

# STATE OF NORTH CAROLINA

## FINANCIAL STATEMENT AUDIT REPORT OF

PAMLICO COMMUNITY COLLEGE

GRANTSBORO, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2005

OFFICE OF THE STATE AUDITOR

LESLIE W. MERRITT, JR., CPA, CFP

STATE AUDITOR

**FINANCIAL STATEMENT AUDIT REPORT OF**

**PAMLICO COMMUNITY COLLEGE**

**GRANTSBORO, NORTH CAROLINA**

**FOR THE YEAR ENDED JUNE 30, 2005**

**STATE BOARD OF COMMUNITY COLLEGES**

**THE NORTH CAROLINA COMMUNITY COLLEGE SYSTEM**

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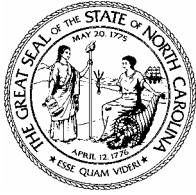
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STATE OF NORTH CAROLINA  
Office of the State Auditor

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**AUDITOR'S TRANSMITTAL**

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

We have completed a financial statement audit of Pamlico Community College for the year ended June 30, 2005, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

Our consideration of internal control over financial reporting and compliance and other matters based on an audit of the financial statements disclosed a deficiency that is detailed in the Audit Findings and Recommendations section of this report. The College's response is included following the finding.

*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.*

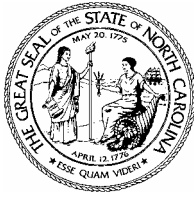
Leslie W. Merritt, Jr., CPA, CFP  
State Auditor

June 13, 2006

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**INDEPENDENT AUDITOR'S REPORT**

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Board of Trustees  
Pamlico Community College  
Grantsboro, North Carolina

We have audited the accompanying basic financial statements of Pamlico Community College, a component unit of the State of North Carolina, as of and for the year ended June 30, 2005, 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Pamlico Community College of June 30, 2005, 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.

As discussed in Note 15 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures*, during the year ended June 30, 2005.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 26, 2006, 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 that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that

## INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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testing, and not to provide an opinion on the internal control over financial reporting or on compliance. 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.

*Leslie W. Merritt, Jr.*

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

April 26, 2006

## **PAMLICO COMMUNITY COLLEGE MANAGEMENT'S DISCUSSION AND ANALYSIS**

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Pamlico Community College is a two-year institution located in Eastern North Carolina and is currently celebrating its 43rd anniversary. Since being reaffirmed by the Southern Association of Colleges and Schools (SACS) in December of 2002, Pamlico Community College is continuing to look at expanding its offerings through Distance Education and as such is working on several changes to improve delivery of courses. Our Electroneurodiagnostics Program (EDT) is offering more of its EDT courses through Blackboard allowing students from remote locations to take courses, including labs and externships, while the remaining coursework is taken at their local community colleges and transferred to Pamlico Community College to award the degrees. Furthermore, we are looking to expand our business and accounting course offerings at the Pamlico Correctional Facility, whereby we can increase the number of students in the respective programs and provide additional programs of study for this specific group of students.

In the hiring of teachers, our goal is to find those with that “spark” which translates into program building and genuine care for the education of their students. We have been very successful with the latest hires for our medical assisting and criminal justice programs of study as evidenced by increased enrollment in both of these programs. Enrollment within our Education department continues to be strong. Computer Information Systems (CIS) is in high demand due to a SACS requirement that every student demonstrate a basic course competency for computers by taking at least one computer class before graduation. With the CIS Program also being at the Pamlico Correctional Facility, the demand for this program of study is strong. We have had a setback with the temporary loss of our CIS Program Director due to illness and have had to use a greater number of adjuncts to fill this void for the spring and fall 2005 semesters.

Our Electrical Electronics Program of study has shown a decline in enrollment over the past year due to Cherry Point's Base Realignment and Closure (BRAC). Fewer demands for co-operative students have necessitated our branching out to other industries for co-op sites. One area that has shown an increase in enrollment is our Huskins Program with the area high school, which continues to improve each semester as parents and students recognize the value of receiving college credit for courses taken while still in high school for little or no cost to the student. Additionally we are looking into the aspect of adding welding to our offerings at the high school. This course continues to be in high demand and an area where increased full-time equivalent (FTE) can be realized.

Enrollment for Cosmetology has been less than anticipated for the spring 2005, but fall 2005 looks considerably better as more students enter this program. With the number of contact hours required for this program, the level of FTE should begin to show an increase.

