.00
Investments	1,303,626.00
Receivables, Net	646.00
Pledges Receivable/Promises	26,786.00
	<hr/>
Total Assets	1,487,312.00
	<hr/>
LIABILITIES	
Accounts Payable and Accrued Expenses	4,000.00
Due to Community College and Other Foundation	73,060.00
	<hr/>
Total Liabilities	77,060.00
	<hr/>
NET ASSETS	
Unrestricted	(74,230.00)
Temporarily Restricted	1,106,580.00
Permanently Restricted	377,902.00
	<hr/>
Total Net Assets	\$ 1,410,252.00
	<hr/> <hr/>

See Note 1 in the Notes to the Financial Statements

Piedmont Community College Foundation, Inc.
Statement of Activities
For the Fiscal Year Ended June 30, 2004

Exhibit B-2

	Foundation
CHANGES IN UNRESTRICTED NET ASSETS	
Revenues and Other Support:	
Contributions	\$ 74,440.00
Interest earned on cash deposits	636.00
Investment return	108,855.00
Other	10,085.00
	<hr/>
Total Revenues and Other Support	194,016.00
	<hr/>
Net Assets Released from Restrictions:	
Satisfaction of Program Restrictions	54,556.00
	<hr/>
Total Revenues, Other Support, and Reclassifications	248,572.00
	<hr/>
Expenses:	
Program Services:	
Scholarships	70,994.00
Faculty and Staff Development	2,673.00
College Programs	52,750.00
Other Program Services	6,700.00
	<hr/>
Total Program Services	133,117.00
Supporting Services:	
Management and General	72,588.00
Fund Raising	1,778.00
	<hr/>
Total Supporting Services	74,366.00
Total Expenses	207,483.00
	<hr/>
Increase in Unrestricted Net Assets	41,089.00
	<hr/>
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS	
Revenues and Other Support:	
Contributions	82,712.00
Interest earned on cash deposits	22.00
Investment return	51,690.00
	<hr/>
Total Revenues and Other Support	134,424.00
Net Assets Released from Restrictions:	
Satisfaction of Program Restrictions	(54,556.00)
	<hr/>
Total Revenues, Other Support, and Reclassifications	79,868.00
	<hr/>
Increase in Temporarily Restricted Net Assets	79,868.00
	<hr/>

Piedmont Community College Foundation, Inc.
Statement of Activities
For the Fiscal Year Ended June 30, 2004

Exhibit B-2
Page 2

	<u>Foundation</u>
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS	
Contributions	<u>\$ 5,485.00</u>
Increase in Permanently Restricted Net Assets	<u>5,485.00</u>
Increase in Net Assets	126,442.00
Net Assets at Beginning of Year	<u>1,283,810.00</u>
Net Assets at End of Year	<u><u>\$ 1,410,252.00</u></u>

See Note 1 in the Notes to the Financial Statements

[This Page Left Blank Intentionally]

PIEDMONT COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004

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 of the College and component units for which the College's Board of Trustees is financially accountable. The College's component unit is discretely presented in the financial statements. The discretely presented component unit's financial data is reported in separate financial statements because of its use of different GAAP reporting models and to emphasize its legal separateness.

Discretely Presented Component Units - Piedmont Community College Foundation, Inc., is a legally separate not-for-profit corporation reported as a discretely presented component unit based on the nature and significance of its relationship to the College.

The Piedmont Community College Foundation, Inc., is a legally separate, tax-exempt component unit of the College. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the College in support of its programs. The Foundation board consists of 32 directors. Although the College does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, that the Foundation holds and invests are restricted to the activities of the College by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of the College, the Foundation is considered a component unit of the College and is reported in separate financial statements because of the difference in its reporting model, as described below.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The Piedmont Community College Foundation, Inc., is a private not-for-profit organization that reports its financial results under Financial Accounting Standards Board (FASB) Statements. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information in the College's financial reporting entity for these differences.

During the year ended June 30, 2004, the Foundation distributed \$51,900.32 to the College for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from the Executive Director of the Piedmont Community College Foundation, Inc., P. O. Box 1197, 1715 College Drive, Roxboro, North Carolina 27573.

