



STATE OF NORTH CAROLINA

FINANCIAL STATEMENT REVIEW REPORT OF CLEVELAND COMMUNITY COLLEGE

SHELBY, 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

CLEVELAND COMMUNITY COLLEGE

SHELBY, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2004

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THE NORTH CAROLINA COMMUNITY COLLEGE SYSTEM

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STATE OF NORTH CAROLINA
Office of the State Auditor

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REVIEWER'S TRANSMITTAL

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

This report presents the results of our financial statement review of Cleveland 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 Cleveland 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.

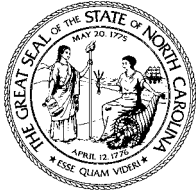
North Carolina General Statutes require the State Auditor to make reports available to the public. Copies of review reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.

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
Cleveland Community College
Shelby, North Carolina

We have reviewed the accompanying financial statements of Cleveland 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 Cleveland 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 Cleveland Community College Foundation, Inc., which represents 100% of the College's discretely presented component unit. Those financial statements were audited by other accountants whose report thereon has been furnished to us, and our report, insofar as it relates to the amounts included for those entities, is based on the report of the other accountants.

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

April 18, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

Overview of Financial Statements and Financial Analysis

Cleveland Community College would like to present financial statements for the years ended June 30, 2003, and 2004. This analysis will include a comparison between current year and prior year information.

There are three financial statements presented: The Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows. This presentation of the College's financial statements provides an overview of the College's financial activities for the year.

Statement of Net Assets

The Statement of Net Assets presents the assets, liabilities and net assets of the College at a point in time for the fiscal year ended and 2004. From data presented, readers of the Statement of Net Assets (SNA) are able to determine the assets (current and noncurrent) available to continue the operations of the College along with, liabilities, how much the College owes vendors (current and noncurrent). Ultimately, the SNA provides a snapshot of the net assets, (assets minus liabilities) and their availability for expenditure by the college.

Net assets are divided into three major categories. The first category, invested in capital assets, provides the institution's equity in property, plant and equipment owned by the institution. The next asset category is restricted net assets, which is divided into nonexpendable and expendable. The College has no restricted nonexpendable net assets. Restricted expendable net assets are available for expenditure by the College but must be spent for purposes specified by the external entity that placed restrictions on the use of the assets. The final category is unrestricted net assets, which are available to the college for any lawful purpose of the institution.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Condensed Statement of Net Assets, years ended June 30, 2003, and 2004

	<u>FYE 6/30/2003</u>	<u>FYE 6/30/2004</u>
Assets:		
Current Assets	\$ 2,712,314.94	\$ 2,792,218.99
Capital Assets, Net	11,767,462.72	11,590,849.19
Other Assets	<u>51,016.00</u>	<u>325,224.50</u>
Total Assets	<u>14,530,793.66</u>	<u>14,708,292.68</u>
Liabilities:		
Current Liabilities	427,283.53	289,674.56
Noncurrent Long-Term Liabilities	<u>489,604.81</u>	<u>1,059,103.14</u>
Total Liabilities	<u>916,888.34</u>	<u>1,348,777.70</u>
Net Assets:		
Invested in Capital Assets	11,767,462.72	11,590,849.19
Restricted:		
Expendable	747,884.11	927,225.36
Unrestricted	<u>1,098,558.49</u>	<u>841,439.98</u>
Total Net Assets	<u>\$ 13,613,905.32</u>	<u>\$ 13,359,514.53</u>

Total assets increased by \$177,499.02 from last year. This is a combination of factors. Cash increase significantly due to the receipt of \$110,914.00 from a private grant just before year end to be used in the 2004-2005 fiscal year. Due from Primary Government went up \$274,208.50 in the current year due to increase in construction bonds receivable for construction projects during the 2004-2005 year. Also, Capital Assets decreased \$176,613.53 due primarily to increases in accumulated depreciation of \$572,254.67, net increases in machinery and equipment of \$110,575.82, and increases in general infrastructure of \$138,155.00.

Total liabilities for the year increased \$431,889.36. The compensated absences liability increased by \$469,821.15. This amount increased mostly due to the approval by the Board of Trustees of 10 bonus days granted to all full-time faculty and staff.

