



STATE OF NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT OF

ALAMANCE COMMUNITY COLLEGE

GRAHAM, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2004

OFFICE OF THE STATE AUDITOR

LESLIE W. MERRITT, JR., CPA, CFP

STATE AUDITOR

FINANCIAL STATEMENT AUDIT REPORT OF

ALAMANCE COMMUNITY COLLEGE

GRAHAM, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2004

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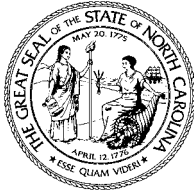
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STATE OF NORTH CAROLINA
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AUDITOR'S TRANSMITTAL

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

This report presents the results of our financial statement audit of Alamance Community College, a component unit of the State of North Carolina, for the year ended June 30, 2004. Our audit was made by authority of Article 5A of Chapter 147 of the *North Carolina General Statutes*.

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

As part of the audit work necessary for the CAFR and the *Single Audit Report*, the accounts and operations of the College were subjected to audit procedures, as we considered necessary. In addition, we performed auditing procedures that we considered necessary for us to report on the accompanying financial statements that relate solely to Alamance Community College. The audit procedures were conducted in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States.

The purpose of this report is to present the results of our audit on the accompanying financial statements that relate solely to Alamance Community College. A summary of our reporting objectives and audit results is:

- 1. Objective** - To express an opinion on the accompanying financial statements that relate solely to Alamance Community College.

Results - The accompanying financial statements present fairly, in all material respects, the amounts and disclosures made in accordance with accounting principles generally accepted in the United States of America. These matters are more fully described in the Independent Auditor's Report on the Financial Statements.

AUDITOR'S TRANSMITTAL (CONCLUDED)

2. **Objective** - To present significant deficiencies, if any, in internal control over financial reporting which could adversely affect the College's ability to record, process, summarize, and report financial data in the financial statements and present instances of noncompliance, if any, with laws, regulations, contracts, or grants.

Results - Our tests disclosed no significant deficiencies in internal control over financial reporting and no instances of noncompliance, which require disclosure herein under *Government Auditing Standards*. These matters are more fully described in the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters.

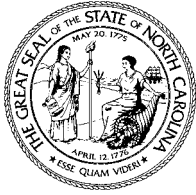
North Carolina General Statutes require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.

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 AUDITOR'S REPORT

Board of Trustees
Alamance Community College
Graham, North Carolina

We have audited the accompanying financial statements of Alamance 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 Alamance Community College's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the College's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Alamance Community College Foundation, Inc., which represents 100% of the College's discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for those entities, is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of Alamance Community College Foundation, Inc., were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of Alamance Community College and its component unit, as of June 30, 2004, and the respective changes in its financial position and its cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

As discussed in Note 14 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, during the year ended June 30, 2004.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 1, 2005, on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of this report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. 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 auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



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

June 1, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

Introduction

This part of the financial report, Management's Discussion and Analysis, provides an introduction and overview to assist the reader in interpreting and understanding the basic financial statements. This overview includes comparative financial analysis with discussion of significant changes from the prior year, as well as, a discussion of currently known facts, decisions, and conditions. This information is provided by the College's financial management in conjunction with the issuance of the accompanying financial statements.

Using the Financial Statements

The financial statements of the College provide information regarding its financial position and results of operations as of the report date. The Statement of Net Assets is used to evaluate the College's financial position; and the Statement of Revenues, Expenses, and Changes in Net Assets is used to evaluate its results of operations. These two financial statements are inter-related in that the accounting transactions associated with the College's activities are reflected on both statements. One side of the transaction records the effect on assets and liabilities, while the other side records the effect on revenue and expenses. These statements are articulated by agreeing the end net assets balance reported on both statements.

The financial statements also include a Statement of Cash Flows. This statement is used to identify the College's sources and uses of cash for operating activities, noncapital financing activities, capital financing activities, and investing activities. This statement articulates with the other statements by agreeing the ending cash reported to the Statement of Net Assets and the net operating loss reported to the Statement of Revenues, Expenses, and Changes in Net Assets.

The three statements described above are the basic financial statements required by the Governmental Accounting Standards Board (GASB) accounting principles. In accordance with the GASB, the financial statements are presented on the College as a whole and are similar to that required of a business enterprise. The financial statement balances reported are presented in a classified format to aid the reader in understanding the nature of the financial statement balance. These new statements were effective beginning with fiscal year 2002.

The Notes to the Financial Statements should be read in conjunction with the financial statements. The note disclosures provide information regarding the significant accounting principles applied in the financial statements, authority for and associated risk of deposits and investments, detailed information on long-term liabilities, details information on accounts receivable, accounts payable, revenues, and expenses, required information on pension plans and other post employment benefits, insurance against losses, commitments and contingencies, and accounting changes. Overall, these disclosures provide information to better understand details, risk, and uncertainty associated with amounts reported in the Financial Statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Statement of Net Assets

The *Statement of Net Assets* provides information regarding the College's assets, liabilities, and net assets as of June 30, 2004. The assets and liability balances are classified as either current or noncurrent. Assets classified as current are those that are available to pay for current liabilities or as current year expenses. Liabilities classified as current are those that are due or payable in the next fiscal year. The net assets balances are classified as either invested in capital assets, restricted or unrestricted. In addition, net assets classified as restricted are classified as either nonexpendable or expendable. Overall, the *Statement of Net Assets* provides information to evaluate the financial strength of the College and its ability to meet current and long-term obligations.

Following is a comparative analysis of the condensed balances reported in the *Statement of Net Assets* as of June 30, 2004 and 2003.

