



STATE OF NORTH CAROLINA

FINANCIAL STATEMENT REVIEW REPORT OF EDGECOMBE COMMUNITY COLLEGE

TARBORO, 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

EDGECOMBE COMMUNITY COLLEGE

TARBORO, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2004

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THE NORTH CAROLINA COMMUNITY COLLEGE SYSTEM

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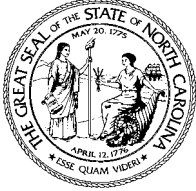
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Leslie W. Merritt, Jr., CPA, CFP
State Auditor

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, Edgecombe Community College

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

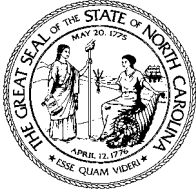
North Carolina General Statutes require the State Auditor to make reports available to the public. Copies of review reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.

Leslie W. Merritt, Jr.

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

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Office of the State Auditor

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INDEPENDENT ACCOUNTANT'S REVIEW REPORT

Board of Trustees
Edgecombe Community College
Tarboro, North Carolina

We have reviewed the accompanying basic financial statements of Edgecombe Community College, a component unit of the State of North Carolina, as of and for the year ended June 30, 2004, as listed in the table of contents. We conducted our review in accordance with *Statements on Standards for Accounting and Review Services* issued by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the College's management.

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

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

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

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

Leslie W. Merritt, Jr.

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

May 31, 2005

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis is management's interpretation of the financial data presented in the enclosed statements. These statements are formatted as prescribed by the Governmental Accounting Standards Board in its Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* and as amended by Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*. These GASB statements have additional reporting requirements. These additional requirements include: recording the depreciation of fixed assets, capitalizing infrastructure assets, expensing library acquisitions, and eliminating duplicate revenues and expenses associated with the College's internal service fund activities and financial aid.

The basic financial statements give the reader a snapshot of the financial status of the College and the results of the College's activities for the year reported. This snapshot is reported in the Statement of Net Assets, Statement of Revenues, Expenses, and Changes in Net Assets, and the Statement of Cash Flows. Each statement is a single column presentation that combines all College funds. The Statement of Net Assets is the snapshot as of the reporting date that reflects the summary accumulation of all College activities from its inception. This statement lists the accumulation of assets, both current assets (those that have high liquidity), and noncurrent assets (those that have less liquidity and/or are likely to remain intact beyond the next twelve months), reduced by current and noncurrent obligations. The Statement of Revenues, Expenses, and Changes in Net Assets summarizes the operating and nonoperating financial transactions for the fiscal year being reported. Under the reporting requirements of GASB Statements No. 34 and 35, operating transactions are those transactions that result from an exchange of resources to acquire products or services offered by the College as a part of its primary mission. Nonoperating transactions are those activities of a financial nature that are ancillary to the primary mission of the College. The sum of all financial transactions for the year will either increase or decrease the College's net assets for the fiscal year. The Statement of Cash Flows categorizes and summarizes transactions affecting cash and cash equivalents into operating, noncapital financing, capital financing, and investing activities. The net of all cash activity transactions is the net change in cash and cash equivalents for the year.

The College's assets consist primarily of its investment in buildings, infrastructure, and equipment reduced by accumulated depreciation. Although the original cost of the College's capital assets has been reduced by accumulated depreciation (an estimate of the decreased value from usage), the reader should consider that the replacement value of the assets is far greater than the amounts presented. Also, with the implementation of GASB Statements No. 34 and 35, the College no longer records the value of its library holdings. The annual amount expended for library books and audio-visuals is now considered an operating expense and is reflected as such on the Statement of Revenues, Expenses, and Changes in Net Assets.

The College allows employees to accumulate vacation leave according to the stated leave policy. The financial obligation for this accumulated leave is recorded as a long-term liability

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

at June 30, 2004. It is assumed that an employee uses their vacation on a last-in, first-out basis with the portion estimated to be taken during the next fiscal year included as "long-term liability - current portion." Vacation leave expense for the current year is reported as personal services on the Statement of Revenues, Expenses, and Changes in Net Assets. The accrued expenses for earned leave are not supported by revenues in the current year, but are supported by State appropriations in the subsequent years when the leave is taken.

