

STATE OF NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT OF

PITT COMMUNITY COLLEGE

GREENVILLE, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2004

OFFICE OF THE STATE AUDITOR

LESLIE W. MERRITT, JR., CPA, CFP

STATE AUDITOR

FINANCIAL STATEMENT AUDIT REPORT OF

PITT COMMUNITY COLLEGE

GREENVILLE, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2004

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THE NORTH CAROLINA COMMUNITY COLLEGE SYSTEM

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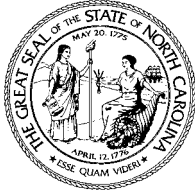
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Leslie W. Merritt, Jr., CPA, CFP
State Auditor

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AUDITOR'S TRANSMITTAL

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

This report presents the results of our financial statement audit of Pitt Community College, a component unit of the State of North Carolina, for the year ended June 30, 2004. 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 Pitt 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 Pitt 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 Pitt 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 significant deficiencies 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 Internal Control over Financial Reporting and on Compliance and Other Matters.

3. **Objective** - To present significant deficiencies, if any, in internal control over compliance that could adversely affect the College's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants and present instances of noncompliance with federal laws, regulations, contracts or grants, the effects of which have a material effect in relation to a type of compliance requirement or audit objective identified in *OMB Circular A-133 Compliance Supplement*.

Results - Our tests disclosed no significant deficiencies in internal control over compliance and no instances of noncompliance which require disclosure herein under *OMB Circular A-133*.

We also noted a matter involving an issue of a management control nature that we have reported to the management of Pitt Community College in a separate letter dated April 7, 2005.

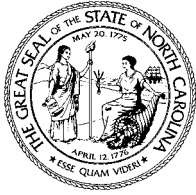
North Carolina General Statutes require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.

Leslie W. Merritt, Jr.

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

TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITOR'S REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	3
FINANCIAL STATEMENTS	
Exhibits	
A-1 Statement of Net Assets	10
A-2 Statement of Revenues, Expenses, and Changes in Net Assets	11
A-3 Statement of Cash Flows	12
Notes to the Financial Statements	15
SUPPLEMENTARY INFORMATION	
Schedule	
1 Schedule of General Obligation Bond Project Authorizations, Budgets, and Expenditures	29
INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	31
DISTRIBUTION OF AUDIT REPORT	33



STATE OF NORTH CAROLINA
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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Pitt Community College
Greenville, North Carolina

We have audited the accompanying basic financial statements of Pitt Community College, a component unit of the State of North Carolina, as of and for the year ended June 30, 2004, 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 Pitt Community College as of June 30, 2004, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 2005, on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of this report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. As discussed in Note 15 to the financial statements, the College

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

implemented Governmental Accounting Standards Board Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, during the year ended June 30, 2004. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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. 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.

Leslie W. Merritt, Jr.

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

March 31, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Pitt 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. Since this Management's Discussion and Analysis is designed to focus on current activities, resulting change and currently known facts, please read it in conjunction with the transmittal letter, the College's basic financial statements and the notes.

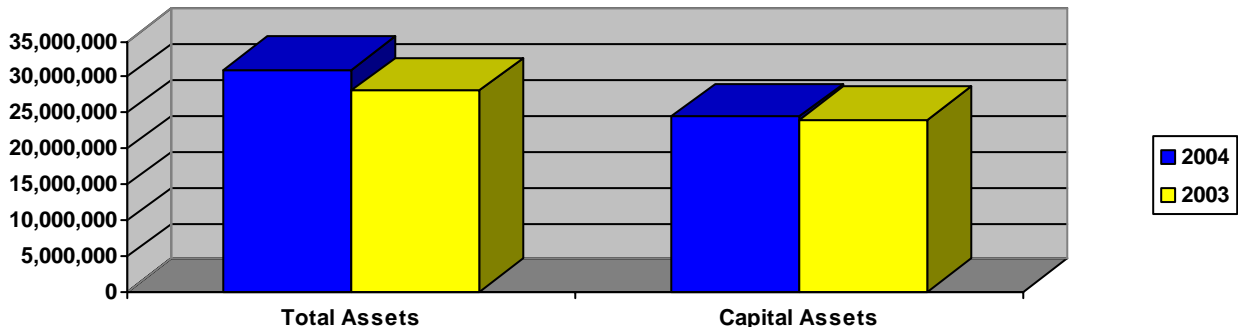
Using This Annual Report

These financial statements are presented in a manner to focus on the College as a whole. The format requires the College to report current year financial activity in a single column, with prior year data for comparison also presented in a single column. The Statement of Net Assets combines current, noncurrent and capital assets in one statement. The Statement of Revenues, Expenses and Changes in Net Assets combines all fund types to illustrate the College's gross and net costs and expenses.

College-wide Analysis

Assets - The College continues to operate in a fiscally sound financial manner. Total assets of the College increased by \$2,963,629, from \$28,050,000 to \$31,013,629, an increase of 10.57%. Increases are shown in both current and noncurrent categories. Current assets consist of inventories, cash and receivables expected to be collected in the next accounting cycle. Noncurrent assets consist of restricted cash and capital assets. Nondepreciable capital assets, e.g. land and construction in progress (CIP), now total \$8,560,760, an increase of \$1,105,196. Depreciable assets, e.g. buildings, infrastructure and equipment, now total \$15,962,394 showing a decrease of \$576,307. This decrease in depreciable assets is due to the amount of accumulated depreciation being greater than additions to depreciable assets for FY04.

