STATE OF NORTH CAROLINA

VANCE-GRANVILLE COMMUNITY COLLEGE

HENDERSON, 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

VANCE-GRANVILLE COMMUNITY COLLEGE

HENDERSON, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2006

STATE OF NORTH CAROLINA
Office of the State Auditor

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

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601
Telephone: (919) 807-7500
Fax: (919) 807-7647
Internet
http://www.ncauditor.net

AUDITOR'S TRANSMITTAL

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

We have completed a financial statement and compliance audit of Vance-Granville 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 federal programs 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

April 4, 2007

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2 S. Salisbury Street
20601 Mail Service Center
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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Vance-Granville Community College
Henderson, North Carolina

We have audited the accompanying financial statements of Vance-Granville 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 Vance-Granville 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 Vance-Granville Community College Endowment Fund Corporation 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 opinion, insofar as it relates to the amounts included for the discretely presented component unit, is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of Vance-Granville Community College Endowment Fund Corporation 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 provides a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of Vance-Granville 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 January 12, 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

January 12, 2007

The Financial Statements

In accordance with GASB Statements No. 34 and 35, the enclosed report focuses on the financial condition of the College, the results of operations, and cash flows of the College as a whole. As required, this report contains three basic financial statements and the Notes to the Financial Statements:

> Statement of Net Assets: This statement includes all assets and liabilities. The College's net assets (the difference between assets and liabilities) are an indicator of the improvement or erosion of the College's financial health when considered with non-financial facts such as enrollment levels. (Exhibit A-1)
>
> Statement of Revenues, Expenses, and Changes in Net Assets: This statement presents the revenues earned and the expenses incurred during the year. Activities are reported as either operating or nonoperating. This approach is intended to summarize and simplify the presentation of the College's services to the students and public. (Exhibit A-2)
>
> Statement of Cash Flows: This statement presents information related to cash inflows and outflows summarized by operating, noncapital financing, capital and related financing, and investing activities, and helps measure the ability of the College to meet financial obligations as they mature. (Exhibit A-3)
>
> Notes to the Financial Statements: The notes provide additional information that is essential for a complete understanding of the data provided in the statements.

In accordance with GASB Statement No. 39, the enclosed report also contains the Vance-Granville Community College Endowment Fund Corporation's "Statement of Financial Position" (Exhibit B-1) and "Statement of Activities" (Exhibit B-2). GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units* clarifies GASB Statement No. 14, *The Financial Reporting Entity,* as to which organizations affiliated with the College, but separately accountable, should be reported as a component unit based on the organization's nature and significance to the College. The Notes to the Financial Statements do not address the Corporation unless specified.

Financial Highlights

Below is a condensed comparative analysis between the Statement of Net Assets contained herein and for the fiscal year ended June 30, 2005, as restated, followed by a discussion on the changes in assets, liabilities, and net assets.

Statement of Net Assets

For the Year Ended June 30, 2006 with Comparative Data for the Year Ended June 20, 2005

			Change	
	2006	2005	Amount	Percentage
Assets				
Current	$ 4,694,616.98	$ 3,684,382.52	$ 1,010,234.46	27.42 %
Capital Assets, Net	24,188,792.04	22,228,887.47	1,959,904.57	8.82 %
Other Noncurrent	2,222,992.83	8,391,438.43	(6,168,445.60)	(73.51) %
Total Assets	31,106,401.85	34,304,708.42	(3,198,306.57)	(9.32) %
Liabilities				
Current	1,529,052.53	1,520,115.08	8,937.45	0.59 %
Noncurrent	1,757,582.19	4,824,200.49	(3,066,618.30)	(63.57) %
Total Liabilities	3,286,634.72	6,344,315.57	(3,057,680.85)	(48.20) %
Net Assets				
Invested in Capital Assets	24,188,792.04	22,228,887.47	1,959,904.57	8.82 %
Restricted Assets	271,574.84	3,096,116.71	(2,824,541.87)	(91.23) %
Unrestricted Assets	3,359,400.25	2,635,388.67	724,011.58	27.47 %
TOTAL NET ASSETS	$ 27,819,767.13	$ 27,960,392.85	$ (140,625.72)	(0.50) %

The College classifies its assets as current and noncurrent. Current assets include cash, receivables and inventories. Noncurrent assets include the Vance-Granville Community College Endowment Fund Corporation's nonexpendable principle invested in the State Treasurer's Short-Term Investment Fund, bond funds for construction due from the State, as well as, buildings, infrastructure, and equipment with a historical cost of $5,000 or more.