The increase in assets of \$177,499.02 and the increase in liabilities of \$431,889.36 result in a net decrease in total net assets of \$254,390.79.

Statement of Revenues, Expenses, and Changes in Net Assets

Changes in total net assets as presented on the SNA are based on the activity offered in the Statement of Revenues, Expenses, and Changes in Net Assets (SRECNA). The purpose of the statement is to present the revenues received by the college, including operating and nonoperating, and expenses, both operating and nonoperating.

Generally, operating revenues are received for providing goods and services to various constituents of the college while operating expenses are expenses paid to acquire or produce those services to carry out the mission of the College. Operating revenues primarily include

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

student tuition and fees, and federal grants and contracts. The largest operating expense is for personal services. Nonoperating revenues include legislated funding such as State aid and County appropriations.

Condensed Statement of Revenues, Expenses, and Changes in Net Assets, years ended June 30, 2003, and 2004.

	<u>FYE 6/30/2003</u>	<u>FYE 6/30/2004</u>
Operating Revenues:		
Student Tuition and Fees, Net	\$ 1,282,922.05	\$ 1,307,477.21
Federal Grants and Contracts	2,329,610.04	2,886,762.54
State and Local Grants and Contracts	261,363.12	418,485.41
Sales and Services, Net	982,107.78	852,638.54
Other Operating Revenues	<u>2,031.96</u>	<u>2,031.96</u>
Total Operating Revenues	<u>4,856,002.99</u>	<u>5,467,395.66</u>
Nonoperating Revenues (Expenses)		
State Aid	9,125,714.26	8,338,777.75
County Appropriations	952,168.00	981,273.00
Noncapital Grants	288,813.61	670,686.06
Investment Income, Net	22,064.04	10,925.38
Other Nonoperating Revenue (Expense)	<u>28,349.25</u>	<u>(3,144.83)</u>
Total Nonoperating Revenues	<u>10,417,109.16</u>	<u>9,998,517.36</u>
Total Revenue	15,273,112.15	15,465,913.02
Operating Expenses	15,634,956.77	16,178,729.55
Capital Contribution	<u>753,012.12</u>	<u>458,425.74</u>
Increase (Decrease) in Net Assets	391,167.50	(254,390.79)
Net Assets - Beginning of Year	13,880,990.03	13,613,905.32
Restatements	<u>(658,252.21)</u>	<u> </u>
Net Assets End of Year	<u>\$ 13,613,905.32</u>	<u>\$ 13,359,514.53</u>

The following are highlights of the SRECNA. State aid decreased by \$786,936.51. This was due to a permanent decrease in the formula funding. Federal Grants and Contracts increased by \$557,152.50 due to the large number of students currently receiving Federal assistance due to unemployment and the increase base amount for Pell. State and local grants and contracts increased due to the College receiving a one-time local grant to

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

start a new program. Operating expenses increased by \$543,772.78. This was due an increase in Salaries and Benefits expenses of \$550,423.47.

Statement of Cash Flows

The Statement of Cash Flows presents detailed information about the cash activity of the College during the year. The statement is divided into the following five parts. Cash flows from operating activities shows the net cash used by the operating activities of the College. The second section reflects cash flows received and spent for noncapital financing activities. The next section, cash flow from capital and related financing activities, reflects cash flows used for the acquisition and construction of capital assets and related items. The fourth section reflects cash flows from investing activities. The last section of the statement reconciles the operating loss on the SRECNA to the cash used by operating activities.

Condensed Statement of Cash Flows

	<u>FYE 6/30/2003</u>	<u>FYE 6/30/2004</u>
Cash Flows Provided (Used) By:		
Operating Activities	\$ (9,936,343.36)	\$ (9,672,274.35)
Noncapital Financing Activities	10,334,884.70	9,990,736.81
Capital and Related Financing Activities	(58,451.13)	(211,423.45)
Investing Activities	<u>1,171,561.70</u>	<u>1,432.72</u>
Net Change in Cash	417,949.68	108,471.73
Cash - Beginning of Year	<u>753,612.02</u>	<u>1,171,561.70</u>
Cash - End of Year	<u><u>\$ 1,171,561.70</u></u>	<u><u>\$ 1,280,033.43</u></u>

The overall change in cash flows is not significant and is related primarily to the decrease in State Aid described in the previous discussion.