Condensed Statement of Net Assets

	2004	2003	Change	Percent Change
ASSETS				
Current Assets	\$ 2,871,859.16	\$ 2,038,626.43	\$ 833,232.73	40.87 %
Capital Assets, Net	12,226,848.93	11,001,573.87	1,225,275.06	11.14 %
Other Noncurrent Assets	2,119,775.31	591,872.44	1,527,902.87	258.15 %
Total Assets	<u>17,218,483.40</u>	<u>13,632,072.74</u>	<u>3,586,410.66</u>	26.13 %
LIABILITIES				
Current Liabilities	468,347.57	266,857.56	201,490.01	75.50 %
Noncurrent Liabilities	<u>332,474.46</u>	<u>148,828.70</u>	<u>183,645.76</u>	123.39 %
Total Liabilities	<u>800,822.03</u>	<u>415,686.26</u>	<u>385,135.77</u>	92.65 %
NET ASSETS				
Invested in Capital Assets	12,226,848.93	11,001,573.87	1,225,275.06	11.14 %
Restricted for:				
Expendable	1,908,620.21	594,303.68	1,314,316.53	221.15 %
Unrestricted	<u>2,282,192.23</u>	<u>1,620,508.93</u>	<u>661,683.30</u>	40.83 %
Total Net Assets	<u>\$ 16,417,661.37</u>	<u>\$ 13,216,386.48</u>	<u>\$ 3,201,274.89</u>	24.22 %

Some highlights of the information presented on the Statement of Net Assets are as follows:

- Assets totaled \$17,218,483.40, an increase of \$3,586,410.66 or 26.31% more than the previous year. The overall increase was attributable to an increase in cash, an increase in net receivables, an increase in due from primary government, and an increase in capital assets.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Receivables, net, increased because the college was due \$258,119.26 from the College's foundation.

Due from primary government increased since the amount recognized as revenue from the Higher Education Improvement Bond funds was greater than the amount expended during FY 03-04.

The increase in capital assets is primarily attributable to the capitalization of expenditures for capital improvement projects as construction in progress.

- Liabilities totaled \$800,822.03, an increase of \$385,135.77, or 92.65%, over the previous year. This is primarily attributable to an increase in compensated absences of \$142,379.94 and an increase in construction payables in the amount of \$224,142.18.

Current liabilities consist primarily of accounts payables and accrued liabilities. Noncurrent liabilities consist primarily of long-term liabilities and the only long-term liability that the College has is for compensated absences. The large increase in compensated absences is primarily due to the mandate by the General Assembly that all full-time employees receive an additional 10 days of bonus leave.

- Net assets totaled \$16,417,661.37, an increase of \$3,201,274.89 or 24.22% over the previous year. The College's invested in capital assets account for 74.47% of the total assets. The College has no debt related to these capital assets. The increase in net assets is due to increases in invested in net assets and to expendable capital projects.

The invested in capital assets increase is primarily due to the capitalization of construction in progress. Expendable, capital projects increased because the College recognized State bond funds and county capital appropriation as revenue. Unrestricted Net assets increased \$661,683.30, or 40.83% over last year. This increase is primarily due to the College's increased income from auxiliary services, bookstore and snack bar commissions, income from live projects, and an increase in unexpended county current funds. The growth in the College's income was due to an increase in student enrollment.

The major change in the College's financial position is that net assets increased by 24.22% over the previous year. Net Assets increased because of the appropriations received from the State and the county for capital improvement projects. Otherwise, the College's financial position is relatively unchanged. Current assets are more than sufficient to cover current liabilities with a ratio of 6.13 as compared to 8.25 in the prior year. The College's total assets excluding capital assets, net of depreciation, are more than sufficient to cover total liabilities with a ratio of 6.23 as compared to 6.32 in the prior year. The College's total assets are significantly more than the College's liabilities with a ratio of 21.50 as compared to 32.79 in the prior year.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Statement of Revenues, Expenses, and Changes in Net Assets

The Statement of Revenues, Expenses, and Changes in Net Assets provides information regarding the College's activities for the year ending June 30, 2004. The activity balances are classified as operating, nonoperating, or other. Activities classified as operating include all revenues of the College except those considered nonoperating, or those associated with funds received to enhance capital assets or permanent endowments, and all expenses except those related to interest expense on financial activities, loss on disposal of capital assets, and investment expenses (shown as net against investment income). Activities classified as nonoperating include State aid, noncapital gifts and grants revenue, investment income (net investment expenses), and losses on disposal of capital assets. Activities classified as other included capital gifts or grants and additions to permanent endowments. Overall, the Statement of Revenues, Expenses, and Changes in Net Assets provided information to evaluate the College's management of operations and maintenance of financial strength.

Following is a comparative analysis of the condensed balances reported on the Statement of Revenues, Expenses, and Changes in Net Assets for the fiscal years June 30, 2004, and 2003.

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

	2004	2003	Change	Percent
Operating Revenues	\$ 6,812,033.05	\$ 5,919,788.51	\$ 892,244.54	15.07 %
Operating Expenses	(19,591,989.25)	(17,999,804.33)	(1,592,184.92)	8.85 %
Operating Loss	(12,779,956.20)	(12,080,015.82)	(699,940.38)	5.79 %
Nonoperating Revenues	12,266,214.45	11,549,794.29	716,420.16	6.20 %
Loss Before Other Revenues	(513,741.75)	(530,221.53)	16,479.78	(3.11) %
Other Revenues	3,715,016.64	1,071,199.75	2,643,816.89	246.81 %
Increase in Net Assets	3,201,274.89	540,978.22	2,660,296.67	491.76 %
Net assets, July 1	13,216,386.48	12,675,408.26	540,978.22	4.27 %
Net assets, June 30	\$ 16,417,661.37	\$ 13,216,386.48	\$ 3,201,274.89	24.22 %

