COLLEGE OF THE ALBEMARLE

FINANCIAL STATEMENTS

As of and for the Years Ended June 30, 2012

And

Independent Auditor's Report

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CHERRY BEKAERT & HOLLAND
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

Independent Auditor's Report

Members of the Board of Trustees
College of The Albemarle
Elizabeth City, North Carolina

We have audited the accompanying basic financial statements of College of The Albemarle (the "College"), a component unit of the State of North Carolina, as of and for the year ended June 30, 2012, as listed in the table of contents. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of College of The Albemarle Foundation, Inc., a blended component unit, which represents 19%, 18%, and 2%, respectively, of the assets, net assets, and revenues of the College. 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 College of The Albemarle Foundation, Inc., 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 College of The Albemarle 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 opinion.

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 financial position of College of The Albemarle as of June 30, 2012, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 2012, 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance

Cherry, Bekaert & Holland, L.L.P.

Charlotte, North Carolina
December 10, 2012

Overview

In this section of the College's annual report, management discusses various aspects of the College, both past and present. Among other things, the MD&A provides an overview of the previous year of operations and compares that year to the year being audited.

The MD&A is a very important section of an annual report, especially for those analyzing the fundamentals, which include management and management style. Although this section contains useful information, the section is unaudited.

Our discussion and analysis of College of The Albemarle's financial performance provides an overview of COA's activities for the fiscal year ended June 30, 2012. The intent of management's discussion and analysis is to look at COA's financial performance as a whole: readers should also review the notes to the financial statements to enhance their understanding of the financial performance.

College of The Albemarle's financial posture and accounting practices are sound. Employees are aware of the complexity of the programs they manage and are cognizant of spending rules and limits. The College believes that its financial position will only improve in the future.

Major Initiatives

College of The Albemarle opens the door to high-quality, accessible educational opportunities that minimize barriers to post secondary education, maximize student success, and improve the lives and well being of individuals by providing:

- Education, training, and retraining for the adult workforce in a global economy, including basic skills education, occupational, and pre-baccalaureate programs;
- Support for workforce and economic development through services to new, existing, and expanding businesses and industry;
- Cultural enrichment opportunities to communities and individuals which enhance the quality of life; and
- An environment that promotes job satisfaction and career development for faculty and staff.

North Carolina Performance Standards

In February 1999, the North Carolina State Board of Community Colleges adopted 12 performance measures for accountability. This action was taken in response to a mandate from the North Carolina General Assembly to ensure programs and services offered by community colleges in North Carolina were of sufficient quality. In addition, the General Assembly authorized the North Carolina Community College System to implement performance funding based on a subset of those 12 measures.

As of the 2007-2008 academic year, the 12 performance standards have been replaced with 8 performance standards and each community college is required to meet all 8 standards to receive performance funding. The 8 standards are as follows:

Measure #1 – Progress of Basic Skills Students Standard = 75%

Students progressing within level; completing level entered or predetermined goal; completing level and advancing to the next level.

Measure #2 – Passing Rates for Licensure and Certification Exams Standard = Aggregate 80% and Exam Specific 70%

Passing rate for first time test takers.

Measure #3 – Performance of College Transfer Students Standard = 83%

Percent with an overall GPA of 2.0 or higher after one academic year at a UNC Institution

Measure #4 – Passing Rates of Students in Developmental Courses Standard = 75%

Students who complete a developmental course will have a grade of C or better for that course.

Measure #5 – Success Rate of Developmental Students in Subsequent College-Level Courses as Compared to Non-Developmental Students Standard = 80%

Measure #6 – Student Satisfaction of Completers and Non-Completers Standard = 90%

Satisfaction with quality of college programs and services.

Measure #7 – Curriculum Student Retention and Graduation Standard = 65%

Defined cohort will either graduate or be retained from Fall to Fall.

Measure #8 – Client Satisfaction with Customized Training Standard = 90%

Business/Industry surveyed will report being satisfied with the services provided by the community college

College of The Albemarle completed all 8 performance measures in FY 2011-2012 and was recognized as one of only 16 colleges to earn Exceptional Institutional Performance.