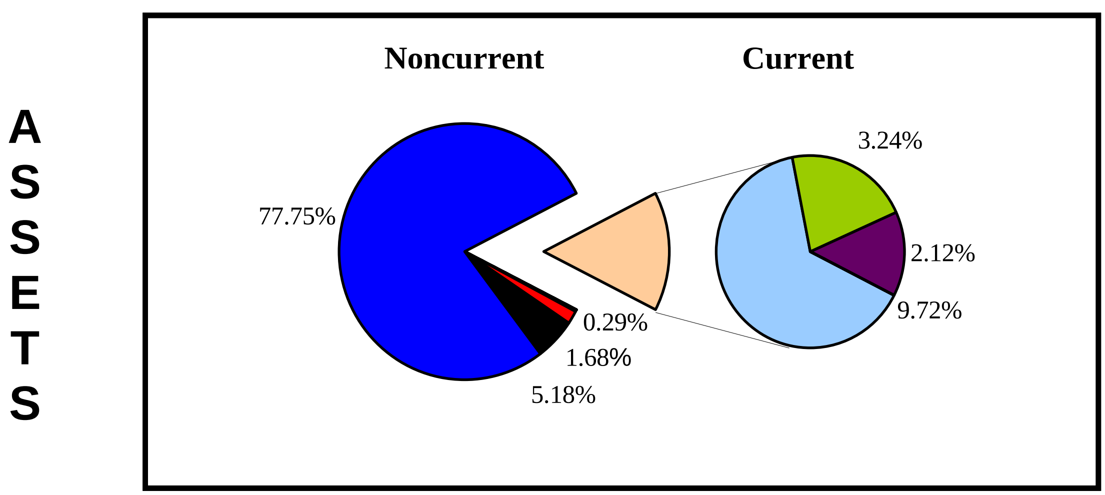
Current Assets		
Cash and Cash Equivalents	$	3,024,938.06
Receivables, Net		1,008,772.20
Inventories		660,906.72
Sub-Total Current		4,694,616.98
Noncurrent Assets		
Cash and Cash Equivalents		89,990.23
Due from Primary Government		521,216.71
Long-term Investments		1,611,785.89
Capital Assets, Net		24,188,792.04
Sub-Total Noncurrent		26,411,784.87
Total Assets	**$**	**31,106,401.85**

The composition of assets at June 30, 2006, is presented in the table to the left and illustrated in the graph below.

Assets decreased over the prior year by $3,198,307. The decrease in assets is primarily due to the Corporation decreasing its holding in the STIF by $3,700,000 to purchase a certificate of deposit with a private bank which is not reported in these statements.

The College reports the Vance-Granville Community College Endowment Fund Corporation's investment in the State Treasurer's Short-Term Investment Fund (STIF) as a noncurrent asset and as a noncurrent liability. Assets also decreased as the net result of a decrease in the amount "Due from Primary Government" and an increase in the amount of "Net Capital Assets." Both of these changes relate primarily to construction. The amount due from the State for construction bonds decreased by $2,590,093 while capital assets increased by $1,959,905 as the result of adding Franklin County Campus' Building Five and equipment additions to assets. Receivables increased primarily as the result of $631,182 due from the estate of a private grantor.

Additional details for the composition of assets are available in Exhibit A-1 and Notes 1-D, 1-E, 1-F, 1-G, 2, 3, and 4.



Liabilities are classified as either current or noncurrent. Current liabilities are those due and payable within one year of the date of the financial statements, while noncurrent liabilities are due and payable one year or more after the date of the financial statements.

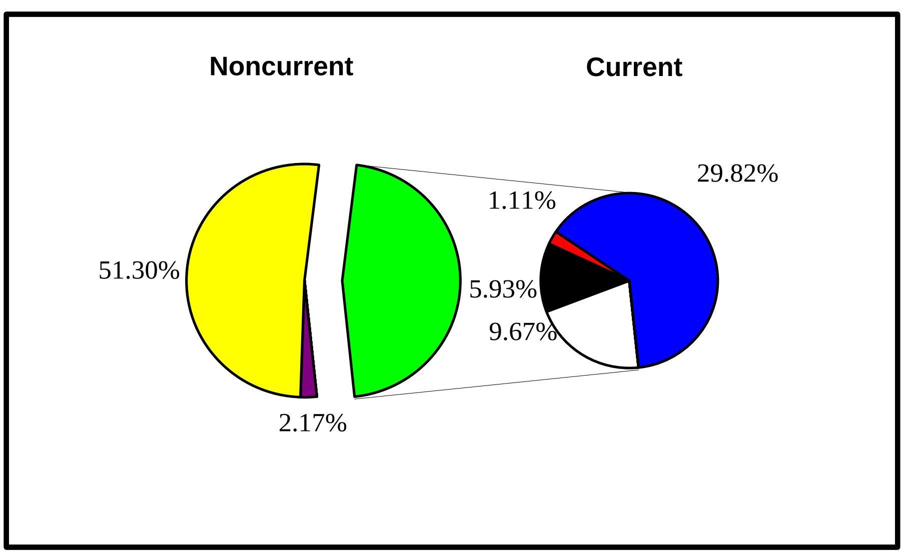
Liabilities decreased over the prior year by $3,057,681. As with the change in assets from the prior year, liabilities decreased by $3,700,000 as a result of the Vance-Granville Community College Endowment Fund Corporation purchasing a certificate of deposit with a private bank.

Current Liabilities		
Accounts Payable	$	980,073.97
Compensated Absences		317,987.55
Funds Held for Others		36,579.91
Unearned Revenue		194,411.10
Sub-Total Current		1,529,052.53
Noncurrent Liabilities		
Funds Held for Others		71,224.42
Compensated Absences		1,686,357.77
Sub-Total Noncurrent		1,757,582.19
Total Liabilities	**$**	**3,286,634.72**

The liability for compensated absences increased due to the General Assembly giving permanent employees an additional 40 hours bonus leave as of July 1, 2005. The composition of liabilities on June 30, 2006, is presented in the table above and illustrated in the graph below.