The Statement of Revenues, Expenses, and Changes in Net Assets reflect an increase of \$3,201,274.89 in net assets at the end of the year. Some highlights of the information presented on the Statement of Revenues, Expenses, and Changes in Net Assets are as follows:

- The College shows an operating loss of \$12,779,956.20, an increase of 5.79% over the previous year. An operating loss is an expected outcome for a public supported educational institution and is the result of State aid being reported as nonoperating revenue and expenses associated with nonoperating and capital grants and gifts being reported as operating expenses.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

- Operating revenues increased by \$892,244.54 (15.07%) whereas operating expenses increased by \$1,592,184.92 (8.85%) for a combined net increase in operating loss of \$699,940.38 (5.79%) over the previous year.
- Net nonoperating revenues increased by \$716,420.16 (6.20%), primarily due to an increase in State aid.
- Other revenues increased by \$2,643,816.89 (246.81%), primarily due to the additional state bond funds appropriated for capital construction projects.

Operating Revenues:	FY 2003-2004	FY 2002-2003	Change	% Change
Student Tuition and Fees, Net (Note 8)	\$ 2,771,405.84	\$ 2,363,531.98	\$ 407,873.86	17.26 %
Federal Grants and Contracts	3,137,487.36	2,694,823.08	442,664.28	16.43 %
State and Local Grants and Contracts	273,532.39	158,387.63	115,144.76	72.70 %
Nongovernmental Grants and Contracts	138,827.55	121,683.36	17,144.19	14.09 %
Sales and Services	490,779.91	581,362.46	(90,582.55)	(15.58) %
Total Operating Revenues	<u>\$ 6,812,033.05</u>	<u>\$ 5,919,788.51</u>	<u>\$ 892,244.54</u>	15.07 %

The main sources of operating revenues are Student Tuition and Fees (40.68%) and Federal Grants and Contracts (46.05%). Student Tuition and fees revenues increased by 17.26% and is due to an increase in students and the increase in state tuition from \$34.25 per credit hour to \$35.50 per credit hour for in-State students and from \$190.75 to \$197.00 per credit hour for out-of-State students. The increase in federal contracts is due primarily to an increase in the number of students receiving Pell grants.

Nonoperating and Other Revenues

	<u>FY 2003-2004</u>	<u>FY 2002-2003</u>	<u>Change</u>	<u>% Change</u>
State Aid	\$ 9,963,060.48	\$ 9,342,456.93	\$ 620,603.55	6.64 %
County Appropriations	1,821,797.00	1,771,500.00	50,297.00	2.84 %
Noncapital Grants	406,932.70	368,430.94	38,501.76	10.45 %
Investment Income, Net	56,230.38	43,346.95	12,883.43	29.72 %
State Capital Aid	2,352,959.70	796,667.30	1,556,292.40	195.35 %
County Capital Appropriations	1,362,056.94	274,532.45	1,087,524.49	396.14 %
Other Expenses	18,193.89		18,193.89	
Revenues	<u>\$ 15,981,231.09</u>	<u>\$ 12,596,934.57</u>	<u>\$ 3,384,296.52</u>	26.87 %

Nonoperating and Other revenues increased by 26.87%. The increase was primarily due to the large increases in State Capital Aid and County Capital Appropriations. Those increases were due to the recognition of \$2,352,959.70 as revenue from the 2001 Higher Education Bonds and an appropriation from Alamance County of \$1,362,156.94 for capital projects.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

State Aid increased by \$620,603.55, or 6.64% and is due to an increase in student enrollment during FY 02-03.

Operating Expenses

	<u>FY 2003-2004</u>	<u>FY 2002-2003</u>	<u>Change</u>	<u>% Change</u>
Salaries and Benefits	\$ 13,100,117.16	\$ 11,942,312.37	\$ 1,157,804.79	9.69 %
Supplies and Materials	1,254,080.82	1,299,026.21	(44,945.39)	(3.46) %
Services	1,679,782.52	1,563,622.52	116,160.00	7.43 %
Scholarships and Fellowships	2,606,091.51	2,244,714.77	361,376.74	16.10 %
Utilities	328,481.03	332,093.30	(3,612.27)	(1.09) %
Depreciation	623,436.21	618,035.16	5,401.05	0.87 %
Total Operating Expenses	<u>\$ 19,591,989.25</u>	<u>\$ 17,999,804.33</u>	<u>\$ 1,592,184.92</u>	8.85 %

Salaries and benefits account for 66.86% of the total operating expense and increased by 9.69% over FY 02-03. This increase is due to the effects of contractual increases for faculty and staff salaries and hiring additional faculty and staff due to enrollment growth.

The remaining operating expenditures only account for 33.14% of total operating expenses. Those percentages are: Scholarships (13.30%), Services (8.57%), Supplies and Materials (6.40%), Depreciation (3.18%), and Utilities (1.67%). Scholarships increased by 16.1% due to an increase in the number of financial aid awards.

Statement of Cash Flows

The Statement of Cash Flows provides information regarding the College's sources and uses of cash funds. The sources and uses of cash are classified as operating, noncapital financing, capital financing, and investing activities.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Following is a comparative analysis of the condensed balances reported in the Statement of Cash Flows for the fiscal years ended June 30, 2004, and 2003.