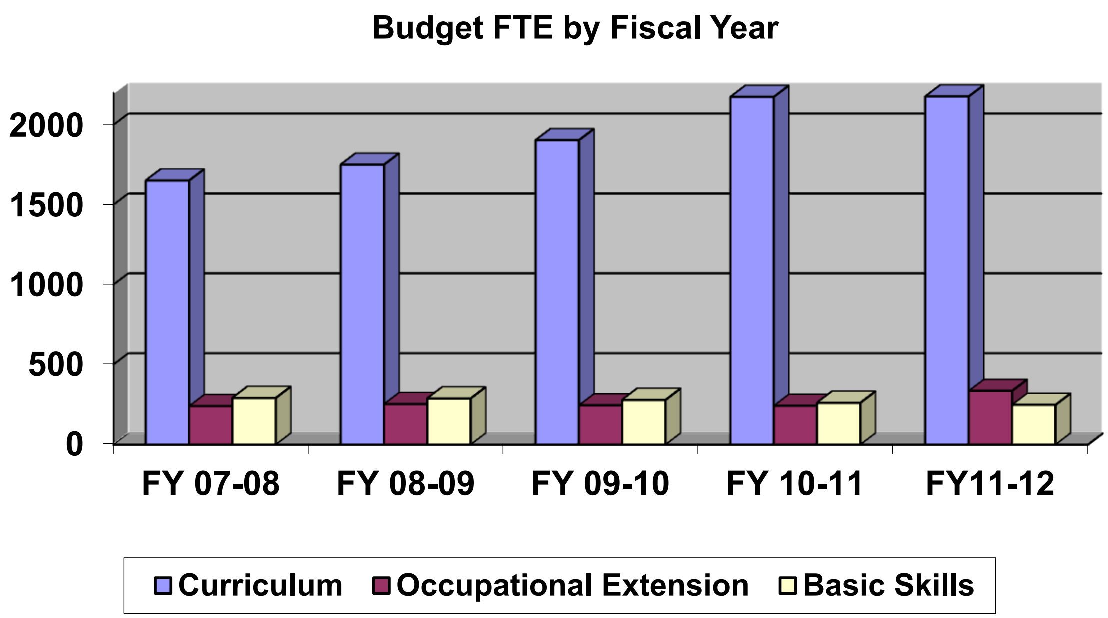
Economic Condition and Outlook

The College of The Albemarle was established in 1960 and is the oldest comprehensive community College in the North Carolina Community College System. The College serves seven counties (Camden, Chowan, Currituck, Dare, Gates, Pasquotank, and Perquimans) and the land mass covers over 1,875 square miles. Major campuses are located in the northeastern portion of North Carolina in the cities of Edenton, Elizabeth City, and Manteo. A new campus location will be designated later this fiscal year in Currituck County. That location will house the Aviation and Technical Training Center.

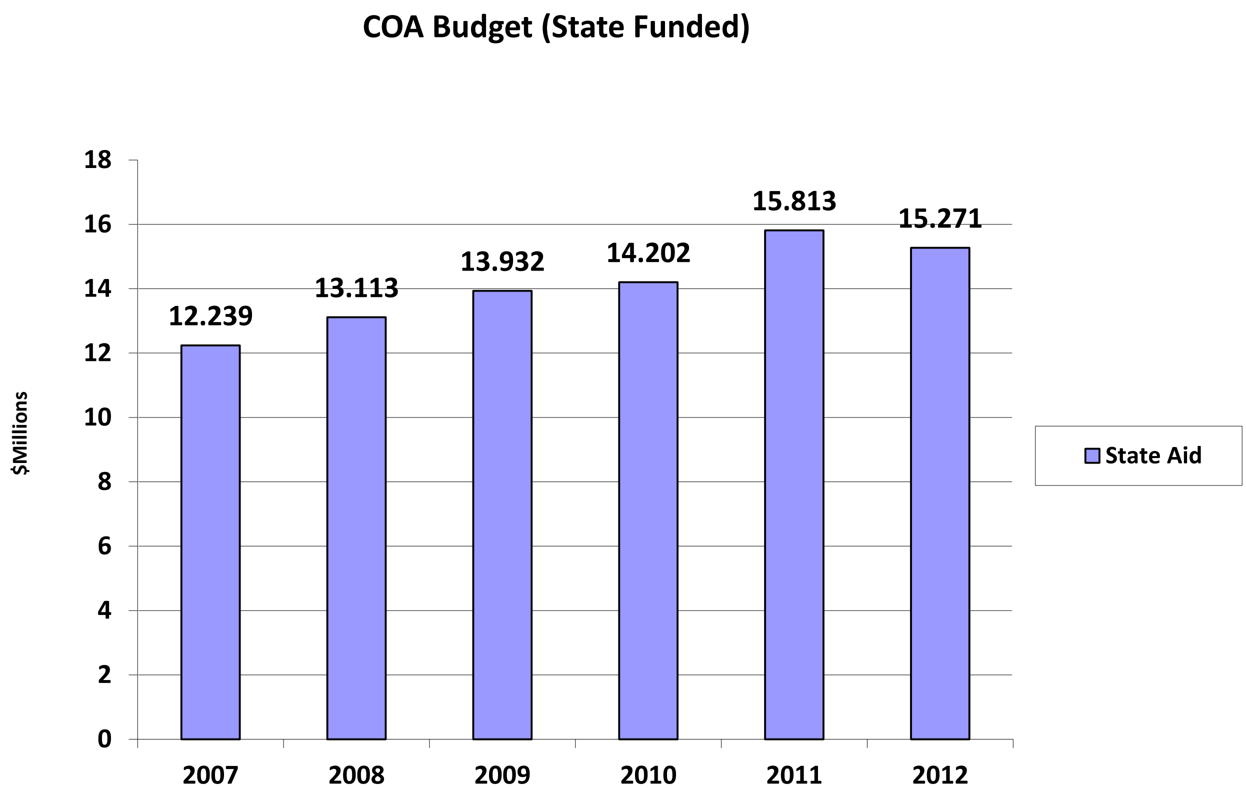
The College receives its funding from multiple sources. The primary source of funding the College receives annually is from the North Carolina Budget Appropriation and associated North Carolina Community College System (NCCCS) distribution of those funds. These funds are necessary for instruction and instructional support. To maintain the facilities at our three campus location, funding is received from the seven Counties supported. An annual budget is developed for both State and County funds and these budgets provide guidance for budget managers throughout the year. Three other sources of funding are grants, internal auxiliary funds, Federal funds and support received from the Foundation. The College also receives reimbursement for construction projects funded through State Bond Referendum dollars and various counties.