Capital Asset and Debt Administration

There were no significant changes with regard to capital assets FYE June 30, 2004. The College has no long-term debt.

Economic Outlook

The College has experienced large enrollment growth due to unemployment in the area. The College expects unusually high enrollment throughout 2004-2005. However, the College is expected to meet its goals and objectives in the upcoming year.

Cleveland Community College
Statement of Net Assets
June 30, 2004

Exhibit A-1

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 822,237.10
Restricted Cash and Cash Equivalents	457,796.33
Short-Term Investments	764,824.06
Receivables (Note 3)	235,294.33
Inventories	512,067.17
	<hr/>
Total Current Assets	2,792,218.99
	<hr/>

Noncurrent Assets:

Restricted Due From Primary Government	325,224.50
Capital Assets - Nondepreciable (Note 4)	525,898.00
Capital Assets - Depreciable, Net (Note 4)	11,064,951.19
	<hr/>
Total Noncurrent Assets	11,916,073.69
	<hr/>

Total Assets

14,708,292.68

LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 5)	206,521.97
Funds Held for Others	19,628.16
Long-Term Liabilities - Current Portion (Note 6)	63,524.43
	<hr/>
Total Current Liabilities	289,674.56
	<hr/>

Noncurrent Liabilities:

Long-Term Liabilities (Note 6)	1,059,103.14
	<hr/>

Total Liabilities

1,348,777.70

NET ASSETS

Invested in Capital Assets 11,590,849.19

Restricted for:

Expendable:

Scholarships and Fellowships	750.00
Capital Projects	471,180.82
Other	455,294.54

Unrestricted

841,439.98

Total Net Assets

\$ 13,359,514.53

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

***Cleveland Community College
Statement of Revenues, Expenses, and
Changes in Net Assets
For the Fiscal Year Ended June 30, 2004***

Exhibit A-2

REVENUES

Operating Revenues:

Student Tuition and Fees, Net (Note 7)	\$ 1,307,477.21
Federal Grants and Contracts	2,886,762.54
State and Local Grants and Contracts	418,485.41
Sales and Services, Net (Note 7)	852,638.54
Other Operating Revenues	2,031.96

Total Operating Revenues	5,467,395.66
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EXPENSES

Operating Expenses:

Salaries and Benefits	9,656,735.29
Supplies and Materials	2,260,521.76
Services	1,489,207.28
Scholarships and Fellowships	1,915,560.29
Utilities	284,450.26
Depreciation	572,254.67

Total Operating Expenses	16,178,729.55
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Operating Loss	(10,711,333.89)
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NONOPERATING REVENUES (EXPENSES)

State Aid	8,338,777.75
County Appropriations	981,273.00
Noncapital Grants	670,686.06
Investment Income, Net	10,925.38
Other Nonoperating Expenses	(3,144.83)

Net Nonoperating Revenues	9,998,517.36
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Loss Before Other Revenues	(712,816.53)
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State Capital Aid	428,041.29
County Capital Appropriations	30,384.45

Decrease in Net Assets	(254,390.79)
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NET ASSETS

Net Assets, July 1, 2003	13,613,905.32
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Net Assets, June 30, 2004	\$ 13,359,514.53
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The accompanying notes to the financial statements are an integral part of this statement.

***Cleveland Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2004***

Exhibit A-3

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 5,459,621.41
Payments to Employees and Fringe Benefits	(9,167,130.88)
Payments to Vendors and Suppliers	(4,144,187.96)
Payments for Scholarships and Fellowships	(1,816,390.00)
Other Payments	(4,186.92)

Net Cash Used by Operating Activities	(9,672,274.35)
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CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Aid Received	8,338,777.75
County Appropriations	981,273.00
Noncapital Grants Received	670,686.06

Net Cash Provided by Noncapital Financing Activities	9,990,736.81
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CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

State Capital Aid Received	153,833.24
County Capital Appropriations	30,384.45
Proceeds from Sale of Capital Assets	3,144.83
Acquisition and Construction of Capital Assets	(398,785.97)

