



STATE OF NORTH CAROLINA

FINANCIAL STATEMENT REVIEW REPORT OF

BRUNSWICK COMMUNITY COLLEGE

SUPPLY, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2004

OFFICE OF THE STATE AUDITOR

LESLIE W. MERRITT, JR., CPA, CFP

STATE AUDITOR

FINANCIAL STATEMENT REVIEW REPORT OF

BRUNSWICK COMMUNITY COLLEGE

SUPPLY, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2004

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

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REVIEWER'S TRANSMITTAL

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

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

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

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

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

Leslie W. Merritt, Jr.

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

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STATE OF NORTH CAROLINA
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INDEPENDENT ACCOUNTANT'S REVIEW REPORT

Board of Trustees
Brunswick Community College
Supply, North Carolina

We have reviewed the accompanying financial statements of Brunswick Community College, a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 2004, which collectively comprise Brunswick Community College's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the College's management. We did not review the financial statements of the Brunswick Community College Foundation, Inc., which represents 100% of the College's discretely presented component unit. Those financial statements were audited by another accountant whose report thereon has been furnished to us, and our report, insofar as it relates to the amounts included for that entity, is based on the report of that accountant.

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 in order for them to be in conformity with accounting principles generally accepted in the United States of America.

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

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

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.

INDEPENDENT ACCOUNTANT'S REVIEW REPORT (CONCLUDED)

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

Leslie W. Merritt, Jr.

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

May 31, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Brunswick Community College's Financial Statement Review Report presents Management's Discussion and Analysis of the College's financial activity during the fiscal year ended June 30, 2004. Management's Discussion and Analysis is designed to focus on current year results in comparison with the prior year and note any significant transactions that impact the financial condition of the College. This section should be read in conjunction with the College's basic financial statements and notes. Responsibility for the completeness and fairness of this information rests with the College.

Financial Statement Presentation

The Statement of Net Assets reports current and noncurrent assets and liabilities in a format similar to that used by corporations. The Statement of Revenues, Expenses, and Changes in Net Assets reports revenues earned and expenses incurred during the fiscal year. State appropriations and gifts are required to be reported as nonoperating revenues even though these revenue sources are used to cover operating expenses. The Statement of Cash Flows presents information detailing the sources and uses of cash from operating, investing, and financing activities.

As of June 30, 2004, the College was required to implement GASB Statement No. 39. This statement amended GASB Statement No. 14 to require that the financial information of the College's foundation be presented in a separate column in the financial statement report due to the nature and significance of its relationship with the College.

Statement of Net Assets

The following condensed statement of net assets compares the current year information with the prior year and indicates the percentage increase or decrease between years.

Condensed Statement of Net Assets

	<u>2004</u>	<u>2003</u>	<u>Total Percentage Change</u>
Assets			
Current Assets	\$ 1,316,258	\$ 868,323	51.59 %
Capital Assets	16,510,105	16,595,612	(0.52) %
Other Assets	<u>474,736</u>	<u>1,143,729</u>	(58.49) %
Total Assets	<u>18,301,099</u>	<u>18,607,664</u>	(1.65) %
Liabilities			
Current Liabilities	303,769	87,600	246.77 %
Long-Term Liabilities	<u>370,034</u>	<u>255,523</u>	44.81 %
Total Liabilities	<u>673,803</u>	<u>343,123</u>	96.37 %
Net Assets			
Invested in Capital Assets	16,510,105	16,595,614	(0.52) %
Restricted	671,656	1,188,614	(43.49) %
Unrestricted	<u>445,535</u>	<u>480,313</u>	(7.24) %
Total Net Assets	<u><u>17,627,296</u></u>	<u><u>\$ 18,264,541</u></u>	(3.49) %

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

During the current fiscal year the College's net assets decreased by \$637,246. This decrease was a direct result of the cost related to an unfunded liability for ten days of bonus leave awarded under Section 30.12(B) of House Bill 397 to all staff and to faculty that earn annual leave under College written policy. In addition, the College transferred capital assets in the form of land to Brunswick County Schools for the Brunswick Learning Center site and County of Brunswick for the wastewater treatment facility.

