STATE OF
NORTH CAROLINA

ALAMANCE COMMUNITY COLLEGE

GRAHAM, 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

ALAMANCE COMMUNITY COLLEGE

GRAHAM, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

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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, Alamance Community College

We have completed a financial statement and compliance audit of Alamance 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 and our consideration of the College's administration of the Vocational Education - Basic Grants to States grant in accordance with applicable laws, regulations, contracts and grants 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

June 20, 2007

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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, 2006, which collectively comprise the College's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Alamance Community 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 represent 100% of the College's discretely presented component units. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinions, insofar as they relate to the amounts included for those entities, are 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 the 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 discretely presented component unit as of June 30, 2006, and the respective changes in financial position and 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)

In accordance with *Government Auditing Standards*, we have also issued our report dated June 4, 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.

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

June 4, 2007

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 use 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 interrelated 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.

In using the financial statements, the note disclosures accompanying 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, detailed 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, accounting changes, and if necessary a discussion of adjustments to prior periods and events subsequent to the College's financial statement period. Overall, these disclosures provide information to better understand details, risk, and uncertainty associated with amounts reported in the Financial Statements.

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. 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 expenditures. 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, 2005, and 2006.

	2006	2005	Change	Percent Change
ASSETS				
Current Assets	$ 2,884,336.67	$ 2,903,324.33	$ (18,987.66)	(0.65) %
Capital Assets, Net	17,874,037.19	16,035,755.78	1,838,281.41	11.46 %
Other Noncurrent Assets	625,146.56	1,722,251.84	(1,097,105.28)	(63.70) %
Total Assets	21,383,520.42	20,661,331.95	722,188.47	3.50 %
LIABILITIES				
Current Liabilities	283,068.12	1,074,234.60	(791,166.48)	(73.65) %
Noncurrent Liabillities	446,210.95	361,656.17	84,554.78	23.38 %
Total Liabilities	729,279.07	1,435,890.77	(706,611.70)	(49.21) %
NET ASSETS				
Invested in Capital Assets	17,874,037.19	16,035,755.78	1,838,281.41	11.46 %
Restricted for:				
Expendable	504,975.94	908,309.67	(403,333.73)	(44.40) %
Unrestricted	2,275,228.22	2,281,375.73	(6,147.51)	(0.27) %
Total Net Assets	$ 20,654,241.35	$ 19,225,441.18	$ 1,428,800.17	7.43 %

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

- Assets totaled $21,383,520.42, an increase of $722,188.47 or 3.50% more than the previous year. The overall increase was attributable primarily to an increase in capital assets.

  The increase in capital assets, is attributable to the capitalization of expenditures for capital improvement projects as a fixed asset upon completion of the project.

- Liabilities totaled $729,279.07, a decrease of $706,611.70 or 49.21% under the previous year. This is primarily attributable to a decrease in construction payables due to the completion of the Student Services/LRC/Administration building.
- Net assets totaled $20,654,241.35, an increase of $1,428,800.17 or 7.43% over the previous year. The College's investment in capital assets account for 86.54% of the total assets. The increase in net assets is due to an increase in invested in net assets, of $1,838,281.41 and is primarily due to the capitalization of capital construction projects funded from county and state bond funds. Expendable Net Assets decreased $403,333.73, or 44.40% that is primarily due to expending funds for capital construction projects.

The major change in the College's financial position is the increase in net assets of 7.43% over the previous year. Net Assets increased because of the appropriations received from the State 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 10.19 as compared to 2.71 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 4.81 as compared to 3.22 in the prior year. The College's total assets are significantly more than the College's liabilities with a ratio of 29.32 as compared to 14.39 in the prior year. All the ratios shown above were larger this year due to a decrease in construction liabilities.

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. 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. Activities classified as nonoperating include State appropriations, noncapital gifts and grants revenue, and investment income. Activities classified as other included capital grants, State capital aid, and county capital appropriations. 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, 2006, and 2005.