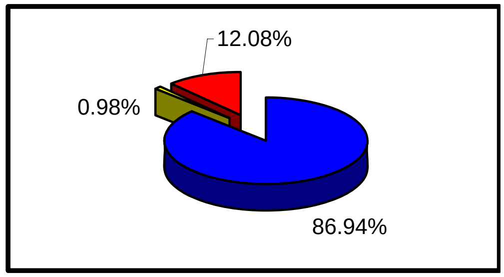
Additional details for the composition of liabilities are available in Exhibit A-1 and Notes 1-I, 1-J, 5, and 6.

LIABILITIES



Total net assets are the difference between assets and liabilities. The composition of the College's net assets at June 30, 2006, are shown in the table and graph below:

Net Assets		
Invested in Capital Assets	$	24,188,792.04
Restricted Expendable		271,574.84
Unrestricted		3,359,400.25
Total Net Assets	**$**	**27,819,767.13**



Additional information on net assets is available in Exhibit A-1 and Notes 1-K and 4.

The table below is a condensed comparative analysis between the June 30, 2006, Statement of Revenues, Expenses, and Changes in Net Assets (Exhibit A-2) contained herein and the year ended June 30, 2005, followed by discussion on the changes in revenues and expenses.

Statement of Revenues, Expenses, and Changes in Net Assets
For the Year Ended June 30, 2006 with Comparative Data for the Year Ended June 20, 2005

					Change		
		2006		2005		Amount	Percent
Operating Revenues	$	9,896,205.81	$	10,970,688.10	$	(1,074,482.29)	(9.79) %
Operating Expenses		(31,948,550.61)		(31,576,543.02)		(372,007.59)	1.18 %
Nonoperating Revenues		21,240,166.05		18,482,745.05		2,757,421.00	14.92 %
Other Nonoperating Revenues		671,553.03		4,879,977.59		(4,208,424.56)	(86.24) %
End of Year	$	(140,625.72)	$	2,756,867.72	$	(2,897,493.44)	(105.10) %

Revenues are presented as operating and nonoperating. Operating revenues are derived from activities that are necessary and essential to the mission of the College. As the table above illustrates, operating revenues decreased by $1,074,482; this is due to a decrease in enrollment which resulted in lowered tuition, fee and federal student financial assistance revenues.

Operating expenses are all expenses except for those related to investing, capital and related financing and noncapital financing activities. Personal services expenses (i.e. salaries, wages and employment benefits) rose as the result of pay increases granted by the General Assembly effective July 1, 2005. Due to the decline in student enrollment, the College spent less for student financial aid. The net effect of the increase in salaries and wages and the reduction of financial assistance payments is a minimal increase of operating expenses of $372,008, as the above table illustrates. Operating expenses are presented in Exhibit A-2 by classification – Personal Services, Supplies and Materials, etc. An analysis of expenses by their functional classification (i.e. instruction, financial aid, etc.) is shown in Note 9.

Nonoperating revenues include activities that have the characteristics of nonexchange transactions. For instance, a gift to the College is a nonexchange transaction because the College did not exchange a good or service to receive the gift. Net nonoperating revenues rose by $2,757,421. The majority of this increase is State aid, which is based on prior year 2004-2005 enrollment. County appropriations also increased as a result of increased fuel costs and expansion of facilities at the Franklin County and Warren County satellite campuses. Nonoperating revenues also increased as the result of $631,182 due from the estate of a private grantor.

Other revenues are capital contributions to the College. The decrease of $4,208,425 in other revenues is the direct result of receiving less bond funds for construction in the current year. The Warren County campus expansion was completed during in the 2004-2005 fiscal year; similarly, the majority of the Franklin County expansion was paid for during the prior fiscal year. Construction at the Granville County campus began in 2006.

The table on the next page and the following discussion presents the College's revenues for the fiscal year ended June 30, 2006.

Operating Revenues		
Student Tuition & Fees	$	1,693,852.70
Grants & Contracts (State & Federal)		6,017,313.44
Sales and Services		2,180,091.94
Other Revenues		4,947.73
Sub-Total Operating		9,896,205.81
Nonoperating Revenues		
State Aid		17,745,171.29
County Appropriation		1,634,166.00
Grants and Gifts (Noncapital)		1,710,929.57
Investment Income		154,210.09
Sub-Total Nonoperating		21,244,476.95
Other Revenues		
State Capital Aid		492,177.03
County Capital Appropriations		179,376.00
Sub-Total Other Revenues		671,553.03
Total Revenues	**$**	**31,812,235.79**

Operating revenues are presented net of scholarship discounts (Note 1-L) and internal sales activities (Note 1-N). The College's largest operating revenues are Pell Grants at $4,615,763 or 46.64% of total operating revenues. Nonoperating revenues are primarily State aid, and also include County appropriations, noncapital grants, and amounts earned from investments. The State is by far the College's major source for nonoperating revenues as presented in the table to the left. More information on the composition of revenues can be found in Exhibit A-2 and Notes 1-M and 8.

