

# STATE OF NORTH CAROLINA

## FINANCIAL STATEMENT REVIEW REPORT OF SOUTHEASTERN COMMUNITY COLLEGE

WHITEVILLE, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2003

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR

**FINANCIAL STATEMENT REVIEW REPORT OF**

**SOUTHEASTERN COMMUNITY COLLEGE**

**WHITEVILLE, NORTH CAROLINA**

**FOR THE YEAR ENDED JUNE 30, 2003**

**STATE BOARD OF COMMUNITY COLLEGES**

**THE NORTH CAROLINA COMMUNITY COLLEGE SYSTEM**

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**BOARD OF TRUSTEES**

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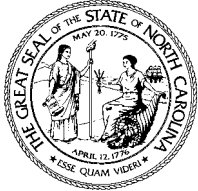
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Ralph Campbell, Jr.  
State Auditor

STATE OF NORTH CAROLINA  
Office of the State Auditor

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## REVIEWER'S TRANSMITTAL

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

This report presents the results of our financial statement review of Southeastern Community College, a component unit of the State of North Carolina, for the year ended June 30, 2003. Our review 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 work necessary for the CAFR and the *Single Audit Report*, the accounts and operations of the College were subjected to review procedures as we considered necessary. In addition, we performed review procedures that we considered necessary for us to report on the accompanying financial statements that relate solely to Southeastern Community College. The review procedures were conducted in accordance with *Statements on Standards for Accounting and Review Services* issued by the American Institute of Certified Public Accountants.

The purpose of this report is to present the results of our review of the accompanying financial statements that relate solely to Southeastern Community College. Our reporting objectives and review results are:

- 1. Objective** - To disclose any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

**Results** - We are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America. These matters are more fully described in the Independent Accountant's Review Report on the financial statements.

## REVIEWER'S TRANSMITTAL (CONCLUDED)

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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 that came to our attention during our review of the financial statements.

**Results** - Our review disclosed no material weaknesses in internal control over financial reporting and no instances of noncompliance which require disclosure herein under *Government Auditing Standards*.

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

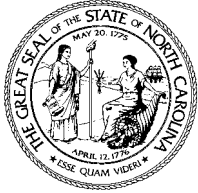


Ralph Campbell, Jr.  
State Auditor

# TABLE OF CONTENTS

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	PAGE
INDEPENDENT ACCOUNTANT’S REVIEW REPORT .....	1
MANAGEMENT’S DISCUSSION AND ANALYSIS.....	3
FINANCIAL STATEMENTS	
Exhibits	
A    Statement of Net Assets.....	6
B    Statement of Revenues, Expenses, and Changes in Net Assets.....	7
C    Statement of Cash Flows .....	8
Notes to the Financial Statements.....	11
SUPPLEMENTARY INFORMATION	
Schedule	
1    Schedule of General Obligation Bond Project Authorizations, Budgets, and Expenditures .....	25
DISTRIBUTION OF REVIEW REPORT .....	27



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**INDEPENDENT ACCOUNTANT'S REVIEW REPORT**

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Board of Trustees  
Southeastern Community College  
Whiteville, North Carolina

We have reviewed the accompanying Statement of Net Assets of Southeastern Community College, a component unit of the State of North Carolina, as of June 30, 2003, and the related Statement of Revenues, Expenses, and Changes in Net Assets, and Statement of Cash Flows for the year then ended, in accordance with *Statements on Standards for Accounting and Review Services* issued by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the College's management.

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

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

The Management's Discussion and Analysis (MD&A), as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. Such information has been subjected to the inquiry and analytical procedures applied in the review of the basic financial statements, and we are not aware of any material modifications that should be made thereto.

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

A handwritten signature in cursive script that reads "Ralph Campbell, Jr.".

Ralph Campbell, Jr.  
State Auditor

May 28, 2004

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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This section of Southeastern Community College's financial statements presents management's discussion and analysis of the College's financial activity during the fiscal years ended June 30, 2003, and June 30, 2002. Since 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 College's basic financial statements and notes. Responsibility for the completeness and fairness of this information rests with the College.