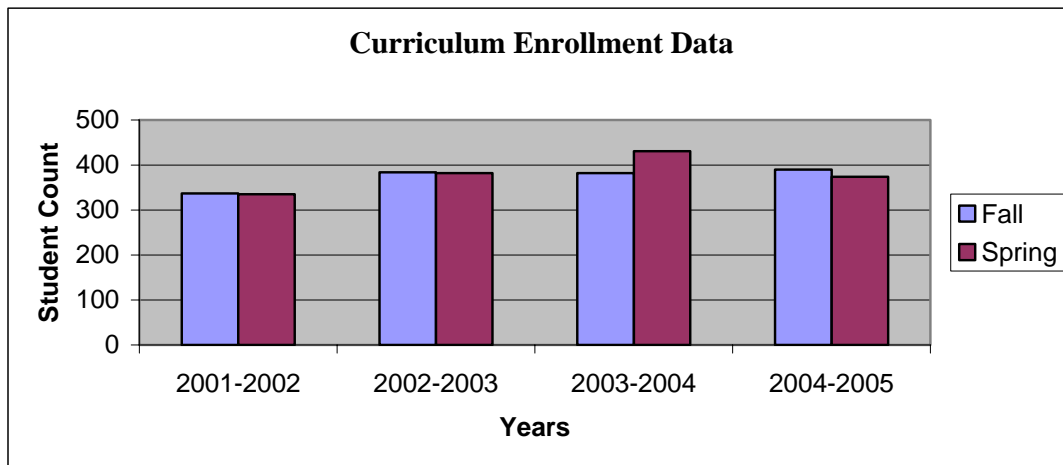
Our Environmental Science Program still does not attract the number of students we would like which could be the result of students working and not being available to take the courses

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

during the day. Revamping this to an evening or weekend offering may allow those in the field to take the needed courses during non-working hours.

In total, fiscal year 2005 saw an improvement of 22 FTE's over the previous fiscal year. The summer 2005 FTE's declined over summer 2004 as a result of moving courses to the fall and winter semesters, where the value of each FTE earned was greater. Comparing the number of students from one year to the next shows a decline in fiscal year 2005; however, there was an increase in the total FTE's reported as a result of students carrying a larger course load than the previous year. Our enrollment went down approximately 14 students, while our reported FTE's increased by 22.

We continue to offer various programs for both curriculum and continuing education students as well as provide an expanded presence to area businesses through our Small Business Center. Enrollment data for campus, Huskins Program (college courses taught at the high school), Dual Enrollment Program (high school students take college courses on the College campus) and prison programs is as follows:



Student Count	2001-2002	2002-2003	2003-2004	2004-2005
Fall	337	384	382	390
Spring	335	382	431	374

### Overview of Financial Statements

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



## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

The Notes to the Financial Statements provide additional information that is needed for a full understanding of the data provided in the statements. Notes to the Financial Statements are found at the end of this report.

### Condensed Statement of Net Assets

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

<b>Condensed Statement of Net Assets</b>			
<b>June 30, 2005 and 2004</b>			
<i>(in thousands)</i>			
	2005	2004	Increase (Decrease)
Current and Other Noncurrent Assets	\$ 2,062.48	\$ 1,103.00	\$ 959.48
Capital Assets, Net	3,345.65	3,368.60	(22.95)
Total Assets	5,408.13	4,471.60	936.53
Noncurrent Long-Term Liabilities	145.82	121.67	24.15
Other Liabilities	73.74	72.48	1.26
Total Liabilities	219.56	194.15	25.41
Net Assets			
Invested In Capital Assets	3,345.65	3,368.60	(22.95)
Restricted	1,220.86	276.57	944.29
Unrestricted	622.06	632.28	(10.22)
Total Net Assets	\$ 5,188.57	\$ 4,277.45	\$ 911.12

Pamlico Community College has adequate financial resources to meet the present needs of its student population. The Statement of Net Assets is strong due to its high liquidity and virtually nonexistent debt. The increase in the current and other noncurrent assets caption is mainly attributed to a cash balance of \$873 thousand at year end versus approximately \$474 thousand at June 30, 2004. The increased cash balance is due primarily to the sale of investment land held by the Foundation, construction reimbursement, bookstore and concession sales, and unspent county funds. Also contributing to the increase in current and other noncurrent assets is an \$829 thousand increase in restricted due from primary government from the prior year for allocated bond funds for the Life Care Learning Center construction project. Unchanged from the prior year, due from State consists of a \$33 thousand Golden Leaf Grant, which will be utilized for training in environmental science and implementation of the Sustainable Employment through Environmental and Economic Development (SEEED) Project. The SEEED Project is an experimental water treatment project for coastal areas that cannot get traditional septic system permitting.

The increase in noncurrent long-term liabilities is due to employee leave accruals or compensated absences attributable to the General Assembly awarding bonus vacation days to

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

full-time permanent College employees. Pamlico Community College has no long-term capital debt or capital leases at this time.

Restricted net assets increased \$944 thousand primarily due to project approval for the Life Care Learning Center construction project. Total net assets increased by \$911 thousand during the 2005 fiscal year.

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

The following chart depicts the College's activities for the last two years:

**Condensed Statement of Revenues, Expenses, and Changes in Net Assets  
for the Year Ended June 30, 2005 and 2004  
(in thousands)**