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

	2006	2005	Change	Percent
Operating Revenues	$ 7,692,362.97	$ 7,769,255.27	$ (76,892.30)	(0.99) %
Operating Expenses	(25,384,466.47)	(23,311,504.41)	(2,072,962.06)	8.89 %
Operating Loss	(17,692,103.50)	(15,542,249.14)	(2,149,854.36)	13.83 %
Nonoperating Revenues	16,343,090.92	14,273,275.45	2,069,815.47	14.50 %
Loss Before Other Revenues	(1,349,012.58)	(1,268,973.69)	(80,038.89)	6.31 %
Other Revenues	2,777,812.75	4,076,753.50	(1,298,940.75)	(31.86) %
Increase/Decrease in Net Assets	1,428,800.17	2,807,779.81	(1,378,979.64)	(49.11) %
Net Assets, July 1	19,225,441.18	16,417,661.37	2,807,779.81	17.10 %
Net Assets, June 30	$ 20,654,241.35	$ 19,225,441.18	$ 1,428,800.17	7.43 %

The Statement of Revenues, Expenses, and Changes in Net Assets reflect an increase of $1,428,800.17 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 $17,692,103.50 an increase of 13.83% over the previous year. An operating loss is an expected outcome for a public supported educational institution and is the result of State appropriations being reported as nonoperating revenue and expenses associated with nonoperating and capital grants and gifts being reported as operating expenses.
- Operating revenues decreased by $76,892.30 (.99%) whereas operating expenses increased by $2,072,962.06 (8.89%) for a combined net increase in operating loss of $2,149,854.36 (13.83%) over the previous year.
- Net nonoperating revenues increased by $2,069,815.47 (14.50%), primarily due to an increase in State appropriations.
- Other revenues decreased by $1,298,940.75 (31.86%), primarily due to a decrease in County Capital Appropriations. The Student Services/LRC/Administration building construction project was completed this year, but funds from the county for this project were received in prior years.

Operating Revenues

	FY 2005-2006	FY 2004-2005	Change	% Change
Student Tuition and Fees, Net	$ 3,293,617.34	$ 3,280,415.87	$ 13,201.47	0.40 %
Federal Grants and Contracts	3,319,478.33	3,480,038.74	(160,560.41)	(4.61) %
State and Local Grants and Contracts	459,569.14	449,989.70	9,579.44	2.13 %
Sales and Services, Net	544,933.63	537,029.46	7,904.17	1.47 %
Other Operating Revenues	74,764.53	21,781.50	52,983.03	243.25 %
Total Operating Revenues	$ 7,692,362.97	$ 7,769,255.27	$ (76,892.30)	(0.01) %

The main sources of operating revenues are student tuition and fees (42.81%) and federal grants and contracts (43.15%).

Nonoperating and Other Revenues

	FY 2005-2006	FY 2004-2005	Change	% Change
State Aid	$ 13,554,567.66	$ 11,955,671.48	$ 1,598,896.18	13.37 %
County Appropriations	2,150,000.00	1,704,036.92	445,963.08	26.17 %
Noncapital Grants	354,714.46	335,552.23	19,162.23	5.71 %
Noncapital Gifts, Net	194,613.05	184,940.27	9,672.78	5.23 %
Investment Income, Net	89,112.75	77,027.11	12,085.64	15.69 %
State Capital Aid	1,138,116.96	728,292.48	409,824.48	56.27 %
County Capital Appropriations	1,582,005.55	3,311,696.02	(1,729,690.47)	(52.23) %
Capital Grants	57,690.24	36,765.00	20,925.24	56.92 %
Other Nonoperating Revenues	83.00	16,047.44	(15,964.44)	(99.48) %
Total Nonoperating and Other Revenues	$ 19,120,903.67	$ 18,350,028.95	$ 770,874.72	4.20 %

Nonoperating and other revenues increased by 4.20%. State aid increased by $1,598,896.18 (13.37%) and was due to the State having more funds available to distribute and an increase in FTE. State capital aid increased by $409,824.48 (56.27%) and was due to increased equipment funds and to more construction dollars from the State. County capital appropriations decreased by $1,729,690.47 (52.23%) because the College received an additional appropriation from Alamance County last year for the Student Services/LRC/Administration capital construction project.