The change in net assets is the difference between total revenues and total expenses. The change in net assets, as presented in Exhibit A-2, is a decrease of $140,625 bringing the College's total net assets to $27,819,767 as follows:

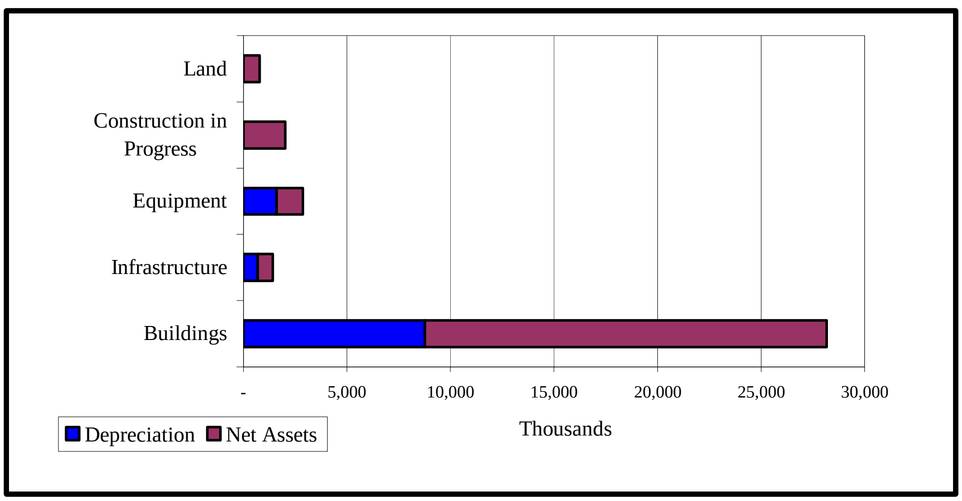
Beginning Net Assets	$	27,960,392.85
Revenues		
Operating		9,896,205.81
Nonoperating		21,244,476.95
Other		671,553.03
Sub-Total Revenues		31,812,235.79
Expenses		
Operating		31,948,550.61
Nonoperating		4,310.90
Sub-Total Expenses		31,952,861.51
Change in Net Assets		(140,625.72)
ENDING NET ASSETS	$	27,819,767.13

The decrease in net assets is the result of lower operating and other revenues and increased expenses. Explanations for the decline in revenues and increase in expenses were previously disclosed. Other factors affecting net assets are the reversion of State appropriations and the non-reversion of unexpended County appropriations. Unexpended State aid reverts at fiscal year end and, therefore, only increases the College's net assets through capital asset additions, that is, equipment costing $5,000 or greater and State funded construction. On the other hand, unexpended County appropriations do not revert and therefore increase net assets. Federal funding does not typically affect the change in net assets since federal awards are primarily for financial assistance. Other federal grants are funded on a reimbursement basis and therefore do not significantly contribute to the College's financial position.

Capital Assets

As of June 30, 2006, the College recorded $35,248,257 million invested in capital assets, $11,059,465 in accumulated depreciation, resulting in net capital assets of $24,188,792. The composition of net capital assets is detailed in Note 4 and is illustrated below.

CAPITAL ASSETS



In the 1999 – 2000 Session, the General Assembly of North Carolina authorized the issuance of six hundred million dollars of general obligation bonds of the State to provide for capital improvements to community colleges. Vance-Granville Community College's share of the general obligation bonds was $17,070,446 with currently $15,797,311 designated for new construction and $1,273,135 designated for repairs and renovations. Since bond issuance, the State Board of Community Colleges has approved numerous College projects.

During fiscal year 2005–2006, the College completed the construction of Building Five, an instructional facility at its Franklin County Campus. This 15,321 square foot facility includes offices, classrooms, and laboratories. Also during the year, the College began renovating the lower level of Building Eight at its Main Campus to house a bioprocessing classroom/laboratory. Construction is on-going at the College's Granville County South Campus where a 20,144 square feet instructional facility is being built.

In the 1999 Session, the General Assembly of North Carolina enacted House Bill 275 which implemented a zero unemployment insurance tax rate for employers with positive experience rating, temporarily reduced the unemployment insurance tax by twenty percent for most employers and substituted an equivalent contribution to fund enhanced employment services and worker training programs. As a result of this legislation, North Carolina's Community Colleges received non-reverting appropriations to increase its training to new and expanding industries, to provide focused industrial training, and to purchase equipment. At June 30, 2006, the College has $1,121,110 remaining from its original HB275 equipment appropriation. The College intends to carry this appropriation into future years in order to purchase equipment and furniture for its new facilities.