Statement of Revenues, Expenses, and Changes in Net Assets

The following comparative statement for fiscal years ending 2004 and 2003, reflects the percentage increase or decrease in reported revenues and expenses between years.

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

	<u>2004</u>	<u>2003</u>
Operating Revenues:		
Student Tuition and Fees	\$ 609,642	\$ 396,018
Federal Grants and Contracts	1,678,920	1,206,389
State and Local Grants and Contracts	411,509	397,959
Sales and Services	403,440	630,270
Other Operating Revenues	7,128	
Total Operating Revenues	<u>3,110,639</u>	<u>2,630,636</u>
Operating Expenses	<u>12,080,606</u>	<u>10,386,677</u>
Operating Loss	(8,969,967)	(7,756,041)
Nonoperating Revenues:		
State Aid	5,182,948	4,549,811
County Appropriations	1,957,035	1,726,179
Noncapital Grants	187,434	196,106
Noncapital Gifts	55,553	51,113
Investment Income	12,373	15,659
Other	285,451	217,268
Total Nonoperating Revenues	<u>7,680,794</u>	<u>6,756,136</u>
Capital Revenues	<u>651,927</u>	<u>921,860</u>
Total Revenues	<u>\$ 11,443,360</u>	<u>\$ 10,308,632</u>

Federal grants and contracts (\$1.67 million) and student tuition and fees, net (\$0.60 million) account for 73.5% of the College's operating revenue. Although State appropriations are used to cover operating expenses, GASB Statement No. 35 requires that they be reported as nonoperating revenue. With adherence to this standard, the College will always report an operating loss.

Nonoperating revenue increased by \$924,658, or 13.69%, mainly due to increases in State aid.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

The majority of operating expenses consists of salary and benefit expenses of \$6.74 million and payments for supplies and materials and services of \$3.46 million. These two categories of expenses represent approximately 84% of total operating costs.

The increase in operating expenses of \$1.69 million is due to a combination of factors. The College expended \$6.74 million in personal services in 2004 compared with \$6.34 million in 2003. Personal services represented 55% of the College's operating expenses in 2004. The College also showed increases in expenditures for supplies and materials, which were mainly attributable to the addition to and renovation of the Brunswick Interagency Program building and various repair and renovation projects. The expenditures for these projects totaled \$718,880.

Cash Flow

The following condensed statement of cash flows shows the source or use of funds by major activity category.

	<u>2004</u>	<u>2003</u>
Cash Provided (Used) by:		
Operating Activities	\$ (7,899,647)	\$ (6,735,624)
Noncapital Financing Activities	7,269,162	6,407,381
Capital Financing Activities	188,146	447,106
Investing Activities	12,373	18,660
Net Change in Cash and Cash Equivalents	(429,966)	137,523
Cash and Cash Equivalents - Beginning of Year	<u>1,308,082</u>	<u>1,170,559</u>
Cash and Cash Equivalents - End of Year	<u><u>\$ 878,116</u></u>	<u><u>\$ 1,308,082</u></u>

The major funding sources from operating activities included contracts and grants (\$2.09 million) and student tuition and fees (\$609,642).

Major uses of funds from operating activities included employee compensation (\$6.74 million) and payment for goods and services (\$3.46 million).

Cash provided by noncapital financing included State appropriations of \$5.18 million, county appropriations of \$1.96 million, and grants and gifts of \$242,987.

The major source of cash provided by capital financial activities was derived from State capital appropriations.

Capital Assets

At June 30, 2004, the College reported \$22.70 million invested in capital assets less \$6.19 million in accumulated depreciation for net capital assets of \$16.51 million. Funds

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

from the general obligation bonds approved in 2000 for capital improvements for the North Carolina Community College System were received during the year and were used to proceed with the repair and renovation work on the HVAC systems of several campus buildings and to expand the Brunswick Interagency Program building. The final phase of the repair and renovation project will be completed in March 2005. The final phase of the Brunswick Interagency Program building expansion will be completed in September 2004. As of June 30, 2004, \$1,032,578 in general obligation bonds have been authorized for these projects.

The following schedule reports capital assets for the fiscal years 2004 and 2003, net of accumulated depreciation.