Budget Guidance from State

The College offers 19 certificate, 15 diploma and 26 associates' degree curriculum programs. In addition, a full array of credit and non-credit classes are offered through adult basic education, GED, Adult High School, Occupational Extension, workforce development training, small business assistance and training, internet classes, and personal interest classes. Each year more than 3,800 students enroll in classes that lead to a degree or certificate and more than 5,300 students complete workforce development and personal interest classes.



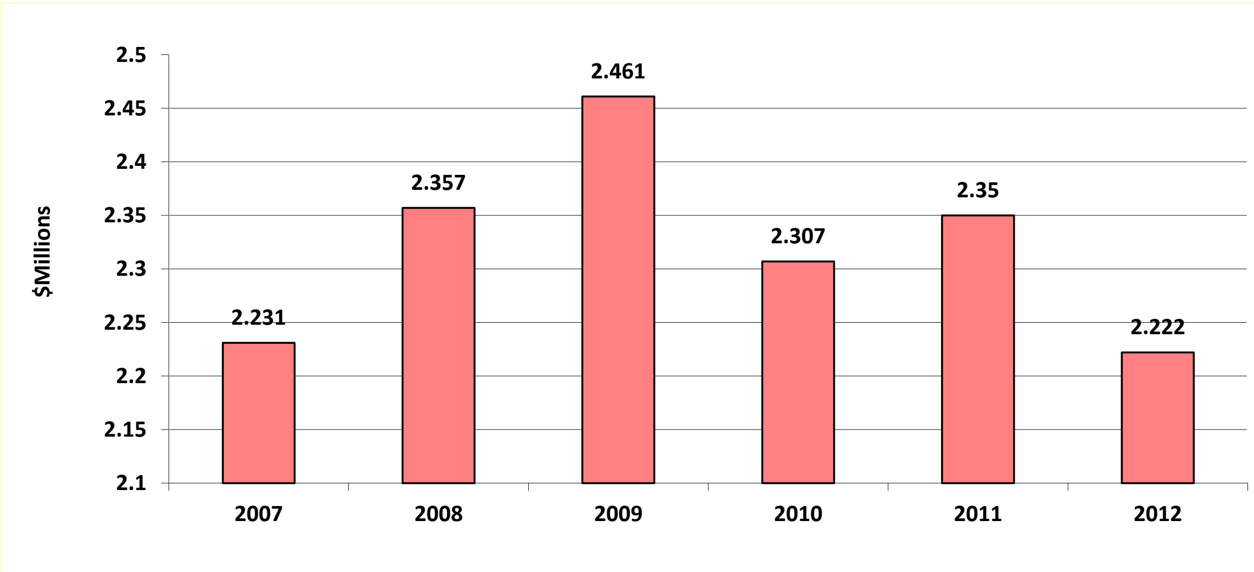
The College receives most of its allocation of funding from the State (called State Aid) based on the full-time equivalents (FTE) generated from the previous fiscal year. A full-time equivalent is comparable to one Curriculum student taking a full load of classes for both fall and spring semesters. The fiscal year for Curriculum is the fall and spring semesters in the State fiscal year period. The fiscal year for Occupational Extension and Basic Skills programs is the previous calendar year. Funding is based on separate NCCCS FTE funding formulas for Curriculum, Occupational Extension and Basic Skills programs of instruction as well as administrative support. Curriculum had a slight increase of 3 FTE over the previous fiscal year for total budget curriculum FTE of 2,178. Occupational extension had an increase (93 FTE) over the past fiscal year. The Basic Skills program again decreased (-13 FTE) over the previous fiscal year making it the fourth year in a row that FTE have decreased. The FTE formula developed by NCCCS, which allows a specific dollar of funding for each FTE generated, changes annually based on pay raises, medical insurance and retirement premiums and NCCCS available funding. To minimize the potential financial impact, the NCCCS provides budgeted FTE funding for the higher of the actual FTE achieved or the average the three previous years actual FTE. The College conducts three semesters of instruction annually. The fall semester historically has the highest enrollments; the spring semester has slightly lower enrollments than the fall and the summer semester has significantly less students. Curriculum generated FTE during the summer semester is not allowed when computing FTE funding. The College does not get FTE credit for any Curriculum or Continuing Education self supporting classes conducted.