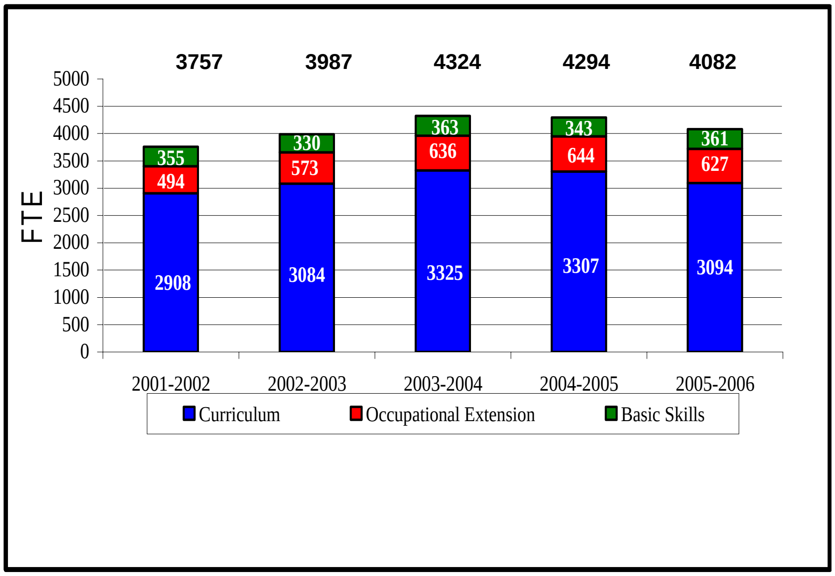
The College does not issue debt to fund capital assets. The primary funding sources for equipment expenses are State and County appropriations and the Federal Vocational Education Grant. Construction expenses are funded by State issued general obligation bonds and matching local funds, as required.

The College's Financial Position

The ability of the College to fulfill its mission and execute its strategic plan is directly influenced by State, Federal, and County support, enrollment, and financial aid available to students. These issues impact the financial and budget planning process each year.

State support is the College's primary funding source of all revenues during the year. To ensure the fiscal stability of community colleges, State support is based on the higher of total budgetary full-time equivalency (FTE) enrollment of the year prior to the budget year or average of the three prior year's FTE. The table on the following page illustrates the actual FTE for the past five years.

ACTUAL FULL TIME EQUIVALENCY



State appropriations for 2006–2007 for occupational extension and curriculum are based on the FTE averaged for the past three years; while funding for basic skills is based on actual FTE. Budget FTE for 2006–2007 is 3,242 for curriculum, 636 for occupational extension, and 361 for basic skills.

By using the higher three year average, the College retained $675,615 in State appropriations.

Appropriations from Vance, Granville, Warren and Franklin Counties are primarily for plant operations and maintenance. For the budget year 2006–2007 County appropriations increased by 8.3% over the prior year. Most of the requested increase is in current appropriations and will to be used to maintain new facilities completed at the Franklin County and Warren County satellite campuses and the facility currently being constructed at South Campus. Rising fuel prices also contributed to the increase in County appropriations.

Historically, a decline in the economy results in a growth of enrollment as individuals who have lost their jobs return to college for training and retraining. As the economy improves, job availability increases and community colleges see a decline in enrollment. Of the 58 community colleges in North Carolina, 29 experienced a decline in enrollment during the past year as a result of economic recovery. Vance-Granville Community College's decreased enrollment is due in part to this trend. Further, workers who lost jobs as the result of multiple plant closings in 2003 and 2004 have exhausted their unemployment and re-education benefits and are now finding jobs in the service area as the economy improves.

In spite of decreased enrollment, the College anticipates growth in the upcoming year. During the fall 2006 semester, the College expanded its curriculum programs by adding degrees in Culinary Arts and Information Technology Security Systems. In the spring, the College will introduce its MRI/CT program. The College has also partnered with Maria Parham Hospital which facilitated increased clinical opportunities for nursing students. The

Department of Economic and Workforce Development also has expanded by now offering medical coding, phlebotomy, and digital photography. In addition, the College has initiated a mentoring program for at-risk students; and, the Marketing Department has hired a Recruiter. To assist in retention, the Division of Student Services has hired a Student Activities Coordinator.

The College's Financial Future

What can the College expect in the future? Although the College expects slightly declining enrollment in the new term, it remains confident in its ability to maintain its fiscal stability and to attract citizens into higher education, as demonstrated by the addition of new program offerings and expanded recruitment and retention efforts. The College's Board of Trustees and administration are dedicated in its efforts toward program assessment; cost containment; continuous improvement; expansion of curriculum programs, occupational training, and continuing education; and increased distance learning opportunities. These efforts are geared toward assessing the College's performance related to institutional goals, freeing up resources to support change, and growing new programs and opportunities. As a result, Vance-Granville Community College is positioned to increase enrollment, strategically add, and when appropriate, eliminate programs, partner with the State in economic development and meet public expectations, while remaining financially sound.

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

ASSETS		
Current Assets:		
Cash and Cash Equivalents	$	2,534,622.14
Restricted Cash and Cash Equivalents		490,315.92
Receivables (Note 3)		1,008,772.20
Inventories		660,906.72
Total Current Assets		4,694,616.98
Noncurrent Assets:		
Cash and Cash Equivalents		62,190.37
Restricted Cash and Cash Equivalents		27,799.86
Restricted Due from Primary Government		521,216.71
Long-Term Investments		1,611,785.89
Capital Assets - Nondepreciable (Note 4)		2,805,411.35
Capital Assets - Depreciable, Net (Note 4)		21,383,380.69
Total Noncurrent Assets		26,411,784.87
Total Assets		31,106,401.85
LIABILITIES		
Current Liabilities:		
Accounts Payable and Accrued Liabilities (Note 5)		978,130.03
Due to Primary Government		1,943.94
Unearned Revenue		194,411.10
Funds Held for Others		36,579.91
Long-Term Liabilities - Current Portion (Note 6)		317,987.55
Total Current Liabilities		1,529,052.53
Noncurrent Liabilities:		
Funds Held for Others		71,224.42
Long-Term Liabilities (Note 6)		1,686,357.77
Total Noncurrent Liabilities		1,757,582.19
Total Liabilities		3,286,634.72
NET ASSETS		
Invested in Capital Assets		24,188,792.04
Restricted for:		
Expendable:		
Scholarships and Fellowships		81,327.16
Loans		14,922.00
Capital Projects		82,949.56
Other		92,376.12
Unrestricted		3,359,400.25
Total Net Assets	$	27,819,767.13