	<u>2004</u>	<u>2003</u>	<u>Total Percentage Change</u>
Land	\$ 403,748	\$ 555,659	(27.3) %
Construction in Progress	614,325	34,096	1,701.8 %
Buildings	13,869,617	14,340,080	(3.3) %
Machinery and Equipment	421,281	374,966	12.4 %
General Infrastructure	1,201,134	1,290,813	(6.9) %
	<u>\$ 16,510,105</u>	<u>\$ 16,595,614</u>	(0.5) %

Debt

The College reported long-term debt of \$386,416 as of June 30, 2004. This balance consists of accrued vacation of which \$16,381 is reported as current.

Economic Factors and Next Year's Budget

At fiscal year ended June 30, 2004, the College had not received any official information on the 2004-2005 budget. However, the State of North Carolina is continuing to encounter a budget crisis and the College anticipates further decreases in State appropriations in the upcoming year.

Brunswick Community College
Statement of Net Assets
June 30, 2004

Exhibit A-1

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 791,294.50
Restricted Cash and Cash Equivalents	86,821.58
Receivables, Net (Note 3)	392,716.66
Inventories	43,855.71
Prepaid Items	1,208.55
Notes Receivable (Note 3)	360.50

Total Current Assets 1,316,257.50

Noncurrent Assets:

Restricted Due from Primary Government	474,735.61
Capital Assets - Nondepreciable (Note 4)	1,018,072.94
Capital Assets - Depreciable, Net (Note 4)	15,492,032.52

Total Noncurrent Assets 16,984,841.07

Total Assets 18,301,098.57

LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 5)	227,768.43
Due to Primary Government	696.83
Due to State of North Carolina Component Units	2,644.59
Deferred Revenue	54,971.27
Funds Held for Others	1,306.38
Long-Term Liabilities - Current Portion (Note 6)	16,381.33

Total Current Liabilities 303,768.83

Noncurrent Liabilities:

Long-Term Liabilities (Note 6)	370,034.64
--------------------------------	------------

Total Liabilities 673,803.47

NET ASSETS

Invested in Capital Assets 16,510,105.46

Restricted for:

Expendable:

Loans	3,874.27
Capital Projects	414,350.67
Other	253,429.82

Unrestricted 445,534.88

Total Net Assets \$ 17,627,295.10

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

<i>Brunswick Community College</i>		
<i>Statement of Revenues, Expenses, and</i>		
<i>Changes in Net Assets</i>		
<i>For the Fiscal Year Ended June 30, 2004</i>		<i>Exhibit A-2</i>
REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net (Note 8)	\$	609,642.12
Federal Grants and Contracts		1,678,920.34
State and Local Grants and Contracts		411,508.59
Sales and Services		403,440.17
Other Operating Revenues		7,128.00
Total Operating Revenues		3,110,639.22
EXPENSES		
Operating Expenses:		
Salaries and Benefits		6,740,388.41
Supplies and Materials		2,042,525.14
Services		1,416,714.95
Scholarships and Fellowships		715,877.77
Utilities		488,003.10
Depreciation		677,096.54
Total Operating Expenses		12,080,605.91
Operating Loss		(8,969,966.69)
NONOPERATING REVENUES		
State Aid		5,182,948.11
County Appropriations		1,957,036.00
Noncapital Grants		187,433.86
Noncapital Gifts		55,553.19
Investment Income		12,372.98
Other Nonoperating Revenues		285,450.39
Net Nonoperating Revenues		7,680,793.53
Loss Before Other Revenues		(1,289,173.16)
State Capital Aid		523,427.00
County Capital Appropriations		128,500.00
Decrease in Net Assets		(637,246.16)
NET ASSETS		
Net Assets, July 1, 2003		18,264,541.26
Net Assets, June 30, 2004	\$	17,627,295.10
The accompanying notes to the financial statements are an integral part of this statement.		