Net Cash Used by Capital and Related Financing Activities	(211,423.45)
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CASH FLOWS FROM INVESTING ACTIVITIES

Investment Income	1,432.72
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Net Increase in Cash and Cash Equivalents	108,471.73
Cash and Cash Equivalents, July 1, 2003	1,171,561.70

Cash and Cash Equivalents, June 30, 2004	\$ 1,280,033.43
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**RECONCILIATION OF OPERATING LOSS
TO NET CASH USED BY OPERATING ACTIVITIES**

Operating Loss	\$ (10,711,333.89)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	572,254.67
Other Nonoperating Expenses	(3,144.83)
Changes in Assets and Liabilities:	
Receivables, Net	94,540.87
Inventories	(56,480.53)
Accounts Payable and Accrued Liabilities	(33,744.87)
Funds Held for Others	(4,186.92)
Compensated Absences	469,821.15

Net Cash Used by Operating Activities	\$ (9,672,274.35)
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***Cleveland Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2004***

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

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:

Cash and Cash Equivalents	\$	822,237.10
Restricted Cash and Cash Equivalents		<u>457,796.33</u>

Total Cash and Cash Equivalents - June 30, 2004	\$	<u><u>1,280,033.43</u></u>
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NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Change in Fair Value of Investments	\$	10,235.84
Increase in Receivables Related to Nonoperating Income		274,208.05
Capital Asset Write-Offs		19,622.79

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

Cleveland Community College Foundation, Inc.
Statement of Financial Position
June 30, 2004

Exhibit B-1

ASSETS

Cash	\$	127,644
Certificates of Deposit		878,580
Investments		578,938
Accrued Interest Receivable		4,525
Promises to give, net		939,812
Assets Held for sale		<u>2,140,000</u>
Total Assets		<u>4,669,499</u>

LIABILITIES

Liabilities		<u>1,500,000</u>
Total Liabilities		<u>1,500,000</u>

NET ASSETS

Unrestricted		217,952
Temporarily Restricted		<u>2,951,547</u>
Total Net Assets		<u>3,169,499</u>
Total Liabilities and Net Assets	\$	<u><u>4,669,499</u></u>

See Note 1 in the Notes to the Financial Statements

Cleveland Community College Foundation, Inc.
Statement of Activities
For the Year Ended June 30, 2004

Exhibit B-2

	Unrestricted	Temporarily Restricted	Total
Revenue and Other Support:			
Contributions	\$ 6,410	\$ 1,238,501	\$ 1,238,501
Investment Earnings		5,879	12,289
Tangible Gifts		644,350	644,350
Satisfaction of Program Restrictions	25,667	(25,667)	
	<u>32,077</u>	<u>1,863,063</u>	<u>1,895,140</u>
Expenses:			
Programs			
Support for Students and Programs of Cleveland Community College: Scholarships and Programs	11,848		11,848
Support			
Management and General	13,935	1,238	15,173
Fund Raising	2,760	1,236	3,996
Interest Expense		25,667	25,667
	<u>28,543</u>	<u>28,141</u>	<u>56,684</u>
Other Gains & Losses:			
Gain on disposal of assets	3,231		3,231
Unrealized gain on assets	14,552		14,552
Total other Gains & Losses	<u>17,783</u>		<u>17,783</u>
Increase in Net Assets	<u>21,317</u>	<u>1,834,922</u>	<u>1,856,239</u>
NET ASSETS			
Net Assets - Beginning of Year	<u>1,014,688</u>	<u>298,572</u>	<u>1,313,260</u>
Recharacterizations of Net Assets	(818,053)	818,053	
Net Assets - End of Year	<u>\$ 1,036,005</u>	<u>\$ 2,133,494</u>	<u>\$ 3,169,499</u>

See Note 1 in the Notes to the Financial Statements

**CLEVELAND 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. Cleveland 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. The College's component unit is discretely presented in the financial statements. The discretely presented component unit's financial data is reported in separate financial statements because of its use of different GAAP reporting models and to emphasize its legal separateness.

Discretely Presented Component Unit - Cleveland Community College 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.

Cleveland Community College Foundation, Inc., (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 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 \$11,848 to the College for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from U.L. Patterson, III, Executive Director of the Foundation.