The beginning budget position of COA based on NCCCS provided dollars decreased in 2012 from the prior year. While the College FTE has remained level, the decrease can be attributed to an increase in the management flexibility reduction from $455,618 in 2011 to $952,863 in 2012.

The College continues to place priority in the selection of faculty, state-of-the-art information technology, adequate facilities and outstanding equipped labs so students may be in an environment to perform well. The College has been adequately funded to perform its mission.

County Budgeted Support



This chart represents the amount of total funding provided by the seven counties COA supports. COA supports more counties than any other community college in North Carolina. COA has three campus locations; Elizabeth City, Edenton and Manteo. A new campus is currently under construction in Currituck County. County funding includes both funding directly by counties in support of the Elizabeth City campus as well as support provided by Dare and Chowan counties for the campuses in their counties. County funding provides resources for maintenance and repair of facilities and vehicles, utilities, custodial, security and insurance items. The decrease in FY 2011-2012 can be directly tied to less support from Chowan County. Previous funding included the lease cost for the Administration building. When consolidation occurred in August 2012 the lease was terminated.

Using the Annual Report

This annual report consists of a series of financial statements, prepared in accordance with GASB 35. 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. The financial statements presented in the past focused on the accountability of funds, while these statements focus on the financial condition of the College, the results of operations, and cash flows for the College as a whole. The funds considered in this financial statement include funds provided by the State of North Carolina, County funds, COA Foundation funds, federal funds and auxiliary funds. Auxiliary funds are other revenue sources and include such activities as income from vending machines, facilities rentals, bookstore, and Community events. The College is provided County funds from the seven counties that it supports. The COA Foundation is a separate organization and Foundation Financial Statements are audited annually. The Foundation's FY 2011-2012 financial statements have been audited and the auditors provided an unqualified audit opinion. Copies of the FY 2011-2012 audit are available from the COA Foundation office. This set of financial statements is a blend of all funding to the College to include Foundation.

This annual report consists of three financial statements that provide information on the College as a whole. They are:

Statement of Net Assets	Exhibit A-1
Statement of Revenues, Expenses and Changes in Net Assets	Exhibit A-2
Statement of Cash Flows	Exhibit A-3

