



STATE OF NORTH CAROLINA

NASH COMMUNITY COLLEGE

ROCKY MOUNT, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2006

OFFICE OF THE STATE AUDITOR

LESLIE W. MERRITT, JR., CPA, CFP

STATE AUDITOR

NASH COMMUNITY COLLEGE

ROCKY MOUNT, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2006

STATE BOARD OF COMMUNITY COLLEGES

THE NORTH CAROLINA COMMUNITY COLLEGE SYSTEM

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STATE OF NORTH CAROLINA
Office of the State Auditor

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

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AUDITOR'S TRANSMITTAL

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

We have completed a financial statement audit of Nash Community College for the year ended June 30, 2006, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

Our consideration of internal control over financial reporting and compliance and other matters based on an audit of the financial statements resulted in no audit findings.

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.

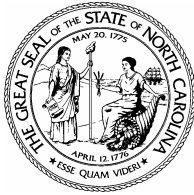
Leslie W. Merritt, Jr.

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

April 23, 2007

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Nash Community College
Rocky Mount, North Carolina

We have audited the accompanying basic financial statements of Nash Community College, a component unit of the State of North Carolina, as of and for the year ended June 30, 2006, as listed in the table of contents. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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. 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Nash Community College as of June 30, 2006, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 26, 2007, 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 that 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.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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.

Leslie W. Merritt, Jr.

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

February 26, 2007

NASH COMMUNITY COLLEGE MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Nash Community College's financial statements presents Management's Discussion and Analysis of the College's financial activity during the fiscal years ending June 30, 2006, and June 30, 2005. This Management's Discussion and Analysis is designed to focus on current activities, resulting change and currently known facts. Please read it in conjunction with the College's basic financial statements and the notes.

Using This Annual Report

The financial statements focus on the College as a whole. The College's basic financial statements are designed to emulate corporate presentation models whereby all College activities are consolidated into one total. The focus of the Statement of Net Assets is designed to be similar to bottom line results for the College. This statement combines and consolidates current financial resources with capital assets. The Statement of Revenues, Expenses, and Changes in Net Assets focuses on both the gross and the net costs of College activities, which are supported by State funds, county appropriations and other revenues. This approach summarizes and simplifies the user's analysis of cost of various College services to students and the public.

Financial Highlights

Statement of Net Assets

The Statement of Net Assets provides information regarding the College's assets, liabilities, and net assets as of June 30, 2006.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Condensed Financial Statements Statement of Net Assets

	<u>2006</u>	<u>2005</u>
ASSETS:		
Current Assets	\$ 1,961,317.02	\$ 1,753,975.22
Noncurrent Assets:		
Other Noncurrent Assets	1,253,513.47	1,967,153.60
Capital Assets	<u>17,910,219.75</u>	<u>17,004,729.44</u>
Total Assets	21,125,050.24	20,725,858.26
LIABILITIES:		
Current Liabilities	403,667.07	1,145,123.66
Noncurrent Liabilities	<u>1,007,529.26</u>	<u>719,309.17</u>
Total Liabilities	1,411,196.33	1,864,432.83
NET ASSETS:		
Invested in Capital Assets	17,910,219.75	17,004,729.44
Restricted	1,861,085.03	1,624,641.41
Unrestricted	<u>(57,450.87)</u>	<u>232,054.58</u>
Total Net Assets	<u><u>\$ 19,713,853.91</u></u>	<u><u>\$ 18,861,425.43</u></u>

As of June 30, 2006, the College's net assets have increased to \$19.7 million from \$18.9 million June 30, 2005. This increase of \$852,428.48 is due primarily to the final costs to complete the Science & Technology building. Total net assets as of June 30, 2006, consist of investment in capital assets, net of related debt (90.9%) and restricted (9.4%). Unrestricted net assets were (\$57,450) due primarily to the approximately \$1 million liability for unpaid leave benefits.