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

Vance-Granville 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)	$	1,693,852.70
Federal Grants and Contracts		5,544,368.20
State and Local Grants and Contracts		472,945.24
Sales and Services, Net (Note 8)		2,180,091.94
Other Operating Revenues		4,947.73
Total Operating Revenues		9,896,205.81
EXPENSES		
Operating Expenses:		
Personal Services		20,210,331.87
Supplies and Materials		3,712,452.34
Services		2,422,417.37
Scholarships and Fellowships		3,986,433.90
Utilities		591,256.83
Depreciation		1,025,658.30
Total Operating Expenses		31,948,550.61
Operating Loss		(22,052,344.80)
NONOPERATING REVENUES (EXPENSES)		
State Aid		17,745,171.29
County Appropriations		1,634,166.00
Noncapital Grants		1,069,047.74
Noncapital Gifts		641,881.83
Investment Income		154,210.09
Other Nonoperating Expenses		(4,310.90)
Net Nonoperating Revenues		21,240,166.05
Income Before Other Revenues and Expenses		(812,178.75)
State Capital Aid		492,177.03
County Capital Appropriations		179,376.00
Decrease in Net Assets		(140,625.72)
NET ASSETS		
Net Assets, July 1, 2005 as Restated (Note 14)		27,960,392.85
Net Assets, June 30, 2006	$	27,819,767.13

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

Vance-Granville 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	$ 10,124,268.23
Payments to Employees and Fringe Benefits	(20,028,449.53)
Payments to Vendors and Suppliers	(6,901,338.85)
Payments for Scholarships and Fellowships	(3,986,433.90)
Other Payments	(3,600,146.70)
Net Cash Used by Operating Activities	(24,392,100.75)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Aid Received	17,745,171.29
County Appropriations	1,634,166.00
Noncapital Grants Received	1,137,658.64
Noncapital Gifts Received	10,700.00
Cash Provided by Noncapital Financing Activities	20,527,695.93
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
State Capital Aid Received	3,082,270.63
County Capital Appropriations	179,376.00
Proceeds from Sale of Capital Assets	26,254.26
Acquisition and Construction of Capital Assets	(2,805,764.10)
Net Cash Provided by Capital and Related Financing Activities	482,136.79
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment Income	153,222.27
Purchase of Investments and Related Fees	(1,300,000.00)
Net Cash Used by Investing Activities	(1,146,777.73)
Net Decrease in Cash and Cash Equivalents	(4,529,045.76)
Cash and Cash Equivalents, July 1, 2005	7,643,974.05
Cash and Cash Equivalents, June 30, 2006	$ 3,114,928.29
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES	
Operating Loss	$ (22,052,344.80)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	1,025,658.30
Miscellaneous Nonoperating Expense	(4,310.90)
Changes in Assets and Liabilities:	
Receivables, Net	139,980.87
Inventories	(208,321.32)
Accounts Payable and Accrued Liabilities	11,882.39
Due to Primary Government	(3,337.27)
Unearned Revenue	121,390.01
Funds Held for Others	(3,598,660.60)
Compensated Absences	175,962.57
Net Cash Used by Operating Activities	$ (24,392,100.75)

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:		
Cash and Cash Equivalents	$	2,534,622.14
Restricted Cash and Cash Equivalents		490,315.92
Noncurrent Assets:		
Cash and Cash Equivalents		62,190.37
Restricted Cash and Cash Equivalents		27,799.86
Total Cash and Cash Equivalents - June 30, 2006	$	3,114,928.29

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through Assumption of a Liability	$	206,053.03
Change in Fair Value of Investments		987.82
Capital Asset Write-Offs		20,681.02
Increase in Receivables related to Nonoperating Income		631,181.83

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

Vance-Granville Community College
Endowment Fund Corporation
Statement of Financial Position
June 30, 2006 ***Exhibit B-1***

ASSETS		
Cash and Cash Equivalents	$	3,737,172.00
Receivables, Net		30,383.00
Total Assets		3,767,555.00
NET ASSETS		
Unrestricted		29,184.00
Temporarily Restricted		1,257.00
Permanently Restricted		3,737,114.00
Total Net Assets	$	3,767,555.00

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

Vance-Granville Community College
Endowment Fund Corporation
Statement of Activities
For the Fiscal Year Ended June 30, 2006