### Overview of the Financial Statements

The College's basic financial statements are designed to emulate corporate presentation models whereby all College activities are consolidated into one total. The focus of the Statement of Net Assets is designed to be similar to bottom line results for the College. This statement combines and consolidates current financial resources (short-term consumable resources) with capital assets. The Statement of Revenues, Expenses, and Changes in Net Assets focuses on both the gross costs and the net costs of College activities which are supported mainly by State, local, federal, and other revenues. This approach is intended to summarize and simplify the user's analysis of costs of various College services to students and the public.

### Net Assets

**Table A-1**  
**Southeastern Community College**  
**Net Assets**  
**(in millions of dollars)**

	<u>2003</u>	<u>2002</u>	<u>Total Percentage Change</u>
Current Assets	\$ 2.37	\$ 2.60	-8.8%
Capital Assets	5.09	5.16	-1.4%
Other Assets	<u>0.67</u>	<u>0.96</u>	-30.2%
Total Assets	<u>8.13</u>	<u>8.72</u>	-6.8%
Current Liabilities	0.30	0.97	-69.1%
Long-Term Liabilities	<u>0.52</u>	<u>0.02</u>	2500%
Total Liabilities	<u>0.82</u>	<u>0.99</u>	-17.2%
Net Assets			
Invested in Capital Assets, Net of Related Debt	5.06	5.16	-1.9%
Restricted	1.30	0.95	36.8%
Unrestricted	<u>0.95</u>	<u>1.62</u>	-41.4%
Total Net Assets	<u>\$ 7.31</u>	<u>\$ 7.73</u>	-5.4%



## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

During the current fiscal year the College's net assets decreased by \$0.42 million. The majority of the decrease is due to a net operating loss of \$11.23 million offset by nonoperating revenues and State capital aid of \$9.99 million and \$0.92 million, respectively.

### Changes in Net Assets

**Table A-2**  
**Southeastern Community College**  
**Changes in Net Assets**  
**(in millions of dollars)**

	<u>2003</u>	<u>2002</u>	<u>Total Percentage Change</u>
Operating Revenues:			
Student Tuition and Fees, Net	\$ 0.65	\$ 0.57	14.0%
Federal Grants and Contracts	6.34	5.83	8.7%
State and Local Grants and Contracts	1.11	1.21	-8.3%
Sales and Services	1.33	1.16	14.7%
Other Operating Revenue		0.04	
	<u>9.43</u>	<u>8.81</u>	7.0%
Nonoperating Revenues (Expenses):			
State Aid	8.04	7.97	0.9%
County Appropriations	0.91	1.04	-12.5%
Noncapital Grants	0.55	0.06	816.7%
Noncapital Gifts	0.44	0.20	120.0%
Investment Income	0.03	0.02	50.0%
Other Nonoperating Revenues	0.02	(0.01)	300.0%
State Capital Aid	0.92	0.51	80.4%
	<u>10.91</u>	<u>9.79</u>	11.4%
Total Revenues	<u>20.34</u>	<u>18.60</u>	9.4%
Operating Expenses	<u>20.66</u>	<u>19.34</u>	6.8%
Decrease in Net Assets	<u>\$ (0.32)</u>	<u>\$ (0.74)</u>	-56.8%

Operating expenses increased by \$1.32 million, representing a 6.8% increase over the prior year. The majority of this increase was due to a \$0.51 million increase in scholarships, a \$0.38 million increase in personal services, and a \$0.28 million increase in supplies and materials. The increase in scholarships resulted from the higher number of Pell recipients because of continued plant closings in the area. Increases in personal services were mostly due to increased costs in instructional and institutional support areas. The increase in supplies and materials is attributed to repairs and renovations related to the bond issuance.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

Operating revenue increased by \$0.62 million, which includes a \$0.08 million increase in tuition and fees, as well as a \$0.51 million increase in federal grants and contracts.

Nonoperating revenue increased by \$1.12 million, or 11.4%, mainly due to increases in noncapital grants and gifts of \$0.49 and \$0.24 million, respectively, as well as an increase in State capital aid of \$0.41 million.