	2005	2004	Increase (Decrease)
<b>Operating Revenues</b>			
Student Tuition and Fees, Net	\$ 78.41	\$ 166.59	\$ (88.18)
Federal Grants and Contracts	651.73	544.87	106.86
State and Local Grants and Contracts	41.50	40.47	1.03
Sales and Services, Net	170.24	109.66	60.58
Other Operating Revenues		6.00	(6.00)
<b>Total Operating Revenues</b>	941.88	867.59	74.29
<b>Less Operating Expenses</b>	4,732.00	4,711.14	20.86
<b>Operating Loss</b>	(3,790.12)	(3,843.55)	53.43
<b>Nonoperating Revenues</b>			
State Aid	3,071.41	2,991.96	79.45
County Appropriations	359.81	319.48	40.33
Investment Loss, Net	(45.23)	10.44	(55.67)
Other Nonoperating Revenues	187.31	312.37	(125.06)
<b>Capital Aid and Grants</b>			
State Capital Aid	1,090.31	486.12	604.19
County Capital Appropriations	37.63	112.80	(75.17)
<b>Total Nonoperating and Capital Revenues</b>	4,701.24	4,233.17	468.07
Change in Net Assets	911.12	389.62	521.50
Net Assets, Beginning of Year	4,277.45	3,687.83	589.62
Restatement		200.00	(200.00)
Net Assets, End of Year	\$ 5,188.57	\$ 4,277.45	\$ 911.12

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Student tuition and fees decreased approximately \$88 thousand in 2005 due to a larger number of students applying and qualifying for federal grants and contracts. This decrease was offset by an increase in federal grants and contracts of \$107 thousand. The increase in federal grants and contracts includes an increase of \$35 thousand in Pell funding and a \$56 thousand increase over fiscal year 2004 in Workforce Investment Act – Adult Program funding. Sales and services show a \$61 thousand increase over the prior year due to an increase in bookstore sales and patron fees from our new cosmetology program.

Investment income decreased in fiscal year 2005 by \$56 thousand over fiscal year 2004 due to the loss on sale of investment land held by the Foundation.

Other nonoperating revenues decreased in 2005 due to the absence of donations to scholarship endowments, which were experienced in 2004. State capital aid increased in 2005 due to the commitment of \$950 thousand in bond money for the construction of the Life Care Learning Center. The restatement of \$200 thousand represents an unrecorded land donation in fiscal year 2001.

The following chart represents the operating expenses of Pamlico Community College by activity:

**Operating Expenses**  
**for the Year Ended June 30, 2005 and 2004**  
*(in thousands)*

	2005	2004	Increase (Decrease)
Operating Expenses			
Personal Services	\$ 3,291.24	\$ 3,342.49	\$ (51.25)
Supplies and Materials	381.59	415.68	(34.09)
Services	324.57	378.25	(53.68)
Scholarships/Fellowships	519.21	364.69	154.52
Utilities	75.70	71.25	4.45
Depreciation	139.69	138.78	0.91
Total Operating Expenses	\$ 4,732.00	\$ 4,711.14	\$ 20.86

As seen in the chart above, there was a \$21 thousand increase in total operating expenses from the prior year. The decrease in personal services in 2005 is due to two vacancies in Student Services. The decrease in supplies and materials in 2005 is due to use of supplies carried forward at the end of 2004. The increase in scholarships/fellowships is due in part to a \$35 thousand increase in Pell funding, the disbursement of \$22 thousand for the North Carolina Community College Trust Fund Scholarship, \$20 thousand in Childcare, and \$40 thousand in Displaced Homemaker, Divorce Filing Fees and Targeted Assistance funding.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

### Capital Assets

The following chart depicts the College's capital assets for the last two years:

<b>Capital Assets June 30, 2005 (in thousands)</b>			
	2005	2004	Increase (Decrease)
Capital Assets, Nondepreciable			
Land	\$ 381.05	\$ 381.05	\$ 0.00
Construction in Progress	72.38		72.38
Total Capital Assets, Nondepreciable	453.43	381.05	72.38
Capital Assets, Depreciable			
Buildings	4,122.43	4,122.43	
Machinery and Equipment	518.50	499.76	18.74
General Infrastructure	21.35	21.35	
Total Capital Assets, Depreciable	4,662.28	4,643.54	18.74
Less: Accumulated Depreciation	1,770.06	1,655.99	114.07
Capital Assets, Depreciable, Net	2,892.22	2,987.55	(95.33)
Capital Assets, Net	\$ 3,345.65	\$ 3,368.60	\$ (22.95)

At the end of the fiscal year 2005, the Statement of Net Assets reflected \$3.3 million in a broad range of capital assets. Depreciation charges, as shown above as the increase in accumulated depreciation, totaled \$114 thousand for the fiscal year.

The majority of the \$72 thousand addition to construction in progress was a result of the new construction project of the Life Care Learning Center. The College secured an Economic Development Administration (EDA) grant of \$1.5 million and consequent matching bond funds during the 2005 fiscal year; thus, we are now in the planning stages to construct the Life Care Learning Center, which will house our Allied Health programs. Construction is scheduled to begin in the spring of 2006.

The Paul H. Johnson Building on our main campus is 29 years old; therefore, a new roof is expected to be required within the next few years. The expected cost for this replacement is estimated at this time to be approximately \$250 thousand. The College's management will look to Pamlico County to provide funding in part or in whole for the replacement cost.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)**

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### **Additional Discussion**

Pamlico Community College did not receive any contributions to permanent endowments this year nor have any special or extraordinary items to disclose. Additionally, the College did not incur any long-term debt during fiscal year 2005 nor have a change in its credit rating or suffer any debt limitations.