<i>Brunswick Community College</i>		
<i>Statement of Cash Flows</i>		
<i>For the Fiscal Year Ended June 30, 2004</i>		<i>Exhibit A-3</i>
CASH FLOWS FROM OPERATING ACTIVITIES		
Received from Customers	\$	2,996,483.96
Payments to Employees and Fringe Benefits		(6,586,838.15)
Payments to Vendors and Suppliers		(3,880,795.15)
Payments for Scholarships and Fellowships		(715,877.77)
Collection of Loans to Students		840.50
Other Receipts		286,540.05
Net Cash Used by Operating Activities		(7,899,646.56)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State Aid Received		5,182,948.11
County Appropriations		1,957,035.00
Noncapital Grants Received		73,625.03
Noncapital Gifts		55,553.19
Net Cash Provided by Noncapital Financing Activities		7,269,161.33
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
State Capital Aid Received		557,957.64
County Capital Appropriations		128,500.00
Capital Grants Received		36,423.91
Proceeds from Sale of Capital Assets		158,158.80
Acquisition and Construction of Capital Assets		(692,894.35)
Net Cash Provided by Capital and Related Financing Activities		188,146.00
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment Income		12,372.98
Net Cash Provided by Investing Activities		12,372.98
Net Decrease in Cash and Cash Equivalents		(429,966.25)
Cash and Cash Equivalents, July 1, 2003		1,308,082.33
Cash and Cash Equivalents, June 30, 2004	\$	878,116.08
RECONCILIATION OF OPERATING LOSS		
TO NET CASH USED BY OPERATING ACTIVITIES		
Operating Loss	\$	(8,969,966.69)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense		677,096.54
Other Nonoperating Revenues		285,450.39
Changes in Assets and Liabilities:		
Receivables, Net		(188,893.72)
Inventories		19,118.23
Prepaid Items		1,650.56
Notes Receivable, Net		840.50
Accounts Payable and Accrued Liabilities		75,343.79
Due to Primary Government		(2,386.22)
Due to State of North Carolina Component Units		2,644.59
Deferred Revenue		74,738.46
Funds Held for Others		1,089.66
Compensated Absences		123,627.35
Net Cash Used by Operating Activities	\$	(7,899,646.56)

<i>Brunswick Community College</i>		
<i>Statement of Cash Flows</i>		<i>Exhibit A-3</i>
<i>For the Fiscal Year Ended June 30, 2004</i>		<i>Page 2</i>
RECONCILIATION OF CASH AND CASH EQUIVALENTS		
Current Assets:		
	Cash and Cash Equivalents	\$ 791,294.50
	Restricted Cash and Cash Equivalents	86,821.58
	Total Cash and Cash Equivalents - June 30, 2004	<u>\$ 878,116.08</u>
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES		
	Assets Acquired through Assumption of a Liability	\$ 56,852.89
	Capital Asset Write-Offs	158,158.80
The accompanying notes to the financial statements are an integral part of this statement.		

<i>Brunswick Community College Foundation, Inc.</i>		
<i>Statement of Financial Position</i>		
<i>June 30, 2004</i>		<i>Exhibit B-1</i>
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$	72,490
Investments		15,300
Restricted Scholarship Awards Receivable		300
		<u>88,090</u>
Endowed Investments:		
Cash and Cash Equivalents		13,368
Endowed Scholarship Awards Receivable		412
Investments		899,524
Total Endowed Investments		<u>913,304</u>
Total Assets	\$	<u>1,001,394</u>
LIABILITIES		
Current Liabilities:		
Credit Cards Payable	\$	316
NET ASSETS		
Unrestricted		27,818
Temporarily Restricted		68,737
Permanently Restricted		904,523
Total Net Assets		<u>1,001,078</u>
Total Liabilities and Net Assets	\$	<u>1,001,394</u>
See Note 1 in the Notes to the Financial Statements		

Brunswick Community College Foundation, Inc.**Statement of Activities****For the Fiscal Year Ended June 30, 2004****Exhibit B-2**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Public Support, Revenues and Gains				
Contributions and Fundraising Income	\$ 87,657	\$ 173,376	\$ 1,500	\$ 262,533
Interest Income	13	38,356		38,369
Custodial Funds Received		1,798		1,798
Net Assets Released from Restrictions:				
Campbell Scholarship	1,000		(1,000)	
Additions to Endowment Investments		(2,000)	2,000	
Total Public Support and Revenues	88,670	211,530	2,500	302,700
Expenses and Losses				
Program Services:				
Scholarships and Programs	88,352	167,115		255,467
Support Services:				
Administrative Expenses	20,424			20,424
Custodial Funds Paid Out		1,526		1,526
Unrealized Loss on Investments			33,180	33,180
Total Expenses	108,776	168,641	33,180	310,597
Change in Net Assets	(20,106)	42,889	(30,680)	(7,897)
Net Assets as of Beginning of Year				
As Previously Reported	99,386	16,917	984,775	1,101,078
Prior Period Adjustment	(55,159)	12,628	(49,572)	(92,103)
As Restated	44,227	29,545	935,203	1,008,975
Transfer of Management Fees	3,697	(3,697)		
Net Assets as of End of Year	\$ 27,818	\$ 68,737	\$ 904,523	\$ 1,001,078
See Note 1 in the Notes to the Financial Statements				

