



# STATE OF NORTH CAROLINA

## FINANCIAL STATEMENT REVIEW REPORT OF TRI-COUNTY COMMUNITY COLLEGE

MURPHY, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2003

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR

**FINANCIAL STATEMENT REVIEW REPORT OF**

**TRI-COUNTY COMMUNITY COLLEGE**

**MURPHY, 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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Ralph Campbell, Jr.  
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, Tri-County Community College

This report presents the results of our financial statement review of Tri-County 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 Tri-County 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 Tri-County 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

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State Auditor

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**INDEPENDENT ACCOUNTANT'S REVIEW REPORT**

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Board of Trustees  
Tri-County Community College  
Murphy, North Carolina

We have reviewed the accompanying Statement of Net Assets of Tri-County 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 black ink that reads "Ralph Campbell, Jr." in a cursive script.

Ralph Campbell, Jr.  
State Auditor

April 23, 2004

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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### Purpose

The information in this section is intended to provide a general overview of the College's financial statements and is based upon the information contained in the financial statements accompanying this discussion and analysis. The user is encouraged to reference the appropriate section of the financial statements for the supporting detailed information. For more information, please contact the Division of Finance at 910-592-8081.

### Overview of the Financial Statements

Effective July 1, 2001, the College implemented 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 College's and Universities*, and GASB Statement No. 38, *Certain Financial Statement Disclosures*. The College has elected to report as a special purpose government engaged in business-type activities. Under this option, the College presents financial statements using the economic resources measurement focus and the accrual basis of accounting. The basic financial statements under this option are the following: Statement of Net Assets, Statement of Revenues, Expenses, and Changes in Net Assets, Statement of Cash Flows, and related notes to the financial statements.

### Institutional Assets

The assets of the College are divided between current and noncurrent assets. Current assets include cash, short-term certificates of deposit, receivables, inventories, and prepaid items.

#### Current Assets

	<u>2002-2003</u>	<u>2001-2002</u>
Cash	\$ 609,233.96	\$ 446,711.14
Certificates of Deposit	225,000.00	455,000.00
Receivables	80,588.19	83,554.78
Inventories	63,769.40	54,961.37
Prepaid Items	<u>15,986.06</u>	<u>15,147.60</u>
Total Current Assets	<u>\$ 994,577.61</u>	<u>\$ 1,055,374.89</u>

Noncurrent assets include cash, receivables due from the State for construction projects, and capital assets (land, construction in progress, buildings, general infrastructure, and equipment).



## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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### Noncurrent Assets

	<u>2002-2003</u>	<u>2001-2002</u>
Cash	\$ 254,283.22	\$ 124,595.63
Certificates of Deposit	85,000.00	85,000.00
Due from Primary Government	12,589.00	
Capital Assets	<u>5,512,495.79</u>	<u>5,220,286.37</u>
Total Noncurrent Assets	<u>\$ 5,864,368.01</u>	<u>\$ 5,429,882.00</u>

The College's capital assets are stated at their purchase price or, in the case of donations, assigned a fair market value when they are accepted. The College records purchases as a capital asset when the purchased item costs more than \$5,000 at the date of purchase and have a useful life of more than one year. Library books are not included as assets.

The College uses straight-line depreciation to determine the current value of capital assets. In general, infrastructure is depreciated over a 15 to 25 year period, buildings are depreciated over a 15 to 40 year period, and equipment is depreciated in 5 to 15 years, depending on the expected useful life of the infrastructure, equipment, or building.

### Institutional Liabilities

The College's liabilities are divided between current liabilities payable within 12 months and noncurrent liabilities that extend beyond a year. Long-term liabilities include the portion of accrued employee annual leave that will not be paid within the next fiscal year, calculated at the current salary rates for each employee, consistent with the Institution's leave policies.

### Liabilities

	<u>2002-2003</u>	<u>2001-2002</u>
Current	\$ 146,347.33	\$ 101,994.41
Long-Term	<u>91,025.11</u>	<u>113,545.55</u>
Total Liabilities	<u>\$ 237,372.44</u>	<u>\$ 215,539.96</u>

### Net Assets

Net assets are a measure of the value of all the College's assets after liabilities and depreciation are deducted. The College's net assets increased by \$351,856.25 for the fiscal year to \$6,621,573.18. Net assets invested in capital assets were \$5,512,495.79. Restricted net assets were \$491,879.96. Unrestricted net assets were \$617,197.43.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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### Revenues

The College's revenues are classified as operating and nonoperating revenues. Operating revenues include student tuition and fees, federal, State and local grants and contracts, and the revenue received from sales and services, principally comprised of the revenue received from the bookstore and vending. Student tuition, though identified as revenue, is remitted back to the State Treasurer and not netted against the College's State aid identified as nonoperating revenue.