Operating Expenses

	FY 2005-2006	FY 2004-2005	Change	% Change
Personal Services	$ 17,124,899.39	$ 15,208,947.56	$ 1,915,951.83	12.60 %
Supplies and Materials	1,939,912.38	2,058,343.54	(118,431.16)	(5.75) %
Services	1,973,500.94	1,773,363.19	200,137.75	11.29 %
Scholarships and Fellowships	3,147,292.06	3,290,060.80	(142,768.74)	(4.34) %
Utilities	514,030.04	373,803.54	140,226.50	37.51 %
Depreciation	684,831.66	606,985.78	77,845.88	12.82 %
Total Operating Expenses	$ 25,384,466.47	$ 23,311,504.41	$ 2,072,962.06	8.89 %

Personal services account for 67.46% of the total operating expense and increased by 12.6% over FY 04-05. 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 32.54% of total operating expenses. Those percentages are: scholarships (12.40%), services (7.77%), supplies and materials (7.64%), depreciation (2.70%), and utilities (2.03%). The cost of utilities increased by $140,226.50 (37.51%) and was due to rising prices for fuel and an increase in space when the Student Services/LRC/Administration building was completed and opened in December.

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.

Following is a comparative analysis of the condensed balances reported in the Statement of Cash Flows for the fiscal years ended June 30, 2006, and 2005.

	2006	2005	Percent Change
Operating Activities			
Sources	$ 7,685,293.90	$ 7,721,523.16	(0.47) %
Used	(24,591,115.89)	(22,578,709.26)	8.91 %
Cash Used by Operating Activities	(16,905,821.99)	(14,857,186.10)	13.79 %
Noncapital Financing			
Sources	16,279,474.99	14,403,320.16	13.03 %
Cash Provided by Noncapital Financing	16,279,474.99	14,403,320.16	13.03 %
Capital and Related Financing Activities			
Sources	3,033,448.47	5,428,925.46	(44.12) %
Used	(3,250,030.44)	(3,924,275.20)	(17.18) %
Cash Provided/Used by Capital and Related Financing Activities	(216,581.97)	1,504,650.26	(114.39) %
Investing Activities			
Sources	89,112.75	92,348.87	(3.50) %
Cash Provided by Investing Activities	89,112.75	92,348.87	(3.50) %
Net Increase/(Decrease) in Cash	(753,816.22)	1,143,133.19	(165.94) %
Cash - Beginning of Year	3,870,683.45	2,727,550.26	41.91 %
Cash - End of Year	$ 3,116,867.23	$ 3,870,683.45	(19.48) %

Cash used by operating activities totaled $16,905,821.99, an increase in cash used of $2,048,635.89 or 13.79% over the previous year. This is attributable to increased operating expenditures due to the increase in students.

Cash provided by noncapital financing activities totaled $16,279,474.99, an increase of $1,876,154.83 or 13.03% over the previous year. This is attributable primarily to an increase in State aid.

Cash used by capital and related financing activities totaled $216,581.97, a decrease of $1,721,232.23 or 114.39% under the previous year. This is attributable primarily to spending funds previously received in State capital aid and county capital appropriations for capital construction projects.

Cash provided by investing activities totaled $89,112.75, a decrease of $3,236.12 or 3.5% over the previous year. This is attributable to a decrease in interest earned from investments.

Capital Assets and Long-Term Debt Activities

Capital Assets

Alamance Community College investment in capital assets as of June 30, 2006, amounted to $17,874,037.19 net of accumulated depreciation. This investment in capital assets includes land, construction in progress, buildings, general infrastructure, and machinery and equipment. The net increase for the year was $1,838,281.41 and consisted of land ($590,609.00), buildings/construction in progress ($879,079.97), infrastructure ($240,026.16), and equipment ($128,566.28).