Exhibit B-2

CHANGES IN UNRESTRICTED NET ASSETS	
Revenues and Gains:	
Contributions	$ 44,155.00
Interest Income	13.00
In-Kind Contributions	102,239.00
Total Unrestricted Revenues and Gains	146,407.00
Net Assets Released from Restrictions:	
Satisfaction of Program Restrictions	154,882.00
Transfer from Permanently Restricted Net Assets	33,114.00
Total Net Assets Released from Restrictions	187,996.00
Total Unrestricted Revenues, Gains, and Other Support	334,403.00
Expenses and Losses:	
Scholarships	179,894.00
Courtyard Clock	5,000.00
Global Studies	4,710.00
Management and General	94,566.00
Fund Raising	23,697.00
Total Expenses and Losses	307,867.00
Increase in Unrestricted Net Assets	26,536.00
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS	
Contributions	19,155.00
Interest Income	136,984.00
Net Assets Released from Restrictions:	
Satisfaction of Program Restrictions	(154,882.00)
Increase in Temporarily Restricted Net Assets	1,257.00
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS	
Contributions	133,088.00
Transfer to Unrestricted Net Assets	(33,114.00)
Increase in Permanently Restricted Net Assets	99,974.00
Increase in Net Assets	127,767.00
Net Assets at Beginning of Year	3,639,788.00
Net Assets at End of Year	$ 3,767,555.00

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

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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. Vance-Granville 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. Vance-Granville Community College Endowment Fund Corporation is discretely presented in the financial statements. 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 Unit – Vance-Granville Community College Endowment Fund Corporation is a legally separate not-for-profit corporation and is reported as a discretely presented component unit based on the nature and significance of its relationship to the College. The Corporation acts primarily as a fund-raising organization to supplement the resources that are available to the College in support of its programs. The Corporation board consists of 18 members including the College's President serving as chair. Although the College does not control the timing or amount of receipts from the Corporation, the majority of resources, or income thereon, that the Corporation holds and invests are restricted to the activities of the College by the donors. Because these restricted resources held by the Corporation can only be used by, or for the benefit of the College, the Corporation 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 Vance-Granville Community College Endowment Fund Corporation 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 Corporation's financial information in the College's financial reporting entity for these differences.

During the year ended June 30, 2006, the Corporation distributed $177,915.46 to the College for both restricted and unrestricted purposes. Complete financial statements for the Corporation can be obtained from the College's Vice President of Finance and Operations at PO Box 917, Henderson, NC 27536 or by calling (252) 738-3221.

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 petty cash, cash on deposit with private bank 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 certificates of deposit and donated corporate stock. Except for certificates of deposit, 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, private grantors and private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants. Accounts receivable are shown at book value with no provision for doubtful accounts considered necessary.

G. **Inventories** – Inventories, consisting of expendable supplies and merchandise for resale, are stated at cost or market value using the first-in, first-out method.

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

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 10 to 25 years for general infrastructure, 15 to 40 years for buildings, and 2 to 15 years for equipment.

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

J. **Noncurrent Long-Term Liabilities –** Noncurrent long-term liabilities 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 – Expendable – Expendable restricted net assets include resources for which the College is legally or contractually obligated to spend in accordance with restrictions imposed by external parties.

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

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

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

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

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

O. Internal Sales Activities – Certain institutional auxiliary operations provide goods and services to College departments, as well as to its customers. These institutional auxiliary operations include activities such as bookstore and childcare services. 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 $5,672.99, and deposits in private financial institutions with a carrying value of $1,454,037.59, including certificates of deposit, and a bank balance of $1,656,330.42.

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 pooling method.

B. Investments – In addition to donated securities, 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 $2,955,217.71, 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.

Investments of the College's component unit, Vance-Granville Community College Endowment Fund Corporation, are subject to and restricted by G.S. 36B "Uniform Management of Institutional Funds Act" (UMIFA) and any requirements placed on them by contract or donor agreements.

The following table presents the fair value of investments by type at June 30, 2006, for the College's investments.

	Fair Value
Investment Type	
Certificates of Deposit	$ 1,300,000.00
Domestic Stocks	311,785.89
Total Investments	$ 1,611,785.89

Certificates of deposit reported as investments are also a component of the deposit totals reported in the deposits section of this note.

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 domestic stocks valued at $311,785.89 were held by a counterparty and exposed to custodial credit risk.

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

Cash on Hand	$	5,672.99
Carrying Amount of Deposits with Private Financial Institutions		1,454,037.59
Investments in the Short Term Investment Fund		2,955,217.71
Other Investments		311,785.89
Total Deposits and Investments	$	4,726,714.18
Current:		
Cash and Cash Equivalents	$	2,534,622.14
Restricted Cash and Cash Equivalents		490,315.92
Noncurrent:		
Cash and Cash Equivalents		62,190.37
Restricted Cash and Cash Equivalents		27,799.86
Other Long-Term Investments		1,611,785.89
Total	$	4,726,714.18

NOTE 3 - RECEIVABLES

Receivables at June 30, 2006, were as follows:

	Receivables
Current Receivables:	
Students	$ 169,729.03
Accounts	121,515.69
Intergovernmental	14,628.85
Private Grantors	686,655.05
Other	16,243.58
Total Current Receivables	$ 1,008,772.20