Total Assets versus Capital Assets



MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

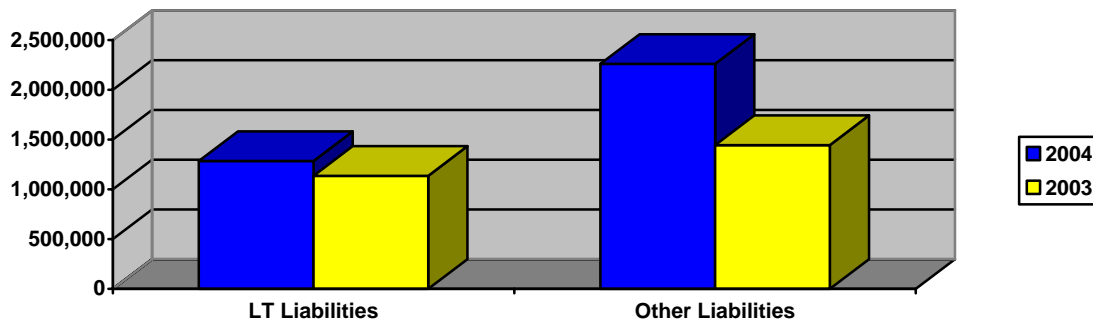
Expenditures for the General Classroom building are shown as Construction in Progress (with Capital Assets, nondepreciable) on this year's financial statements. CIP for the General Classroom building is \$5,073,750. Other projects included in CIP are:

- Parking Lot Project, \$270,312
- Law Enforcement Training Facility, \$210,760
- Bowen Farm Site Project, \$445,870
- Fulford Addition, \$173,658
- Humber Building, \$43,003

Total CIP is \$6,217,353.

Liabilities - Total liabilities of the College are \$3,544,772. This indicates an increase of 37.37% over total liabilities on June 30, 2003. For Pitt Community College, long-term liabilities consist solely of accrued vacation and bonus leave. The balance for long-term liabilities increased only 13% from FY03 to FY04, from \$1,136,338 to \$1,284,453. All other liabilities increased 57%, from \$1,444,198 to \$2,260,319.

Long-Term versus Other Liabilities



The reason for the significant increase in other liabilities is a 54.42% increase in accounts payable, from \$842,217 in FY03 to \$1,300,578 in FY04, and 60.26% increase in funds held for others, from \$593,521 in FY03 to \$951,160 in FY04. These increases in funds held for others reflect an increase in Pitt Community College Foundation Inc. fund balance, which was due to an increase in donations and revenue.

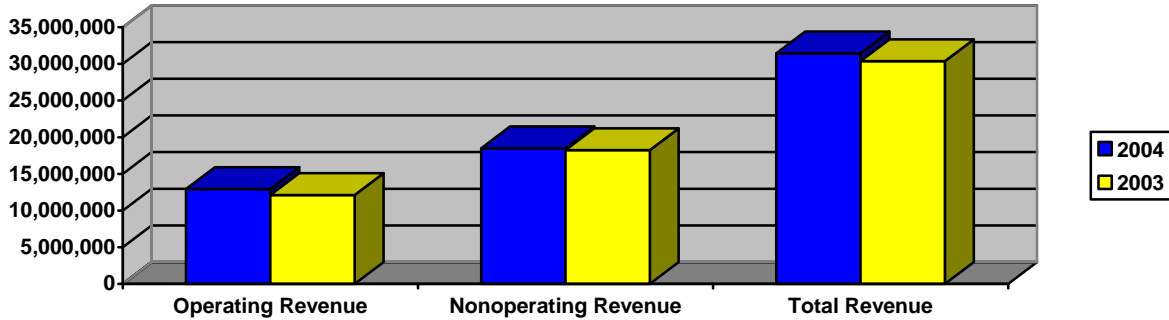
Revenue – Operating, Nonoperating and Total

Operating revenues increased 6.78% from FY03. Federal revenue for Pell Grant Scholarships continues to account for the largest portion of operating revenue. This year's Pell Grant amounted to \$5.8 million dollars, up from last year's amount of \$4.9 million dollars. Student tuition and fees, adjusted for scholarship discounts, is the next largest category of operating

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

revenue, comprising \$4.0 million dollars. Nonoperating revenues from sources such as grants, gifts and investment income increased marginally by 1.38% in FY04. Total revenue increased by 3.54%.

Illustration of Revenues



Expenses - Operating and Nonoperating

Operating expenses decreased slightly by 1.28% from FY03. FY04 operating expense was \$33,008,432, compared to FY03 operating expense of \$33,437,366. Salaries and fringe benefits account for 61% of the operating expense, or \$20.2 million dollars. The largest variance between the 2 years was for depreciation expense, which decreased by 47.15% due to useful life changes made to asset classes as required by the NCCC System Office which took effect in FY03. FY04 depreciation expense was \$967,104 compared to FY03 depreciation expense of \$1,829,918. Nonoperating expenses remained constant at zero dollars for FY04.