The increase in land and buildings/construction in progress is primarily due to the passage of the Higher Education Improvement Bond Referendum by North Carolina voters on November 7, 2000, and the issue of several Alamance County bonds. 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. The College also received allocations of $4,589,293 from Alamance County for the Student Services/Learning Resources/Administration building, $2,617,189 for the Allied Health Sciences building, and $3,819,292 for the purchase and renovation of the Burlington Center building.

The College has completed the Student Services/Learning Resources/Administration building, has purchased the land and building for the Burlington Center, and has begun construction on the Allied Health Sciences building. The renovation of the Burlington Center building that was purchased is now in the design phase. In addition, the College has spent a portion of the repair and renovation funds from the Higher Education bonds to renovate its existing facilities by upgrading the heating/air conditioning system, remodeling classrooms and shops, replacing the bridge to the main building, and replacing restrooms fixtures. Other renovation projects planned include the renovation of the Child Development Center, parking lot improvements, and renovating the space where the library used to be located for a Student Center. The Student Center renovation is in the design phase and is projected to cost $505,000.

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 2006-07 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 2005-06 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 appropriations constituted approximately 55% of the College's total revenues for fiscal year 2005-06, as compared to 54% last year.

The economic outlook for the State of North Carolina has improved and the College's beginning State appropriations for FY 06-07 increased by 9.16%. This increase consisted of approximately 7.5% for salary and increases in retirement and medical insurance benefits, 1.3% for equipment, and the rest for student enrollment growth. Tuition rates were not increased for FY 06-07.

Student enrollment growth was 2.48% during FY 05-06. Curriculum increased by only .35% FTE while continuing education accounted for most of the growth. Enrollment growth has slowed due to a recovering economy as well as not having the facilities needed to handle additional growth. The need for new facilities has grown and 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 that occurred prior to FY 04-05. The new Allied Health Classroom building under construction should be completed by December of 2007.

Management believes that the financial position of the College is strong and that the College is well positioned to serve the needs of the community and the students.

Alamance Community College
Statement of Net Assets
June 30, 2006 ***Exhibit A-1***

ASSETS		
Current Assets:		
Cash and Cash Equivalents	$	2,654,282.51
Restricted Cash and Cash Equivalents		27,272.41
Receivables, Net (Note 3)		132,994.03
Inventories		69,787.72
Total Current Assets		2,884,336.67
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		435,312.31
Restricted Due from Primary Government		189,834.25
Capital Assets - Nondepreciable (Note 4)		1,194,276.59
Capital Assets - Depreciable, Net (Note 4)		16,679,760.60
Total Noncurrent Assets		18,499,183.75
Total Assets		21,383,520.42
LIABILITIES		
Current Liabilities:		
Accounts Payable and Accrued Liabilities (Note 5)		200,085.13
Unearned Revenue		62,742.07
Long-Term Liabilities - Current Portion (Note 6)		20,240.92
Total Current Liabilities		283,068.12
Noncurrent Liabilities:		
Funds Held for Others		34,658.15
Long-Term Liabilities (Note 6)		411,552.80
Total Noncurrent Liabilities		446,210.95
Total Liabilities		729,279.07
NET ASSETS		
Invested in Capital Assets		17,874,037.19
Restricted for:		
Expendable:		
Capital Projects		455,822.53
Other		49,153.41
Unrestricted		2,275,228.22
Total Net Assets	$	20,654,241.35