### Capital Assets

**Table A-3**  
**Southeastern Community College**  
**Capital Assets**  
**(net of depreciation, in millions of dollars)**

	<u>2003</u>	<u>2002</u>	<u>Total Percentage Change</u>
Land	\$ 0.11	\$ 0.11	
Construction in Progress	0.02	0.02	
Buildings	3.98	4.14	-3.8%
Machinery and Equipment	0.84	0.89	-5.7%
General Infrastructure	0.14		
Totals	<u>\$ 5.09</u>	<u>\$ 5.16</u>	-1.3%

At June 30, 2003, the College reported \$11.29 million invested in capital assets less \$6.20 million in accumulated depreciation for net capital assets of \$5.09 million.

The College reported long-term debt of \$0.56 million as of June 30, 2003. This balance consists of a note payable of \$0.03 million in which \$0.02 million is classified as current. Long-term debt also includes accrued vacation of \$0.53 million of which \$0.02 million is reported as current.

### **Economic Factors and Next Year's Budgets**

At fiscal year ended June 30, 2003, the College had not received any official information on the 2003-2004 budget. However, the State of North Carolina is encountering a budget crisis and the College anticipates further decreases in revenue in the upcoming year.

<b><i>Southeastern Community College</i></b>	
<b><i>Statement of Net Assets</i></b>	
<b><i>June 30, 2003</i></b>	<b><i>Exhibit A</i></b>

<b>ASSETS</b>	
Current Assets:	
Cash and Cash Equivalents	\$ 676,426.94
Restricted Cash and Cash Equivalents	288,774.92
Short-Term Investments	383,918.01
Receivables (Note 4)	694,090.05
Inventories	330,797.64
Total Current Assets	2,374,007.56
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	34,762.37
Restricted Due from Primary Government	500,984.44
Notes Receivable, Net (Note 4)	127,338.91
Capital Assets - Nondepreciable (Note 5)	130,842.17
Capital Assets - Depreciable, Net (Note 5)	4,963,465.73
Total Noncurrent Assets	5,757,393.62
Total Assets	8,131,401.18
<b>LIABILITIES</b>	
Current Liabilities:	
Accounts Payable and Accrued Liabilities (Note 6)	226,147.26
Deferred Revenue	26,824.93
Funds Held for Others	2,542.62
Long-Term Liabilities - Current Portion (Note 7)	45,985.73
Total Current Liabilities	301,500.54
Noncurrent Liabilities:	
Long-Term Liabilities (Note 7)	516,005.81
Total Liabilities	817,506.35
<b>NET ASSETS</b>	
Invested in Capital Assets, Net of Related Debt	5,062,561.72
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	5,446.44
Expendable:	
Scholarships and Fellowships	459,054.77
Loans	296,929.60
Capital Projects	537,663.97
Unrestricted	952,238.33
Total Net Assets	\$ 7,313,894.83
The accompanying notes to the financial statements are an integral part of this statement.	

<b><i>Southeastern Community College</i></b>		
<b><i>Statement of Revenues, Expenses, and</i></b>		
<b><i>Changes in Net Assets</i></b>		
<b><i>For the Fiscal Year Ended June 30, 2003</i></b>		<b><i>Exhibit B</i></b>
<b>REVENUES</b>		
Operating Revenues:		
Student Tuition and Fees, Net (Note 8)	\$	648,389.59
Federal Grants and Contracts		6,338,271.84
State and Local Grants and Contracts		1,115,187.45
Sales and Services		1,327,416.97
Total Operating Revenues		9,429,265.85
<b>EXPENSES</b>		
Operating Expenses:		
Personal Services		11,765,841.20
Supplies and Materials		2,821,286.19
Services		2,103,544.47
Scholarships and Fellowships		3,357,406.78
Utilities		254,744.61
Depreciation		358,155.05
Total Operating Expenses		20,660,978.30
Operating Loss		(11,231,712.45)
<b>NONOPERATING REVENUES</b>		
State Aid		8,035,793.29
County Appropriations		910,891.00
Noncapital Grants		551,076.63
Noncapital Gifts		443,686.84
Investment Income		27,075.14
Other Nonoperating Revenues		21,475.01
Net Nonoperating Revenues		9,989,997.91
Loss Before Other Revenues, Expenses, Gains, and Losses		(1,241,714.54)
State Capital Aid		915,023.71
County Capital Appropriations		6,348.98
Decrease in Net Assets		(320,341.85)
<b>NET ASSETS</b>		
Net Assets, July 1, 2002 as Restated (Note 15)		7,634,236.68
Net Assets, June 30, 2003	\$	7,313,894.83
The accompanying notes to the financial statements are an integral part of this statement.		