Current assets increased due to an increase in cash and cash equivalents, as well as an increase in short term investments. The College added a Technology fee during fiscal year 2006 which carried a balance of \$44,038 at year end. Additionally, the cash balance related to the Nash General Hospital funding increased by approximately \$64,000. The total assets recorded by the College as of June 30, 2006, were \$21,125,050.24.

There was also a decrease in other noncurrent assets due to the completion of the Science & Technology building and the removal of receivables of \$791,497.

As of June 30, 2006, the College had recorded \$24.7 million invested in capital assets, \$6.8 million in accumulated depreciation and \$17.9 million in net capital assets.

In noncurrent liabilities, long-term liabilities are compensated absences, consisting of accumulated vacation and bonus leave that will not be paid within the next fiscal year. During the 2006 fiscal year, each full-time employee received an additional 40 hours of bonus

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

leave. This, combined with the annual salary increase, resulted in an increase of \$288,220 in the long-term liability.

Current liabilities decreased \$741,457 due to the completion of the Science & Technology building and its associated liabilities. The total liabilities recorded by the College at June 30, 2006, were \$1,411,196.33.

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, 2006.

Statement of Revenues, Expenses, and Changes in Net Assets

	2006	2005
Operating Revenues:		
Student Tuition and Fees, Net	\$ 1,264,116.77	\$ 1,233,410.96
Federal Grants and Contracts	2,343,310.19	3,462,139.72
State and Local Grants and Contracts	221,250.91	218,166.23
Sales and Services, Net	1,030,093.57	956,899.34
Other Operating Revenues	3,722.48	2,236.60
Total Operating Revenues	4,862,493.92	5,872,852.85
Less Operating Expenses	17,700,966.42	16,287,732.81
Net Operating Loss	(12,838,472.50)	(10,414,879.96)
Nonoperating Revenues:		
State Aid	9,241,011.04	8,867,773.12
County Appropriations	1,400,000.00	1,197,000.00
Noncapital Grants	242,942.31	231,611.08
Noncapital Gifts	312,209.52	250,373.82
Investment Income	77,173.61	51,658.91
Other Nonoperating Revenues	17,618.88	5,686.34
Net Nonoperating Revenues	11,290,955.36	10,604,103.27
Income/(Loss) Before Other Revenues	(1,547,517.14)	189,223.31
Capital Aid, Appropriations, Gifts, and Grants	2,225,489.52	2,692,647.31
Additions to Endowments	219,907.46	172,050.27
Increase in Net Assets	897,879.84	3,053,920.89
Net Assets, July 1	18,861,425.43	15,807,504.54
Restatement	(45,451.36)	
Net Assets, June 30	\$ 19,713,853.91	\$ 18,861,425.43

Operating revenues at June 30, 2006, decreased by approximately \$1 million. This decrease was due, in part, to the federal revenue of \$648,000 being received in the prior fiscal year for the construction of the Science & Technology building. Operating revenues also included a decrease in the federal Pell grant program which serviced approximately 948 students in

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

FY 2006 versus 1,070 in FY 2005 – a decrease of 11.4%. The Pell awards decreased more than 14.3% over the previous year, going from \$2.1 million in 2004-2005 to \$1.8 million in 2005-2006. Tuition and fees revenues are net of scholarship allowances (to comply with the implementation of GASB Statements No. 34 & 35) and increased from \$38.00 to \$39.50 per credit hour for in-State students and from \$211.00 to \$221.50 for out-of-State students. Over the last three years, the in-State tuition has increased approximately 11.3%. Over the last five years tuition has increased approximately 27.4%. The following table charts operating revenues by source.