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, 2006 ***Exhibit A-2***

REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net (Note 8)	$	3,293,617.34
Federal Grants and Contracts		3,319,478.33
State and Local Grants and Contracts		459,569.14
Sales and Services, Net (Note 8)		544,933.63
Other Operating Revenues		74,764.53
Total Operating Revenues		7,692,362.97
EXPENSES		
Operating Expenses:		
Personal Services		17,124,899.39
Supplies and Materials		1,939,912.37
Services		1,973,500.94
Scholarships and Fellowships		3,147,292.06
Utilities		514,030.04
Depreciation		684,831.67
Total Operating Expenses		25,384,466.47
Operating Loss		(17,692,103.50)
NONOPERATING REVENUES		
State Aid		13,554,567.66
County Appropriations		2,150,000.00
Noncapital Grants		354,714.46
Noncapital Gifts, Net		194,613.05
Investment Income		89,112.75
Other Nonoperating Revenues		83.00
Net Nonoperating Revenues		16,343,090.92
Income Before Other Revenues		(1,349,012.58)
State Capital Aid		1,138,116.96
County Capital Appropriations		1,582,005.55
Capital Grants		57,690.24
Increase in Net Assets		1,428,800.17
NET ASSETS		
Net Assets, July 1, 2005		19,225,441.18
Net Assets, June 30, 2006	$	20,654,241.35

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, 2006 — *Exhibit A-3*

CASH FLOWS FROM OPERATING ACTIVITIES		
Received from Customers	$	7,685,293.90
Payments to Employees and Fringe Benefits		(17,021,997.04)
Payments to Vendors and Suppliers		(4,414,298.58)
Payments for Scholarships and Fellowships		(3,143,871.99)
Other Receipts (Payments)		(10,948.28)
Net Cash Used by Operating Activities		(16,905,821.99)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State Aid Received		13,554,567.66
County Appropriations		2,150,000.00
Noncapital Grants Received		380,294.28
Noncapital Gifts Received		194,613.05
Cash Provided by Noncapital Financing Activities		16,279,474.99
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
State Capital Aid Received		1,393,752.68
County Capital Appropriations		1,582,005.55
Capital Grants Received		57,690.24
Acquisition and Construction of Capital Assets		(3,250,030.44)
Net Cash Used by Capital and Related Financing Activities		(216,581.97)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment Income		89,112.75
Net Decrease in Cash and Cash Equivalents		(753,816.22)
Cash and Cash Equivalents, July 1, 2005		3,870,683.45
Cash and Cash Equivalents, June 30, 2006	$	3,116,867.23
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating Loss	$	(17,692,103.50)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense		684,831.67
Miscellaneous Nonoperating Income		83.00
Changes in Assets and Liabilities:		
Receivables, Net		1,054.04
Inventories		(540.11)
Prepaid Items		80,547.25
Accounts Payable and Accrued Liabilities		(59,038.62)
Unearned Revenue		(7,335.03)
Funds Held for Others		(8,399.29)
Compensated Absences		95,078.60
Net Cash Used by Operating Activities	$	(16,905,821.99)

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:		
Cash and Cash Equivalents	$	2,654,282.51
Restricted Cash and Cash Equivalents		27,272.41
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		435,312.31
Total Cash and Cash Equivalents - June 30, 2006	$	3,116,867.23

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, 2006 ***Exhibit B-1***

ASSETS		
Cash and Cash Equivalents	$	137,146.00
Investments		4,873,079.00
Cash Surrender Value of Life Insurance		18,498.00
Assets Held in Charitable Trusts and Annuities		89,484.00
Real Estate Held for Resale		144,958.00
Receivables, Net		8,534.00
Pledges Receivable/Promises		125,642.00
Notes/Loans Receivable, Net		1,800.00
Property and Equipment, Net		36,590.00
Total Assets		5,435,731.00
LIABILITIES		
Accounts Payable and Accrued Expenses		2,693.00
Total Liabilities		2,693.00
NET ASSETS		
Unrestricted		139,950.00
Temporarily Restricted		1,344,996.00
Permanently Restricted		3,948,092.00
Total Net Assets	$	5,433,038.00

See Note 1 in the Notes to the Financial Statements

Alamance Community College Foundation, Inc.
Statement of Activities
For the Fiscal Year Ended June 30, 2006 — *Exhibit B-2*