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

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

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

The accompanying financial statements present all funds of the College and the component unit for which the College's Board of Trustees is financially accountable. The Brunswick Community College Foundation, Inc., is discretely presented in the financial statements. Discretely presented component unit's financial data are reported in separate financial statements because of its use of a different GAAP reporting model and to emphasize its legal separateness.

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

The Foundation is a legally separate, tax-exempt component unit of the College. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the College in support of its programs. The Foundation's board consists of 20 members. Although the College does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, that the Foundation holds and invests are restricted to the activities of the College by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of the College, the Foundation is considered a component unit of the College and is reported in separate financial statements because of the difference in its reporting model, as described below.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

During the year ended June 30, 2004, the Foundation distributed \$164,480.00 to the College for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from Robert Turner, Director of Institutional Resource Development, Brunswick Community College, P.O. Box 30, Supply, North Carolina 28462, or by calling (910) 755-7305.

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 10 to 75 years for general infrastructure, 10 to 50 years for buildings, and two to 25 years for equipment.

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

In addition to the vacation leave described above, compensated absences includes the accumulated unused portion of the special annual leave

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

bonuses awarded by the College to all full-time permanent employees as of September 30, 2002, and as of July 1, 2003. The unused portion of this leave remains available until used, notwithstanding the limitation on annual leave carried forward described above.

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

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

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

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

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

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

L. Scholarship Discounts – Student tuition and fees revenues and certain other revenues from College charges are reported net of scholarship discounts in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. The scholarship discount is the difference between the actual charge for goods and services provided by the College and the amount that is paid by students or by third parties on the students’ behalf. Student financial assistance grants, such as Pell grants, and other federal, State, or nongovernmental programs, are recorded as either operating or nonoperating revenues in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. To the extent that revenues from these programs are used to satisfy tuition, fees, and other charges, the College has recorded a scholarship discount.

M. Revenue and Expense Recognition – The College classifies its revenues and expenses as operating or nonoperating in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. Operating

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

revenues and expenses generally result from providing services and producing and delivering goods in connection with the College's principal ongoing operations. Operating revenues include activities that have characteristics of exchange transactions, such as (1) student tuition and fees, (2) sales and services of auxiliary enterprises, and (3) certain federal, State and local grants and contracts. Operating expenses are all expense transactions incurred other than those related to capital and noncapital financing or investing activities as defined by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*.

Nonoperating revenues include activities that have the characteristics of nonexchange transactions. Revenues from nonexchange transactions and State aid that represent subsidies or gifts to the College, as well as investment income, are considered nonoperating since these are either investing, capital or noncapital financing activities. Capital contributions are presented separately after nonoperating revenues and expenses.

- N. 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

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 \$730.00. The carrying amount of cash on deposit was \$877,386.08 and the bank balance was \$1,067,509.98. 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 2004, \$200,000.00 of the bank balance was covered by federal depository insurance and \$867,509.98 was covered by collateral held by an authorized escrow agent in the name of the State Treasurer (pooling method).