### Operating Revenues

	<u>2002-2003</u>	<u>2001-2002</u>
Student Tuition and Fees	\$ 417,091.78	\$ 459,169.21
Federal Grants and Contracts	2,012,885.07	2,156,266.00
State and Local Grants	245,221.26	167,715.75
Sales and Service	<u>236,654.88</u>	<u>172,515.67</u>
Total Operating Revenues	<u>\$ 2,911,852.99</u>	<u>\$ 2,955,666.63</u>

Nonoperating revenues comprise the major portion of the College's income and include formula allocations from the North Carolina State Board of Community Colleges for current expense, equipment, and capital improvements as well as funds appropriated from the Cherokee, Clay and Graham counties Board of Commissioners. Noncapital gifts include contributions from the Tri-County Community College Foundation, Inc.

### Nonoperating Revenues

	<u>2002-2003</u>	<u>2001-2002</u>
State Aid	\$ 5,175,049.03	\$ 4,528,280.59
County Appropriations	391,947.92	395,209.00
Noncapital Grants	184,882.43	152,368.00
Noncapital Gifts	181,236.17	22,918.00
Investment Income	12,032.05	20,227.88
Other Nonoperating Revenues	<u>32,100.16</u>	<u>24,793.05</u>
Net Nonoperating Revenues	<u>\$ 5,977,247.76</u>	<u>\$ 5,143,796.52</u>

### Operating Expenses

The operating expenses of the College are comprised principally of the direct cost of personnel and their fringe benefits identified as "personal services". Depreciation expense and accumulated depreciation were identified, consistent with the requirements of GASB Statements No. 34/35.

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

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	<u>2002-2003</u>	<u>2001-2002</u>
Personal Services	\$ 4,631,562.64	\$ 4,688,744.97
Supplies and Materials	1,241,681.33	1,091,647.29
Services	1,241,278.18	890,047.27
Scholarships and Fellowships	1,374,132.72	1,370,736.74
Utilities	203,819.63	219,060.16
Depreciation	<u>240,203.60</u>	<u>237,931.17</u>
Total Expenses	<u>\$ 8,932,678.10</u>	<u>\$ 8,498,167.60</u>

### **Capital Contributions**

Capital contributions are received from appropriations from the North Carolina State Board of Community Colleges under a formula allocation for educational equipment and library books. The Board also provides construction funds as part of the North Carolina 2000 Higher Education Bond Referendum and previous legislative action providing funds for renovations and repairs. Cherokee, Clay and Graham counties provide capital contributions for maintenance equipment and small construction items. Capital gifts are provided through annual contributions of the Tri-County Community College Foundation, Inc. for the Fire Training Center.

	<u>2002-2003</u>	<u>2001-2002</u>
State Capital Aid	\$ 331,753.60	\$ 544,202.87
County Capital Appropriations	<u>63,680.00</u>	<u>67,480.00</u>
Total Capital Contributions	<u>\$ 395,433.60</u>	<u>\$ 611,682.87</u>

### **Significant Capital Asset Activity**

Funds generated and received for the Fire Training Center provided for additional asset value of \$436,342.08.

### **Significant Effects on Financial Position**

1. The Cherokee County Board of Commissioners increased the College's allocation for funds by \$42,592.00 for FY 2003-2004 representing a 14.17% increase in funds for the operation of the physical plant.
2. The College will initiate the implementation of the North Carolina Community College computer information system project during FY 2003-2004. This project is anticipated to require \$150,000.00 in capital funds for technology purchases.