CHANGES IN UNRESTRICTED NET ASSETS		
Revenues and Gains:		
Contributions	$	515,268.00
Income on Long-Term Investments		67,260.00
Other		27,829.00
Total Unrestricted Revenues and Gains		610,357.00
Total Unrestricted Revenues, Gains, and Other Support		610,357.00
Expenses and Losses:		
Student Scholarships		124,809.00
College Work Study Match		112,000.00
Other Student Support		35,567.00
Programs/Resources for ACC Faculty/Staff		21,169.00
Other Education Related Programs		86,587.00
Support Services from ACC		150,825.00
Other Foundation Expenses		35,884.00
Total Expenses		566,841.00
Increase in Unrestricted Net Assets		43,516.00
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS		
Contributions		184,399.00
Income on Long-Term Investments		53,878.00
Net Unrealized and Realized Gains on Long-Term Investments		422,636.00
Net Assets Released from Restrictions:		
Satisfaction of Program Restrictions		(194,694.00)
Increase in Temporarily Restricted Net Assets		466,219.00
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS		
Contributions		145,453.00
Increase in Permanently Restricted Net Assets		145,453.00
Increase/(Decrease) in Net Assets		655,188.00
Net Assets at Beginning of Year		4,777,850.00
Net Assets at End of Year	$	5,433,038.00

See Note 1 in the Notes to the Financial Statements

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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 units are either blended or discretely presented in the financial statements. The blended component units, although legally separate, are, in substance, part of the College's operations and therefore, are reported as if they were part of the College. Discretely presented component units' financial data are reported in separate financial statements because of their use of different GAAP reporting models and to emphasize their legal separateness.

Discretely Presented Component Units – Alamance Community College Foundation, Inc. is a legally separate tax-exempt corporation and is reported as a discretely presented component unit based on the nature and significance of its relationship to 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 twenty-five 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 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 Governmental Accounting Standards Board (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, 2006, the Foundation distributed $374,966 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.accfoundation.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.

D. **Cash and Cash Equivalents** – This classification includes undeposited receipts, 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. **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 expenditures made pursuant to contracts and grants. Receivables are recorded net of estimated uncollectible amounts.

F. **Inventories –** Inventories, consisting of expendable supplies, are valued at cost using the last invoice cost.

G. **Capital Assets –** Capital assets are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. The College capitalizes assets that have a value or cost in excess of $5,000 at the date of acquisition and an expected useful life of more than one year. Library books are generally not considered to have a useful life of more than one year unless part of a collection and are expensed in the year of acquisition.

Depreciation is computed using the straight-line over the estimated useful lives of the assets, generally 15 years for general infrastructure, 20 to 40 years for buildings, and 5 to 25 years for equipment.

The College does not capitalize the Library Book collection. This collection adheres to the College's policy to maintain for public exhibition, education or research; protect, keep unencumbered, care for and preserve; and requires proceeds from their sale to be used to acquire other collection items. Accounting principles generally accepted in the United States of America permit collections maintained in this manner to be charged to operations at time of purchase rather than be capitalized.

H. **Restricted Assets –** Unexpended capital contributions are classified as restricted assets because their use is limited by donor/grantor agreements. Certain other assets are classified as restricted because their use is limited by external parties or statute.

I. **Noncurrent Long-Term Liabilities –** Noncurrent long-term liabilities include compensated absences that will not be paid within the next fiscal year.

J. **Compensated Absences** - The College's policy is to record the cost of vacation leave when earned. The policy provides for a maximum accumulation of unused vacation leave of 15 days which can be carried forward each July 1 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 30 equals the leave carried forward at the previous June 30th plus the leave earned, less the leave taken between July 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 June 30 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.

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

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

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

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

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

L. **Scholarship Discounts –** Student tuition and fees revenues and certain other revenues from College charges are reported net of scholarship discounts in the accompanying Statement of Revenues, Expenses, and

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

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

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

N. Internal Sales Activities – Certain institutional auxiliary operations provide goods and services to College departments, as well as to its customers. The institutional auxiliary operations include activities such as a copy center. 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.

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

NOTE 2 - DEPOSITS AND INVESTMENTS

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 $2,350.00, and deposits in private financial institutions with a carrying value of $1,319,888.40 and a bank balance of $1,385,721.83.

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.

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 dedicated method.