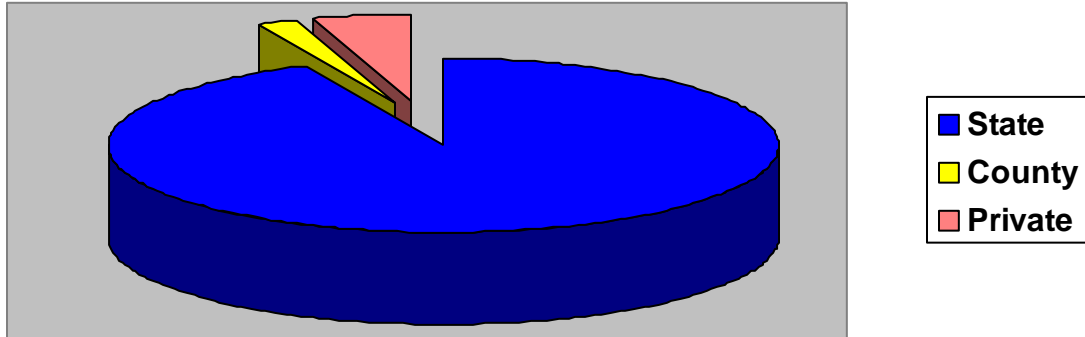
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

**Condensed Statement of Revenues, Expenses, and
Changes in Net Assets
for the Year Ended June 30,**

	<u>2004</u>	<u>2003</u>	<u>Increase (Decrease)</u>	<u>Percent Changed</u>
Operating Revenues				
Student Tuition and Fees, Net	\$ 3,966,448.93	\$ 3,425,897.61	\$ 540,551.32	15.78 %
Federal Grants and Contracts	6,853,769.82	5,740,041.06	1,113,728.76	19.40 %
State and Local Grants and Contracts	96,990.34	110,870.74	(13,880.40)	(12.52) %
Sales and Services, Net	1,951,928.85	2,758,702.95	(806,774.10)	(29.24) %
Other	78,412.16	89,767.74	(11,355.58)	(12.65) %
Total Operating Revenues	<u>12,947,550.10</u>	<u>12,125,280.10</u>	<u>822,270.00</u>	6.78 %
Less Operating Expenses	<u>33,008,432.35</u>	<u>33,437,366.28</u>	<u>(428,933.93)</u>	(1.28) %
Net Operating Loss	<u>(20,060,882.25)</u>	<u>(21,312,086.18)</u>	<u>1,251,203.93</u>	(5.87) %
Nonoperating and Capital Revenues				
State Aid	14,563,491.05	14,684,022.04	(120,530.99)	(0.82) %
County Appropriations	3,061,177.46	2,807,486.24	253,691.22	9.04 %
Noncapital Grants	580,087.23	592,862.88	(12,775.65)	(2.15) %
Noncapital Gifts	215,919.17	138,294.24	77,624.93	56.13 %
Investment Income	45,926.31	16,614.85	29,311.46	176.42 %
Other	26,849.92	1,717.89	25,132.03	1462.96 %
Total Nonoperating and Capital Revenues	<u>18,493,451.14</u>	<u>18,240,998.14</u>	<u>252,453.00</u>	1.38 %
Loss Before Other Revenues	<u>(1,567,431.11)</u>	<u>(3,071,088.04)</u>	<u>1,503,656.93</u>	(48.96) %
State Capital Aid	3,324,198.39	5,889,951.92	(2,565,753.53)	(43.56) %
County Capital Appropriations	74,027.50	198,513.76	(124,486.26)	(62.71) %
Capital Grants	168,598.81	97,653.79	70,945.02	72.65 %
Increase in Net Assets	<u>1,999,393.59</u>	<u>3,115,031.43</u>	<u>(1,115,637.84)</u>	(35.81) %
Net Assets, Beginning of Year	<u>25,469,463.21</u>	<u>22,354,431.78</u>	<u>3,115,031.43</u>	13.93 %
Net Assets, End of Year	<u>\$ 27,468,856.80</u>	<u>\$ 25,469,463.21</u>	<u>\$ 1,999,393.59</u>	7.85 %

Capital Contributions - State and local appropriations contribute most capital dollars to the College's budget. Occasionally, capital grants may be awarded to the College by private sources, adding to the overall capital budget. The decrease in capital contributions for FY04 versus FY03 was 42.34%. FY04 capital revenue was \$3,566,825 compared to FY03 capital revenue of \$6,186,119. This decrease is due to the fact that no House Bill 275 expenditures were made in FY04, which reduced our state capital aid from the previous year.

FY04 Sources of Capital Contributions



Contributions to Term and Permanent Endowments - Endowments held by Pitt Community College are held in our State Treasury Investment Fund. These endowments earn interest and the interest is applied back to the endowment or the scholarship as directed by the donor.

Special and Extraordinary Items - There were no special and/or extraordinary items for either FY04 or FY03.