Financial Highlights

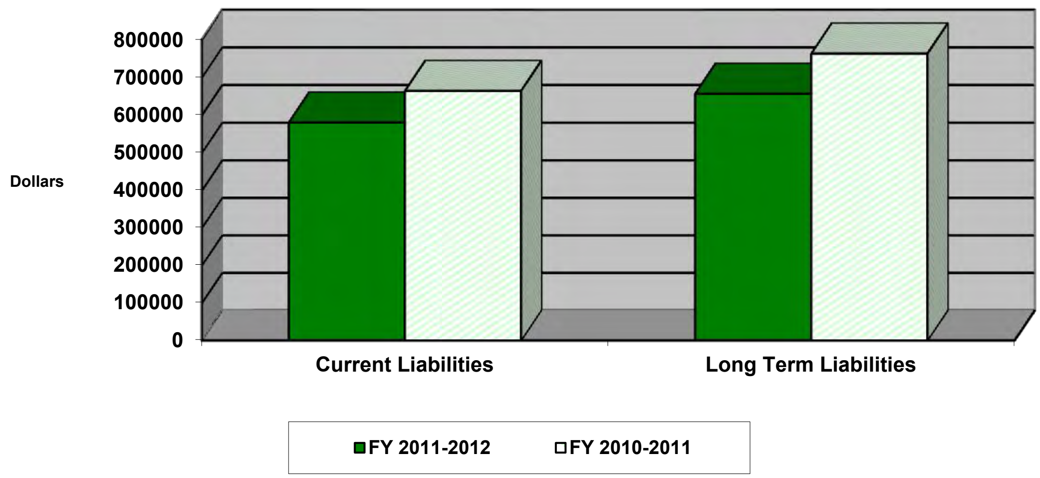
Condensed Statement of Total Assets

	FY 2011-2012	FY 2010-2011	Difference
Current Assets	7,304,163.61	6,390,482.65	913,680.96
Noncurrent Assets:			
Endowment Investments	3,879,164.01	3,859,188.22	19,975.79
Capital Assets -Nondepreciable	2,169,607.36	2,169,607.36	0.00
Capital Assets – Depreciable	29,552,386.84	30,416,483.41	-864,096.57
Other Long Term Investments	640,517.00	640,517.00	0.00
Total Assets	43,545,838.82	43,476,278.64	69,560.18

The growth in Total Assets is probably the most positive single indicator of the financial growth and stability of an organization. Total Assets increased over $69,560.18 from the previous fiscal year. Current assets increased mainly because of cash and cash equivalents, both restricted and unrestricted. Cash and cash equivalents increased $587,592 and these activity increases are (1) Follett Commission-$105,233 (2) self-supporting classes-$191,465 (3) print shop revenue-$82,206 (4) Foundation-$69,593 and (5) Golden Leaf-$114,591. Endowment Investments increased slightly because of a positive 1.77 percent return on Foundation market investments. The value of Nondepreciable capital assets remained the same and represents land owned by the college. Depreciable capital assets decreased primarily due to a combination of approximately $28,772 net increase in buildings, machinery and equipment coupled with an $892,868 increase in accumulated depreciation for buildings, machinery and equipment.

Summary of Liabilities

	FY 2011-2012	FY 2010-2011	Difference
Current Liabilities	580,301.62	664,434.12	-84,132.50
Long Term Liabilities	656,679.80	763,362.77	-106,682.97
Total Liabilities	1,236,981.42	1,427,796.89	-190,815.47

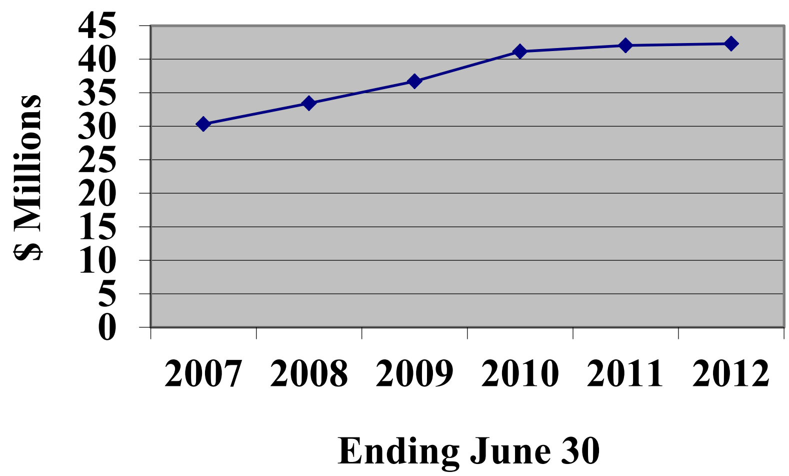


Total Liabilities decreased slightly over the previous year with both Current Liabilities and Long Term Liabilities decreasing. The main reason for the decrease in Current Liabilities is a reduction in accounts payable because several capital projects were completed in 2011 and new projects approved in 2012 were not funded until the end of the fiscal year. Long Term Liabilities decreased because compensated balances decreased and payouts were made on the Foundation split-interest agreements. Compensated balances are computed based on employee bonus and vacation leave accumulations. Compensated balances vary annually based on the number of employees employed and their utilization of bonus and annual leave.