- 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 petty cash and cash on deposit with private bank accounts.
- E. Investments** - This classification includes certificates of deposit.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- F. Receivables** - Receivables consist of tuition and fees charges to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from the federal government, State and local governments, private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants. Receivables are shown at book value with no provision for doubtful accounts.
- G. Inventories** - Inventories, consisting of expendable supplies, are valued at cost using either the first-in, first-out. Merchandise for resale is valued using the retail inventory 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 expensed in the year of acquisition.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 15 to 75 years for general infrastructure, 10 to 50 years for buildings, and 3 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 consist of 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 July 1st 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 bonuses awarded by the College to all full-time permanent employees as

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

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

NOTE 2 - DEPOSITS AND INVESTMENTS

- A. Deposits** - All funds of the College are deposited in board-designated official depositories and are required to be collateralized in accordance 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 \$1,835.00. The carrying amount of cash on deposit was \$2,043,022.49 and the bank balance was \$2,145,234.24. 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 2004, \$200,000.00 of the bank balance was covered by federal depository insurance, \$1,945,234.24 was covered by collateral held by an authorized escrow agent in the name of the State Treasurer (pooling method).

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

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

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

At June 30, 2004, the College held certificates of deposit in the amount of \$764,824.06 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 3 - RECEIVABLES

Receivables at June 30, 2004, were as follows:

	Amount
Current Receivables:	
Students	\$ 170,576.14
Accounts	59,882.05
Intergovernmental	3,491.93
Investment Earnings	1,344.21
Total Current Receivables	\$ 235,294.33

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	\$ 458,400.00	\$ 0.00	\$ 0.00	\$ 458,400.00
Construction in Progress		67,498.00		67,498.00
Total Capital Assets, Nondepreciable	458,400.00	67,498.00		525,898.00
Capital Assets, Depreciable:				
Buildings	15,013,077.17			15,013,077.17
Machinery and Equipment	2,078,444.26	193,132.97	82,557.15	2,189,020.08
General Infrastructure	115,709.06	138,155.00		253,864.06
Total Capital Assets, Depreciable	17,207,230.49	331,287.97	82,557.15	17,455,961.31
Less Accumulated Depreciation:				
Buildings	4,918,963.61	390,055.44		5,309,019.05
Machinery and Equipment	920,828.55	179,980.01	79,412.32	1,021,396.24
General Infrastructure	58,375.61	2,219.22		60,594.83
Total Accumulated Depreciation	5,898,167.77	572,254.67	79,412.32	6,391,010.12
Total Capital Assets, Depreciable, Net	11,309,062.72	(240,966.70)	3,144.83	11,064,951.19
Capital Assets, Net	\$ 11,767,462.72	\$ (173,468.70)	\$ 3,144.83	\$ 11,590,849.19

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	Amount
Accounts Payable	\$ 31,514.13
Accrued Payroll	175,007.84
Total Accounts Payable and Accrued Liabilities	\$ 206,521.97

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	\$ 652,806.42	\$ 758,786.67	\$ 288,965.52	\$ 1,122,627.57	\$ 63,524.43

NOTE 7 - REVENUES

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

	Gross Revenues	Less Scholarship Discounts	Net Revenues
Operating Revenues:			
Student Tuition and Fees	\$ 1,984,789.38	\$ 677,312.17	\$ 1,307,477.21
Sales and Services:			
Sales and Services of Auxiliary Enterprises:			
Bookstore	\$ 1,207,570.02	\$ 451,541.44	\$ 756,028.58
Cosmetology Fees	42,881.96		42,881.96
Vending Operations	10,101.00		10,101.00
Snackbar	9,062.00		9,062.00
Other	34,565.00		34,565.00
Total Sales and Services	\$ 1,304,179.98	\$ 451,541.44	\$ 852,638.54