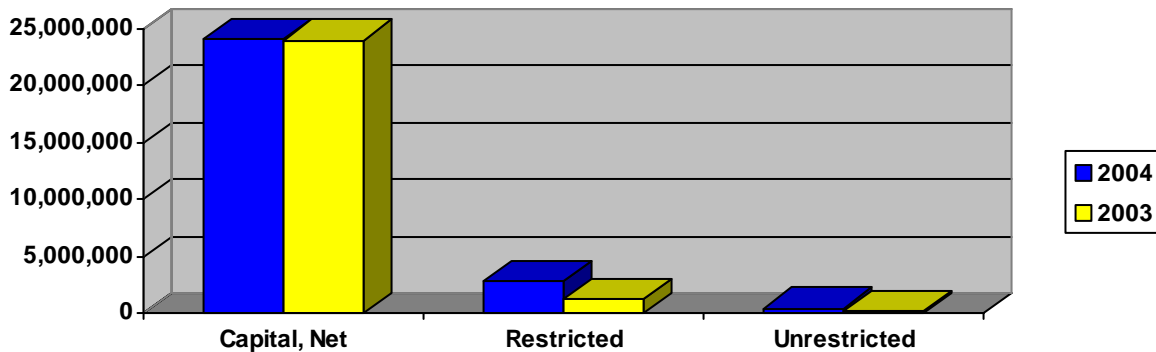
Net Assets - NCCCS, local and State guidelines require spending unrestricted cash on current operations. Unspent balances in most cases revert to the State. Therefore, unrestricted net assets will have the lowest balance of the three net asset categories. Restricted assets, including State, local and institutional funds spent for equipment and scholarships, will be greater than unrestricted assets because the expenditures for equipment are capital in nature. Capital equipment assets purchased with restricted funds show as restricted net assets in the year of purchase. Investment in Capital Assets is a cumulative amount of State, local and institutional funds spent on depreciable and nondepreciable assets. This category of assets remains on the College's books until fully depreciated or, in the case of land and CIP, until sold or capitalized. FY04 total net assets is made up of: Unrestricted at 1.55%, restricted at 9.17%, and capital at 89.28%.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Condensed Statement of Net Assets As of June 30, 2004

	2004	2003	Increase (Decrease)	Percent Changed
Assets				
Current Assets	\$ 2,866,563.08	\$ 1,863,820.26	\$ 1,002,742.82	53.80 %
Noncurrent Assets:				
Capital Assets, Nondepreciable	8,560,760.31	7,455,563.92	1,105,196.39	14.82 %
Capital Assets, Depreciable, Net	15,962,394.30	16,538,701.61	(576,307.31)	(3.48) %
Other	3,623,911.18	2,191,913.74	1,431,997.44	65.33 %
Total Assets	<u>31,013,628.87</u>	<u>28,049,999.53</u>	<u>2,963,629.34</u>	10.57 %
Liabilities				
Current Liabilities	2,318,006.74	1,499,827.79	818,178.95	54.55 %
Noncurrent Liabilities	<u>1,226,765.33</u>	<u>1,080,708.53</u>	<u>146,056.80</u>	13.51 %
Total Liabilities	<u>3,544,772.07</u>	<u>2,580,536.32</u>	<u>964,235.75</u>	37.37 %
Net Assets				
Investment in Capital Assets	24,523,154.61	23,994,265.53	528,889.08	2.20 %
Restricted	2,519,173.66	1,269,270.18	1,249,903.48	98.47 %
Unrestricted	<u>426,528.53</u>	<u>205,927.50</u>	<u>220,601.03</u>	107.13 %
Total Net Assets	<u>\$ 27,468,856.80</u>	<u>\$ 25,469,463.21</u>	<u>\$ 1,999,393.59</u>	7.85 %

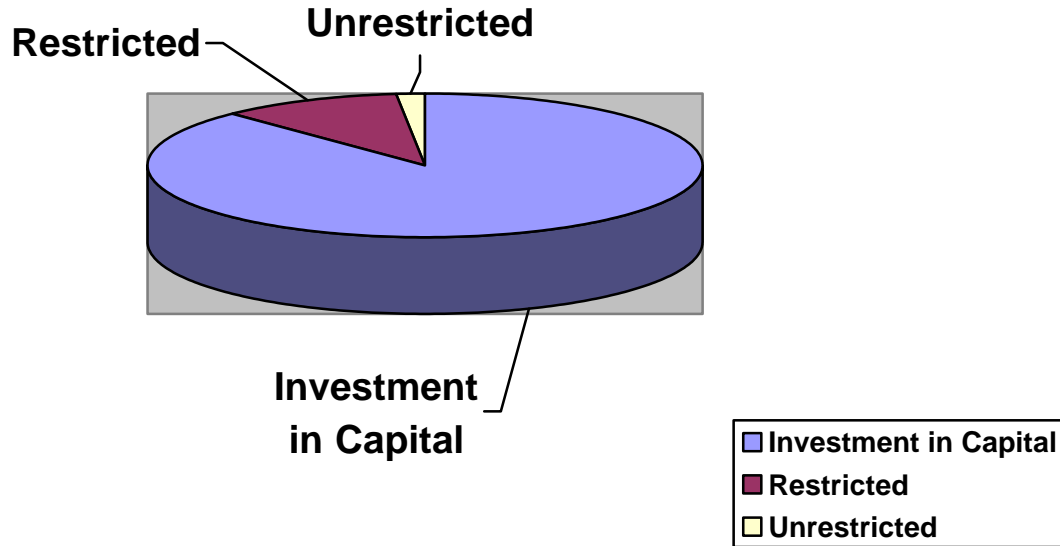
Illustration of Total Net Assets



Investment in capital assets consists primarily of buildings, infrastructure and equipment with a unit purchase cost of \$5,000 or greater. Other equipment is expensed in the year of purchase. Restricted net assets are separated from unrestricted because external sources exert control over their use.