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	$ 664,976.99	$ 123,282.00	$ 0.00	$ 788,258.99
Construction in Progress	2,037,833.38	1,929,270.51	1,949,951.53	2,017,152.36
Total Capital Assets, Nondepreciable	2,702,810.37	2,052,552.51	1,949,951.53	2,805,411.35
Capital Assets, Depreciable:				
Buildings	25,718,413.25	2,445,033.08		28,163,446.33
Machinery and Equipment	2,707,063.70	269,009.31	109,105.46	2,866,967.55
General Infrastructure	1,237,938.79	174,492.74		1,412,431.53
Total Capital Assets, Depreciable	29,663,415.74	2,888,535.13	109,105.46	32,442,845.41
Less Accumulated Depreciation:				
Buildings	8,043,865.53	717,625.26		8,761,490.79
Machinery and Equipment	1,457,848.25	243,464.88	103,532.22	1,597,780.91
General Infrastructure	635,624.86	64,568.16		700,193.02
Total Accumulated Depreciation	10,137,338.64	1,025,658.30	103,532.22	11,059,464.72
Total Capital Assets, Depreciable, Net	19,526,077.10	1,862,876.83	5,573.24	21,383,380.69
Capital Assets, Net	$ 22,228,887.47	$ 3,915,429.34	$ 1,955,524.77	$ 24,188,792.04

NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	Amount
Accounts Payable	$ 148,684.53
Accrued Payroll	130,576.16
Contract Payable	547,949.94
Contract Retainage	103,826.12
Intergovernmental Payables	29,103.19
Other	17,990.09
Total Accounts Payable and Accrued Liabilities	$ 978,130.03

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	$ 1,828,382.75	$ 1,383,119.03	$ 1,207,156.46	$ 2,004,345.32	$ 317,987.55

NOTE 7 - LEASE OBLIGATIONS

The following schedule presents the composition of total rental expense for all operating leases except those with terms of a month or less that were not renewed:

	Amount
Facilities	$ 12,900.00
Equipment	2,109.00
Total Rental Expense	$ 15,009.00

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	$ 3,201,817.02	$ 0.00	$ 1,507,964.32	$ 1,693,852.70
Sales and Services:				
Sales and Services of Auxiliary Enterprises:				
Bookstore	$ 1,707,688.44	$ 50,435.96	$ 47,732.09	$ 1,609,520.39
Facilities Rental	101,773.83			101,773.83
Vending	49,813.00			49,813.00
Other	665.50			665.50
Sales and Services of Education and Related Activities	422,987.22	4,668.00		418,319.22
Total Sales and Services	$ 2,282,927.99	$ 55,103.96	$ 47,732.09	$ 2,180,091.94

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	$ 12,843,106.60	$ 1,095,080.38	$ 853,804.35	$ 160.00	$ 0.00	$ 0.00	$ 14,792,151.33
Public Service	21,091.92	287.46	2,007.80				23,387.18
Academic Support	1,500,272.68	135,778.48	104,593.47				1,740,644.63
Student Services	1,805,823.51	58,457.21	136,591.94	140,744.12			2,141,616.78
Institutional Support	3,206,079.86	454,800.42	1,067,304.87				4,728,185.15
Operations and Maintenance of Plant	693,051.24	601,243.76	224,123.81		591,256.83		2,109,675.64
Student Financial Aid				3,845,529.78			3,845,529.78
Auxiliary Enterprises	140,906.06	1,366,804.63	33,991.13				1,541,701.82
Depreciation						1,025,658.30	1,025,658.30
Total Operating Expenses	$ 20,210,331.87	$ 3,712,452.34	$ 2,422,417.37	$ 3,986,433.90	$ 591,256.83	$ 1,025,658.30	$ 31,948,550.61

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 $16,546,076.07, of which $14,333,837.94 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were $860,030.28 and $335,411.81, respectively. The College made 100% of its annual required contributions for the years ended June 30, 2006, 2005, and 2004, which were $335,411.81, $290,300.78, and $26,820.86, 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 $10,600.00 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. No costs are incurred by the College. The voluntary contributions by employees amounted to $241,202.00 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 $16,315.00 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 $544,685.85. 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 $74,535.96. 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 Carolina Department of Insurance with coverage of $5,000,000 per occurrence and a $50,000 deductible. The College purchases dishonesty/crime insurance for employees whose salaries or wages are paid by the Board solely from county or institutional funds

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

The College has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were $1,700,497.75 and on other purchases were $64,414.23 at June 30, 2006.

NOTE 14 - NET ASSET RESTATEMENT

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

	Amount
July 1, 2005 Net Assets as Previously Reported	$ 27,996,278.35
Restatements: To record depreciation expense not recorded in prior years	(35,885.50)
July 1, 2005 Net Assets as Restated	$ 27,960,392.85

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STATE OF NORTH CAROLINA
Office of the State Auditor

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

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601
Telephone: (919) 807-7500
Fax: (919) 807-7647
Internet
http://www.ncauditor.net

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
Vance-Granville Community College
Henderson, North Carolina

We have audited the financial statements of Vance-Granville 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 January 12, 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 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 was 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 opinion**s** 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.

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)

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

January 12, 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:

Office of the State Auditor
State of North Carolina
2 South Salisbury Street
20601 Mail Service Center
Raleigh, North Carolina 27699-0601

Telephone: 919/807-7500

Facsimile: 919/807-7647