	2005-2006	2004-2005
Tuition & Fees	\$ 1,264,116.77	\$ 1,233,410.96
Federal Grants and Contracts	2,343,310.19	3,462,139.72
State and Local Grants	221,250.91	218,166.23
Sales and Services, net	1,030,093.57	956,899.34
Other Operating Revenue	3,722.48	2,236.60
Total	<u>\$ 4,862,493.92</u>	<u>\$ 5,872,852.85</u>

Operating expenses at June 30, 2006 increased over the same period in fiscal year 2005. This increase was caused by increases in personal services, supplies & materials, and services. This increase was due to the addition of 5 permanent full-time employees. Salary increases for FY05-06 were two tiered. First, all full-time faculty and staff received an increase of the greater of 2% or \$850. In addition, all full-time faculty and staff received an additional 2% increase. All increases were effective July 1, 2005. Also worth noting is the decrease in Scholarships & Fellowships – down \$276,592 versus FY 2005 due to the decrease in the number and dollar value of Pell awards.

Expenses for supplies and materials increased by approximately \$665,000 due to purchases of minor furnishings for the Science & Technology building. The following table details operating expenses.

	2005-2006	2004-2005
Personal Services	\$ 11,418,251.38	\$ 10,812,009.61
Supplies and Materials	2,545,446.28	1,879,454.15
Services	1,465,427.76	1,217,889.63
Scholarships and Fellowships	1,181,848.09	1,458,439.89
Utilities	515,417.16	398,801.27
Depreciation	574,575.75	521,138.26
Total	<u>\$ 17,700,966.42</u>	<u>\$ 16,287,732.81</u>

Total operating expenses at June 30, 2006, were \$17,700,996.42 – an increase of 8.7% over the June 2005 total of \$16,287,732.81.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

As was mentioned previously, the College receives funding from county and State sources. County appropriations increased from \$1,197,000 in 2004-2005 to \$1,400,000 in 2005-2006.

Other Information

The FTEs that generate the College's State budget (budget FTEs) increased overall from 2004-2005 to 2005-2006:

	<u>2005-2006</u>	<u>2004-2005</u>	<u>Increase/ (Decrease)</u>
Curriculum	1,687	1,701	(14)
Occupational Extension	379	383	(4)
Basic Skills	<u>241</u>	<u>221</u>	<u>20</u>
Total	<u><u>2,307</u></u>	<u><u>2,305</u></u>	<u><u>2</u></u>

As the College enrollment grows, so do its facilities to accommodate our students. The Science and Technology Center is the newest addition to Nash Community College. The 46,564 square foot, two-story building houses classrooms, labs, an auditorium, faculty and administrative offices to accommodate both Curriculum and Continuing Education students. The groundbreaking took place on March 30, 2004. The facility was funded from \$3,933,237 of State Bond Funds, \$1,684,229 of County Capital Funds, and \$1,000,000 from an Economic Development Administration (EDA) grant. The College took occupancy of the building in October 2005.

Related to the new Science and Technology building, the College modified the main entrance and constructed a loop road around the campus in 2005. These projects were funded by the North Carolina Department of Transportation.

Nash Community College
Statement of Net Assets
June 30, 2006

Exhibit A-1

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 861,890.90
Restricted Cash and Cash Equivalents	475,052.46
Short-Term Investments	230,044.63
Receivables (Note 4)	199,075.41
Inventories	194,653.15
Notes Receivable	600.47
Total Current Assets	<u>1,961,317.02</u>

Noncurrent Assets:

Restricted Cash and Cash Equivalents	1,159,464.69
Restricted Due from Primary Government	94,048.78
Capital Assets - Nondepreciable (Note 5)	663,251.30
Capital Assets - Depreciable, Net (Note 5)	<u>17,246,968.45</u>
Total Noncurrent Assets	<u>19,163,733.22</u>
Total Assets	<u>21,125,050.24</u>

LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 6)	162,808.30
Due to Primary Government	4,254.66
Unearned Revenue	44,451.04
Funds Held for Others	89,824.14
Long-Term Liabilities - Current Portion (Note 7)	<u>102,328.93</u>
Total Current Liabilities	<u>403,667.07</u>

Noncurrent Liabilities:

Long-Term Liabilities (Note 7)	<u>1,007,529.26</u>
Total Noncurrent Liabilities	<u>1,007,529.26</u>
Total Liabilities	<u>1,411,196.33</u>