The following is a graphic illustration of the FY04 net assets.

Analysis of Net Assets



Economic Outlook and Effects on Financial Position

Pitt Community College continues to see increases in its student population despite rising tuition costs. In-state tuition costs have risen 3.6% this year, (from \$34.25 per credit hour in the 2002-2003 fiscal year to its current rate of \$35.50 per credit hour). The 2004-2005 year will also see an increase of 7% (from \$35.50 per credit hour to \$38.00 per credit hour). Out-of-state tuition had similar percentage increases. Despite these rising costs, Pitt Community College still had an approximate 4% increase in full-time equivalent students between the 02-03 fiscal year to the current year.

Budget reversions continue to deplete needed resources from our operating budget. In the current year, \$331,478 was reverted to the NC Community College System Office in September 2003, with an additional \$165,739 reverted in May 2004. These funds would have been used for instructional costs.

Pitt Community College is currently in negotiations to acquire approximately 130 acres contiguous to the Pitt Community College campus. This acquisition of approximately \$3.1 million dollars will ensure that the campus will have adequate room for expansion over the next 25-30 years.

Pitt Community College		
Statement of Net Assets		
June 30, 2004		Exhibit A-1
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$	102,829.10
Restricted Cash and Cash Equivalents		328,363.88
Receivables (Note 4)		1,617,327.22
Due from State of North Carolina Component Units		32,200.00
Inventories		782,818.13
Prepaid Items		150.00
Notes Receivable, Net (Note 4)		2,874.75
Total Current Assets		2,866,563.08
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		1,100,730.38
Restricted Due from Primary Government		2,523,180.80
Capital Assets - Nondepreciable (Note 5)		8,560,760.31
Capital Assets - Depreciable, Net (Note 5)		15,962,394.30
Total Noncurrent Assets		28,147,065.79
Total Assets		31,013,628.87
LIABILITIES		
Current Liabilities:		
Accounts Payable and Accrued Liabilities (Note 6)		1,300,577.72
Deferred Revenue		8,581.00
Funds Held for Others		951,160.21
Long-Term Liabilities - Current Portion (Note 7)		57,687.81
Total Current Liabilities		2,318,006.74
Long-Term Liabilities - Noncurrent Portion (Note 7)		1,226,765.33
Total Liabilities		3,544,772.07
NET ASSETS		
Invested in Capital Assets		24,523,154.61
Restricted for:		
Nonexpendable:		
Scholarships and Fellowships		145,860.42
Expendable:		
Scholarships and Fellowships		14,209.12
Loans		51,443.72
Capital Projects		2,255,891.34
Other		51,769.06
Unrestricted		426,528.53
Total Net Assets	\$	27,468,856.80
The accompanying notes to the financial statements are an integral part of this statement.		

Pitt Community College		
Statement of Revenues, Expenses, and		
Changes in Net Assets		
For the Fiscal Year Ended June 30, 2004		Exhibit A-2
REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net (Note 8)	\$	3,966,448.93
Federal Grants and Contracts		6,853,769.82
State and Local Grants and Contracts		96,990.34
Sales and Services, Net (Note 8)		1,951,928.85
Other Operating Revenues		78,412.16
Total Operating Revenues		12,947,550.10
EXPENSES		
Operating Expenses:		
Salaries and Benefits		20,232,112.19
Supplies and Materials		4,290,655.39
Services		2,815,548.33
Scholarships and Fellowships		3,958,666.85
Utilities		744,345.59
Depreciation		967,104.00
Total Operating Expenses		33,008,432.35
Operating Loss		(20,060,882.25)
NONOPERATING REVENUES		
State Aid		14,563,491.05
County Appropriations		3,061,177.46
Noncapital Grants		580,087.23
Noncapital Gifts		215,919.17
Investment Income, Net		45,926.31
Other Nonoperating Revenues		26,849.92
Total Net Nonoperating Revenues		18,493,451.14
Loss Before Other Revenues		(1,567,431.11)
State Capital Aid		3,324,198.39
County Capital Appropriations		74,027.50
Capital Grants		168,598.81
Increase in Net Assets		1,999,393.59
NET ASSETS		
Net Assets, July 1, 2003		25,469,463.21
Net Assets, June 30, 2004	\$	27,468,856.80
The accompanying notes to the financial statements are an integral part of this statement.		