<b><i>Southeastern Community College</i></b>		
<b><i>Statement of Cash Flows</i></b>		
<b><i>For the Fiscal Year Ended June 30, 2003</i></b>		<b><i>Exhibit C</i></b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Received from Customers		\$ 9,873,744.80
Payments to Employees and Fringe Benefits		(11,556,474.67)
Payments to Vendors and Suppliers		(5,570,657.47)
Payments for Scholarships and Fellowships		(3,357,206.78)
Loans Issued to Students		(130,171.00)
Collection of Loans to Students		125,076.46
Other Payments		(38,593.58)
Net Cash Used by Operating Activities		(10,654,282.24)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
State Aid Received		8,035,793.29
County Appropriations		910,891.00
Noncapital Grants Received		551,076.63
Noncapital Gifts and Endowments Received		443,686.84
Net Cash Provided by Noncapital Financing Activities		9,941,447.76
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
State Capital Aid Received		915,023.71
County Capital Appropriations		6,348.98
Acquisition and Construction of Capital Assets		(152,439.24)
Principal Paid on Capital Debt and Leases		(23,693.63)
Net Cash Provided by Capital and Related Financing Activities		745,239.82
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from Sales and Maturities of Investments		27,387.47
Investment Income		27,075.14
Purchase of Investments and Related Fees		(45,364.36)
Net Cash Provided by Investing Activities		9,098.25
Net Increase in Cash and Cash Equivalents		41,503.59
Cash and Cash Equivalents, July 1, 2002		958,460.64
Cash and Cash Equivalents, June 30, 2003		\$ 999,964.23

<b><i>Southeastern Community College</i></b>		
<b><i>Statement of Cash Flows</i></b>		<b><i>Exhibit C</i></b>
<b><i>For the Fiscal Year Ended June 30, 2003</i></b>		<b><i>Page 2</i></b>
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES</b>		
Operating Loss		\$ (11,231,712.45)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense		358,155.05
Provision for Uncollectible Loans and Write-Offs		(10,397.71)
Miscellaneous Nonoperating Income		21,475.01
Changes in Assets and Liabilities:		
Receivables, Net		424,192.76
Inventories		(66,356.59)
Notes Receivable, Net		(5,094.54)
Accounts Payable and Accrued Liabilities		(242,788.56)
Due to State of North Carolina Component Units		(71,539.34)
Deferred Revenue		26,824.93
Funds Held for Others		(66,407.33)
Compensated Absences		209,366.53
Net Cash Used by Operating Activities		\$ (10,654,282.24)
<b>RECONCILIATION OF CASH AND CASH EQUIVALENTS</b>		
Current Assets:		
Cash and Cash Equivalents		\$ 676,426.94
Restricted Cash and Cash Equivalents		288,774.92
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		34,762.37
Total Cash and Cash Equivalents - June 30, 2003		\$ 999,964.23
<b>NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES</b>		
Change in Fair Value of Investments		\$ 12,214.75
The accompanying notes to the financial statements are an integral part of this statement.		

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

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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. Southeastern Community College is a component unit of the State of North Carolina and an integral part of the State's *Comprehensive Annual Financial Report*.

The accompanying financial statements present all funds for which the College's Board of Trustees is financially accountable. Related foundations and similar nonprofit corporations for which the College is not financially accountable are not part of the accompanying financial statements. These entities are not included because they are separately incorporated and there are neither common directors nor other evidence of common control.

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

Pursuant to the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as amended by GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*, the full scope of the College's activities is considered to be a single business-type activity (BTA) and accordingly, is reported within a single column in the basic financial statements.

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



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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- C. Basis of Accounting** - The financial statements of the College have been prepared using the economic resource measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.
- D. Cash and Cash Equivalents** – This classification includes petty cash, cash on deposit with private bank accounts, savings accounts, and money market accounts.
- E. Investments** - This classification includes mutual funds, money market funds, and certificates of deposit. Except for money market funds and certificates of deposit, investments are accounted for at fair value, as determined by quoted market prices, or an amount determined by management if quoted market prices are not available. The net increase (decrease) in the fair value of investments is recognized as a component of investment income.