NET ASSETS

Invested in Capital Assets	17,910,219.75
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	950,338.38
Expendable:	
Scholarships and Fellowships	205,002.31
Loans	28,805.61
Capital Projects	408,522.70
Other	268,416.03
Unrestricted	<u>(57,450.87)</u>
Total Net Assets	<u>\$ 19,713,853.91</u>

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

***Nash Community College
Statement of Revenues, Expenses, and
Changes in Net Assets
For the Fiscal Year Ended June 30, 2006***

Exhibit A-2

REVENUES

Operating Revenues:

Student Tuition and Fees, Net (Note 8)	\$ 1,264,116.77
Federal Grants and Contracts	2,343,310.19
State and Local Grants and Contracts	221,250.91
Sales and Services, Net (Note 8)	1,030,093.57
Other Operating Revenues	3,722.48

Total Operating Revenues	<u>4,862,493.92</u>
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EXPENSES

Operating Expenses:

Personal Services	11,418,251.38
Supplies and Materials	2,545,446.28
Services	1,465,427.76
Scholarships and Fellowships	1,181,848.09
Utilities	515,417.16
Depreciation	574,575.75

Total Operating Expenses	<u>17,700,966.42</u>
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Operating Loss	<u>(12,838,472.50)</u>
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NONOPERATING REVENUES

State Aid	9,241,011.04
County Appropriations	1,400,000.00
Noncapital Grants	242,942.31
Noncapital Gifts	312,209.52
Investment Income	77,173.61
Other Nonoperating Revenues	17,618.88

Nonoperating Revenues	<u>11,290,955.36</u>
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Income Before Other Revenues	<u>(1,547,517.14)</u>
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State Capital Aid	1,136,285.26
County Capital Appropriations	762,704.46
Capital Grants	326,499.80
Additions to Endowments	219,907.46

Increase in Net Assets	<u>897,879.84</u>
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NET ASSETS

Net Assets, July 1, 2005, as Restated (Note 15)	<u>18,815,974.07</u>
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Net Assets, June 30, 2006	<u><u>\$ 19,713,853.91</u></u>
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The accompanying notes to the financial statements are an integral part of this statement.

Nash Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2006

Exhibit A-3

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 4,848,995.01
Payments to Employees and Fringe Benefits	(11,087,341.77)
Payments to Vendors and Suppliers	(4,632,611.64)
Payments for Scholarships and Fellowships	(1,181,148.09)
Loans Issued to Students	(119,067.08)
Collection of Loans to Students	122,562.67
Other Receipts	53,820.32

Net Cash Used by Operating Activities	(11,994,790.58)
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CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Aid Received	9,241,011.04
County Appropriations	1,400,000.00
Noncapital Grants Received	208,335.06
Noncapital Gifts Received	532,116.98

Cash Provided by Noncapital Financing Activities	11,381,463.08
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CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

State Capital Aid Received	1,307,738.97
County Capital Appropriations	762,704.46
Capital Grants Received	1,117,830.02
Acquisition and Construction of Capital Assets	(2,336,876.10)

Net Cash Provided by Capital and Related Financing Activities	851,397.35
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CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from Sales and Maturities of Investments	24,942.64
Investment Income	77,173.61

Cash Provided by Investing Activities	102,116.25
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Net Increase in Cash and Cash Equivalents	340,186.10
Cash and Cash Equivalents, July 1, 2005	2,156,221.95

Cash and Cash Equivalents, June 30, 2006	\$ 2,496,408.05
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RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES

Operating Loss	\$ (12,838,472.50)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	574,575.75
Miscellaneous Nonoperating Income	44,349.45
Changes in Assets and Liabilities:	
Receivables, Net	(59,494.87)
Inventories	(50,635.61)
Notes Receivable, Net	3,495.59
Accounts Payable and Accrued Liabilities	(33,337.19)
Due to Primary Government	2,093.70
Unearned Revenue	43,562.96
Funds Held for Others	10,404.87
Compensated Absences	308,667.27