<i>Pitt Community College</i>		
<i>Statement of Cash Flows</i>		
<i>For the Fiscal Year Ended June 30, 2004</i>		<i>Exhibit A-3</i>
CASH FLOWS FROM OPERATING ACTIVITIES		
Received from Customers		\$ 12,873,791.27
Payments to Employees and Fringe Benefits		(20,013,483.25)
Payments to Vendors and Suppliers		(8,121,089.82)
Payments for Scholarships and Fellowships		(3,892,757.85)
Loans Issued to Students		537.75
Other Receipts		246,208.79
Net Cash Used by Operating Activities		(18,906,793.11)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State Aid Received		14,563,491.05
County Appropriations		3,061,177.46
Noncapital Grants Received		1,683,081.00
Noncapital Gifts Received		215,919.17
Cash Provided by Noncapital Financing Activities		19,523,668.68
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
State Capital Aid Received		801,017.59
County Capital Appropriations		74,027.50
Capital Grants Received		168,598.81
Acquisition and Construction of Capital Assets		(1,352,420.42)
Net Cash Used by Capital and Related Financing Activities		(308,776.52)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment Income		42,825.66
Cash Provided by Investing Activities		42,825.66
Net Increase in Cash and Cash Equivalents		350,924.71
Cash and Cash Equivalents, July 1, 2003		1,180,998.65
Cash and Cash Equivalents, June 30, 2004		\$ 1,531,923.36
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating Loss		\$ (20,060,882.25)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense		967,104.00
Miscellaneous Nonoperating Income		26,849.92
Changes in Assets and Liabilities:		
Receivables		(146,251.49)
Inventories		(136,062.14)
Prepaid Items		(150.00)
Notes Receivable, Net		537.75
Accounts Payable and Accrued Liabilities		(63,814.48)
Deferred Revenue		121.50
Funds Held for Others		357,639.03
Compensated Absences		148,115.05
Net Cash Used by Operating Activities		\$ (18,906,793.11)

<i>Pitt Community College</i>		
<i>Statement of Cash Flows</i>		<i>Exhibit A-3</i>
<i>For the Fiscal Year Ended June 30, 2004</i>		<i>Page 2</i>
RECONCILIATION OF CASH AND CASH EQUIVALENTS		
Current Assets:		
	Cash and Cash Equivalents	\$ 102,829.10
	Restricted Cash and Cash Equivalents	328,363.88
Noncurrent Assets:		
	Restricted Cash and Cash Equivalents	1,100,730.38
	Total Cash and Cash Equivalents - June 30, 2004	<u>\$ 1,531,923.36</u>
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES		
	Assets Acquired through Assumption of a Liability	\$ 143,572.66
	Increase in Receivables Related to Nonoperating Income	1,801,889.67
The accompanying notes to the financial statements are an integral part of this statement.		

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PITT 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. Pitt 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 or for which the nature of their relationship is not considered significant to the College are not part of the accompanying financial statements.

- B. Basis of Presentation** - The accompanying financial statements are presented in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

Pursuant to the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as amended by GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- C. Basis of Accounting** - The financial statements of the College have been prepared using the economic resource measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.
- D. Cash and Cash Equivalents** - This classification includes undeposited receipts, petty cash, cash on deposit with private bank accounts, and deposits held by the State Treasurer in the short-term investment portfolio. The short-term investment portfolio maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.
- E. Receivables** - Receivables consist of tuition and fees charges to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from the federal government, State and local governments, and private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants that are verifiable, measurable, and expected to be collected and available for expenditures for which the resource provider's conditions have been satisfied. Receivables are recorded at book value with no provision for doubtful accounts considered necessary. Notes receivables are recorded net of estimated uncollectible amounts.
- F. Inventories** - Inventories, consisting of expendable supplies and merchandise for resale, are valued at the lower of cost or market using the first-in, first-out 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 10 to 25 years for general infrastructure, 15 to 40 years for buildings, and 2 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 July 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.

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 September 30, 2002 and 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 – Nonexpendable - Nonexpendable restricted net assets include endowments and similar type assets whose use is limited by donors or other outside sources, and, as a condition of the gift, the principal is to be maintained in perpetuity.

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

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

Restricted and unrestricted resources are tracked using a fund accounting system and are spent in accordance with established fund authorities. Fund authorities provide rules for the fund activity and are separately

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 the bookstore and copy center. In addition, the College has other miscellaneous sales and service units that operated either on a reimbursement or charge basis. All internal sales activities to College

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

departments from auxiliary operations and sales and service units have been eliminated in the accompanying financial statements. These eliminations are recorded by removing the revenue and expense in the auxiliary operations and sales and service units and, if significant, allocating any residual balances to those departments receiving the goods and services during the year.

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

NOTE 2 - DEPOSITS

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 \$3,685.00. The carrying amount of cash on deposit was \$1,528,238.36 and the bank balance was \$2,520,378.10.

The North Carolina Administrative Code (20 NCAC 7) requires all depositories to collateralize public deposits in excess of federal depository insurance coverage by using one of two methods, dedicated or pooled. Under the dedicated method, a separate escrow account is established by each depository in the name of each local governmental unit and the responsibility of monitoring collateralization rests with the local unit. Under the pooling method, each depository establishes an escrow account in the name of the State Treasurer to secure all of its public deposits. This method shifts the monitoring responsibility from the local unit to the State Treasurer.

Cash on deposit at year end consisted of the following:

	<u>Book Balance</u>	<u>Bank Balance</u>
Cash on Deposit with State Treasurer	\$ 1,518,238.36	\$ 1,578,779.41
Cash on Deposit with Private Financial Institutions	<u>10,000.00</u>	<u>941,598.69</u>
	<u>\$ 1,528,238.36</u>	<u>\$ 2,520,378.10</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The cash on deposit with the State Treasurer is pooled with State agencies and similar institutions in short-term investments with the State Treasurer's 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, 2004, \$104,145.71 of the bank balance was covered by federal depository insurance, and \$837,452.98 was covered by collateral held by an authorized escrow agent in the name of the State Treasurer (pooling method).