The long-term liability for leave increased \$197,877 due primarily to the 10 days of bonus leave that was granted in July 2003.

The Statement of Revenues, Expenses, and Changes in Net Assets reflects an operating loss of \$11 million. This loss results from several factors. The most significant factor is that State and county appropriations are not considered as operating revenues but are reflected in the nonoperating revenues section. Other factors are unfunded expenses and operating expenses that are funded with nonoperating sources. Unfunded expenses include depreciation expenses and vacation leave, earned expenses that are included as operating expenses but do not have any associated revenue source. The operating revenues increased \$952,000 (15.2%) and State aid for current expense increased \$835,000 (10.9%). The increase in revenue is the result of an increase of 235 (11.3%) in funded FTE. As we geared up to serve the tremendous enrollment growth that we are enjoying, operating expenses also increased by almost \$2.2 million (13.7%).

We received beneficial occupancy of the Arts, Civic and Technology (ACT) project in May 2004 and permanent occupancy in October 2004. The expenses associated with the ACT project accounted for the \$6.1 million increase in nondepreciable capital assets.

The College has experienced another increase in enrollment of 146 FTE (6.3%) during the year. Our enrollment has increased from 1,779 FTE in the 2001-02 funding year to 2,307 FTE in the 2003-04 funding year to 2,453 FTE for the 2004-05 funding year. That is a 37.9 percent increase in three years.

This financial report is designed to provide the reader with a general overview of Edgecombe Community College's finances and to show the College's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the College's business office.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Condensed Statement of Net Assets as of June 30,

	2004	2003	Increase/ (Decrease)
Assets			
Current Assets	\$ 1,007,157.29	\$ 1,011,796.03	\$ (4,638.74)
Noncurrent Assets	18,221,630.80	14,866,236.39	3,355,394.41
	19,228,788.09	15,878,032.42	3,350,755.67
Liabilities			
Current Liabilities	1,075,812.51	1,128,353.86	(52,541.35)
Noncurrent Liabilities	1,599,584.01	2,641,174.28	(1,041,590.27)
	2,675,396.52	3,769,528.14	(1,094,131.62)
Net Assets			
Invested in Capital Assets	16,592,979.91	10,548,551.30	6,044,428.61
Restricted	(143,453.25)	813,383.54	(956,836.79)
Unrestricted	103,864.91	746,569.44	(642,704.53)
	\$ 16,553,391.57	\$ 12,108,504.28	\$ 4,444,887.29

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

Condensed Statement of Revenues, Expenses, and Changes in Net Assets For The Years Ended June 30,

	<u>2004</u>	<u>2003</u>	<u>Increase/ (Decrease)</u>
Operating Revenues			
Student Tuition and Fees, Net	\$ 1,064,758.70	\$ 806,160.98	\$ 258,597.72
Federal Grants and Contracts	5,284,233.90	4,891,059.15	393,174.75
State and Local Grants and Contracts	436,264.50	95,944.35	340,320.15
Sales and Services, Net	412,057.44	452,987.15	(40,929.71)
Other Operating Revenues	690.25		690.25
	<u>7,198,004.79</u>	<u>6,246,151.63</u>	<u>951,853.16</u>
Total Operating Revenues			
Less Operating Expenses	<u>18,273,845.95</u>	<u>16,070,023.85</u>	<u>2,203,822.10</u>
Net Operating Loss	<u>(11,075,841.16)</u>	<u>(9,823,872.22)</u>	<u>(1,251,968.94)</u>
Nonoperating Revenues			
State Aid	8,468,536.71	7,633,741.09	834,795.62
County Appropriations	781,479.00	646,950.00	134,529.00
Noncapital Grants and Gifts	568,033.67	540,969.25	27,064.42
Other Nonoperating Revenues	132,409.27	266,126.99	(133,717.72)
	<u>9,950,458.65</u>	<u>9,087,787.33</u>	<u>862,671.32</u>
Total Nonoperating Revenues			
Capital Revenues			
State Capital Aid	3,761,656.58	1,403,034.70	2,358,621.88
County Capital Appropriations	200,000.00	200,000.04	(0.04)
Capital Grants and Gifts	1,608,613.22		1,608,613.22
	<u>5,570,269.80</u>	<u>1,603,034.74</u>	<u>3,967,235.06</u>
Total Capital Revenues			
Increase in Net Assets	4,444,887.29	866,949.85	3,577,937.44
Net Assets, Beginning	<u>12,108,504.28</u>	<u>11,241,554.43</u>	<u>866,949.85</u>
Net Assets, Ending	<u>\$ 16,553,391.57</u>	<u>\$ 12,108,504.28</u>	<u>\$ 4,444,887.29</u>