Net Cash Used by Operating Activities	\$ (11,994,790.58)
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***Nash Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2006***

Exhibit A-3

Page 2

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:

Cash and Cash Equivalents \$ 861,890.90

Restricted Cash and Cash Equivalents 475,052.46

Noncurrent Assets:

Restricted Cash and Cash Equivalents 1,159,464.69

Total Cash and Cash Equivalents - June 30, 2006 \$ 2,496,408.05

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Increase in Receivables Related to Nonoperating Income \$ 616.88

Capital Asset Write-Offs 39,797.70

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

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NASH COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

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. Nash 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 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 petty cash, cash on deposit with private bank accounts, savings accounts, and deposits held by the State Treasurer in the short-term investment fund. The short-term investment fund 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 funds held in the North Carolina Capital Management Trust, an SEC registered mutual fund. Investments are accounted for at fair value, as determined by quoted market prices, or an amount determined by management if quoted market prices are not available. The net increase (decrease) in the fair value of investments is recognized as a component of investment income.
- F. Receivables** – Receivables consist of tuition and fees charged 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 expenses made pursuant to contracts and grants.
- G. Inventories** – Inventories, consisting of expendable supplies, are valued at cost using the first-in, first-out method. Merchandise for resale is valued using the average cost inventory method.
- H. Capital Assets** – Capital assets are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. The College capitalizes assets that have a value or cost in excess of \$5,000 at the date of acquisition and an expected useful life of more than one year. Library books are 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 over the estimated useful lives of the assets, generally 10 to 75 years for general infrastructure, 10 to 50 years for buildings, and 2 to 25 years for equipment.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

In addition to the vacation leave described above, compensated absences include the accumulated unused portion of the special annual leave bonuses awarded by the North Carolina General Assembly. The bonus leave balance on December 31 is retained by employees and transferred into the next calendar year. It is not subject to the limitation on annual leave carried forward described above and is not subject to conversion to sick leave.

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

- L. Net Assets** – The College's net assets are classified as follows:

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

Restricted Net Assets – Nonexpendable – Nonexpendable restricted net assets include endowments and similar type assets whose use is limited by donors or other outside sources, and, as a condition of the gift, the principal is to be maintained in perpetuity.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 expense, the decision for funding is transactional based within the departmental management system in place at the College.

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- 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 for the College Bookstore and Print Shop. In addition, the College has other miscellaneous sales and service units that operated either on a reimbursement or charge basis. 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 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 *North Carolina 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. Also, the College may establish time deposit accounts, money market accounts, and certificates of deposit. The amount shown on the Statement of Net Assets as cash and cash equivalents includes cash on hand totaling \$924.00, and deposits in private financial institutions with a carrying value of \$145,377.42 and a bank balance of \$263,206.28.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Custodial credit risk is the risk that in the event of a bank failure, the College's deposits may not be returned to it. As of June 30, 2006, the College's bank balance in excess of federal depository insurance coverage was covered under the pooling method.

- B. Investments** – In addition to donated securities and real estate held by the College, the College is authorized to invest idle funds as provided by G.S. 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 G.S. 159-30(c), as follows: a commingled investment pool established and administered by the State Treasurer pursuant to G.S. 147-69.3 (STIF), 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, 2006, the amount shown on the Statement of Net Assets as cash and cash equivalents includes \$2,350,106.63, which represents the College's equity position in the State Treasurer's Short-Term Investment Fund. The Short-Term Investment Fund (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission and does not have a credit rating) had a weighted average maturity of 1.18 years as of June 30, 2006. Assets and shares of the Short-Term Investment Fund are valued at amortized cost, which approximates fair value. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's Short-Term Investment Fund) 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.ncosc.net/> 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)

The College's only investment outside the State Treasurer's Short Term Investment Fund (STIF) is in the North Carolina Capital Management Trust Fund (NCCMT), an SEC registered mutual fund. The fair value of NCCMT investment at June 30, 2006, is \$230,044.63, with a maturity of one year or less. The investment is subject to interest rate risk at June 30, 2006. Interest rate risk is defined by GASB Statement No. 40 as the risk a government may face should interest rate variances affect the fair value of investments. The College does not have a formal investment policy that addresses interest rate risk.