Condensed Statement of Cash Flows

	<u>2004</u>	<u>2003</u>	Percent Change
<u>Operating Activities</u>			
Sources	\$ 6,837,038.54	\$ 5,968,666.65	14.55 %
Used	<u>(18,848,112.42)</u>	<u>(17,476,187.91)</u>	7.85 %
Cash Used by Operating Activities	<u>(12,011,073.88)</u>	<u>(11,507,521.26)</u>	4.38 %
<u>Noncapital Financing</u>			
Sources	<u>11,933,670.92</u>	<u>11,567,054.28</u>	3.17 %
<u>Capital and Related Financing Activities</u>			
Sources	2,256,528.08	889,036.59	153.82 %
Used	<u>(1,627,018.41)</u>	<u>(612,353.97)</u>	165.70 %
Cash Used by Capital and Related Financing Activities	<u>629,509.67</u>	<u>276,682.62</u>	127.52 %
<u>Investing Activities</u>			
Sources	<u>89,605.29</u>	<u>546,823.32</u>	(83.61) %
Net Increase in Cash	<u>641,712.00</u>	<u>883,038.96</u>	(27.33) %
Cash -Beginning of Year	<u>2,085,838.26</u>	<u>1,202,799.30</u>	73.42 %
Cash-End of Year	<u>\$ 2,727,550.26</u>	<u>\$ 2,085,838.26</u>	30.77 %

Cash used by operating activities totaled \$12,011,073.88, an increase in cash used of \$503,552.62, or 4.38%, over the previous year. This is attributable to increased operating expenditures due to the increase in students and the increase in state funding.

Cash provided by noncapital financing activities totaled \$11,933,670.92, an increase of \$366,616.64, or 3.17%, over the previous year. This is attributable primarily to an increase in state capital aid.

Cash provided by capital and related financing activities totaled \$629,509.67, an increase of \$352,827.05, or 127.52%, over the previous year. This is attributable primarily to an increase in county capital appropriations.

Cash used by investing activities totaled \$89,605.29, a decrease of \$457,218.03, or 83.61%, under the previous year. This is attributable to a decrease in proceeds from sales and maturities of investments.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

Capital Assets and Long-term Debt Activities

Capital Assets

Due to the passage of the Higher Education Improvement Bond Referendum by North Carolina voters on November 7, 2000, the College has undertaken a number of construction projects to improve and modernize its facilities. The Referendum provided \$7,174,456.00 in State funds to the College beginning in fiscal year 2001. As of June 30, 2004, the College had received from the State \$554,690.91 and had \$6,619,765.09 outstanding pending future bond sales and allotment approvals.

The College expended \$1,556,027.25 during the year for the construction of new buildings/infrastructure and for the renovation or repair of its facilities. Of this amount, \$529,158.20 was or will be provided from the Higher Education Improvement Bond Referendum and \$1,026,869.05 from Alamance County.

Long-Term Debt Activities

Alamance Community College does not have any long-term debt activity.

Economic Factors That Will Affect the Future

Management is not aware of any currently known facts, decisions, or conditions that are expected to have a significant effect on the College's financial position or results of operations during fiscal year 2004-05 beyond those unknown variations having a global effect on virtually all types of business operations. We anticipate the current fiscal year will be very similar to the 2003-04 fiscal year and, accordingly, will maintain a close watch over resources so that the college will be able to react to unknown and external issues.

The major source of funding for the College is appropriations from the State of North Carolina and the level of this support is one of the key factors influencing the College's financial condition and its ability to expand programs, undertake new initiatives, and meet its core mission and ongoing operational needs. In addition, there is a direct relationship between the level of State support and tuition increases, as declines in State support have resulted in increased tuition rates. State aid constituted approximately 54 percent of the College's total revenues for fiscal year 2003-04, down from 55 percent for fiscal year 2002-03.

Curriculum and continuing education enrollment has continued to increase and the College expects that trend to continue. As the College's enrollment grows, the need for new facilities grows as we try to accommodate those students. As a result of the Higher Education Improvement Bond program and capital construction funding from Alamance County, the College is addressing the physical space limitations brought on by the enrollment growth. Two new buildings have been planned and the first one should be completed by June of 2005.

Alamance Community College
Statement of Net Assets
June 30, 2004

Exhibit A-1

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 2,084,818.35
Restricted Cash and Cash Equivalents	280,763.70
Short-Term Investments	15,321.76
Receivables, Net (Note 3)	329,837.12
Inventories	72,756.52
Prepaid Items	88,361.71
	<hr/>
Total Current Assets	2,871,859.16

Noncurrent Assets:

Restricted Cash and Cash Equivalents	361,968.21
Restricted Due from Primary Government	1,757,807.10
Capital Assets - Nondepreciable (Note 4)	2,016,032.13
Capital Assets - Depreciable, Net (Note 4)	10,210,816.80
	<hr/>
Total Noncurrent Assets	14,346,624.24

Total Assets	<hr/> <hr/> 17,218,483.40
--------------	---------------------------

LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 5)	389,062.62
Deferred Revenue	79,284.95
	<hr/>
Total Current Liabilities	468,347.57

Noncurrent Liabilities:

Funds Held for Others	41,265.82
Long-Term Liabilities (Note 6)	291,208.64
	<hr/>
Total Noncurrent Liabilities	332,474.46

Total Liabilities	<hr/> <hr/> 800,822.03
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NET ASSETS

Invested in Capital Assets	12,226,848.93
Restricted for:	
Expendable:	
Scholarships and Fellowships	759.50
Capital Projects	1,896,824.90
Other	11,035.81
Unrestricted	2,282,192.23
	<hr/>
Total Net Assets	<hr/> <hr/> \$ 16,417,661.37

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

***Alamance 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)	\$ 2,771,405.84
Federal Grants and Contracts	3,137,487.36
State and Local Grants and Contracts	273,532.39
Nongovernmental Grants and Contracts	138,827.55
Sales and Services (Note 8)	490,779.91
	<hr/>
Total Operating Revenues	6,812,033.05
	<hr/>