Money market funds and certificates of deposit are reported at cost, if purchased, or at fair value or appraised value at date of gift, if donated.

- F. Receivables** – Receivables consist of tuition and fees charges to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from the federal government, State and local governments, and private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants. Receivables are recorded net of estimated uncollectible amounts.
- G. Inventories** – Inventories, consisting of expendable supplies and merchandise for resale, are stated at lower of cost or market value using the first-in, first-out method.
- H. Capital Assets** – Capital assets are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. The College capitalizes assets that have a value or cost in excess of \$5,000 at the date of acquisition and an expected useful life of more than one year. Library books are generally not considered to have a useful life of more than one year unless part of a collection and are expensed in the year of acquisition.

Depreciation is computed using the straight-line and/or units of output method over the estimated useful lives of the assets, generally 15 years for general infrastructure, 25 to 40 years for buildings, and 5 to 15 years for equipment.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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- 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 notes payable and 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 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. Under this policy, the accumulated vacation leave for each employee at June 30th equals the leave carried forward at the previous June 30th plus the leave earned, less the leave taken between July 1st and June 30th.

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

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

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

**Invested in Capital Assets, Net of Related Debt** – This represents the College's total investment in capital assets, net of outstanding debt obligations related to those 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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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**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 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.

**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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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- O. Funds Held in Trust by Others** - Funds held in trust by others are resources neither in the possession nor the control of the College, but held and administered by an outside organization, with the College deriving income from such funds. Such funds established under irrevocable trusts where the College has legally enforceable rights or claims in the future have not been recorded on the accompanying financial statements. These amounts are recorded as an asset and revenue when received by the College. At year end the amount held in irrevocable trusts by others for the College was \$5,733.00. Funds established under revocable trusts or where the trustees have discretionary power over distributions are recorded as revenue when distributions are received and resource provider conditions are satisfied.
- 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 by the College.

### NOTE 2 - DEPOSITS AND INVESTMENTS

- A. Deposits** - All funds of the College are deposited in board-designated official depositories and are required to be collateralized in accordance with General Statute 115D-58.7. Official depositories may be established with any bank or savings and loan association whose principal office is located in North Carolina or with the State Treasurer's Investment Pool. Also, the College may establish time deposit accounts, money market accounts, and certificates of deposit. At year-end, cash on hand was \$2,430.00. The carrying amount of cash on deposit was \$1,100,682.64 and the bank balance was \$1,328,778.97. All of the cash was on deposit with private financial institutions.

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.

The financial statements and disclosures for the State Treasurer's Investment Pool are included in the State of North Carolina's

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

Of the cash on deposit with private financial institutions at June 30, 2003, \$420,794.84 of the bank balance was covered by federal depository insurance and \$907,984.13 was covered by collateral held by an authorized escrow agent in the name of the State Treasurer (pooling method).

- B. Investments** – The College is authorized to invest idle funds as provided by General Statute 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 General Statute 159-30(c), as follows: 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.

Except as specified by the donor, endowment funds belonging to the College may be invested pursuant to General Statute 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.

The College's investments at June 30, 2003 consist of \$103,148.41 in certificates of deposit, \$276,679.77 in mutual funds, and \$4,089.83 in money market funds which are not subject to categorization of custodial

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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risk. The certificates of deposit are a component of the deposit totals reported in the deposits section of this note.

### NOTE 3 - DONOR RESTRICTED ENDOWMENTS

The College's endowment assets are in a savings account 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.

### NOTE 4 - RECEIVABLES

Receivables at June 30, 2003 were as follows:

	<u>Gross Receivables</u>	<u>Less Allowance for Doubtful Accounts</u>	<u>Net Receivables</u>
<b>Current Receivables:</b>			
Students	\$ 44,848.54	\$ 0.00	\$ 44,848.54
Accounts	114,407.72		114,407.72
Intergovernmental	<u>534,833.79</u>		<u>534,833.79</u>
<b>Total Current Receivables</b>	<u>\$ 694,090.05</u>	<u>\$ 0.00</u>	<u>\$ 694,090.05</u>
<b>Notes Receivable:</b>			
<b>Notes Receivable - Noncurrent:</b>			
Federal Loan Programs	\$ 46,844.57	\$ 11,318.00	\$ 35,526.57
Institutional Student Loan Programs	<u>107,109.59</u>	<u>15,297.25</u>	<u>91,812.34</u>
<b>Total Notes Receivable - Noncurrent</b>	<u>\$ 153,954.16</u>	<u>\$ 26,615.25</u>	<u>\$ 127,338.91</u>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 5 - CAPITAL ASSETS