Credit Risk: The College does not have a formal policy that addresses credit risk. As of June 30, 2006, the College's investments in the NCCMT were rated AAA by Standard & Poor's.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the College will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The College does not have a formal policy for custodial credit risk. The College's investments in NCCMT were exposed to custodial credit risk at June 30, 2006.

A reconciliation of deposits and investments for the College to the basic financial statements at June 30, 2006, is as follows:

Cash on Hand	\$	924.00
Carrying Amount of Deposits with Private Financial Institutions		145,377.42
Investments in the Short Term Investment Fund		2,350,106.63
Other Investments (NCCMT)		<u>230,044.63</u>
Total Deposits and Investments	\$	<u><u>2,726,452.68</u></u>
Current:		
Cash and Cash Equivalents	\$	861,890.90
Restricted Cash and Cash Equivalents		475,052.46
Short-Term Investments		230,044.63
Noncurrent:		
Restricted Cash and Cash Equivalents		<u>1,159,464.69</u>
Total	\$	<u><u>2,726,452.68</u></u>

NOTE 3 - DONOR RESTRICTED ENDOWMENTS

The College's endowment assets are pooled with State agencies and similar institutions in short-term investments with the State Treasurer's Cash and Investment Pool and are reported as restricted cash and cash equivalents – noncurrent on the accompanying financial statements. If a donor has not provided specific instructions, State law permits the Board of Trustees to

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

authorize for expenditure the net appreciation, realized and unrealized, of the assets of the endowment funds. Annual payouts from the College's endowment funds are based on an adopted spending policy, which limits spending to 100% of the interest earnings unless the donor has stipulated otherwise. At June 30, 2006, net appreciation of \$69,526.76 was available to be spent, all of which was restricted to specific purposes.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2006, were as follows:

	Gross Receivables
Current Receivables:	
Students	\$ 20,513.10
Accounts	113,885.25
Intergovernmental	57,235.38
Other	7,441.68
	<u>199,075.41</u>
Total Current Receivables	<u><u>\$ 199,075.41</u></u>

NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2006, is presented as follows:

	Balance July 1, 2005	Increases	Decreases	Balance June 30, 2006
Capital Assets, Nondepreciable:				
Land	\$ 663,251.30	\$ 0.00	\$ 0.00	\$ 663,251.30
Construction in Progress	5,578,445.39	1,234,968.86	6,813,414.25	0.00
Total Capital Assets, Nondepreciable	<u>6,241,696.69</u>	<u>1,234,968.86</u>	<u>6,813,414.25</u>	<u>663,251.30</u>
Capital Assets, Depreciable:				
Buildings	13,640,683.63	6,613,414.25		20,254,097.88
Machinery and Equipment	1,561,617.04	323,570.51	46,089.08	1,839,098.47
General Infrastructure	1,746,018.69	200,000.00		1,946,018.69
Total Capital Assets, Depreciable	<u>16,948,319.36</u>	<u>7,136,984.76</u>	<u>46,089.08</u>	<u>24,039,215.04</u>
Less Accumulated Depreciation:				
Buildings	4,528,047.11	382,958.04		4,911,005.15
Machinery and Equipment	680,316.76	162,931.94	13,067.13	830,181.57
General Infrastructure	1,022,374.10	28,685.77		1,051,059.87
Total Accumulated Depreciation	<u>6,230,737.97</u>	<u>574,575.75</u>	<u>13,067.13</u>	<u>6,792,246.59</u>
Total Capital Assets, Depreciable, Net	<u>10,717,581.39</u>	<u>6,562,409.01</u>	<u>33,021.95</u>	<u>17,246,968.45</u>
Capital Assets, Net	<u><u>\$ 16,959,278.08</u></u>	<u><u>\$ 7,797,377.87</u></u>	<u><u>\$ 6,846,436.20</u></u>	<u><u>\$ 17,910,219.75</u></u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The capital asset schedule above includes land and buildings valued at a cost of \$5,821,482.82 for which the College does not currently hold the title. In 1997, Nash County provided capital appropriations for the construction of the College's Business and Industry Center and Child Development Center. In order for the county to obtain the private financing needed to provide the resources to the College, the College transferred title of the land to the county until the debt has been paid off, at which time the title reverts back to the College.