EXPENSES

Operating Expenses:	
Salaries and Benefits	13,100,117.16
Supplies and Materials	1,254,080.82
Services	1,679,782.52
Scholarships and Fellowships	2,606,091.51
Utilities	328,481.03
Depreciation	623,436.21
	<hr/>
Total Operating Expenses	19,591,989.25
	<hr/>
Operating Loss	(12,779,956.20)
	<hr/>

NONOPERATING REVENUES

State Aid	9,963,060.48
County Appropriations	1,821,797.00
Noncapital Grants	406,932.70
Investment Income, Net	56,230.38
Other Nonoperating Revenues	18,193.89
	<hr/>
Net Nonoperating Revenues	12,266,214.45
	<hr/>
Loss Before Other Revenues	(513,741.75)
	<hr/>
State Capital Aid	2,352,959.70
County Capital Appropriations	1,362,056.94
	<hr/>
Increase in Net Assets	3,201,274.89

NET ASSETS

Net Assets, July 1, 2003	13,216,386.48
	<hr/>
Net Assets, June 30, 2004	\$ 16,417,661.37
	<hr/> <hr/>

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

Alamance 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	\$ 6,796,305.68
Payments to Employees and Fringe Benefits	(12,903,012.75)
Payments to Vendors and Suppliers	(3,337,848.32)
Payments for Scholarships and Fellowships	(2,607,251.35)
Other Receipts	40,732.86

Net Cash Used by Operating Activities (12,011,073.88)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Aid Received	9,963,060.48
County Appropriations	1,821,797.00
Noncapital Grants Received	148,813.44

Net Cash Provided by Noncapital Financing Activities 11,933,670.92

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

State Capital Aid Received	892,021.82
County Capital Appropriations	1,362,056.94
Proceeds from Sale of Capital Assets	2,449.32
Acquisition and Construction of Capital Assets	(1,627,018.41)

Net Cash Provided by Capital and Related Financing Activities 629,509.67

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from Sales and Maturities of Investments	29,548.74
Investment Income	60,056.56

Net Cash Provided by Investing Activities 89,605.30

Net Increase in Cash and Cash Equivalents 641,712.01

Cash and Cash Equivalents, July 1, 2003 2,085,838.26

Cash and Cash Equivalents, June 30, 2004 \$ 2,727,550.27

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

Operating Loss \$ (12,779,956.20)

Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:

Depreciation Expense	623,436.21
Miscellaneous Nonoperating Income	18,193.89

Changes in Assets and Liabilities:

Receivables, Net	(12,370.48)
Inventories	(17,724.32)
Prepaid Items	(3,646.57)
Accounts Payable and Accrued Liabilities	591.41
Deferred Revenue	(3,557.30)
Funds Held for Others	21,579.54
Compensated Absences	142,379.94

Net Cash Used by Operating Activities \$ (12,011,073.88)

Alamance 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	\$ 2,084,818.35
Restricted Cash and Cash Equivalents	280,763.70
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	<u>361,968.21</u>
Total Cash and Cash Equivalents - June 30, 2004	<u><u>\$ 2,727,550.26</u></u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through Assumption of a Liability	\$ 224,142.18
Increase in Receivables Related to Nonoperating Income	1,719,057.14

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

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

Exhibit B-1

	Operating Funds		Endowment and Similar Funds	Equipment Fund	June 30, 2004 Totals
	Unrestricted	Restricted			
ASSETS					
Cash and Cash Equivalents	\$ 264,259.00	\$ 256,338.00	\$ 0.00	\$ 0.00	\$ 520,597.00
Interest-Bearing Deposits:					
Certificates of Deposit	213.00	145,795.00			146,008.00
Total Cash and Cash Equivalents	264,472.00	402,133.00			666,605.00
Cash Surrender Value- Insurance Policies		18,376.00			18,376.00
Promises to Give Receivable, net	11,435.00	84,241.00	72,053.00		167,729.00
Sales Tax Refund Receivable	3,092.00				3,092.00
Loan Receivable:					
Faculty Computer Loan	4,337.00				4,337.00
Accounts Receivable		4,261.00			4,261.00
Accrued Interest Receivable		5,856.00			5,856.00
Investments, at market:					
Long-term Investments		933,663.00	2,296,502.00		3,230,165.00
Residential Housing Project in Process		500.00			500.00
Equipment, net of accumulated depreciation of \$91,740				33,687.00	33,687.00
Cash Restricted for endowment			482,718.00		482,718.00
Beneficial Interest in Trust			80,960.00		80,960.00
Total Assets	283,336.00	1,449,030.00	2,932,233.00	33,687.00	4,698,286.00
LIABILITIES AND NET ASSETS					
Liabilities					
Accounts Payable	199,132.00	59,040.00			258,172.00
Total Liabilities	199,132.00	59,040.00			258,172.00
NET ASSETS					
Unrestricted					
For current Operations	84,204.00				84,204.00
Invested in Equipment				33,687.00	33,687.00
Total Unrestricted	84,204.00			33,687.00	117,891.00
Temporarily Restricted					
Unexpended Funds Received for Restricted Purposes		1,389,990.00			1,389,990.00
Permanently Restricted					
Endowment Funds			2,932,233.00		2,932,233.00
Total Net Assets	84,204.00	1,389,990.00	2,932,233.00	33,687.00	4,440,114.00
Total Liabilities and Net Assets	\$ 283,336.00	\$ 1,449,030.00	\$ 2,932,233.00	\$ 33,687.00	\$ 4,698,286.00

See Note 1 in the Notes to the Financial Statements

Alamance Community College Foundation, Inc.
Statement of Activities and Changes in Net Assets
June 30, 2004