### **Economic Outlook**

The county has experienced economic deterioration in the farming and commercial fishing industry, which are the primary industries for the community. The unemployment rate in Pamlico County has increased to 4.6% in June 2005 from 3.4% in June 2004. Pamlico Community College has an opportunity to assist the retraining of citizens in the area and help improve overall economic conditions. The 2004 census indicated a population of approximately 13 thousand, which is a .93% decrease from the 2000 census; however, the county expects to see a growth trend to begin due to the anticipated development of coastal residential properties. River Dunes, formerly referred to as Gum Thicket, is an example of one such development, which projects an additional 500 single-family homes by the year 2006. The area expects to experience further growth due to the widening of NC Hwy. 55, the main entrance into our county.

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

***Pamlico Community College***  
***Statement of Net Assets***  
***June 30, 2005***

***Exhibit A-1***

**ASSETS**

Current Assets:

Cash and Cash Equivalents	\$ 673,776.17
Restricted Cash and Cash Equivalents	68,173.84
Short-Term Investments	39,200.00
Receivables, Net (Note 4)	35,139.37
Due from State of North Carolina Component Units	33,000.00
Inventories	64,364.45
Notes Receivable, Net (Note 4)	5,181.06
	<hr/>
Total Current Assets	918,834.89
	<hr/>

Noncurrent Assets:

Restricted Cash and Cash Equivalents	130,937.00
Restricted Due from Primary Government	1,012,709.42
Capital Assets - Nondepreciable (Note 5)	453,430.00
Capital Assets - Depreciable, Net (Note 5)	2,892,219.48
	<hr/>
Total Noncurrent Assets	4,489,295.90
	<hr/>
Total Assets	5,408,130.79
	<hr/>

**LIABILITIES**

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 6)	39,836.68
Deferred Revenue	2,800.80
Long-Term Liabilities - Current Portion (Note 7)	26,250.04
	<hr/>
Total Current Liabilities	68,887.52
	<hr/>

Noncurrent Liabilities:

Funds Held for Others	4,850.62
Long-Term Liabilities (Note 7)	145,817.50
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Total Noncurrent Liabilities	150,668.12
	<hr/>
Total Liabilities	219,555.64
	<hr/>

**NET ASSETS**

Net Assets Summary Account

Invested in Capital Assets	3,345,649.48
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	94,617.11
Expendable:	
Scholarships and Fellowships	24,708.85
Loans	12,529.02
Capital Projects	1,026,226.99
Other	62,782.23
Unrestricted	622,061.47
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Total Net Assets	\$ 5,188,575.15
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The accompanying notes to the financial statements are an integral part of this statement.

***Pamlico Community College  
Statement of Revenues, Expenses, and  
Changes in Net Assets  
For the Fiscal Year Ended June 30, 2005***

***Exhibit A-2***

**REVENUES**

Operating Revenues:

Student Tuition and Fees, Net (Note 9)	\$ 78,417.19
Federal Grants and Contracts	651,726.99
State and Local Grants and Contracts	41,500.20
Sales and Services, Net (Note 9)	170,236.40

Total Operating Revenues	941,880.78
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**EXPENSES**

Operating Expenses:

Personal Services	3,291,236.69
Supplies and Materials	381,590.39
Services	324,572.23
Scholarships and Fellowships	519,210.34
Utilities	75,704.40
Depreciation	139,687.15

Total Operating Expenses	4,732,001.20
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Operating Loss	(3,790,120.42)
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**NONOPERATING REVENUES (EXPENSES)**

State Aid	3,071,407.91
County Appropriations	359,814.00
Noncapital Grants	110,340.36
Noncapital Gifts	61,798.94
Investment Loss, Net	(45,225.51)
Other Nonoperating Revenues	15,175.00

Net Nonoperating Revenues	3,573,310.70
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Loss Before Other Revenues	(216,809.72)
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State Capital Aid	1,090,305.57
County Capital Appropriations	37,627.92

Increase in Net Assets	911,123.77
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**NET ASSETS**

Net Assets, July 1, 2004	4,277,451.38
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Net Assets, June 30, 2005	\$ 5,188,575.15
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The accompanying notes to the financial statements are an integral part of this statement.

***Pamlico Community College***  
***Statement of Cash Flows***  
***For the Fiscal Year Ended June 30, 2005***

***Exhibit A-3***

**CASH FLOWS FROM OPERATING ACTIVITIES**

Received from Customers	\$ 981,158.61
Payments to Employees and Fringe Benefits	(3,273,496.46)
Payments to Vendors and Suppliers	(800,878.91)
Payments for Scholarships and Fellowships	(516,135.58)
Loans Issued to Students	(69,410.41)
Collection of Loans to Students	65,328.03
Other Receipts	15,057.31
	<hr/>
Net Cash Used by Operating Activities	(3,598,377.41)

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

State Aid Received	3,071,407.91
County Appropriations	359,814.00
Noncapital Grants Received	112,189.25
Noncapital Gifts and Endowments Received	56,573.94
	<hr/>
Cash Provided by Noncapital Financing Activities	3,599,985.10

**CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES**

State Capital Aid Received	261,790.94
County Capital Appropriations	37,627.92
Acquisition and Construction of Capital Assets	(95,741.60)
	<hr/>
Net Cash Provided by Capital and Related Financing Activities	203,677.26