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

	Balance July 1, 2002	Increases	Decreases	Balance June 30, 2003
Capital Assets, Nondepreciable:				
Land	\$ 114,440.00	\$ 0.00	\$ 0.00	\$ 114,440.00
Construction in Progress	16,402.17			16,402.17
<b>Total Capital Assets, Nondepreciable</b>	<b>130,842.17</b>			<b>130,842.17</b>
Capital Assets, Depreciable:				
Buildings	8,491,769.82	63,489.81		8,555,259.63
Machinery and Equipment	2,234,258.28	183,550.52	327,359.98	2,090,448.82
General Infrastructure	370,311.77	151,717.00		522,028.77
<b>Total Capital Assets, Depreciable</b>	<b>11,096,339.87</b>	<b>398,757.33</b>	<b>327,359.98</b>	<b>11,167,737.22</b>
Less Accumulated Depreciation:				
Buildings	4,354,684.56	215,204.22		4,569,888.78
Machinery and Equipment	1,339,514.49	133,679.26	218,394.38	1,254,799.37
General Infrastructure	370,311.77	9,271.57		379,583.34
<b>Total Accumulated Depreciation</b>	<b>6,064,510.82</b>	<b>358,155.05</b>	<b>218,394.38</b>	<b>6,204,271.49</b>
<b>Total Capital Assets, Depreciable, Net</b>	<b>5,031,829.05</b>	<b>40,602.28</b>	<b>108,965.60</b>	<b>4,963,465.73</b>
<b>Capital Assets, Net</b>	<b>\$ 5,162,671.22</b>	<b>\$ 40,602.28</b>	<b>\$ 108,965.60</b>	<b>\$ 5,094,307.90</b>

### NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	Amount
Accounts Payable	\$ 108,989.05
Accrued Payroll	107,988.31
Other	9,169.90
<b>Total Accounts Payable and Accrued Liabilities</b>	<b>\$ 226,147.26</b>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 7 - LONG-TERM LIABILITIES

**A. Changes in Long-Term Liabilities** - A summary of changes in the long-term liabilities is presented as follows:

	Balance July 1, 2002	Additions	Reductions	Balance June 30, 2003	Current Portion
Notes Payable	\$ 55,439.81	\$ 0.00	\$ 23,693.63	\$ 31,746.18	\$ 25,200.11
Compensated Absences	320,878.83	552,236.79	342,870.26	530,245.36	20,785.62
<b>Total Long-Term Liabilities</b>	<b>\$ 376,318.64</b>	<b>\$ 552,236.79</b>	<b>\$ 366,563.89</b>	<b>\$ 561,991.54</b>	<b>\$ 45,985.73</b>

**B. Notes Payable** - The College was indebted for notes payable for the purpose shown in the following table:

Purpose	Financial Institution	Interest Rate/ Ranges	Final Maturity Date	Original Amount of Issue	Principal Paid Through 06/30/2003	Principal Outstanding 06/30/2003
Telephone System	BB&T	6.18%	09/24/2004	\$ 150,029.00	\$ 118,282.82	\$ 31,746.18

The annual requirements to pay principal and interest on the notes payable at June 30, 2003 are as follows:

Fiscal Year	Annual Requirements	
	Notes Payable	
	Principal	Interest
2004	\$ 25,200.11	\$ 1,256.02
2005	6,546.07	68.00
Total Requirements	\$ 31,746.18	\$ 1,324.02

### NOTE 8 - REVENUES

A summary of eliminations and allowances for student tuition and fees is presented as follows:

	Gross Revenues	Less Scholarship Discounts	Net Revenues
<b>Operating Revenues:</b>			
<b>Student Tuition and Fees</b>	\$ 1,827,988.47	\$ 1,179,598.88	\$ 648,389.59