NOTE 3 - RECEIVABLES

Receivables at June 30, 2004, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	\$ 241,250.65	\$ 2,287.68	\$ 238,962.97
Intergovernmental	17,525.09		17,525.09
Other	<u>136,228.60</u>		<u>136,228.60</u>
Total Current Receivables	<u>\$ 395,004.34</u>	<u>\$ 2,287.68</u>	<u>\$ 392,716.66</u>
Notes Receivable:			
Notes Receivable - Current:			
Institutional Student Loan Programs	<u>\$ 360.50</u>	<u>\$ 0.00</u>	<u>\$ 360.50</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 4 - CAPITAL ASSETS

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

	Balance July 1, 2003	Increases	Decreases	Balance June 30, 2004
Capital Assets, Nondepreciable:				
Land	\$ 555,658.85	\$ 0.00	\$ 151,910.83	\$ 403,748.02
Construction in Progress	34,095.83	580,229.09		614,324.92
Total Capital Assets, Nondepreciable	<u>589,754.68</u>	<u>580,229.09</u>	<u>151,910.83</u>	<u>1,018,072.94</u>
Capital Assets, Depreciable:				
Buildings	18,547,803.77			18,547,803.77
Machinery and Equipment	1,286,161.92	169,518.15	6,247.97	1,449,432.10
General Infrastructure	1,688,555.99			1,688,555.99
Total Capital Assets, Depreciable	<u>21,522,521.68</u>	<u>169,518.15</u>	<u>6,247.97</u>	<u>21,685,791.86</u>
Less Accumulated Depreciation:				
Buildings	4,207,723.69	470,462.72		4,678,186.41
Machinery and Equipment	911,195.94	116,955.42		1,028,151.36
General Infrastructure	397,743.17	89,678.40		487,421.57
Total Accumulated Depreciation	<u>5,516,662.80</u>	<u>677,096.54</u>		<u>6,193,759.34</u>
Total Capital Assets, Depreciable, Net	<u>16,005,858.88</u>	<u>(507,578.39)</u>	<u>6,247.97</u>	<u>15,492,032.52</u>
Capital Assets, Net	<u>\$ 16,595,613.56</u>	<u>\$ 72,650.70</u>	<u>\$ 158,158.80</u>	<u>\$ 16,510,105.46</u>

NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	Amount
Accounts Payable	\$ 91,263.23
Accrued Payroll	51,643.47
Contract Retainage	76,863.09
Intergovernmental Payables	7,998.64
Total Accounts Payable and Accrued Liabilities	<u>\$ 227,768.43</u>

NOTE 6 - LONG-TERM LIABILITIES

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

	Balance July 1, 2003	Additions	Reductions	Balance June 30, 2004	Current Portion
Compensated Absences	\$ 262,788.62	\$ 127,899.90	\$ 4,272.55	\$ 386,415.97	\$ 16,381.33

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 7 - OPERATING LEASE OBLIGATIONS

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

<u>Fiscal Year</u>	<u>Amount</u>
2005	\$ 26,177.60
2006	8,470.30
Total Minimum Lease Payments	<u>\$ 34,647.90</u>

Rental expense for all operating leases during the year was \$37,251.00.

NOTE 8 - REVENUES

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

	<u>Gross Revenues</u>	<u>Less Scholarship Discounts</u>	<u>Net Revenues</u>
Operating Revenues:			
Student Tuition and Fees	<u>\$ 1,277,871.63</u>	<u>\$ 668,229.51</u>	<u>\$ 609,642.12</u>

NOTE 9 - OPERATING EXPENSES BY FUNCTION

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

	<u>Salaries and Benefits</u>	<u>Supplies and Materials</u>	<u>Services</u>	<u>Scholarships and Fellowships</u>	<u>Utilities</u>	<u>Depreciation</u>	<u>Total</u>
Instruction	\$ 3,850,892.74	\$ 440,422.02	\$ 643,989.19	\$ 0.00	\$ 3,657.58	\$ 0.00	\$ 4,938,961.53
Academic Support	484,874.32	31,902.21	46,090.96				562,867.49
Student Services	286,593.43	13,697.19	61,324.51				361,615.13
Institutional Support	1,486,594.56	57,304.28	121,780.70				1,665,679.54
Operations and Maintenance of Plant	631,433.36	1,499,199.44	531,228.91		484,345.52		3,146,207.23
Student Financial Aid			12,300.68	715,877.77			728,178.45
Depreciation						677,096.54	677,096.54
Total Operating Expenses	<u>\$ 6,740,388.41</u>	<u>\$ 2,042,525.14</u>	<u>\$ 1,416,714.95</u>	<u>\$ 715,877.77</u>	<u>\$ 488,003.10</u>	<u>\$ 677,096.54</u>	<u>\$ 12,080,605.91</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 10 - PENSION PLANS

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

Benefit and contribution provisions for the Teachers' and State Employees' Retirement System are established by *North Carolina General Statutes* 135-5 and 135-8 and may be amended only by the North Carolina General Assembly. Employer and member contribution rates are set each year by the North Carolina General Assembly based on annual actuarial valuations. For the year ended June 30, 2004, these rates were set at .22% of covered payroll for employers and 6% of covered payroll for members.