**Tri-County Community College**  
**Statement of Net Assets**  
**June 30, 2003**

**Exhibit A**

**ASSETS**

Current Assets:

Cash and Cash Equivalents	\$	526,420.20
Restricted Cash and Cash Equivalents		82,813.76
Short-Term Investments		205,000.00
Restricted Short-Term Investments		20,000.00
Receivables, Net (Note 4)		80,369.19
Due from State of North Carolina Component Units		219.00
Inventories		63,769.40
Prepaid Items		15,986.06
<b>Total Current Assets</b>		<b>994,577.61</b>

Noncurrent Assets:

Restricted Cash and Cash Equivalents		254,283.22
Restricted Due from Primary Government		12,589.00
Endowment Investments		85,000.00
Capital Assets - Nondepreciable, Net (Note 5)		717,687.49
Capital Assets - Depreciable, Net (Note 5)		4,794,808.30
<b>Total Noncurrent Assets</b>		<b>5,864,368.01</b>
<b>Total Assets</b>		<b>6,858,945.62</b>

**LIABILITIES**

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 6)		92,184.56
Deferred Revenue		12,065.25
Funds Held for Others		17,825.54
Long-Term Liabilities - Current Portion (Note 7)		24,271.98
<b>Total Current Liabilities</b>		<b>146,347.33</b>

Noncurrent Liabilities:

Long-Term Liabilities (Note 7)		91,025.11
<b>Total Noncurrent Liabilities</b>		<b>91,025.11</b>
<b>Total Liabilities</b>		<b>237,372.44</b>

**NET ASSETS**

Invested in Capital Assets		5,512,495.79
Restricted for:		
Nonexpendable:		
Scholarships and Fellowships		87,240.65
Expendable:		
Scholarships and Fellowships		100,236.59
Capital Projects		304,402.72
Unrestricted		617,197.43
<b>Total Net Assets</b>	<b>\$</b>	<b>6,621,573.18</b>

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

**Tri-County Community College**  
**Statement of Revenues, Expenses, and**  
**Changes in Net Assets**  
**For the Fiscal Year Ended June 30, 2003** **Exhibit B**

<b>REVENUES</b>		
Operating Revenues:		
Student Tuition and Fees, Net (Note 9)	\$	417,091.78
Federal Grants and Contracts		2,012,885.07
State and Local Grants and Contracts		245,221.26
Sales and Services, Net (Note 9)		236,654.88
<b>Total Operating Revenues</b>		<b>2,911,852.99</b>
<b>EXPENSES</b>		
Operating Expenses:		
Personal Services		4,631,562.64
Supplies and Materials		1,241,681.33
Services		1,241,278.18
Scholarships and Fellowships		1,374,132.72
Utilities		203,819.63
Depreciation		240,203.60
<b>Total Operating Expenses</b>		<b>8,932,678.10</b>
<b>Operating Loss</b>		<b>(6,020,825.11)</b>
<b>NONOPERATING REVENUES</b>		
State Aid		5,175,049.03
County Appropriations		391,947.92
Noncapital Grants		184,882.43
Noncapital Gifts, Net (Note 9)		181,236.17
Investment Income, Net		12,032.05
Other Nonoperating Revenues		32,100.16
<b>Net Nonoperating Revenues</b>		<b>5,977,247.76</b>
<b>Loss Before Other Revenues, Expenses, Gains, and Losses</b>		<b>(43,577.35)</b>
State Capital Aid		331,753.60
County Capital Appropriations		63,680.00
<b>Increase in Net Assets</b>		<b>351,856.25</b>
<b>NET ASSETS</b>		
Net Assets, July 1, 2002		6,269,716.93
Net Assets, June 30, 2003	\$	6,621,573.18

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

**Tri-County Community College****Statement of Cash Flows****For the Fiscal Year Ended June 30, 2003****Exhibit C****CASH FLOWS FROM OPERATING ACTIVITIES**

Received from Customers	\$	2,915,207.11
Payments to Employees and Fringe Benefits		(4,623,569.48)
Payments to Vendors and Suppliers		(2,686,553.94)
Payments for Scholarships and Fellowships		(1,374,132.72)
Other Receipts		22,344.15
Net Cash Used by Operating Activities		(5,746,704.88)

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

State Aid Received		5,175,049.03
County Appropriations		391,947.92
Noncapital Grants Received		184,663.43
Noncapital Gifts and Endowments Received		181,236.17
Net Cash Provided by Noncapital Financing Activities		5,932,896.55