## 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	\$ 7,020,977.47	\$ 1,679,851.45	\$ 1,225,320.72	\$ 0.00	\$ 0.00	\$ 0.00	\$ 9,926,149.64
Public Service	865,831.96	60,992.44	215,914.45				1,142,738.85
Academic Support	913,548.12	36,366.59	47,244.15				997,158.86
Student Services	647,713.93	27,620.14	22,995.13				698,329.20
Institutional Support	1,777,140.95	83,581.74	211,807.72				2,072,530.41
Operations and Maintenance of Plant	434,322.48	248.13	185,406.59		254,744.61		874,721.81
Student Financial Aid		932,625.70		3,357,406.78			4,290,032.48
Auxiliary Enterprises	106,306.29		194,855.71				301,162.00
Depreciation						358,155.05	358,155.05
Total Operating Expenses	<u>\$ 11,765,841.20</u>	<u>\$ 2,821,286.19</u>	<u>\$ 2,103,544.47</u>	<u>\$ 3,357,406.78</u>	<u>\$ 254,744.61</u>	<u>\$ 358,155.05</u>	<u>\$ 20,660,978.30</u>

### NOTE 10 - PENSION PLANS

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

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

For the year ended June 30, 2003, the College had a total payroll of \$9,604,307.41, of which \$8,140,518.83 was covered under the Teachers' and State Employees' Retirement System. Total employee contributions for pension benefits for the year were \$488,431.13. No employer contributions were required. The College made one hundred percent of its annual required contributions for the years ended June 30, 2003, 2002, and 2001, which were \$0.00, \$166,249.49, and \$441,054.28, respectively.

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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. Supplemental Retirement Income Plans - 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 \$191,760.00 for the year ended June 30, 2003.

IRC Section 403(b) and 403(b)(7) Plans - Eligible College employees can participate in tax sheltered annuity plans created under Internal Revenue Code Sections 403(b) and 403(b)(7). The employee’s eligible contributions, made through salary reduction agreements, are exempt from federal and State income taxes until the annuity is received or the contributions are withdrawn. These plans are exclusively for employees of colleges and certain charitable and other nonprofit institutions. All costs of administering and funding these plans are the responsibility of the Plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to \$12,000.00 for the year ended June 30, 2003.

### NOTE 11 - OTHER POSTEMPLOYMENT BENEFITS

- A. Health Care for Long-Term Disability Beneficiaries and Retirees -** The College participates in State-administered programs which provide postemployment health insurance to eligible former employees. Eligible former employees include long-term disability beneficiaries of the Disability Income Plan of North Carolina and retirees of the Teachers’ and State Employees’ Retirement System. These benefits were established by Chapter 135, Article 3, Part 3, of the General Statutes and may be amended only by the North Carolina General Assembly. Funding for the health care benefit for long-term disability beneficiaries and retirees is financed on a pay-as-you-go basis. The College contributed 2.35% of the covered payroll under the Teachers’ and State Employees’ Retirement System for these health care benefits. For the fiscal year ended June 30, 2003, the College’s total contribution to the Plan was \$191,302.19. 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*.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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**B. Long-Term Disability** - The College participates in the Disability Income Plan of North Carolina (DIPNC). Established by Chapter 135, Article 6, of the General Statutes, DIPNC provides short-term and long-term disability benefits to eligible members of the Teachers' and State Employees' Retirement System. Long-term disability income benefits are advance funded on an actuarially determined basis using the one-year term cost method. The College contributes .52% of covered payroll under the Teachers' and State Employees' Retirement System to the DIPNC. For the fiscal year ended June 30, 2003, the College's total contribution to the DIPNC was \$42,330.70. The College assumes no liability for long-term disability benefits under the Plan other than its contribution. Additional detailed information about the DIPNC is disclosed in the State of North Carolina's *Comprehensive Annual Financial Report*.

### NOTE 12 - RISK MANAGEMENT

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

Tort claims of up to \$500,000 are self-insured under the authority of the State Tort Claims Act. In addition, the State provides excess public officers' and employees' liability insurance up to \$11,000,000 via contract with a private insurance company. The premium, based on a composite rate, is paid by the North Carolina Community College System Office directly to the private insurer.