For the year ended June 30, 2004, the College had a total payroll of \$5,635,480.80, of which \$4,205,501.90 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were \$252,330.25 and \$9,252.11, respectively. The College made one hundred percent of its annual required contributions for the years ended June 30, 2004, 2003, and 2002, which were \$9,252.11, \$0.00, and \$79,850.78, 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*

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 \$6,400.00 for the year ended June 30, 2004.

IRC Section 401(k) Plan - All members of the Teachers' and State Employees' Retirement System are eligible to enroll in the Supplemental Retirement Income Plan, a defined contribution plan, created under Internal Revenue Code Section 401(k). All costs of administering the Plan are the responsibility of the Plan participants. No costs are incurred by the College except for a 5% employer contribution for the College's law enforcement officers, which is mandated under General Statute 143-166.30(e). Total employer contributions on behalf of College law enforcement officers for the year ended June 30, 2004 were \$1,509.21. The voluntary contributions by employees amounted to \$28,083.00 for the year ended June 30, 2004.

IRC Section 403(b) and 403(b)(7) Plans - Eligible College employees can participate in tax sheltered annuity plans created under Internal Revenue Code Sections 403(b) and 403(b)(7). The employee's eligible contributions, made through salary reduction agreements, are exempt from federal and State income taxes until the annuity is received or the contributions are withdrawn. These plans are exclusively for employees of colleges and certain charitable and other nonprofit institutions. All costs of administering and funding these plans are the responsibility of the Plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to \$91,475.00 for the year ended June 30, 2004.

NOTE 11 - OTHER POSTEMPLOYMENT BENEFITS

- A. Health Care for Long-Term Disability Beneficiaries and Retirees -** The College participates in State-administered programs which provide postemployment health insurance to eligible former employees. Eligible former employees include long-term disability beneficiaries of the Disability Income Plan of North Carolina and retirees of the Teachers' and State Employees' Retirement System. These benefits were established by Chapter 135, Article 3, Part 3, of the General Statutes and may be amended only by the North Carolina General Assembly. Funding for the health care benefit for long-term disability beneficiaries and retirees is financed on a pay-as-you-go basis. The College contributed 3.2% of the covered payroll under the Teachers' and State Employees'

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Retirement System for these health care benefits. For the fiscal year ended

June 30, 2004, the College's total contribution to the Plan was \$134,576.08. The College assumes no liability for retiree health care benefits provided by the programs other than its required contribution. Additional detailed information about these programs can be located in the State of North Carolina's *Comprehensive Annual Financial Report*.

- B. Long-Term Disability** - The College participates in the Disability Income Plan of North Carolina (DIPNC). Established by Chapter 135, Article 6, of the General Statutes, DIPNC provides short-term and long-term disability benefits to eligible members of the Teachers' and State Employees' Retirement System. Long-term disability income benefits are advance funded on an actuarially determined basis using the one-year term cost method. Employer contributions are established in the Appropriations Bill by the General Assembly. The College was not required to contribute to the DIPNC for the fiscal year ended June 30, 2004. The College assumes no liability for long-term disability benefits under the Plan other than its contribution. Additional detailed information about the DIPNC is disclosed in the State of North Carolina's *Comprehensive Annual Financial Report*.

NOTE 12 - RISK MANAGEMENT

The College is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These exposures to loss are handled via a combination of methods, including participation in State-administered insurance programs, purchase of commercial insurance, and self-retention of certain risks. Except for a reduction in the public officers' and employees' liability insurance from \$11,000,000 to \$5,000,000, there have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

Tort claims of up to \$500,000 are self-insured under the authority of the State Tort Claims Act. In addition, the State provides excess public officers' and employees' liability insurance up to \$5,000,000 via contract with a private insurance company. The premium, based on a composite rate, is paid by the North Carolina Community College System Office directly to the private insurer.