Exhibit B-2

	Unrestricted Funds		Temporarily Restricted Operating Funds	Permanently Restricted Endowment and Similar Funds	Totals
	Operating Funds	Equipment Fund			
SUPPORT AND INCOME					
Contributions-cash	\$ 153,754.00	\$ 0.00	\$ 83,195.00	\$ 0.00	\$ 236,949.00
Contributions-noncash	37,967.00				37,967.00
In-kind donations	144,058.00				144,058.00
Investment Income	41,600.00		455,818.00		497,418.00
Other Income	3,091.00		46,962.00		50,053.00
Total Support and Income	<u>380,470.00</u>		<u>585,975.00</u>		<u>966,445.00</u>
EXPENSES					
Student Aid	300,134.00		57,265.00		357,399.00
Development Office	167,282.00				167,282.00
Program Expenses	13,727.00	8,623.00	42,261.00		64,611.00
Professional Development	25,083.00		35,000.00		60,083.00
Total Expenses	<u>506,226.00</u>	<u>8,623.00</u>	<u>134,526.00</u>		<u>649,375.00</u>
Change in Net Assets Before Contributions	(125,756.00)	(8,623.00)	451,449.00		317,070.00
Contributions				182,740.00	182,740.00
Change in Net Assets After Contributions	<u>(125,756.00)</u>	<u>(8,623.00)</u>	<u>451,449.00</u>	<u>182,740.00</u>	<u>499,810.00</u>
NET ASSETS, July 1, 2003, as restated	<u>209,960.00</u>	<u>42,310.00</u>	<u>938,541.00</u>	<u>2,749,493.00</u>	<u>3,940,304.00</u>
NET ASSETS, June 30, 2004	<u>\$ 84,204.00</u>	<u>\$ 33,687.00</u>	<u>\$ 1,389,990.00</u>	<u>\$ 2,932,233.00</u>	<u>\$ 4,440,114.00</u>

See Note 1 in the Notes to the Financial Statements

ALAMANCE 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. Alamance 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 - Alamance Community College Foundation, Inc., is a legally separate not-for-profit corporation and is reported as a discretely presented component unit based on the nature and significance of its relationship to the College.

The Alamance 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 25 local community business leaders, two trustees from the Alamance Community College Board of Trustees, and three ex-officio members consisting of the College's President, the Vice-President for Institutional Advancement, and a Faculty Representative. 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

and is reported in separate financial statements because of the difference in its reporting model, as described below.

The Alamance Community College Foundation, Inc., 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 \$584,764.00 to the College for both restricted and unrestricted purposes. Complete financial statements for the Foundation are available on the Alamance Community College Foundation's website <http://www.acc.foundation.com>.

- 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 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- D. Cash and Cash Equivalents** - This classification includes 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. Investments** - This classification includes certificates of deposit held by the College. Certificates of deposit are reported at cost, if purchased, or at fair value or appraised value at date of gift, if donated.
- F. Receivables** - Receivables consist of tuition and fees charges to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from the federal government, State and local governments, private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants. Receivables are recorded net of estimated uncollectible amounts.
- G. Inventories** - Inventories, consisting of expendable supplies, are valued at cost using the last invoice cost method. Merchandise for resale is also valued using the last invoice cost method.
- H. Capital Assets** - Capital assets are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. The College capitalizes assets that have a value or cost in excess of \$5,000 at the date of acquisition and an expected useful life of more than one year. Library books are generally not considered to have a useful life of more than one year unless part of a collection and are expensed in the year of acquisition.
- Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 15 years for general infrastructure, 20 to 40 years for buildings, and five to 25 years for equipment.
- I. Restricted Assets** - Unexpended capital contributions are classified as restricted assets because their use is limited by donor/grantor agreements. Certain other assets are classified as restricted because their use is limited by external parties or statute.
- J. Noncurrent Long-Term Liabilities** - Noncurrent long-term liabilities include compensated absences that will not be paid within the next fiscal year.
- K. Compensated Absences** - The College's policy is to record the cost of vacation leave when earned. The policy provides for a maximum

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

accumulation of unused vacation leave of 15 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 15 days at year end is converted to sick leave. Under this policy, the accumulated vacation leave for each employee at June 30th equals the leave carried forward at the previous June 30th plus the leave earned, less the leave taken between July 1st and June 30th.

In addition to the vacation leave described above, compensated absences includes the accumulated unused portion of the special annual leave 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. Therefore, in years when the compensated absences balance is expected to increase, no portion of the balance is classified as current.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

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

- O. Internal Sales Activities** - Certain institutional auxiliary operations provide goods and services to College departments, as well as to its customers. These institutional auxiliary operations include activities such as central store and copy centers. All internal sales activities to College departments from auxiliary operations and sales and service units have been eliminated in the accompanying financial statements. These eliminations are recorded by removing the revenue and expense in the auxiliary operations and sales and service units and, if significant, allocating any residual balances to those departments receiving the goods and services during the year.
- P. County Appropriations** - County appropriations are provided to the College primarily to fund its plant operation and maintenance function and to fund construction projects, motor vehicle purchases, and

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

maintenance of equipment. Unexpended county current appropriation and county capital appropriation do not revert and are available for future use by the College.

NOTE 2 - DEPOSITS AND INVESTMENTS

A. Deposits - All funds of the College are deposited in board-designated official depositories and are required to be collateralized in accordance with General Statute 115D-58.7. Official depositories may be established with any bank or savings and loan association whose principal office is located in North Carolina or with the State Treasurer’s Investment Pool. Also, the College may establish time deposit accounts, money market accounts, and certificates of deposit. At year end, cash on hand was \$1,600.00. The carrying amount of cash on deposit was \$2,741,272.02 and the bank balance was \$2,883,786.40.