Fire and other property losses are covered by contracts with private insurance companies. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

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

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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and a \$50,000 deductible. In addition, the College is protected for losses from employee dishonesty and computer fraud for employees paid from county and institutional funds by contracts with private insurance companies.

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

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

Term life insurance of \$25,000 to \$50,000 is provided to eligible workers. This self-insured death benefit program is administered by the State Treasurer and funded via employer contributions.

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

### NOTE 13 - COMMITMENTS AND CONTINGENCIES

- A. Commitments** - The College has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were \$4,475,179.16 and on other purchases were \$641,785.90 at June 30, 2003.
- B. Community College General Obligation Bonds** - The 1999-2000 Session of the General Assembly of North Carolina authorized the issuance of six hundred million dollars of general obligation bonds of the State, as subsequently approved by a vote of qualified voters of the State, to provide funds for capital improvements for the North Carolina Community College System. The funds authorized are to be used solely to construct new buildings and to renovate and modernize existing buildings on the North Carolina Community College System campuses. The bond legislation specifies the amount of bond funding for each College campus as well as the intended amount for new construction and repair and replacement. The legislation further provides that the State Board of Community Colleges shall be responsible for the approval of projects in accordance with provisions of the legislation. The bonds were authorized for issuance over a six-year period beginning in 2001 at a level not to exceed amounts provided in the legislation. Using a cash flow

## NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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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 \$5,623,067.00 is contingent on future bond sales and CCSO allotment approval. Because of uncertainty and time restrictions the remaining authorization is not recorded as an asset or revenue on the accompanying financial statements.

### NOTE 14 - SOUTHEASTERN COMMUNITY COLLEGE FOUNDATION, INC.

The Southeastern 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 \$212,113.91 for the year ended June 30, 2003.

### NOTE 15 - NET ASSET RESTATEMENT

As of July 1, 2002, net assets as previously reported was restated as follows:

	<u>Amount</u>
July 1, 2002 Net Assets as Previously Reported	\$ 7,733,316.44
Restatement: Prior Year Loss on Disposal of Assets	<u>(99,079.76)</u>
July 1, 2002 Net Assets as Restated	<u>\$ 7,634,236.68</u>

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

***Schedule 1***

<b>Capital Improvement Projects</b>	<b>Projected Start Date</b>	<b>General Obligation Bonds Authorized</b>	<b>Other Sources</b>	<b>Total Project Budget</b>	<b>Amount Expended</b>	<b>Percent Completed</b>	<b>Expected Completion Date</b>
<b><i>Projects Approved by the State Board</i></b>							
Infrastructure Construction/ Renovations #1173	Jan 2002	\$ 1,229,868.00	\$ 0.00	\$ 1,229,868.00	\$ 801,999.84	65.21%	Nov 2003
OSHA and ADA Compliance #1275	Apr 2003	315,000.00		315,000.00			Feb 2004
Technology Building #1274	Jan 2003	3,721,721.00		3,721,721.00			May 2005
<b><i>Projects Not Started - To Be Funded in Future Years</i></b>							
Building "G" Renovation/ Addition	Feb 2005	725,215.00		725,215.00			Nov 2006
Renovation/ Expansion of "T" Building	Mar 2005	750,000.00		750,000.00			Dec 2006
Land Acquisition - Property Adjacent to Campus	Dec 2003	150,000.00		150,000.00			Dec 2003
<b>Total All Projects</b>		<b>\$ 6,891,804.00</b>	<b>\$ 0.00</b>	<b>\$ 6,891,804.00</b>	<b>\$ 801,999.84</b>		

Note: The 1999-2000 Session of the General Assembly of North Carolina authorized the issuance of six hundred million dollars of general obligation bonds of the State, as subsequently approved by a vote of qualified voters of the State, to provide funds for capital improvements for the North Carolina Community College System. The projects listed on this schedule are those funded or to be funded by bond proceeds from the general obligation bonds authorized by Senate Bill 912.

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Mr. Leon M. Fox, Jr.

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Lieutenant Governor of North Carolina  
State Treasurer  
Attorney General  
State Budget Officer  
State Controller  
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Southeastern Community College  
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Southeastern Community College

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Mr. James D. Johnson

Director, Fiscal Research Division

June 30, 2004



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