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, 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 $1,794,628.83 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.

Component Units - Investments of the College's discretely presented component unit, the Alamance Community College Foundation, are subject to and restricted by North Carolina General Statue 36B "Uniform Management of Institutional Funds Act" (UMIFA) and any requirements placed on them by contract or donor agreements. Because Alamance Community College Foundation, Inc. reports under the FASB reporting model, disclosure of the various investment risks are not required.

The Foundation adopted Statement of Financial Accounting Standards No. 124, "*Accounting for Certain Investments Held by Not-for-Profit Organizations*" (SFAS 124). SFAS 124 requires the Foundation to record certain investment securities at estimated fair value.

Investments are carried at fair value at June 30, 2006. The fair value of equity and debt investments is based on the quoted market price of the underlying securities. Gains and losses realized on the sale of investments are determined using an average cost method for securities and the specific identification method for other investments. Gains and losses are realized as of the trade date for investments.

The Foundation has deposited investments with a trust company that acts as custodian. The following is a breakdown of the investment components:

	Cost	Unrealized Gains	Unrealized Losses	Fair Market Value
Investments:				
Invested Cash and Cash Equivalents	$ 531,091	$ 0	$ 0	$ 531,091
Fixed Income - Mutual Funds	497,580	1,003	(16,932)	481,651
Fixed Income - Bonds	360,273		(24,084)	336,189
Equities	3,039,778	621,237	(136,867)	3,524,148
Total	$ 4,428,722	$ 622,240	$ (177,883)	$ 4,873,079

At June 30, 2006, the Foundation held certificates of deposit in the amount of $110,257 which is a component of the deposit total reported in the deposit section of this note.

Investment advisory fees totaled $28,903 for the year ended June 30, 2006. The total of all investment returns is summarized as follows:

	Unrestricted Fund	Restricted Fund	Total
Dividends and Interest, Net of Expenses	$ 21,777	$ 65,361	$ 87,138
Net Realized and Unrealized Gains (Losses)	39,899	382,737	422,636
Return on Long-Term Investments	61,676	448,098	509,774
Interest on Short-Term Investments	1,580	3,517	5,097
Endowment and Other Income, Net of Expenses	$ 63,256	$ 451,615	$ 514,871

NOTE 3 - RECEIVABLES

Receivables at June 30, 2006, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	$ 119,906.31	$ 36,236.00	$ 83,670.31
Accounts	32,085.12	11,993.00	20,092.12
Intergovernmental	29,231.60		29,231.60
Total Current Receivables	$ 181,223.03	$ 48,229.00	$ 132,994.03

NOTE 4 - 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	$ 271,721.12	$ 590,609.00	$ 0.00	$ 862,330.12
Construction in Progress	5,941,493.32	607,965.57	6,217,512.42	331,946.47
Total Capital Assets, Nondepreciable	6,213,214.44	1,198,574.57	6,217,512.42	1,194,276.59
Capital Assets, Depreciable:				
Buildings	16,716,644.59	7,019,762.98		23,736,407.57
Machinery and Equipment	1,856,210.59	250,867.48	60,875.82	2,046,202.25
General Infrastructure	1,005,013.65	271,420.47		1,276,434.12
Total Capital Assets, Depreciable	19,577,868.83	7,542,050.93	60,875.82	27,059,043.94
Less Accumulated Depreciation:				
Buildings	7,824,859.01	531,136.16		8,355,995.17
Machinery and Equipment	1,172,990.08	122,301.20	60,875.82	1,234,415.46
General Infrastructure	757,478.40	31,394.31		788,872.71
Total Accumulated Depreciation	9,755,327.49	684,831.67	60,875.82	10,379,283.34
Total Capital Assets, Depreciable, Net	9,822,541.34	6,857,219.26		16,679,760.60
Capital Assets, Net	$ 16,035,755.78	$ 8,055,793.83	$ 6,217,512.42	$ 17,874,037.19

NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	Amount
Accounts Payable	$ 99,559.53
Accrued Payroll	100,525.60
Total Accounts Payable and Accrued Liabilities	$ 200,085.13

NOTE 6 - 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	$ 336,715.12	$ 446,829.38	$ 351,750.78	$ 431,793.72	$ 20,240.92

NOTE 7 - OPERATING LEASE OBLIGATIONS

Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2006:

Fiscal Year	Amount
2007	$ 92,330.75
2008	42,600.00
2009	42,600.00
2010	42,600.00
2011	3,550.00
Total Minimum Lease Payments	$ 223,680.75

Rental expense for all operating leases during the year was $153,768.38.