- 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 petty cash, cash on deposit with private bank accounts, money market accounts, and

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 shown 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 bonuses awarded by the College to all full-time permanent employees as of July 1, 2003. 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.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 \$470.00. The carrying amount of cash on deposit was \$904,269.29 and the bank balance was \$937,393.17.

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	\$ 331,493.10	\$ 332,277.92
Cash on Deposit with Private Financial Institutions	572,776.19	605,115.25
	<u>\$ 904,269.29</u>	<u>\$ 937,393.17</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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 2004, \$100,000 of the bank balance was covered by federal depository insurance, \$505,115.25 was covered by collateral held by an authorized escrow agent in the name of the State Treasurer (pooling method).

- B. Investments** - Investments of the College's component unit, the Piedmont Community College Foundation, Inc., 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.

NOTE 3 - RECEIVABLES

Receivables at June 30, 2004, were as follows:

	Gross Receivables
Current Receivables:	
Students	\$ 60,924.79
Accounts	38,319.00
Intergovernmental	90,052.98
Investment Earnings	784.82
	<hr/>
Total Current Receivables	\$ 190,081.59
	<hr/>
Notes Receivable - Current:	
Institutional Student Loan Programs	\$ 4,721.02
	<hr/>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 4 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2004, is presented as follows:

	Balance July 1, 2003	Adjustments	Increases	Decreases	Balance June 30, 2004
Capital Assets, Nondepreciable:					
Land	\$ 153,654.15	\$ 0.00	\$ 0.00	\$ 0.00	\$ 153,654.15
Construction in Progress	740,359.83	(801,343.94)	291,403.10		230,418.99
Total Capital Assets, Nondepreciable	<u>894,013.98</u>	<u>(801,343.94)</u>	<u>291,403.10</u>		<u>384,073.14</u>
Capital Assets, Depreciable:					
Buildings	8,594,600.00				8,594,600.00
Machinery and Equipment	1,659,216.11		147,483.51	50,632.10	1,756,067.52
General Infrastructure	716,255.18	801,343.94			1,517,599.12
Total Capital Assets, Depreciable	<u>10,970,071.29</u>	<u>801,343.94</u>	<u>147,483.51</u>	<u>50,632.10</u>	<u>11,868,266.64</u>
Less Accumulated Depreciation:					
Buildings	4,076,235.28		214,864.92		4,291,100.20
Machinery and Equipment	961,631.90		137,346.41	46,412.51	1,052,565.80
General Infrastructure	170,556.77		31,997.80		202,554.57
Total Accumulated Depreciation	<u>5,208,423.95</u>		<u>384,209.13</u>	<u>46,412.51</u>	<u>5,546,220.57</u>
Total Capital Assets, Depreciable, Net	<u>5,761,647.34</u>	<u>801,343.94</u>	<u>(236,725.62)</u>	<u>4,219.59</u>	<u>6,322,046.07</u>
Capital Assets, Net	<u>\$ 6,655,661.32</u>	<u>\$ 0.00</u>	<u>\$ 54,677.48</u>	<u>\$ 4,219.59</u>	<u>\$ 6,706,119.21</u>

NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES:

Accounts payable and accrued liabilities at June 30, 2004, were as follows:

	Amount
Accounts Payable	\$ 51,743.23
Accrued Payroll	141,861.18
Total Accounts Payable and Accrued Liabilities	<u>\$ 193,604.41</u>

NOTE 6 - LONG-TERM LIABILITIES

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

	Balance July 1, 2003	Additions	Reductions	Balance June 30, 2004	Current Portion
Compensated Absences	\$ 635,782.78	\$ 805,648.90	\$ 527,354.83	\$ 914,076.85	\$ 190,650.88

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 7 - LEASE OBLIGATIONS

Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2004:

<u>Fiscal Year</u>	<u>Amount</u>
2005	\$ 8,281.80
2006	<u>8,281.80</u>
Total Minimum Lease Payments	<u><u>\$ 16,563.60</u></u>

Rental expense for all operating leases during the year was \$14,511.64.