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

State Capital Aid Received		319,164.60
County Capital Appropriations		63,680.00
Capital Grants Received		12,065.25
Acquisition and Construction of Capital Assets		(564,887.74)
Net Cash Used by Capital and Related Financing Activities		(169,977.89)

**CASH FLOWS FROM INVESTING ACTIVITIES**

Proceeds from Sales and Maturities of Investments		230,000.00
Investment Income		11,899.41
Purchase of Investments and Related Fees		34,097.22
Net Cash Provided by Investing Activities		275,996.63

Net Increase in Cash and Cash Equivalents

292,210.41

Cash and Cash Equivalents, July 1, 2002

571,306.77

Cash and Cash Equivalents, June 30, 2003

\$ 863,517.18

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

Operating Loss	\$	(6,020,825.11)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense		240,203.60
Miscellaneous Nonoperating Income		32,100.16
Changes in Assets and Liabilities:		
Receivables, Net		3,318.23
Inventories		(8,808.03)
Prepaid Items		(838.46)
Accounts Payable and Accrued Liabilities		47,607.13
Funds Held for Others		(9,720.12)
Compensated Absences		(29,742.28)
Net Cash Used by Operating Activities	\$	(5,746,704.88)

<b>Tri-County Community College</b>		
<b>Statement of Cash Flows</b>		<b>Exhibit C</b>
<b>For the Fiscal Year Ended June 30, 2003</b>		<b>Page 2</b>
<b>RECONCILIATION OF CASH AND CASH EQUIVALENTS</b>		
Current Assets:		
Cash and Cash Equivalents	\$	526,420.20
Restricted Cash and Cash Equivalents		82,813.76
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		254,283.22
Total Cash and Cash Equivalents - June 30, 2003	\$	863,517.18
<b>NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES</b>		
Assets Acquired through Assumption of a Liability	\$	1,622.50
Change in Fair Value of Investments		34,097.22
Increase in Receivables Related to Nonoperating Income		12,940.64
The accompanying notes to the financial statements are an integral part of this statement.		

**TRI-COUNTY 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. Tri-County Community College is a component unit of the State of North Carolina and an integral part of the State's *Comprehensive Annual Financial Report*.

The accompanying financial statements present all funds of the College and component units for which the College's Board of Trustees is financially accountable. Although legally separate, Tri-County Community College Foundation, Inc. is reported as if it were part of the College.

The Foundation is governed by a 17-member board consisting of 7 ex officio directors and 10 elected directors. 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 Tri-County Community College Board of Trustees and the Foundation's sole purpose is to benefit Tri-County Community College, its financial statements have been blended with those of the College.

Separate financial statements for the Foundation may be obtained from the Tri-County Community College Business Office, 4600 East US 64, Murphy, NC 28906, or by calling 828-837-6810. 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 the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

- C. Basis of Accounting** - The financial statements of the College have been prepared using the economic resource measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.
- D. Cash and Cash Equivalents** – This classification includes undeposited receipts, petty cash, and cash on deposit with private bank accounts.
- E. Investments** - This classification includes certificates of deposit reported at cost.
- 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 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, are valued at cost 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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 15 to 25 years for general infrastructure, 15 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 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** – 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.

## 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 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.

**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. 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 \$300.00. The carrying amount of cash on deposit was \$1,173,217.18 and the bank balance was \$1,207,819.98. 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 *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, \$370,000.00 of the bank balance was covered by federal depository insurance and \$837,819.98 was covered by collateral held by an authorized escrow agent in the name of the State Treasurer (pooling method).

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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**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.

Investments of the College's component unit, the Foundation, are subject to and restricted by General Statute 36B "Uniform Management of Institutional Funds Act" (UMIFA) and any requirements placed on them by contract or donor agreements.

At June 30, 2003, the College held certificates of deposit in the amount of \$310,000.00 which is not subject to categorization of custodial credit risk. The aforementioned certificates of deposit are a component of the deposit totals reported in the deposits section of this note.

### NOTE 3 - ENDOWMENT INVESTMENTS

Investments of the College's endowment funds are pooled unless required to be separately invested by the donor. If a donor has not provided specific instructions, State law permits the Board of Trustees to authorize for

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

expenditure the net appreciation, realized and unrealized, of the investments of the endowment funds.