NOTE 8 - REVENUES

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

	Gross Revenues	Internal Sales Eliminations	Less Scholarship Discounts	Less Allowance for Uncollectibles	Net Revenues
Operating Revenues:					
Student Tuition and Fees	$ 4,163,429.63	$ 0.00	$ 851,393.29	$ 18,419.00	$ 3,293,617.34
Sales and Services:					
Sales and Services of Auxiliary Enterprises:					
Bookstore Commissions	$ 102,628.68	$ 0.00	$ 0.00	$ 0.00	$ 102,628.68
Dining	30,452.21				30,452.21
Daycare	289,103.71			11,993.00	277,110.71
Print Shop	205,396.46	205,396.46			
Sales and Services of Education and Related Activities	134,742.03				134,742.03
Total Sales and Services	$ 762,323.09	$ 205,396.46	$ 0.00	$ 11,993.00	$ 544,933.63

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	$ 10,874,264.97	$ 1,542,682.57	$ 309,139.94	$ 0.00	$ 0.00	$ 0.00	$ 12,726,087.48
Academic Support	2,122,088.73	135,843.14	35,274.01				2,293,205.88
Student Services	1,087,857.66	68,341.65	43,667.73				1,199,867.04
Institutional Support	2,582,546.11	125,003.57	620,561.25				3,328,110.93
Operations and Maintenance of Plant	270,074.64	(21,246.35)	947,022.84		514,030.04		1,709,881.17
Student Financial Aid			(3,861.00)	3,147,292.06			3,143,431.06
Auxiliary Enterprises	188,067.28	89,287.79	21,696.17				299,051.24
Depreciation						684,831.67	684,831.67
Total Operating Expenses	$ 17,124,899.39	$ 1,939,912.37	$ 1,973,500.94	$ 3,147,292.06	$ 514,030.04	$ 684,831.67	$ 25,384,466.47

NOTE 10 - PENSION PLANS

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

Benefit and contribution provisions for the Teachers' and State Employees' Retirement System are established by *North Carolina General Statutes* 135-5 and 135-8 and may be amended only by the North Carolina General Assembly. Employer and member contribution rates are set each year by the North Carolina General Assembly based on annual actuarial valuations. For the year ended June 30, 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 $14,625,013.36, of which $10,275,185.35 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were $617,134.54 and $240,664.78, respectively. The College made 100% of its annual required contributions for the years ended June 30, 2006, 2005, and 2004, which were $240,664.78, $201,194.94, and $17,707.97, 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 $2,400.00 for the year ended June 30, 2006.

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 $113,974.94 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 $123,062.76 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 $390,789.49. 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. 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 $53,477.19. 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 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 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.

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

The College has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were $5,464,565.06 at June 30, 2006.

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STATE OF NORTH CAROLINA
Office of the 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, 2006, which collectively comprise the College's basic financial statements, and have issued our report thereon dated June 4, 2007. Our report was modified to include a reference to 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. Other auditors audited the financial statements of Alamance Community College Foundation Inc., the discretely presented component unit, as described in our report on the College's financial statements. The financial statements of the discretely presented component unit were not audited in accordance with *Government Auditing Standards*.

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 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. 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

June 4, 2007

ORDERING INFORMATION

Audit reports issued by the Office of the State Auditor can be obtained from the web site at www.ncauditor.net. Also, parties may register on the web site to receive automatic email notification whenever reports of interest are issued. Otherwise, copies of audit reports may be obtained by contacting the:

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