**CASH FLOWS FROM INVESTING ACTIVITIES**

Proceeds from Sales and Maturities of Investments	181,343.01
Investment Income	12,501.48
	<hr/>
Cash Provided by Investing Activities	193,844.49

Net Increase in Cash and Cash Equivalents	399,129.44
Cash and Cash Equivalents, July 1, 2004	473,757.57
	<hr/>
Cash and Cash Equivalents, June 30, 2005	\$ 872,887.01

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

Operating Loss	\$ (3,790,120.42)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	139,687.15
Provision for Uncollectible Loans and Write-Offs	1,433.10
Miscellaneous Nonoperating Income	15,175.00
Changes in Assets and Liabilities:	
Receivables, Net	39,551.79
Inventories	(23,586.71)
Notes Receivable, Net	(4,082.38)
Accounts Payable and Accrued Liabilities	18,613.60
Deferred Revenue	2,800.80
Funds Held for Others	(117.69)
Compensated Absences	2,268.35
	<hr/>
Net Cash Used by Operating Activities	\$ (3,598,377.41)



***Pamlico Community College  
Statement of Cash Flows  
For the Fiscal Year Ended June 30, 2005***

***Exhibit A-3  
Page 2***

**RECONCILIATION OF CASH AND CASH EQUIVALENTS**

Current Assets:		
Cash and Cash Equivalents	\$	673,776.17
Restricted Cash and Cash Equivalents		68,173.84
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		<u>130,937.00</u>
Total Cash and Cash Equivalents - June 30, 2005	\$	<u><u>872,887.01</u></u>

**NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES**

Assets Acquired through a Gift	\$	5,225.00
Change in Fair Value of Investments		(42,070.00)
Increase in Receivables Related to Nonoperating Income		828,514.63
Capital Asset Write-Offs		25,628.70

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

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**PAMLICO COMMUNITY COLLEGE  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2005**

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES**

- A. Financial Reporting Entity** – The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their constituents for their actions. As required by accounting principles generally accepted in the United States of America, the financial reporting entity includes both the primary government and all of its component units. An organization other than a primary government serves as a nucleus for a reporting entity when it issues separate financial statements. Pamlico Community College is a component unit of the State of North Carolina and an integral part of the State's *Comprehensive Annual Financial Report*.

The accompanying financial statements present all funds of the College and the component unit for which the College's Board of Trustees is financially accountable. The College's component unit is blended in the financial statements. The blended component unit, although legally separate, is, in substance, part of the College's operations and therefore, is reported as if it were part of the College.

**Blended Component Unit** – Although legally separate, Pamlico Community College Foundation is reported as if it were part of the College. The Foundation is governed by a 13-member board. The Foundation's purpose is to aid, support, and promote teaching, research, and service in the various educational, scientific, scholarly, professional, artistic, and creative endeavors of the College. Because the elected directors of the Foundation are appointed by the members of the Pamlico Community College Board of Trustees and the Foundation's sole purpose is to benefit Pamlico Community College, its financial statements have been blended with those of the College.

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

- B. Basis of Presentation** – The accompanying financial statements are presented in accordance with accounting principles generally accepted in

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

- C. **Basis of Accounting** – The financial statements of the College have been prepared using the economic resource measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.
- D. **Cash and Cash Equivalents** – This classification includes undeposited receipts, petty cash, cash on deposit with private bank accounts, and deposits held by the State Treasurer in the short-term investment portfolio. The short-term investment portfolio maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.
- E. **Investments** – This classification includes real estate and other asset holdings by the Foundation. Real estate not held by a governmental external investment pool and other asset holdings are reported at cost, if purchased, or at fair value or appraised value at date of gift, if donated.
- F. **Receivables** – Receivables consist of tuition and fees charged 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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expenditures for which the resource provider's conditions have been satisfied. Receivables are recorded net of estimated uncollectible amounts.

- G. Inventories** – Inventories, consisting of expendable supplies and merchandise for resale, are valued at the lower of cost or market value using the last invoice cost method.
- H. Capital Assets** – Capital assets are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. The College capitalizes assets that have a value or cost in excess of \$5,000 at the date of acquisition and an expected useful life of more than one year. Library books are generally not considered to have a useful life of more than one year unless part of a collection and are expensed in the year of acquisition.

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

- I. Restricted Assets** – Unexpended capital contributions are classified as restricted assets because their use is limited by donor/grantor agreements. Certain other assets are classified as restricted because their use is limited by external parties or statute.
- J. Noncurrent Long-Term Liabilities** – Noncurrent long-term liabilities include compensated absences that will not be paid within the next fiscal year.
- K. Compensated Absences** – The College's policy is to record the cost of vacation leave when earned. The policy provides for a maximum accumulation of unused vacation leave of 30 days which can be carried forward each January 1 or for which an employee can be paid upon termination of employment. Also, any accumulated vacation leave in excess of 30 days at year end is converted to sick leave. Under this policy, the accumulated vacation leave for each employee at June 30 equals the leave carried forward at the previous December 31 plus the leave earned, less the leave taken between January 1 and June 30.

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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.

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

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

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

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

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

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

**M. 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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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**N. 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.