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2006, were as follows:

	Amount
Accounts Payable	\$ 62,551.79
Accrued Payroll	100,256.51
Total Accounts Payable and Accrued Liabilities	\$ 162,808.30

NOTE 7 - LONG-TERM LIABILITIES

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

	Balance July 1, 2005	Additions	Reductions	Balance June 30, 2006	Current Portion
Compensated Absences	\$ 801,190.92	\$ 793,347.53	\$ 484,680.26	\$ 1,109,858.19	\$ 102,328.93

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 8 - REVENUES

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

	Gross Revenues	Internal Sales Eliminations	Less Scholarship Discounts	Net Revenues
Operating Revenues:				
Student Tuition and Fees	<u>\$ 2,527,731.46</u>	<u>\$ 0.00</u>	<u>\$ 1,263,614.69</u>	<u>\$ 1,264,116.77</u>
Sales and Services:				
Sales and Services of Auxiliary Enterprises:				
Food Service	\$ 42,375.81	\$ 0.00	\$ 0.00	\$ 42,375.81
Print Shop	79,710.51	79,710.51		
Bookstore	1,045,185.96		378,023.75	667,162.21
Child Development Center	248,372.82			248,372.82
Brown Auditorium	47,715.26			47,715.26
Other	189.76			189.76
Sales and Services of Education and Related Activities:				
Cosmetology	<u>24,277.71</u>			<u>24,277.71</u>
Total Sales and Services	<u>\$ 1,487,827.83</u>	<u>\$ 79,710.51</u>	<u>\$ 378,023.75</u>	<u>\$ 1,030,093.57</u>

NOTE 9 - OPERATING EXPENSES BY FUNCTION

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

	Personal Services	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	\$ 7,250,490.43	\$ 1,042,619.51	\$ 584,550.37	\$ 37,115.48	\$ 0.00	\$ 0.00	\$ 8,914,775.79
Academic Support	875,771.18	60,187.33	17,706.12				953,664.63
Student Services	1,032,541.64	43,308.94	104,411.68	36,294.75			1,216,557.01
Institutional Support	1,536,417.63	199,461.32	331,241.95	1,200.00			2,068,320.90
Operations and Maintenance of Plant	384,620.37	277,350.74	364,544.17		515,417.16		1,541,932.44
Student Financial Aid			3,882.91	1,106,737.86			1,110,620.77
Auxiliary Enterprises	338,410.13	922,518.44	59,090.56	500.00			1,320,519.13
Depreciation						<u>574,575.75</u>	<u>574,575.75</u>
Total Operating Expenses	<u>\$ 11,418,251.38</u>	<u>\$ 2,545,446.28</u>	<u>\$ 1,465,427.76</u>	<u>\$ 1,181,848.09</u>	<u>\$ 515,417.16</u>	<u>\$ 574,575.75</u>	<u>\$ 17,700,966.42</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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Benefit and contribution provisions for the Teachers' and State Employees' Retirement System are established by *North Carolina General Statutes* 135-5 and 135-8 and may be amended only by the North Carolina General Assembly. Employer and member contribution rates are set each year by the North Carolina General Assembly based on annual actuarial valuations. For the year ended June 30, 2006, these rates were set at 2.34% of covered payroll for employers and 6% of covered payroll for members.