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	\$ 1,685,721.87	\$ 1,685,721.87
Cash on Deposit with Private Financial Institutions	1,055,550.15	1,198,064.53
	\$ 2,741,272.02	\$ 2,883,786.40

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

Of the cash on deposit with private financial institutions at June 30, 2004, \$215,321.76 of the bank balance was covered by federal depository insurance and \$982,742.77 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.

At June 30, 2004, the College held certificates of deposit in the amount of \$15,321.76, 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.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 3 - RECEIVABLES

Receivables at June 30, 2004, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	\$ 113,299.26	\$ 43,801.00	\$ 69,498.26
Pledges	258,119.26		258,119.26
Other	2,219.60		2,219.60
Total Current Receivables	\$ 373,638.12	\$ 43,801.00	\$ 329,837.12

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	Adjustments	Increases	Decreases	Balance June 30, 2004
Capital Assets, Nondepreciable:					
Land	\$ 271,721.12	\$ 0.00	\$ 0.00	\$ 0.00	\$ 271,721.12
Construction in Progress	537,504.62	(449,000.37)	1,655,806.76		1,744,311.01
Total Capital Assets, Nondepreciable	809,225.74	(449,000.37)	1,655,806.76		2,016,032.13
Capital Assets, Depreciable:					
Buildings	16,184,861.44	418,642.21			16,603,503.65
Machinery and Equipment	1,827,666.82		195,353.83	80,635.72	1,942,384.93
General Infrastructure	891,748.14	30,358.16			922,106.30
Total Capital Assets, Depreciable	18,904,276.40	449,000.37	195,353.83	80,635.72	19,467,994.88
Less Accumulated Depreciation:					
Buildings	6,936,144.25		439,796.40		7,375,940.65
Machinery and Equipment	1,101,914.63		135,676.00	78,186.40	1,159,404.23
General Infrastructure	673,869.39		47,963.81		721,833.20
Total Accumulated Depreciation	8,711,928.27		623,436.21	78,186.40	9,257,178.08
Total Capital Assets, Depreciable, Net	10,192,348.13	449,000.37	(428,082.38)	2,449.32	10,210,816.80
Capital Assets, Net	\$ 11,001,573.87	\$ 0.00	\$ 1,227,724.38	\$ 2,449.32	\$ 12,226,848.93

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:

	<u>Amount</u>
Accounts Payable	\$ 289,782.57
Accrued Payroll	<u>99,280.05</u>
Total Accounts Payable and Accrued Liabilities	<u>\$ 389,062.62</u>

NOTE 6 - LONG-TERM LIABILITIES

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

	<u>Balance July 1, 2003</u>	<u>Additions</u>	<u>Balance June 30, 2004</u>
Compensated Absences	\$ 148,828.70	\$ 142,379.94	<u>\$ 291,208.64</u>

NOTE 7 - OPERATING LEASE OBLIGATION

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

<u>Fiscal Year</u>	<u>Amount</u>
2005	\$ 91,139.14
2006	133,004.32
2007	76,534.32
2008	<u>2,252.86</u>
Total Minimum Lease Payments	<u>\$ 302,930.64</u>

Rental expense for all operating leases during the year was \$189,798.51.

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	Less Allowance for Uncollectibles	Net Revenues
Operating Revenues:				
Student Tuition and Fees	\$ 3,462,562.22	\$ 680,556.38	\$ 10,600.00	\$ 2,771,405.84
Sales and Services:				
Sales and Services of Auxiliary Enterprises:				
Bookstore	\$ 96,663.00	\$ 0.00	\$ 0.00	\$ 96,663.00
Dining	69,651.29			69,651.29
Daycare	257,975.73			257,975.73
Sales and Services of Education and Related Activities	66,489.89			0.00
Total Sales and Services	<u>\$ 490,779.91</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 490,779.91</u>

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	\$ 8,317,371.70	\$ 480,014.83	\$ 370,277.21	\$ 0.00	\$ 0.00	\$ 0.00	\$ 9,167,663.74
Academic Support	1,488,627.04	132,591.23	53,334.28				1,674,552.55
Student Services	792,348.77	59,401.17	41,589.91				893,339.85
Institutional Support	1,858,109.72	159,262.83	420,469.82				2,437,842.37
Operations and Maintenance of Plant	221,860.72	328,421.67	731,075.93		328,481.03		1,609,839.35
Student Financial Aid	194,942.05		3,819.53	2,606,091.51			2,804,853.09
Auxiliary Enterprises	226,857.16	94,389.09	59,215.84				380,462.09
Depreciation						623,436.21	623,436.21
Total Operating Expenses	<u>\$ 13,100,117.16</u>	<u>\$ 1,254,080.82</u>	<u>\$ 1,679,782.52</u>	<u>\$ 2,606,091.51</u>	<u>\$ 328,481.03</u>	<u>\$ 623,436.21</u>	<u>\$ 19,591,989.25</u>

NOTE 10 - PENSION PLANS

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

Benefit and contribution provisions for the Teachers' and State Employees' Retirement System are established by *North Carolina General Statutes* 135-5 and 135-8 and may be amended only by the North Carolina General Assembly. Employer and member contribution rates are

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 \$11,293,527.01, of which \$8,049,078.80 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were \$482,944.69 and \$17,707.97, respectively. The College made one hundred percent of its annual required contributions for the years ended June 30, 2004, 2003, and 2002, which were \$17,707.97, \$0.00, and \$134,789.98, 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 \$6,300.00 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 \$67,696.00 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 \$80,958.73 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 \$257,570.52. The College assumes no liability for retiree health care benefits provided by the programs other than its required contribution. Additional detailed information about these programs can be located in the State of North Carolina's *Comprehensive Annual Financial Report*.
- B. Long-Term Disability -** The College participates in the Disability Income Plan of North Carolina (DIPNC). Established by Chapter 135, Article 6, of the General Statutes, DIPNC provides short-term and long-term disability benefits to eligible members of the Teachers' and State Employees' Retirement System. Long-term disability income benefits are advance funded on an actuarially determined basis using the one-year term cost method. Employer contributions are established in the Appropriations Bill by the General Assembly. The College was not required to contribute to the DIPNC for the fiscal year ended

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

The College is protected for losses from employee dishonesty and computer fraud for employees paid in whole or in part from State funds. The blanket honesty bond is with a private insurance company and is handled by the North Carolina Department of Insurance with coverage of \$5,000,000 per occurrence and a \$50,000 deductible. Losses from such occurrences for employees paid from County and Institutional funds are covered by private insurance companies with coverage of \$25,000 per occurrence.