**O. Internal Sales Activities** – Certain institutional auxiliary operations provide goods and services to College departments, as well as to its customers. These institutional auxiliary operations include activities such as central stores. In addition, the College has other miscellaneous sales and service units that operated either on a reimbursement or charge basis. All internal sales activities to College departments from auxiliary operations and sales and service units have been eliminated in the accompanying financial statements. These eliminations are recorded by removing the revenue and expense in the auxiliary operations and sales and service units and, if significant, allocating any residual balances to those departments receiving the goods and services during the year.

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

### NOTE 2 - DEPOSITS AND INVESTMENTS

**A. Deposits** – All funds of the College are deposited in board-designated official depositories and are required to be collateralized in accordance

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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with *North Carolina 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. Also, the College may establish time deposit accounts, money market accounts, and certificates of deposit. The amount shown on the Statement of Net Assets as cash and cash equivalents includes cash on hand totaling \$310.00, and deposits in private financial institutions with a carrying value of \$43,537.22 and a bank balance of \$186,121.32.

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.

Custodial credit risk is the risk that in the event of a bank failure, the College's deposits may not be returned to it. As of June 30, 2005, the College's bank balance in excess of federal depository insurance coverage was covered under the pooling method.

- B. Investments** – The College is authorized to invest idle funds as provided by G.S. 115D-58.6. In accordance with this statute, the College and the Board of Trustees manage investments to ensure they can be converted into cash when needed.

Generally, funds belonging to the College may be invested in the form of investments pursuant to G.S. 159-30(c), as follows: a commingled investment pool established and administered by the State Treasurer pursuant to G.S. 147-69.3 (STIF), obligations of or fully guaranteed by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain nonguaranteed federal agencies; prime quality commercial paper bearing specified ratings and banker's acceptances; The North Carolina Capital Management Trust, an SEC registered mutual fund; repurchase agreements; and evidences of ownership of, or fractional undivided interests in, future interest and principal payments on either direct obligations of or fully guaranteed by the United States government, which are held by a specified bank or trust company or any state in the capacity.



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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At June 30, 2005, the amount shown on the Statement of Net Assets as cash and cash equivalents includes \$829,039.79, which represents the College's equity position in the State Treasurer's Short-Term Investment Fund. The Short-Term Investment Fund (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission and does not have a credit rating) had a weighted average maturity of 1.41 years as of June 30, 2005. Assets and shares of the Short-Term Investment Fund are valued at amortized cost, which approximates fair value. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's Short-Term Investment Fund) 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.ncosc.net/> and clicking on "Financial Reports", or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

Except as specified by the donor, endowment funds belonging to the College may be invested pursuant to G.S. 147-69.2. This statute authorizes investments for special funds held by the State Treasurer and includes the following investments: obligations of or fully guaranteed by the United States; obligations of certain federal agencies; repurchase agreements; obligations of the State of North Carolina; certificates of deposit of specified institutions; prime quality commercial paper; specified bills of exchange; asset-backed securities, corporate bonds and notes with specified ratings; general obligations of other states; general obligations of North Carolina local governments; certain venture capital limited partnerships; and the obligations or securities of the North Carolina Enterprise Corporation.

Investments of the College's component unit, Pamlico Community College Foundation, are subject to and restricted by G.S. 36B "Uniform Management of Institutional Funds Act" (UMIFA) and any requirements placed on them by contract or donor agreements. At June 30, 2005, Pamlico Community College Foundation held \$39,200.00 in investments. These investments consist of \$17,500.00 in land, \$21,400.00 in boats and \$300.00 in personal property.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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A reconciliation of deposits and investments for the College to the basic financial statements at June 30, 2005, is as follows:

Cash on Hand	\$ 310.00
Carrying Amount of Deposits with Private Financial Institutions	43,537.22
Investments in the Short-Term Investment Fund	829,039.79
Other Investments	<u>39,200.00</u>
Total Deposits and Investments	<u><u>\$ 912,087.01</u></u>
Current:	
Cash and Cash Equivalents	\$ 673,776.17
Restricted Cash and Cash Equivalents	68,173.84
Short-Term Investments	39,200.00
Noncurrent:	
Restricted Cash and Cash Equivalents	<u>130,937.00</u>
Total	<u><u>\$ 912,087.01</u></u>

### 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, 2005, net appreciation of \$1,837.47 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, 2005, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
<b>Current Receivables:</b>			
Students	\$ 2,803.30	\$ 1,218.00	\$ 1,585.30
Intergovernmental	13,549.76		13,549.76
Other	20,004.31		20,004.31
<b>Total Current Receivables</b>	<b>\$ 36,357.37</b>	<b>\$ 1,218.00</b>	<b>\$ 35,139.37</b>
<b>Notes Receivable:</b>			
<b>Notes Receivable - Current:</b>			
Institutional Student Loan Programs	\$ 9,175.29	\$ 3,994.23	\$ 5,181.06

### NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2005, is presented as follows:

	Balance July 1, 2004	Increases	Decreases	Balance June 30, 2005
Capital Assets, Nondepreciable:				
Land	\$ 381,050.00	\$ 0.00	\$ 0.00	\$ 381,050.00
Construction in Progress		72,380.00		72,380.00
<b>Total Capital Assets, Nondepreciable</b>	<b>381,050.00</b>	<b>72,380.00</b>		<b>453,430.00</b>
Capital Assets, Depreciable:				
Buildings	4,122,430.44			4,122,430.44
Machinery and Equipment	499,763.69	44,361.60	25,628.70	518,496.59
General Infrastructure	21,347.94			21,347.94
<b>Total Capital Assets, Depreciable</b>	<b>4,643,542.07</b>	<b>44,361.60</b>	<b>25,628.70</b>	<b>4,662,274.97</b>
Less Accumulated Depreciation:				
Buildings	1,373,153.19	92,465.88		1,465,619.07
Machinery and Equipment	272,036.43	46,109.59	25,628.70	292,517.32
General Infrastructure	10,807.42	1,111.68		11,919.10
<b>Total Accumulated Depreciation</b>	<b>1,655,997.04</b>	<b>139,687.15</b>	<b>25,628.70</b>	<b>1,770,055.49</b>
<b>Total Capital Assets, Depreciable, Net</b>	<b>2,987,545.03</b>	<b>(95,325.55)</b>		<b>2,892,219.48</b>
<b>Capital Assets, Net</b>	<b>\$ 3,368,595.03</b>	<b>\$ (22,945.55)</b>	<b>\$ 0.00</b>	<b>\$ 3,345,649.48</b>

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

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**NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

Accounts payable and accrued liabilities at June 30, 2005, were as follows:

	<u>Amount</u>
Accrued Payroll	\$ 16,508.01
Contract Retainage	10,000.00
Other	<u>13,328.67</u>
<b>Total Accounts Payable and Accrued Liabilities</b>	<b><u>\$ 39,836.68</u></b>

**NOTE 7 - LONG-TERM LIABILITIES**

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

	<u>Balance July 1, 2004</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2005</u>	<u>Current Portion</u>
Compensated Absences	<u>\$ 169,799.19</u>	<u>\$ 97,863.51</u>	<u>\$ 95,595.16</u>	<u>\$ 172,067.54</u>	<u>\$ 26,250.04</u>

**NOTE 8 - OPERATING LEASE OBLIGATIONS**

Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2005:

<u>Fiscal Year</u>	<u>Amount</u>
2006	<u>\$ 1,813.08</u>
<b>Total Minimum Lease Payments</b>	<b><u>\$ 1,813.08</u></b>

Rental expense for all operating leases during the year was \$3,739.64.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 9 - REVENUES

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

	Gross Revenues	Internal Sales Eliminations	Less Scholarship Discounts	Net Revenues
<b>Operating Revenues:</b>				
<b>Student Tuition and Fees</b>	\$ 214,264.59	\$ 0.00	\$ 135,847.40	\$ 78,417.19
<b>Sales and Services:</b>				
Sales and Services of Auxiliary Enterprises:				
Bookstore	\$ 204,353.64	\$ 0.00	\$ 77,118.93	\$ 127,234.71
Central Supply	10,949.95	10,949.95		
Other	43,001.69			43,001.69
<b>Total Sales and Services</b>	\$ 258,305.28	\$ 10,949.95	\$ 77,118.93	\$ 170,236.40

### NOTE 10 - OPERATING EXPENSES BY FUNCTION

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

	Personal Services	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	\$ 1,580,277.61	\$ 71,056.32	\$ 23,131.55	\$ 0.00	\$ 0.00	\$ 0.00	\$ 1,674,465.48
Public Service	37,771.68	1,481.24	11,390.08				50,643.00
Academic Support	573,869.30	25,616.73	36,038.18	105,395.57			740,919.78
Student Services	167,745.20	5,137.94	12,913.92				185,797.06
Institutional Support	793,958.60	136,524.46	198,967.39				1,129,450.45
Operations and Maintenance of Plant	137,614.30	42,316.06	39,661.86		75,704.40		295,296.62
Student Financial Aid			1,988.19	413,814.77			415,802.96
Auxiliary Enterprises		99,457.64	481.06				99,938.70
Depreciation						139,687.15	139,687.15
<b>Total Operating Expenses</b>	\$ 3,291,236.69	\$ 381,590.39	\$ 324,572.23	\$ 519,210.34	\$ 75,704.40	\$ 139,687.15	\$ 4,732,001.20

### NOTE 11 - 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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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, 2005, these rates were set at 2.17% of covered payroll for employers and 6% of covered payroll for members.

For the year ended June 30, 2005, the College had a total payroll of \$2,726,814.86, of which \$2,396,859.39 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were \$143,811.59 and \$52,011.85, respectively. The College made 100% of its annual required contributions for the years ended June 30, 2005, 2004, and 2003, which were \$52,011.85, \$5,552.44, and \$0.00, respectively.