Edgecombe Community College
Statement of Net Assets
June 30, 2004

Exhibit A-1

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 135,599.43
Restricted Cash and Cash Equivalents	174,425.82
Receivables, Net (Note 3)	375,045.26
Inventories	320,101.80
Prepaid Items	1,984.98
	<hr/>
Total Current Assets	1,007,157.29

Noncurrent Assets:

Restricted Cash and Cash Equivalents	930,986.31
Restricted Due from Primary Government	697,664.58
Capital Assets - Nondepreciable (Note 4)	11,806,368.06
Capital Assets - Depreciable, Net (Note 4)	4,786,611.85
	<hr/>
Total Noncurrent Assets	18,221,630.80

Total Assets	<hr/> <hr/> 19,228,788.09
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LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 5)	865,437.55
Due to State of North Carolina Component Units	2,954.95
Deferred Revenue	152,320.01
Long-Term Liabilities - Current Portion (Note 6)	55,100.00
	<hr/>
Total Current Liabilities	1,075,812.51

Noncurrent Liabilities:

Funds Held for Others	931,097.30
Long-Term Liabilities (Note 6)	668,486.71
	<hr/>
Total Noncurrent Liabilities	1,599,584.01

Total Liabilities	<hr/> <hr/> 2,675,396.52
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NET ASSETS

Invested in Capital Assets	16,592,979.91
Restricted for:	
Expendable:	
Scholarships and Fellowships	20,336.01
Capital Projects	(278,402.58)
Other	114,613.32
Unrestricted	103,864.91
	<hr/>
Total Net Assets	<hr/> <hr/> \$ 16,553,391.57

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

***Edgecombe 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 8)	\$ 1,064,758.70
Federal Grants and Contracts	5,284,233.90
State and Local Grants and Contracts	436,264.50
Sales and Services, Net (Note 8)	412,057.44
Other Operating Revenues	690.25

Total Operating Revenues	7,198,004.79
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EXPENSES

Operating Expenses:

Salaries and Benefits	10,838,366.36
Supplies and Materials	2,180,492.90
Services	1,816,553.49
Scholarships and Fellowships	2,839,982.31
Utilities	314,060.89
Depreciation	284,390.00

Total Operating Expenses	18,273,845.95
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Operating Loss	(11,075,841.16)
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NONOPERATING REVENUES

State Aid	8,468,536.71
County Appropriations	781,479.00
Noncapital Grants	568,033.67
Noncapital Gifts	99,389.25
Investment Income, Net	15,108.79
Other Nonoperating Revenues	17,911.23

Net Nonoperating Revenues	9,950,458.65
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Loss Before Other Revenues	(1,125,382.51)
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State Capital Aid	3,761,656.58
County Capital Appropriations	200,000.00
Capital Grants	8,613.22
Capital Gifts	1,600,000.00

Increase in Net Assets	4,444,887.29
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NET ASSETS

Net Assets, July 1, 2003	12,108,504.28
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Net Assets, June 30, 2004	\$ 16,553,391.57
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The accompanying notes to the financial statements are an integral part of this statement.