NOTE 3 - DONOR RESTRICTED ENDOWMENTS

The College's endowment assets are pooled with State agencies and similar institutions in short-term investments with the State Treasurer's Cash and Investment Pool and are reported as restricted cash and cash equivalents – noncurrent on the accompanying financial statements. If a donor has not provided specific instructions, State law permits the Board of Trustees to authorize for expenditure the net appreciation, realized and unrealized, of the assets of the endowment funds. Annual payouts from the College's endowment funds are based on an adopted spending policy, which limits spending to 100% of the interest earnings unless the donor has stipulated otherwise. At June 30, 2004, net appreciation of \$4,685.55 was available to be spent, all of which was restricted to specific purposes.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 4 - RECEIVABLES

Receivables at June 30, 2004, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	\$ 446,794.65	\$ 0.00	\$ 446,794.65
Accounts	124,596.15		124,596.15
Intergovernmental	1,045,936.42		1,045,936.42
Total Current Receivables	\$ 1,617,327.22	\$ 0.00	\$ 1,617,327.22
Notes Receivable - Current:			
Institutional Student Loan Programs	\$ 10,411.37	\$ 7,536.62	\$ 2,874.75

NOTE 5 - 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	Increases	Decreases	Balance June 30, 2004
Capital Assets, Nondepreciable:				
Land	\$ 2,343,407.09	\$ 0.00	\$ 0.00	\$ 2,343,407.09
Construction in Progress	5,112,156.83	1,105,196.39		6,217,353.22
Total Capital Assets, Nondepreciable	7,455,563.92	1,105,196.39		8,560,760.31
Capital Assets, Depreciable:				
Buildings	20,758,973.49			20,758,973.49
Machinery and Equipment	3,453,671.08	390,796.69	13,663.36	3,830,804.41
General Infrastructure	1,170,028.70			1,170,028.70
Total Capital Assets, Depreciable	25,382,673.27	390,796.69	13,663.36	25,759,806.60
Less Accumulated Depreciation:				
Buildings	5,778,837.80	516,983.73		6,295,821.53
Machinery and Equipment	2,406,300.43	402,902.19	13,663.36	2,795,539.26
General Infrastructure	658,833.43	47,218.08		706,051.51
Total Accumulated Depreciation	8,843,971.66	967,104.00	13,663.36	9,797,412.30
Total Capital Assets, Depreciable, Net	16,538,701.61	(576,307.31)		15,962,394.30
Capital Assets, Net	\$ 23,994,265.53	\$ 528,889.08	\$ 0.00	\$ 24,523,154.61

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	Amount
Accounts Payable	\$ 882,427.10
Accrued Payroll	378,945.62
Contract Retainage	39,205.00
Total Accounts Payable and Accrued Liabilities	\$ 1,300,577.72

NOTE 7 - 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	\$ 1,136,338.09	\$ 517,458.83	\$ 369,343.78	\$ 1,284,453.14	\$ 57,687.81

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	\$ 5,391,935.11	\$ 0.00	\$ 1,425,486.18	\$ 3,966,448.93
Sales and Services:				
Sales and Services of Auxiliary Enterprises:				
Copy Center	\$ 183,117.82	\$ 169,493.05	\$ 0.00	\$ 13,624.77
College Store	2,402,562.32	60,694.67	950,324.12	1,391,543.53
Health, Physical Education, and Recreation Services	17,056.27			17,056.27
Preschool Laboratory	401,476.54			401,476.54
Other	802.00			802.00
Sales and Services of Educational and Related Activities	127,425.74			127,425.74
Total Sales and Services	\$ 3,132,440.69	\$ 230,187.72	\$ 950,324.12	\$ 1,951,928.85

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	\$ 12,350,571.66	\$ 927,210.35	\$ 446,691.38	\$ 0.00	\$ 0.00	\$ 0.00	\$ 13,724,473.39
Public Service	0.00	942.45	339,093.26				340,035.71
Academic Support	2,203,708.67	163,386.88	225,319.54				2,592,415.09
Student Services	1,612,356.19	67,490.50	19,181.48				1,699,028.17
Institutional Support	2,267,964.95	2,969,302.10	512,498.24				5,749,765.29
Operations and Maintenance of Plant	937,496.79	162,323.11	1,042,352.63		744,345.59		2,886,518.12
Student Financial Aid	177,854.75		11,615.12	3,958,666.85			4,148,136.72
Auxiliary Enterprises	682,159.18		218,796.68				900,955.86
Depreciation						967,104.00	967,104.00
Total Operating Expenses	\$ 20,232,112.19	\$ 4,290,655.39	\$ 2,815,548.33	\$ 3,958,666.85	\$ 744,345.59	\$ 967,104.00	\$ 33,008,432.35

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 \$17,540,613.30, of which \$13,818,160.25 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were \$829,089.62 and \$30,399.95, respectively. The College made one hundred percent of its annual required contributions for the years ended June 30, 2004, 2003, and 2002, which were \$30,399.95, \$0.00, and \$264,082.32, respectively.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.state.nc.us/> and clicking on "Financial Reports", or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