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>Less Scholarship Discounts</u>	<u>Net Revenues</u>
Operating Revenues:				
Student Tuition and Fees	<u>\$ 1,421,199.54</u>	<u>\$ 0.00</u>	<u>\$ 240,950.55</u>	<u>\$ 1,180,248.99</u>
Sales and Services:				
Sales and Services of Auxiliary Enterprises:				
Bookstore	\$ 788,150.27	\$ 132,030.11	\$ 166,321.01	\$ 489,799.15
Other	214,498.65			214,498.65
Sales and Services of Education and Related Activities	<u>82,400.33</u>	<u>64,349.10</u>		<u>18,051.23</u>
Total Sales and Services	<u>\$ 1,085,049.25</u>	<u>\$ 196,379.21</u>	<u>\$ 166,321.01</u>	<u>\$ 722,349.03</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	\$ 6,072,374.35	\$ 838,631.26	\$ 618,849.14	\$ 146,607.78	\$ 5,414.84	\$ 0.00	\$ 7,681,877.37
Public Service			1,746.32				1,746.32
Academic Support	1,058,472.74	97,089.85	50,661.87				1,206,224.46
Student Services	511,046.55	36,000.55	37,564.83	55,605.75			640,217.68
Institutional Support	1,633,868.44	87,435.29	345,851.68				2,067,155.41
Operations and Maintenance of Plant	495,074.96	53,841.34	109,175.73		238,401.36		896,493.39
Student Financial Aid			6,476.82	1,898,095.98			1,904,572.80
Auxiliary Enterprises	263,923.22	319,204.25	41,468.32				624,595.79
Depreciation						384,209.13	384,209.13
Total Operating Expenses	<u>\$ 10,034,760.26</u>	<u>\$ 1,432,202.54</u>	<u>\$ 1,211,794.71</u>	<u>\$ 2,100,309.51</u>	<u>\$ 243,816.20</u>	<u>\$ 384,209.13</u>	<u>\$ 15,407,092.35</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, 2004, these rates were set at .22% of covered payroll for employers and 6% of covered payroll for members.

For the year ended June 30, 2004, the College had a total payroll of \$8,336,246.78, of which \$7,195,820.41 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were \$431,749.22 and \$15,830.89, respectively. The College made one hundred percent of its annual required contributions for the years ended June 30, 2004, 2003, and 2002, which were \$15,830.89, \$0.00, and \$129,594.75, 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

- B. Deferred Compensation and Supplemental Retirement Income Plans** - IRC Section 457 Plan - The State of North Carolina offers its permanent employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 through the North Carolina Public Employee Deferred Compensation Plan (the Plan). The Plan permits each participating employee to defer a portion of his or her salary until future years. The deferred compensation is available to employees upon separation from service, death, disability, retirement, or financial hardships if approved by the Board of Trustees of the Plan. The Board, a part of the North Carolina Department of Administration, maintains a separate fund for the exclusive benefit of the participating employees and their beneficiaries, *the North Carolina Public Employee Deferred Compensation Trust Fund*. The Board also contracts with an external third party to perform certain administrative requirements and to manage the trust fund’s assets. All costs of administering and funding the Plan are the responsibility of the Plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to \$40,287.80 for the year ended June 30, 2004.

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 \$71,274.00 for the year ended June 30, 2004.

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 \$16,757.80 for the year ended June 30, 2004.

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 3.2% of the covered payroll under the Teachers' and State Employees' Retirement System for these health care benefits. For the fiscal year ended June 30, 2004, the College's total contribution to the Plan was \$230,266.34. 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. Employer contributions are established in the Appropriations Bill by the General Assembly. The College was not required to contribute to the DIPNC for the fiscal year ended June 30, 2004. 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. Except for a reduction in the public officers' and employees' liability insurance from \$11,000,000 to \$5,000,000, there have been no significant reductions in insurance coverage from the previous year and settled claims have not

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 \$5,000,000 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, 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. There were no employer contributions required for the current fiscal year.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 \$1,701,530.00.
- B. **Community College General Obligation Bonds** - The 1999-2000 Session of the General Assembly of North Carolina authorized the issuance of \$600 million 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 \$1,708,320.00 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 - CHANGE IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2004, the College implemented Governmental Accounting Standards Board Statement No. 39, *Determining Whether Certain Organizations are Component Units*. This Statement amends

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

GASB Statement No. 14, *The Financial Reporting Entity*, to provide additional guidance to determine whether certain organizations for which the College is not financially accountable should be reported as component units based on the nature and significance of their relationship to the College.