Edgecombe 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	\$ 7,176,074.97
Payments to Employees and Fringe Benefits	(10,631,328.50)
Payments to Vendors and Suppliers	(4,401,981.81)
Payments for Scholarships and Fellowships	(2,839,982.31)
Other Payments	(1,192,456.21)

Net Cash Used by Operating Activities	(11,889,673.86)
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CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Aid Received	8,468,536.71
County Appropriations	781,479.00
Noncapital Grants Received	568,033.67
Noncapital Gifts and Endowments Received	99,389.25

Cash Provided by Noncapital Financing Activities	9,917,438.63
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CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

State Capital Aid Received	5,287,696.47
County Capital Appropriations	200,000.00
Capital Grants Received	8,613.22
Capital Gifts Received	1,600,000.00
Proceeds from Sale of Capital Assets	12,333.82
Acquisition and Construction of Capital Assets	(6,517,329.43)

Net Cash Provided by Capital and Related Financing Activities	591,314.08
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CASH FLOWS FROM INVESTING ACTIVITIES

Investment Income	18,758.66
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Net Decrease in Cash and Cash Equivalents	(1,362,162.49)
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Cash and Cash Equivalents, July 1, 2003	2,603,174.05
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Cash and Cash Equivalents, June 30, 2004	\$ 1,241,011.56
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**RECONCILIATION OF OPERATING LOSS
TO NET CASH USED BY OPERATING ACTIVITIES**

Operating Loss	\$ (11,075,841.16)
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Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:

Depreciation Expense	284,390.00
Miscellaneous Nonoperating Income	17,911.23

Changes in Assets and Liabilities:

Receivables, Net	(93,036.29)
Inventories	(105,789.54)
Prepaid Items	646.52
Accounts Payable and Accrued Liabilities	24,228.47
Dut to State of North Carolina Component Units	(799.29)
Deferred Revenue	71,106.47
Funds Held for Others	(1,210,367.44)
Compensated Absences	197,877.17

Net Cash Used by Operating Activities	\$ (11,889,673.86)
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EDGECOMBE 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. Edgecombe Community College is a component unit of the State of North Carolina and an integral part of the State's *Comprehensive Annual Financial Report*.

The accompanying financial statements present all funds for which the College's Board of Trustees is financially accountable. Related foundations and similar nonprofit corporations for which the College is not financially accountable or for which the nature of their relationship is not considered significant to the College are not part of the accompanying financial statements.

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- C. Basis of Accounting** - The financial statements of the College have been prepared using the economic resource measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.
- D. Cash and Cash Equivalents** – This classification includes undeposited receipts, petty cash, cash on deposit with private bank accounts, and deposits held by the State Treasurer in the short-term investment portfolio. The short-term investment portfolio maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.
- E. 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 that are verifiable, measurable, and expected to be collected and available for expenditures for which the resource provider's conditions have been satisfied. Receivables are recorded net of estimated uncollectible amounts.
- F. Inventories** – Inventories, consisting of expendable supplies and merchandise for resale, are valued at the lower of cost or market using the last invoice cost 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 and/or units of output method over the estimated useful lives of the assets, generally 10 to 25 years for general infrastructure, 15 to 40 years for buildings, and three 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 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 as approved by the county commissioners.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 \$410.00. The carrying amount of cash on deposit was \$1,240,601.56 and the bank balance was \$1,436,710.82.

The North Carolina Administrative Code (20 NCAC 7) requires all depositories to collateralize public deposits in excess of federal depository insurance coverage by using one of two methods, dedicated or pooled. Under the dedicated method, a separate escrow account is established by each depository in the name of each local governmental unit and the responsibility of monitoring collateralization rests with the local unit. Under the pooling method, each depository establishes an escrow account in the name of the State Treasurer to secure all of its public deposits. This method shifts the monitoring responsibility from the local unit to the State Treasurer.

Cash on deposit at year end consisted of the following:

	Book Balance	Bank Balance
Cash on Deposit with State Treasurer	\$ 1,231,935.18	\$ 1,395,940.96
Cash on Deposit with Private Financial Institutions	8,666.38	40,769.86
	\$ 1,240,601.56	\$ 1,436,710.82

The cash on deposit with the State Treasurer is pooled with State agencies and similar institutions in short-term investments with the State Treasurer’s Investment Pool. These moneys are invested in accordance with General Statutes 147-69.1(c) and 147-69.2, and as required by law are “readily convertible into cash.” All investments of the fund are held either by the Department of State Treasurer or agent in the State’s name. The fund’s uninvested cash is either covered by federal depository insurance or, pursuant to 20 NCAC 7, is collateralized under either the dedicated or pooling method.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

All of the cash on deposit with private financial institutions at June 30, 2004, was covered by federal depository insurance.