### NOTE 4 - RECEIVABLES

Receivables at June 30, 2003 were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
<b>Current Receivables:</b>			
Students	\$ 73,830.70	\$ 3,577.52	\$ 70,253.18
Intergovernmental	9,947.48		9,947.48
Investment Earnings	132.64		132.64
Other	35.89		35.89
<b>Total Current Receivables</b>	<b>\$ 83,946.71</b>	<b>\$ 3,577.52</b>	<b>\$ 80,369.19</b>

### 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	\$ 364,807.78	\$ 0.00	\$ 0.00	\$ 364,807.78
Construction in Progress		352,879.71		352,879.71
<b>Total Capital Assets, Nondepreciable</b>	364,807.78	352,879.71		717,687.49
Capital Assets, Depreciable:				
Buildings	6,838,642.24			6,838,642.24
Machinery and Equipment	542,424.50	190,858.95	34,097.22	699,186.23
General Infrastructure	302,071.37	22,771.58		324,842.95
Total Capital Assets, Depreciable	7,683,138.11	213,630.53	34,097.22	7,862,671.42
Less Accumulated Depreciation:				
Buildings	2,341,326.61	173,362.11		2,514,688.72
Machinery and Equipment	261,686.34	60,514.73		322,201.07
General Infrastructure	224,646.57	6,326.76		230,973.33
Total Accumulated Depreciation	2,827,659.52	240,203.60		3,067,863.12
<b>Total Capital Assets, Depreciable, Net</b>	4,855,478.59	(26,573.07)	34,097.22	4,794,808.30
<b>Capital Assets, Net</b>	<b>\$ 5,220,286.37</b>	<b>\$ 326,306.64</b>	<b>\$ 34,097.22</b>	<b>\$ 5,512,495.79</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, 2003 were as follows:

	Amount
Accounts Payable	\$ 21,655.47
Accrued Payroll	66,116.24
Other	4,412.85
<b>Total Accounts Payable and Accrued Liabilities</b>	<b>\$ 92,184.56</b>

### NOTE 7 - 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
<b>Compensated Absences</b>	\$ 133,913.85	\$ 100,301.67	\$ 118,918.43	\$ 115,297.09	\$ 24,271.98

### NOTE 8 - OPERATING LEASE OBLIGATIONS

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

Fiscal Year	Amount
Total Minimum Lease Payments	\$ 8,500.00

Rental expense for all operating leases during the year was \$17,200.00.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 9 - REVENUES

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

	Gross Revenues	Less Scholarship Discounts	Net Revenues
<b>Operating Revenues:</b>			
<b>Student Tuition and Fees</b>	\$ 880,301.19	\$ 463,209.41	\$ 417,091.78
<b>Sales and Services:</b>			
Sales and Services of Auxiliary Enterprises:			
Dining	\$ 17,057.71	\$ 0.00	\$ 17,057.71
Bookstore	16,193.75		16,193.75
Parking	12,092.00		12,092.00
Other	191,311.42		191,311.42
<b>Total Sales and Services</b>	\$ 236,654.88	\$ 0.00	\$ 236,654.88
<b>Nonoperating - Noncapital Gifts</b>	\$ 181,236.17	\$ 0.00	\$ 181,236.17

### NOTE 10 - 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	\$ 2,613,090.03	\$ 982,960.55	\$ 680,475.23	\$ 0.00	\$ 0.00	\$ 0.00	\$ 4,276,525.81
Academic Support	107,529.08	44,261.58	40,076.12				191,866.78
Student Services	261,536.75	33,155.73	55,648.44				350,340.92
Institutional Support	1,535,420.04	131,992.41	345,341.34				2,012,753.79
Operations and Maintenance of Plant	113,986.74	49,311.06	119,737.05		203,819.63		486,854.48
Student Financial Aid				1,374,132.72			1,374,132.72
Depreciation						240,203.60	240,203.60
<b>Total Operating Expenses</b>	\$ 4,631,562.64	\$ 1,241,681.33	\$ 1,241,278.18	\$ 1,374,132.72	\$ 203,819.63	\$ 240,203.60	\$ 8,932,678.10

### 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.

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



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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 \$4,281,139.43, of which \$3,242,135.97 was covered under the Teachers' and State Employees' Retirement System. Total employee contributions for pension benefits for the year were \$194,528.21. 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, \$63,644.72, and \$160,117.90, 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 \$0.00 for the year ended June 30, 2003.