Employees and retirees are provided health care coverage by the Comprehensive Major Medical Plan (Plan), a component unit of the State. The

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 \$4,218,250 and on other purchases were \$1,678.32 at June 30, 2004.
- B. **Pending Litigation and Claims** - The College is a party to litigation and claims in the ordinary course of its operations. Since it is not possible to predict the ultimate outcome of these matters, no provision for any liability has been made in the financial statements. College management is of the opinion that the liability, if any, for any of these matters will not have a material adverse effect on the financial position of the College.
- C. **Community College General Obligation Bonds** - The 1999-2000 Session of the General Assembly of North Carolina authorized the issuance of \$600 million of general obligation bonds of the State, as subsequently approved by a vote of qualified voters of the State, to provide funds for capital improvements for the North Carolina Community College System. The funds authorized are to be used solely to construct new buildings and to renovate and modernize existing buildings on the North Carolina Community College System campuses. The bond legislation specifies the amount of bond funding for each College campus as well as the intended amount for new construction and repair and replacement. The legislation further provides that the State Board of Community Colleges shall be responsible for the approval of

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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 \$4,863,758.00 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 - CHANGE IN FINANCIAL ACCOUNTING AND REPORTING

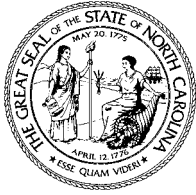
For the fiscal year ended June 30, 2004, the College implemented Governmental Accounting Standards Board Statement No. 39, *Determining Whether Certain Organizations are Component Units*. This Statement amends GASB Statement No. 14, *The Financial Reporting Entity*, to provide additional guidance to 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.

***Alamance 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	General Obligation Bonds Authorized	Other Sources	Total Project Budget	Amount Expended	Percent Completed	Original Expected Completion Date
<i>Projects Approved by the State Board</i>							
Student Services/Learning Resources Center/ Administration Building - Project No. 1129	Jan 2001	\$ 2,000,000.00	\$ 4,589,293.00	\$ 6,589,293.00	\$ 1,841,914.27	27.95%	Jun 2005
Renovations Project Phase I - Bridge - Project No. 1201	Jul 2001	100,000.00		100,000.00	99,999.04	100.00%	Aug 2002
Renovations Project Phase II - Classrooms - Project No. 1302	Dec 2002	127,105.00		127,105.00	88,478.06	69.61%	Sep 2004
Allied Health Building - Project No. 1130	Jan 2003	3,747,351.00		3,747,351.00			Feb 2006
<i>Projects Pending Approval by the State Board</i>							
Renovations - Old Student Services Area	Mar 2004	240,000.00		240,000.00			
Renovations - Old LRC Area	Mar 2004	240,000.00		240,000.00			
Renovations - Old Business Area	Mar 2004	150,000.00		150,000.00			
Renovations Project Phase III	Jun 2004	100,000.00		100,000.00			
Renovations Project Phase IV	Jun 2005	100,000.00		100,000.00			
Renovations - Child Development Center	Dec 2005	220,000.00		220,000.00			
Renovations - Parking Lots	Jun 2006	150,000.00		150,000.00			
Total All Projects		\$ 7,174,456.00	\$ 4,589,293.00	\$ 11,763,749.00	\$ 2,030,391.37		

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.



STATE OF NORTH CAROLINA
Office of the State Auditor

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State Auditor

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**INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Board of Trustees
Alamance Community College
Graham, North Carolina

We have audited the financial statements of Alamance 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 the Alamance Community College's basic financial statements, and have issued our report thereon dated June 1, 2005. We did not audit the financial statements of Alamance Community College Foundation, Inc., which represents 100% of the College's discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for Alamance Community College Foundation, Inc., is based on the report of the other auditors.

As discussed in Note 14 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, during the year ended June 30, 2004.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. The financial statements of Alamance Community College Foundation, Inc., the discretely presented component unit was not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not extend to Alamance Community College Foundation, Inc.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the College's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that

**INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS (CONCLUDED)**

might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the College's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Trustees and the State Board of Community Colleges, management and staff of the College, the Governor, the State Controller, the General Assembly, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

Leslie W. Merritt, Jr.

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

June 1, 2005

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In accordance with General Statutes 147-64.5 and 147-64.6(c)(14), copies of this report have been distributed to the public officials listed below. Additional copies are provided to other legislators, state officials, the press, and the general public upon request.

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The Honorable Richard H. Moore	State Treasurer
The Honorable Roy A. Cooper, III	Attorney General
Mr. David T. McCoy	State Budget Officer
Mr. Robert L. Powell	State Controller
Mr. H. Martin Lancaster	President, North Carolina Community College System
Dr. Martin H. Nadelman	President, Alamance Community College
Ms. Debra Dixon-Doss	Vice President for Administrative and Fiscal Services Alamance Community College
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Mr. James D. Johnson	Director, Fiscal Research Division
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June 29, 2005

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