For the year ended June 30, 2006, the College had a total payroll of \$9,306,288.74, of which \$7,848,158.42 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were \$470,889.55 and \$183,646.91, respectively. The College made 100% of its annual required contributions for the years ended June 30, 2006, 2005, and 2004, which were \$183,646.91, \$166,565.53, and \$15,511.02, 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 \$11,810.00 for the year ended June 30, 2006.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

IRC Section 401(k) Plan – All members of the Teachers' and State Employees' Retirement System are eligible to enroll in the Supplemental Retirement Income Plan, a defined contribution plan, created under Internal Revenue Code Section 401(k). All costs of administering the Plan are the responsibility of the Plan participants. The voluntary contributions by employees amounted to \$114,778.00 for the year ended June 30, 2006.

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 \$22,080.00 for the year ended June 30, 2006.

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 3.8% of the covered payroll under the Teachers' and State Employees' Retirement System for these health care benefits. For the fiscal year ended June 30, 2006, the College's total contribution to the Plan was \$298,230.02. 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

State Employees' Retirement System. Long-term disability income benefits are advance funded on an actuarially determined basis using the one-year term cost method. The College contributes .52% of covered payroll under the Teachers' and State Employees' Retirement System to the DIPNC. For the year ended June 30, 2006, the College's total contribution to the DIPNC was \$40,810.42. 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, and can include participation in State-administered insurance programs, purchase of commercial insurance, and self-retention of certain risks. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

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

Fire and other property losses are covered by the Public School Insurance Fund, a State-administered public entity risk pool. This fund is financed by premiums and interest and incurs a \$10 million self-insured deductible per occurrence. Reinsurance is purchased by the fund to cover catastrophic events in excess of the \$10 million deductible. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

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

The College is protected for losses from employee dishonesty and computer fraud for employees paid in whole or in part from State funds. The blanket honesty bond is with a private insurance company and is handled by the North

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Carolina Department of Insurance with coverage of \$5,000,000 per occurrence and a \$50,000 deductible. The College insures itself from employee theft by acquiring employee crime coverage through a local agent with limits of \$100,000 per occurrence with a \$500 deductible.

The College supplements the State's liability coverage by acquiring additional general liability coverage up to \$6,000,000 with a self retention of \$10,000. As a part of the College's insurance portfolio, professional liability coverage is provided on the Board of Trustees, faculty, and staff up to \$4,000,000 with a retention of \$1,000.

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. The employer contribution rate was .16% for the current fiscal year. The College's contribution for this benefit was \$12,557.05.

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 purchases were \$22,060.15 at June 30, 2006.
- B. **Contingent Liabilities** – The College has conveyed to the U.S. Department of Commerce, Economic Development Administration (EDA) a mortgage lien on the Science & Technology Center in the amount of \$1,000,000. This lien secures the EDA's investment in this building should the College no longer use the building for educational or

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

economic development purposes. This mortgage lien shall terminate and be dismissed twenty (20) years from September 1, 2004.

NOTE 14 - RELATED PARTIES

Foundation – The Nash 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 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 \$416,565.00 for the year ended June 30, 2006.

NOTE 15 - NET ASSET RESTATEMENT(S)

As of July 1, 2005, net assets as previously reported was restated as follows:

	<u>Amount</u>
July 1, 2005, Net Assets as Previously Reported	\$ 18,861,425.43
Restatements: To correct capital assets beginning balances	<u>(45,451.36)</u>
July 1, 2005, Net Assets as Restated	<u><u>\$ 18,815,974.07</u></u>

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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
Nash Community College
Rocky Mount, North Carolina

We have audited the financial statements of Nash Community College, a component unit of the State of North Carolina, as of and for the year ended June 30, 2006, and have issued our report thereon dated February 26, 2007.

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.

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 opinion 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 that 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.

**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)**

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, the State Board of Community Colleges, management of the College, the Governor, the State Controller, and the General Assembly, 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

February 26, 2007

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