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 8 - 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	\$ 6,345,230.15	\$ 653,695.63	\$ 540,409.84	\$ 0.00	\$ 0.00	\$ 0.00	\$ 7,539,335.62
Academic Support	929,228.15	360,657.76	106,351.27				1,396,237.18
Student Services	507,065.11	31,876.74	80,999.97				619,941.82
Institutional Support	1,388,287.61	134,631.96	711,829.11				2,234,748.68
Operations and Maintenance of Plant	414,156.66	80,922.09	46,431.61		284,450.26		825,960.62
Student Financial Aid				1,915,560.29			1,915,560.29
Auxiliary Enterprises	72,767.61	998,737.58	3,185.48				1,074,690.67
Depreciation						572,254.67	572,254.67
Total Operating Expenses	<u>\$ 9,656,735.29</u>	<u>\$ 2,260,521.76</u>	<u>\$ 1,489,207.28</u>	<u>\$ 1,915,560.29</u>	<u>\$ 284,450.26</u>	<u>\$ 572,254.67</u>	<u>\$ 16,178,729.55</u>

NOTE 9 - 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 \$7,916,439.48, of which \$6,269,812.30 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were \$376,188.75 and \$13,793.63, respectively. The College made 100 percent of its annual required contributions for the years ended June 30, 2004, 2003, and 2002, which were \$13,793.63, \$0.00, and \$111,141.94, respectively.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

- B. Deferred Compensation and Supplemental Retirement Income Plans** - IRC Section 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). The voluntary contributions by employees amounted to \$64,356.00 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 \$14,460.00 for the year ended June 30, 2004.

NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS

- A. Health Care for Long-Term Disability Beneficiaries and Retirees** - The College participates in State-administered programs which provide postemployment health insurance to eligible former employees. Eligible former employees include long-term disability beneficiaries of the Disability Income Plan of North Carolina and retirees of the Teachers' and State Employees' Retirement System. These benefits were established by Chapter 135, Article 3, Part 3, of the General Statutes and may be amended only by the North Carolina General Assembly. Funding for the health care benefit for long-term disability beneficiaries and retirees is financed on a pay-as-you-go basis. The College contributed 3.2% of the covered payroll under the Teachers' and State Employees' Retirement System for these health care benefits. For the fiscal year ended June 30, 2004, the College's total contribution to the Plan was \$200,634.03. The College assumes no liability for retiree health care

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 11 - 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 contracts with private insurance companies. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

State-owned vehicles used for instructional purposes are covered by liability insurance handled by the State Department of Insurance. Liability insurance

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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. To protect itself from losses the College has purchased honesty bond insurance from a private insurance company covering County and Institutional funds paid employees.

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 12 - 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 \$338,465.00 at June 30, 2004.
- B. **Community College General Obligation Bonds** - The 1999-2000 Session of the General Assembly of North Carolina authorized the issuance of \$600 million of general obligation bonds of the State, as subsequently approved by a vote of qualified voters of the State, to provide funds for capital improvements for the North Carolina Community College System. The funds authorized are to be used solely

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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 \$4,745,880.00 is contingent on future bond sales and CCSO allotment approval. Because of uncertainty and time restrictions the remaining authorization is not recorded as an asset or revenue on the accompanying financial statements.

NOTE 13 - 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.

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

Schedule 1

Capital Improvement Projects	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>Projects Approved by the State Board</i>									
Classroom Building Project #1287	Jan. 2003	Mar. 2004	\$ 3,887,036.00	\$ 1,512,964.00	\$ 5,400,000.00	\$ 24,151.00	0.45%	Jul. 2005	Jul. 2006
General Repairs & Renovations Project #1370	Jul. 2003	Feb. 2004	230,000.00		230,000.00	169,171.00	73.55%	Mar. 2004	Oct. 2004
<i>Projects Pending Approval by the State Board</i>									
Replace/Modify Mechanical Systems	Jan. 2005	Jan. 2005	225,000.00		225,000.00			Sept. 2005	Sept. 2005
Reroofing Campus Center Building	Jul. 2005	Jul. 2005	500,000.00		500,000.00			Mar. 2007	Mar. 2007
Undetermined Repairs and Renovations Projects	Jan. 2006	Aug. 2004	297,104.00		297,104.00			Apr. 2005	Apr. 2005
Total All Projects			\$ 5,139,140.00	\$ 1,512,964.00	\$ 6,652,104.00	\$ 193,322.00			

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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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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Director, Fiscal Research Division

June 27, 2005

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