Condensed Statement of Net Assets

	FY 2011-2012	FY 2010-2011	Difference
Invested in Capital Assets	31,721,994.20	32,586,090.77	-864,096.57
Restricted	8,294,243.47	7,828,676.68	465,566.79
Unrestricted	2,292,619.73	1,633,714.30	658,905.43
Total Net Assets	42,308,857.40	42,048,481.75	260,375.65

Net Assets



The College has had a gradual increase in net assets over the past six years. In general this is because of increases in restricted and unrestricted net assets. The invested in capital assets decreased primarily because of depreciation. Restricted net assets increased mainly because the college was authorized to convert equipment dollars to capital improvement dollars. The college converted $520,220 in three separate projects; library renovation ($250,000), campus signage ($45,220), and aviation ($225,000). This provision was only authorized for FY 2011-2012 and FY 2012-2013. The unrestricted net assets increased because of increases in fee revenues and monies earned in running curriculum self-supporting classes.

Statement of Revenues, Expenses and Changes in Net Assets

There are two types of revenues; Operating Revenues and NonOperating Revenues.

Operating Revenues

	FY 2011-2012	FY 2010-2011	Differences
Student Tuition and Fees	1,634,340.24	1,632,343.55	1,996.69
Federal Grants and Contracts	249,121.23	267,521.61	-18,400.38
State and Local Grants and Contracts	375,275.92	292,368.94	82,906.98
Nongovernmental Grants and Contracts	2,875.00	110,539.36	-107,664.36
Sales and Services	307,319.04	347,402.47	-40,083.43
Other Operating Revenues	188,907.07	212,516.46	-23,609.39
Total Operating Revenues	2,757,838.50	2,862,692.39	-104,853.89

Overall, the Operating Revenue decreased approximately $104,854 over the previous year. Tuition and Fees have remained about the same with the student population decreasing slightly but the tuition rate increasing. State and local grants increased primarily because of a new grant (GovED TV) and revenues earned on existing GoldenLeaf grants. Nongovernment Grants and Contracts decreased because of a change in reporting. Outside scholarships are reported through the Statement of Net Assets and are no longer recorded as operating revenue. The overall decrease in Operating Revenues is mainly attributable to this change in reporting.

Nonoperating Revenues

	FY 2011-2012	FY 2010-2011	Differences
State Aid	10,886,400.91	11,726,281.93	-839,881.02
County Appropriations	1,988,858.23	2,300,246.82	-311,388.59
Noncapital grants	5,091,319.60	5,702,029.10	-610,709.50
Noncapital gifts	238,558.61	503,389.16	-264,830.55
Net Investment Income	99,714.26	904,852.78	-805,138.52
Other Nonoperating Revenues	121,979.20	14,946.50	107,032.70
Total Nonoperating Revenues	18,426,830.81	21,151,746.29	-2,724,915.48

State Aid decreased mainly for two reasons. The first is a reduction in the amount net budget guidance received from the NCCCS ($542,000) and the reversion of 1 percent. County Appropriations decreased mainly because of the decrease in support from Chowan County and the transfer of how we manage Dare County funds. Previously Dare County managed most of the funds budgeted for the COA Dare County Campus. In FY 2011-2012, all funds, with minor exceptions, were provided to the college for the payment of expenses. The Noncapital grants decrease can directly be attributable to a decrease in Federal financial aid awards and the reclassification of State Aid pass-through Federal funds from Nonoperating to Operating. Non capital gifts are associated with decreases in donations to the Foundation and the ending of the athletic campaign. Net investment income decreased because of the much lower market return on investments than the previous year.

Operating Expenses

Operating Expenses	FY 2011-2012	FY 2010-2011	Differences
Salaries and Benefits	13,494,728.47	13,270,862.19	223,866.28
Supplies and Materials	1,704,803.08	2,111,467.22	-406,664.14
Services	2,196,338.92	2,986,396.53	-790,057.61
Scholarships and Fellowships	2,552,145.55	3,333,817.29	-781,671.74
Utilities	537,059.32	449,501.91	87,557.41
Depreciation	976,566.47	951,869.84	24,696.63
Total Operating Expenses	21,461,641.81	23,103,914.98	-1,642,273.17

Total Operating Expenses decreased over a million dollars over the previous fiscal year. Salaries and Benefits increased because of increases in retirement contributions and health benefit increased premiums. Supplies and materials decreased from the prior year because the prior year included many one-time purchases including auditorium lights, a new phone system, Gateway to College funding, and many upgrades to instructional labs. Services decreased over the previous period mainly due to studies including a compensation study, an economic study, a financial aid study, a finance study, a security study, web and software studies and purchases that occurred in 2011. The Scholarships and Fellowships decreased because there was a reduction in Federal Financial Aid awards and an increase in tuition discounting. Tuition and fees rates increased causing a greater portion of student financial aid to be allocated to tuition and fees charges. Utilities were consistent with the previous year considering weather changes and depreciation increased as additional depreciable assets were added.