NOTE 3 - RECEIVABLES

Receivables at June 30, 2004, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	\$ 81,045.29	\$ 2,780.00	\$ 78,265.29
Accounts	91,489.78	2,775.00	88,714.78
Intergovernmental	208,065.19		208,065.19
Total Current Receivables	\$ 380,600.26	\$ 5,555.00	\$ 375,045.26

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	\$ 883,463.71	\$ 0.00	\$ 0.00	\$ 883,463.71
Construction in Progress	4,774,693.22	6,148,211.13		10,922,904.35
Total Capital Assets, Nondepreciable	5,658,156.93	6,148,211.13		11,806,368.06
Capital Assets, Depreciable:				
Buildings	7,661,664.33		91,497.49	7,570,166.84
Machinery and Equipment	1,405,983.26	192,941.30	101,133.44	1,497,791.12
General Infrastructure	329,308.91			329,308.91
Total Capital Assets, Depreciable	9,396,956.50	192,941.30	192,630.93	9,397,266.87
Less Accumulated Depreciation:				
Buildings	3,368,905.69	189,254.16	91,497.49	3,466,662.36
Machinery and Equipment	808,347.53	95,135.84	88,799.62	814,683.75
General Infrastructure	329,308.91			329,308.91
Total Accumulated Depreciation	4,506,562.13	284,390.00	180,297.11	4,610,655.02
Total Capital Assets, Depreciable, Net	4,890,394.37	(91,448.70)	12,333.82	4,786,611.85
Capital Assets, Net	\$ 10,548,551.30	\$ 6,056,762.43	\$ 12,333.82	\$ 16,592,979.91

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	\$ 273,328.83
Accrued Payroll	31,372.59
Contract Retainage	542,347.00
Other	18,389.13
Total Accounts Payable and Accrued Liabilities	\$ 865,437.55

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	\$ 525,709.54	\$ 489,683.93	\$ 291,806.76	\$ 723,586.71	\$ 55,100.00

NOTE 7 - OPERATING LEASE OBLIGATIONS

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

Fiscal Year	Amount
2005	\$ 62,215.08
2006	62,215.08
2007	61,913.84
2008	37,419.95
Total Minimum Lease Payments	\$ 223,763.95

Rental expense for all operating leases during the year was \$56,369.91.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 8 - 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	\$ 2,097,472.16	\$ 1,032,713.46	\$ 1,064,758.70
Sales and Services:			
Sales and Services of Auxiliary Enterprises:			
Bookstore	\$ 946,676.59	\$ 611,734.72	\$ 334,941.87
Other	35,825.82		35,825.82
Sales and Services of Educational and Related Activities	41,289.75		41,289.75
Total Sales and Services	\$ 1,023,792.16	\$ 611,734.72	\$ 412,057.44

NOTE 9 - OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	\$ 6,766,473.38	\$ 835,756.59	\$ 468,277.41	\$ 210,260.00	\$ 0.00	\$ 0.00	\$ 8,280,767.38
Public Service	15,997.39		9,766.41				25,763.80
Academic Support	1,072,670.64	56,659.16	59,973.84				1,189,303.64
Student Services	1,259,131.92	35,278.64	144,465.83	281,807.73			1,720,684.12
Institutional Support	1,419,309.86	164,589.60	265,497.01				1,849,396.47
Operations and Maintenance of Plant	269,186.06	345,332.07	118,527.76		314,060.89		1,047,106.78
Student Financial Aid			736,898.45	2,347,914.58			3,084,813.03
Auxiliary Enterprises	35,597.11	742,876.84	13,146.78				791,620.73
Depreciation						284,390.00	284,390.00
Total Operating Expenses	\$ 10,838,366.36	\$ 2,180,492.90	\$ 1,816,553.49	\$ 2,839,982.31	\$ 314,060.89	\$ 284,390.00	\$ 18,273,845.95

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 \$9,151,659.42, of which \$7,841,560.80 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were \$470,493.65 and \$17,251.43, respectively. The College made 100 percent of its annual required contributions for the years ended June 30, 2004, 2003, and 2002, which were \$17,251.43, \$0.00, and \$137,138.22, respectively.