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

- B. Deferred Compensation and Supplemental Retirement Income Plans** – IRC Section 457 Plan – The State of North Carolina offers its permanent employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 through the North Carolina Public Employee Deferred Compensation Plan (the Plan). The Plan permits each participating employee to defer a portion of his or her salary until future years. The deferred compensation is available to employees upon separation from service, death, disability, retirement, or financial hardships if approved by the Board of Trustees of the Plan. The Board, a part of the North Carolina Department of Administration, maintains a separate fund for the exclusive benefit of the participating employees and their beneficiaries, *the North Carolina Public Employee Deferred Compensation Trust Fund*. The Board also contracts with an external third party to perform certain administrative requirements and to manage the trust fund's assets. All costs of administering and funding the Plan are the responsibility of the Plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to \$8,308.76 for the year ended June 30, 2005.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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 \$26,958.11 for the year ended June 30, 2005.

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 \$1,200.00 for the year ended June 30, 2005.

### NOTE 12 - 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, 2005, the College's total contribution to the Plan was \$76,699.50. 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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State Employees' Retirement System. Long-term disability income benefits are advance funded on an actuarially determined basis using the one-year term cost method. The College contributes .445% of covered payroll under the Teachers' and State Employees' Retirement System to the DIPNC. For the year ended June 30, 2005, the College's total contribution to the DIPNC was \$10,666.02. 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 13 - 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, and can include participation in State-administered insurance programs, purchase of commercial insurance, and self-retention of certain risks. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

Tort claims of up to \$500,000 are self-insured under the authority of the State Tort Claims Act. In addition, the State provides excess public officers' and employees' liability insurance up to \$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



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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honesty bond is with a private insurance company and is handled by the North Carolina Department of Insurance with coverage of \$5,000,000 per occurrence and a \$50,000 deductible. All employees are covered under a blanket policy for employee dishonesty and fraud with a private insurance company. Limits of the coverage are \$10,000 per occurrence and a \$250 deductible.

Employees and retirees are provided health care coverage by the Comprehensive Major Medical Plan (Plan), a component unit of the State. The Plan is funded by employer and employee contributions and is administered by a third-party contractor.

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

Term life insurance of \$25,000 to \$50,000 is provided to eligible workers. This self-insured death benefit program is administered by the State Treasurer and funded via employer contributions. 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 14 - 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 \$214,200.00 and on other purchases were \$1,990.00 at June 30, 2005.
- 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

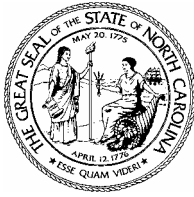
## NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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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 \$1,012,709.42 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 15 - CHANGE IN FINANCIAL ACCOUNTING AND REPORTING**

For the fiscal year ended June 30, 2005, the College implemented Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures*. This Statement establishes and modifies disclosure requirements related to investment risks: credit risk, interest rate risk, and foreign currency risk. This statement also establishes and modifies disclosure requirements for deposit risks: custodial credit risk and foreign currency risk.



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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**

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Board of Trustees  
Pamlico Community College  
Grantsboro, North Carolina

We have audited the financial statements of Pamlico Community College, a component unit of the State of North Carolina, as of and for the year ended June 30, 2005, and have issued our report thereon dated April 26, 2006.

As discussed in Note 15 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures*, during the year ended June 30, 2005.

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. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the College's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the Audit Findings and Recommendations section of this report.

**Finding**

1. Inadequate Separation of Duties and Management Oversight

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

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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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable condition described above is not a material weakness.

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*. We noted a certain additional matter that we have reported to management of the College in a separate letter dated May 18, 2006.

This report is intended solely for the information and use of the Board of Trustees, the State Board of Community Colleges, management 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

April 26, 2006

## **AUDIT FINDINGS AND RECOMMENDATIONS**

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### **Matters Related to Financial Reporting**

The following finding was identified during the current audit and describes a condition that represents a significant deficiency in internal control.

#### 1. INADEQUATE SEPARATION OF DUTIES AND MANAGEMENT OVERSIGHT

The College did not have adequate controls in place to assure proper segregation of duties and proper review and approval procedures. The Controller reconciled all bank accounts; however, there was no further review by upper management. Although the Controller did not have duties involving cash receipting or cash disbursements, she did have computer access for these functions. The Controller was also responsible for reviewing and approving check disbursements as well as the Daily Deposit Analysis of cash receipts. She also had access to the general ledger which provided a means of manipulating the system via journal entry as well as access to blank check stock. Fraudulent checks could be created and processed outside the College's Financial System without being detected.

*Recommendation:* To ensure proper controls over cash receipts and disbursements, bank reconciliations should be performed on a monthly basis by an employee independent of duties involving cash processing. Management oversight should be involved in the review and approval of completed bank reconciliations.

*College's Response:* During fiscal year 2005, the College secured the consulting services of a 30+ year veteran of the North Carolina Community College System. Her role was to train and mentor the new personnel in key financial positions in the Business Office. In this capacity, one of her many duties was to work on completion of the monthly bank account reconciliations with the Controller. Currently, completed bank reconciliations, journal entries and all monthly reports are reviewed and approved by the Vice President of Administrative Services. Additionally, cash disbursements for the fiscal year 2005 were (and continue to be) examined by the V.P. of Administrative Services or the President (in addition to the Controller) before checks are signed. We are assigning security classes to the key financial positions which will effectively limit access to functions involving cash transactions where possible. Separation of duties continues to be a challenge due to maintaining two computer systems simultaneously, IS (Colleague) training schedules and the limited number of staff in the Business Office, the majority of which were new hires during the audit in question.

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