Fire and other property losses are covered by the Public School Insurance Fund, a State-administered public entity risk pool. This fund is financed by premiums and interest and incurs a \$10 million self-insured deductible per

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

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

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

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

Term life insurance of \$25,000 to \$50,000 is provided to eligible workers. This self-insured death benefit program is administered by the State Treasurer and funded via employer contributions. There were no employer contributions required for the current fiscal year.

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

NOTE 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 \$267,285.22 and on other purchases were \$29,685.05 at June 30, 2004.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- B. Pending Litigation and Claims** – The College is a party to litigation and claims in the ordinary course of its operations. Since it is not possible to predict the ultimate outcome of these matters, no provision for any liability has been made in the financial statements. College management is of the opinion that the liability, if any, for any of these matters will not have a material adverse effect on the financial position of the College.
- C. Community College General Obligation Bonds** – The 1999-2000 Session of the General Assembly of North Carolina authorized the issuance of \$600 million of general obligation bonds of the State, as subsequently approved by a vote of qualified voters of the State, to provide funds for capital improvements for the North Carolina Community College System. The funds authorized are to be used solely to construct new buildings and to renovate and modernize existing buildings on the North Carolina Community College System campuses. The bond legislation specifies the amount of bond funding for each College campus as well as the intended amount for new construction and repair and replacement. The legislation further provides that the State Board of Community Colleges shall be responsible for the approval of projects in accordance with provisions of the legislation. The bonds were authorized for issuance over a six-year period beginning in 2001 at a level not to exceed amounts provided in the legislation. Using a cash flow financing approach, The Community College System's Office (CCSO) establishes annual amounts not to exceed for each approved project. The amounts not to exceed are subject to change due to actual cash availability and needs during the year. Subsequent to the bond sales and the availability of bond proceeds, CCSO notifies the Office of State Budget and Management (OSBM) of the amount not to exceed for the total of the approved projects. Within this amount, based on an official request of cash needs from the State Board of Community Colleges, OSBM authorizes allotments. These allotments are then recorded to specific community college allotment accounts by the CCSO. The College records the allotments as revenue on the accompanying financial statements. The College's remaining authorization of \$474,735.61 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.

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

NOTE 14 - CHANGE IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2004, the College implemented Governmental Accounting Standards Board Statement No. 39, *Determining Whether Certain Organizations are Component Units*. This Statement amends GASB Statement No. 14, *The Financial Reporting Entity*, to provide additional guidance to determine whether certain organizations for which the College is not financially accountable should be reported as component units based on the nature and significance of their relationship to the College.

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

Schedule 1

	Original Projected Start Date	Revised/ Actual Start Date	General Obligation Bonds Authorized	Other Sources	Total Project Budget	Amount Expended	Percent Completed	Original Expected Completion Date	Revised/ Actual Completion Date
<i>Capital Improvement Projects</i>									
<i>Projects Approved by the State Board</i>									
Bundled Repair and Renovation - Project 1342	Jun 2003	Nov 2003	\$ 535,433.00	\$ 0.00	\$ 535,433.00	\$ 105,826.61	19.76%	Jul 2004	Mar 2005
Brunswick Interagency Expansion - Project 1264	Mar 2002	Jul 2003	497,145.00	200,012.00	697,157.00	613,053.19	87.94%	Aug 2004	Sep 2004
Technical and Trades Building - Project 914	Feb 2001	Apr 2001	881,285.00	473,945.00	1,355,230.00	1,355,230.00	100.00%	Aug 2002	Aug 2002
Total All Projects			\$ 1,913,863.00	\$ 673,957.00	\$ 2,587,820.00	\$ 2,074,109.80			

Note: The 1999-2000 Session of the General Assembly of North Carolina authorized the issuance of \$600 million of general obligation bonds of the State, as subsequently approved by a vote of qualified voters of the State, to provide funds for capital improvements for the North Carolina Community College System. The projects listed on this schedule are those funded or to be funded by bond proceeds from the general obligation bonds authorized by Senate Bill 912.

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Director, Fiscal Research Division

June 30, 2005

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