Condensed Statement of Revenues, Expenses and Changes in Net Assets

	FY 2011-2012	FY 2010-2011	Differences
Revenues (Operating and Nonoperating)	21,184,669.31	24,014,438.68	(2,829,769.37)
Operating Expenses	21,461,641.81	23,103,914.98	(1,642,273.17)
Income Before Other Revenues, Expenses, Gains, Losses	(276,972.50)	910,523.70	(1,187,496.20)
Other Revenue, Expenses, Gains, Losses:			
State Capital Grants	520,220.00	-	520,220.00
Capital Grants	17,128.15	-	17,128.15
Change in Net Assets	260,375.65	910,523.70	(650,148.05)

Starting Position of Net Assets	42,048,481.70	41,137,958.00
Change in Net Assets	260,375.65	910,523.70
Ending Net Assets	42,308,857.35	42,048,481.70

As shown above the change in net assets increased by approximately $260,376 from the previous year. The details of all other differences are reflected elsewhere in this report.

College of The Albemarle
Statement of Net Assets
June 30, 2012 — Exhibit A-1

ASSETS	
Current Assets:	
Cash and Cash Equivalents	$ 2,437,736.03
Restricted Cash and Cash Equivalents	649,475.83
Short-Term Investments	295,561.17
Restricted Short-Term Investments	2,329,512.17
Receivables, Net (Note 4)	408,623.15
Due from State of North Carolina Component Units	544,636.06
Restricted Due from Primary Government	564,298.57
Inventories	74,320.63
Total Current Assets	7,304,163.61
Noncurrent Assets:	
Restricted Investments	3,879,164.01
Other Investments	640,517.00
Capital Assets - Nondepreciable (Note 5)	2,169,607.36
Capital Assets - Depreciable, Net (Note 5)	29,552,386.84
Total Noncurrent Assets	36,241,675.21
Total Assets	43,545,838.82
LIABILITIES	
Current Liabilities:	
Accounts Payable and Accrued Liabilities (Note 6)	302,709.21
Unearned Revenue	59,868.84
Funds Held for Others	64,932.02
Long-Term Liabilities - Current Portion (Note 7)	152,791.55
Total Current Liabilities	580,301.62
Noncurrent Liabilities:	
Long-Term Liabilities (Note 7)	656,679.80
Total Liabilities	1,236,981.42
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	31,721,994.20
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	3,336,310.63
Expendable:	
Scholarships and Fellowships	4,214,946.92
Loans	1,743.90
Capital Projects	687,799.72
Other	53,442.30
Unrestricted	2,292,619.73
Total Net Assets	$ 42,308,857.40

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

College of The Albemarle
Statement of Revenues, Expenses, and Changes in Net Assets
For the Fiscal Year Ended June 30, 2012 — **Exhibit A-2**

REVENUES	
Operating Revenues:	
Student Tuition and Fees, Net (Note 9)	$ 1,634,340.24
Federal Grants and Contracts	249,121.23
State and Local Grants and Contracts	375,275.92
Nongovernmental Grants and Contracts	2,875.00
Sales and Services, Net (Note 9)	307,319.04
Other Operating Revenues	188,907.07
Total Operating Revenues	2,757,838.50
EXPENSES	
Operating Expenses:	
Salaries and Benefits	13,494,728.47
Supplies and Materials	1,704,803.08
Services	2,196,338.92
Scholarships and Fellowships	2,552,145.55
Utilities	537,059.32
Depreciation and Amortization	976,566.47
Total Operating Expenses	21,461,641.81
Operating Loss	(18,703,803.31)
NONOPERATING REVENUES (EXPENSES)	
State Aid	10,886,400.91
County Appropriations	1,988,858.23
Noncapital Grants - Student Financial Aid	4,811,453.60
Noncapital Grants	279,866.00
Noncapital Gifts, Net (Note 9)	238,558.61
Investment Income, Net	99,714.26
Other Nonoperating Revenues (Expenses)	121,979.20
Net Nonoperating Revenues	18,426,830.81
Income Before Other Revenues, Expenses, Gains, and Losses	(276,972.50)
State Capital Aid	520,220.00
Capital Grants	17,128.15
Increase (Decrease) in Net Assets	260,375.65
NET ASSETS	
Net Assets, July 1, 2011	42,048,481.75
Net Assets, June 30, 2012	$ 42,308,857.40