***Piedmont Community College
Schedule of General Obligation Bond Project Authorizations,
Budgets, and Expenditures
For Project-to-Date as of June 30, 2004***

Schedule 1

Capital Improvement Projects	Original Projected Start Date	Revised/ Actual Start Date	General Obligation Bonds Authorized	Other Sources	Total Project Budget	Amount Expended	Percent Completed	Original Expected Completion Date	Revised/ Actual Completion Date
<i>Projects Approved by the State Board</i>									
Renovate Gym	Feb. 2003		\$ 1,703,583.00	\$ 0.00	\$ 1,703,583.00	\$ 104,236.04	6.12%	Mar. 2005	May 2005
Classroom/Labs & Student Services/Learning Center	Feb. 2003		1,567,922.00		1,567,922.00	106,012.95	6.76%	Mar. 2005	
Renovate Student Complex	May 2004		1,149,964.00		1,149,964.00			May 2006	
Renovate Auditorium	May 2004		334,476.00		334,476.00			Jan. 2006	
Total All Projects			\$ 4,755,945.00	\$ 0.00	\$ 4,755,945.00	\$ 210,248.99			

Note: The 1999-2000 Session of the General Assembly of North Carolina authorized the issuance of \$600 million 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.

DISTRIBUTION OF REVIEW 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
The Honorable Beverly M. Perdue
The Honorable Richard H. Moore
The Honorable Roy A. Cooper, III
Mr. David T. McCoy
Mr. Robert L. Powell
Mr. H. Martin Lancaster
Dr. H. James Owen
Mr. William R. Barnes

Mr. Roy T. Brooks

Governor of North Carolina
Lieutenant Governor of North Carolina
State Treasurer
Attorney General
State Budget Officer
State Controller
President, North Carolina Community College System
President, Piedmont Community College
Vice President for Administrative Services
Piedmont Community College
Chairman, Board of Trustees
Piedmont Community College

LEGISLATIVE BRANCH

Appointees to the Joint Legislative Commission on Governmental Operations

President Pro Tempore
Senator Marc Basnight, Co-Chair
Senator Charles W. Albertson
Senator Thomas M. Apodaca
Senator Daniel G. Clodfelter
Senator Walter H. Dalton
Senator Charlie S. Dannelly
Senator James Forrester
Senator Linda Garrou
Senator Kay R. Hagan
Senator Fletcher L. Hartsell, Jr.
Senator David W. Hoyle
Senator John H. Kerr, III
Senator Ellie Kinnaird
Senator Jeanne H. Lucas
Senator Anthony E. Rand
Senator R. C. Soles, Jr.
Senator Richard Y. Stevens
Senator A. B. Swindell, IV
Senator Scott Thomas

Speaker of the House
Representative James B. Black, Co-Chair
Representative Alma S. Adams
Representative Martha B. Alexander
Representative Harold J. Brubaker
Representative Lorene T. Coates
Representative E. Nelson Cole
Representative James W. Crawford, Jr.
Representative William T. Culpepper, III
Representative W. Pete Cunningham
Representative Beverly M. Earle
Representative Pryor A. Gibson, III
Representative Joe Hackney
Representative R. Phillip Haire
Representative Dewey L. Hill
Representative Lindsey H. Holliman
Representative Julia C. Howard
Representative Howard J. Hunter, Jr.
Representative Margaret M. Jeffus
Representative Daniel F. McComas
Representative Charles L. McLawhorn
Representative Henry M. Michaux, Jr.
Representative Richard T. Morgan
Representative Edd Nye
Representative William C. Owens, Jr.
Representative Deborah K. Ross
Representative Drew P. Saunders
Representative Wilma M. Sherrill
Representative Joe P. Tolson
Representative Edith D. Warren
Representative Thomas E. Wright
Representative Douglas Y. Yongue

Other Legislative Officials

Mr. James D. Johnson

Director, Fiscal Research Division

May 31, 2005

ORDERING INFORMATION

Copies of this report may be obtained by contacting the:

Office of the State Auditor
State of North Carolina
2 South Salisbury Street
20601 Mail Service Center
Raleigh, North Carolina 27699-0601

Internet: <http://www.ncauditor.net>

Telephone: 919/807-7500

Facsimile: 919/807-7647