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

B. Deferred Compensation and Supplemental Retirement Income Plans - IRC Section 457 Plan - The State of North Carolina offers its permanent employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 through the North Carolina Public Employee Deferred Compensation Plan (the Plan). The Plan permits each participating employee to defer a portion of his or her salary until future years. The deferred compensation is available to employees upon separation from service, death, disability, retirement, or financial hardships if approved by the Board of Trustees of the Plan. The Board, a part of the North Carolina Department of Administration, maintains a separate fund for the exclusive benefit of the participating employees and their beneficiaries, *the North Carolina Public Employee Deferred Compensation Trust Fund*. The Board also contracts with an external third party to perform certain administrative requirements and to manage the trust fund's assets. All costs of administering and funding the Plan are the responsibility of the Plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to \$20,750.00 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

by the College. The voluntary contributions by employees amounted to \$153,669.00 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 \$103,189.00 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' Retirement System for these health care benefits. For the fiscal year ended

June 30, 2004, the College's total contribution to the Plan was \$250,929.95. 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 \$10,000,000 self-insured deductible per occurrence. Reinsurance is purchased by the fund to cover catastrophic events in excess of the \$10,000,000 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. In addition, the College has a blanket honesty bond for all College employees with coverage of \$10,000 per occurrence.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 \$50,057.91 and on other purchases were \$52,259.67 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 dollars of general obligation bonds of the State, as subsequently approved by a vote of qualified voters of the State, to provide funds for capital improvements for the North Carolina Community College System. The funds authorized are to be used solely to construct new buildings and to renovate and modernize existing buildings on the North Carolina Community College System campuses. The bond legislation specifies the amount of bond funding for each College campus as well as the intended amount for new construction and repair and replacement. The legislation further provides that the State Board of Community Colleges shall be responsible for the approval of projects in accordance with provisions of the legislation. The bonds were authorized for issuance over a six-year period beginning in 2001 at a level not to exceed amounts provided in the legislation. Using a cash flow financing approach, The Community College System's Office (CCSO)

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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 \$824,703.00 is contingent on future bond sales and CCSO allotment approval. Because of uncertainty and time restrictions the remaining authorization is not recorded as an asset or revenue on the accompanying financial statements.

NOTE 14 - EDGECOMBE COMMUNITY COLLEGE FOUNDATION, INC.

The Edgewcombe Community College Foundation, Inc. is a separately incorporated nonprofit foundation associated with the College. This organization serves as the primary fundraising arm of the College through which individuals, corporations, and other organizations support College programs by providing scholarships, fellowships, faculty salary supplements, and unrestricted funds to specific departments and the College's overall academic environment. The College's financial statements do not include the assets, liabilities, net assets, or operational transactions of the Foundation, except for the distributions made and benefits provided by the Foundation. The distributions received and/or benefits provided approximated \$1,663,000.00 for the year ended June 30, 2004.

NOTE 15 - 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.

***Edgecombe 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>									
ACT Project, Project No. 1078	Dec 2000	Dec 2000	\$ 6,756,814.00	\$ 4,300,000.00	\$ 11,056,814.00	\$ 10,309,022.47	93.24%	Dec 2003	Nov 2004
Various Repairs and Renovations - Rocky Mount	Jul 2002	Sep 2004	500,000.00		500,000.00			Jul 2007	Sep 2008
Various Repairs and Renovations - Tarboro	Jul 2002	Jul 2002	757,203.00		757,203.00	312,592.51	41.28%	Jul 2007	Jul 2007
Total All Projects			\$ 8,014,017.00	\$ 4,300,000.00	\$ 12,314,017.00	\$ 10,621,614.98			

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 28, 2005

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