IRC Section 401(k) Plan - All members of the Teachers' and State Employees' Retirement System are eligible to enroll in the Supplemental Retirement Income Plan, a defined contribution plan, created under Internal Revenue Code Section 401(k). All costs of administering the Plan are the responsibility of the Plan participants. The voluntary contributions by employees amounted to \$44,100.00 for the year ended June 30, 2003.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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 \$3,200.00 for the year ended June 30, 2003.

### 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 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 \$76,190.20. The College assumes no liability for retiree health care benefits provided by the programs other than its required contribution. Additional detailed information about these programs can be located in the State of North Carolina's *Comprehensive Annual Financial Report*.
- B. Long-Term Disability -** The College participates in the Disability Income Plan of North Carolina (DIPNC). Established by Chapter 135, Article 6, of the General Statutes, DIPNC provides short-term and long-term disability benefits to eligible members of the Teachers' and State Employees' Retirement System. Long-term disability income benefits are advance funded on an actuarially determined basis using the one-year term cost method. The College contributes .52% of covered payroll under the Teachers' and State Employees' Retirement System to the DIPNC. For the fiscal year ended June 30, 2003, the College's total contribution to the DIPNC was \$16,859.11. The College assumes no liability for long-term disability benefits under the Plan other than its contribution. Additional detailed information about the DIPNC is disclosed in the State of North Carolina's *Comprehensive Annual Financial Report*.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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### 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, 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 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, subject to a \$20 million annual aggregate. Reinsurance is purchased by the fund to cover catastrophic events in excess of the \$10 million deductible. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

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

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

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

The State Board of Community Colleges makes the necessary arrangements to carry out the provisions of the Workers' Compensation Act which are applicable to employees whose wages are paid in whole or in part from State

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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 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 \$158,028.75 and on other purchases were \$20,032.96 at June 30, 2003.
- B. Community College General Obligation Bonds** - The 1999-2000 Session of the General Assembly of North Carolina authorized the issuance of six hundred million dollars of general obligation bonds of the State, as subsequently approved by a vote of qualified voters of the State, to provide funds for capital improvements for the North Carolina Community College System. The funds authorized are to be used solely to construct new buildings and to renovate and modernize existing buildings on the North Carolina Community College System campuses. The bond legislation specifies the amount of bond funding for each College campus as well as the intended amount for new construction and repair and replacement. The legislation further provides that the State Board of Community Colleges shall be responsible for the approval of projects in accordance with provisions of the legislation. The bonds were authorized for issuance over a six-year period beginning in 2001 at a level not to exceed amounts provided in the legislation. Using a cash flow financing approach, The Community College System's Office (CCSO) establishes annual amounts not to exceed for each approved project. The amounts not to exceed are subject to change due to actual cash availability

## NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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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 \$904,116.00 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.

***Tri-County 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>							
Land Acquisition - Enloe Building	May 2003	\$ 125,294.00	\$ 0.00	\$ 125,294.00	\$ 113,228.75	90.37%	Oct 2003
<b><i>Projects Not Started - To Be Funded in Future Years</i></b>							
Renovation of Enloe, West, and McSwain Buildings	Dec 2003	891,527.00		891,527.00			Jun 2005
<b>Total All Projects</b>		<b>\$ 1,016,821.00</b>	<b>\$ 0.00</b>	<b>\$ 1,016,821.00</b>	<b>\$ 113,228.75</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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In accordance with General Statutes 147-64.5 and 147-64.6(c)(14), copies of this report have been distributed to the public officials listed below. Additional copies are provided to other legislators, state officials, the press, and the general public upon request.

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The Honorable Beverly M. Perdue	Lieutenant Governor of North Carolina
The Honorable Richard H. Moore	State Treasurer
The Honorable Roy A. Cooper, III	Attorney General
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Mr. Robert L. Powell	State Controller
Mr. H. Martin Lancaster	President, North Carolina Community College System
Dr. Norman G. Oglesby	President, Tri-County Community College
Ms. Jan Westmoreland	Vice President for Administrative Services Tri-County Community College
Mr. Frank Bradley	Chairman, Board of Trustees Tri-County Community College

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### Other Legislative Officials

Mr. James D. Johnson	Director, Fiscal Research Division
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June 15, 2004



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