- B. Deferred Compensation and Supplemental Retirement Income Plans - IRC Section 457 Plan** - The State of North Carolina offers its permanent employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 through the North Carolina Public Employee Deferred Compensation Plan (the Plan). The Plan permits each participating employee to defer a portion of his or her salary until future years. The deferred compensation is available to employees upon separation from service, death, disability, retirement, or financial hardships if approved by the Board of Trustees of the Plan. The Board, a part of the North Carolina Department of Administration, maintains a separate fund for the exclusive benefit of the participating employees and their beneficiaries, *the North Carolina Public Employee Deferred Compensation Trust Fund*. The Board also contracts with an external third party to perform certain administrative requirements and to manage the trust fund's assets. All costs of administering and funding the Plan are the responsibility of the Plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to \$36,837.51 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 except for a 5% employer contribution for the College's law enforcement officers, which is mandated under General Statute 143-166.30(e). Total employer contributions on behalf of College law enforcement officers for the year ended June 30, 2004 were \$9,796.55. The voluntary contributions by employees amounted to \$237,362.00 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 \$45,686.00 for the year ended June 30, 2004.

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 \$442,181.13. 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*.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 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 the Public School Insurance Fund, a State-administered public entity risk pool. This fund is financed by premiums and interest and incurs a \$10 million self-insured deductible per occurrence. Reinsurance is purchased by the fund to cover catastrophic events in excess of the \$10 million deductible. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

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 \$878,775.76 and on other purchases were \$97,637.36 at June 30, 2004.
- 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

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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 \$9,998,810 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 - PITT COMMUNITY COLLEGE FOUNDATION, INC.

The Pitt Community College Foundation, Inc. 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 \$43,035.66 for the year ended June 30, 2004.

NOTE 15 - 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 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.

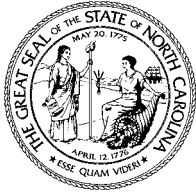
Pitt Community College
Schedule of General Obligation Bond Project Authorizations,
Budgets, and Expenditures
For Project-to-Date as of June 30, 2004

Schedule 1

	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
Capital Improvement Projects									
<i>Projects Approved by the State Board</i>									
General Classroom Building - 1111 PH 1	Nov 2000	Nov 2000	\$ 5,116,870.00	\$ 0.00	\$ 5,116,870.00	\$ 5,073,750.12	99.16%	Apr 2003	Nov 2004
Parking Project - 1112 PH 1	Nov 2000	Feb 2002	483,592.00		483,592.00	270,311.94	55.90%	Jun 2002	Sep 2004
Bowen Farm Site Project (Planning) - 1110	Aug 2003	Mar 2002	150,000.00	1,550,000.00	1,700,000.00	47,634.05	2.80%	Sep 2004	Oct 2004
Firing Range and Driving Pad - 1177	Jun 2002	Jun 2002	206,110.00	1,110,298.00	1,316,408.00	206,110.00	15.66%	Aug 2003	Aug 2005
Fulford Building Additions PH 1 - 1234	Aug 2003	Apr 2002	2,297,178.00	1,500,000.00	3,797,178.00	173,658.00	4.57%	Jun 2004	Dec 2004
Humber Building Renovation PH II	Nov 2004	Jan 2004	1,300,000.00		1,300,000.00	24,904.09	1.92%	Jun 2006	Jul 2006
<i>Projects Pending Approval by the State Board</i>									
Construction and Automotive Complex PH II	Aug 2003	Apr 2006	1,139,515.00	2,610,485.00	3,750,000.00			Apr 2005	Apr 2007
Warren Building Addition PH II	Aug 2003	Apr 2006	7,000,000.00		7,000,000.00			Apr 2006	Apr 2008
White Building Renovation PH III	Nov 2004	Jun 2007	166,222.00		166,222.00			Jul 2006	Jun 2008
Whichard Building Renovation PH III	Nov 2004	Jun 2007	166,222.00		166,222.00			Jul 2006	Jun 2008
Total All Projects			\$ 18,025,709.00	\$ 6,770,783.00	\$ 24,796,492.00	\$ 5,796,368.20			

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.

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

Board of Trustees
Pitt Community College
Greenville, North Carolina

We have audited the financial statements of Pitt Community College, a component unit of the State of North Carolina, as of and for the year ended June 30, 2004, and have issued our report thereon dated March 31, 2005. As discussed in Note 15 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, during the year ended June 30, 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.

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 an opinion 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 over financial reporting that might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud 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.

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

Compliance and Other Matters

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 grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted a certain matter that we have reported to management of the College, in a separate letter dated April 7, 2005.

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.

Leslie W. Merritt, Jr.

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

March 31, 2005

DISTRIBUTION OF AUDIT REPORT

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

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The Honorable Richard H. Moore	State Treasurer
The Honorable Roy A. Cooper, III	Attorney General
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Mr. Robert L. Powell	State Controller
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Mr. Joseph W. Hunnicutt	Vice President for Administrative Services Pitt Community College
Mr. Raymond Reddrick	Chairman, Board of Trustees Pitt Community College

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Mr. James D. Johnson	Director, Fiscal Research Division
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May 20, 2005

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