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

CASH FLOWS FROM OPERATING ACTIVITIES	
Received from Customers	$ 2,704,253.84
Payments to Employees and Fringe Benefits	(13,474,902.61)
Payments to Vendors and Suppliers	(4,617,384.56)
Payments for Scholarships and Fellowships	(2,551,970.00)
Other Receipts	142,964.37
Net Cash Used by Operating Activities	(17,797,038.96)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Aid Received	10,886,400.91
County Appropriations	1,988,858.23
Noncapital Grants - Student Financial Aid	4,812,428.42
Noncapital Grants Received	315,337.26
Noncapital Gifts and Endowments Received	237,562.45
William D. Ford Direct Lending Receipts	777,196.00
William D. Ford Direct Lending Disbursements	(777,196.00)
Net Cash Provided by Noncapital Financing Activities	18,240,587.27
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
State Capital Aid Received	68,015.00
Capital Grants Received	17,128.15
Acquisition and Construction of Capital Assets	(162,924.92)
Net Cash Used by Capital and Related Financing Activities	(77,781.77)
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from Sales and Maturities of Investments	490,866.21
Investment Income	192,470.14
Purchase of Investments and Related Fees	(517,197.49)
Net Cash Provided by Investing Activities	166,138.86
Net Increase in Cash and Cash Equivalents	531,905.40
Cash and Cash Equivalents, July 1, 2011	2,555,306.46
Cash and Cash Equivalents, June 30, 2012	$ 3,087,211.86

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

RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES

Operating Loss	$ (18,703,803.31)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation and Amortization Expense	976,566.47
Miscellaneous Nonoperating Income	138,178.31
Changes in Assets and Liabilities:	
Receivables, Net	(73,689.66)
Inventories	22,268.79
Accounts Payable and Accrued Liabilities	(94,035.90)
Unearned Revenue	18,358.13
Funds Held for Others	8,997.98
Split Interest Agreement	(82,434.65)
Compensated Absences	(7,445.12)
Net Cash Used by Operating Activities	$ (17,797,038.96)

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	$ 2,437,736.03
Restricted Cash and Cash Equivalents	453,151.20
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	196,324.63
Total Cash and Cash Equivalents - June 30, 2012	$ 3,087,211.86

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through Assumption of a Liability	$ 2,801.32
Increase in Receivables Related to Nonoperating Income	453,201.16
Change in Fair Value of Investments	15,759.43
Capital Asset Write-Offs	99,897.37

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

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 (GAAP), 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. College of The Albemarle is a component unit of the state of North Carolina and an integral part of the State's *Comprehensive Annual Financial Report*.

The accompanying financial statements present all funds for which the College's Board of Trustees is financially accountable. The College's component unit is blended in the College's financial statements. The blended component unit, although legally separate, is in substance, part of the College's operations and therefore, is reported as if it were part of the College.

Blended Component Units - Although legally separate, College of The Albemarle Foundation is reported as if it was part of the College. The Foundation is governed by a 20-member board consisting of one ex officio director and 19 elected directors. The Foundation's purpose is to aid, support, and promote teaching, research, and service in the various educational, scientific, scholarly, professional, artistic, and creative endeavors of the College. Because the elected directors of the Foundation are appointed by the members of the College of The Albemarle's Board of Trustees and the Foundation's sole purpose is to benefit College of The Albemarle its financial statements have been blended with those of the College.

Separate financial statements for the Foundation may be obtained from the College Business and Finance's Office, 1208 N. Road Street, P.O. Box 2327, Elizabeth City, NC 27909, or by calling (252)335-0821.

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 FASB pronouncements issued after November 30, 1989, 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, regardless of the timing of the cash flows.

Nonexchange transactions, in which the College receives (or gives) value without directly giving (or receiving) equal value in exchange, include state appropriations, certain grants, and donations. Revenues are recognized, net of estimated uncollectible amounts, as soon as all eligibility requirements imposed by the provider have been met, if probable of collection.

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. **Restricted Cash and Cash Equivalents -** This classification includes undeposited receipts, cash on deposit with private bank accounts, savings accounts, and deposits restricted for which the College is legally or contractually obligated to spend in accordance with restrictions imposed by external parties.

F. **Investments** - Investments generally are reported at fair value, as determined by quoted market prices or estimated amounts determined by management if quoted market prices are not available. Because of the inherent uncertainty in the use of estimates, values that are based on estimates may differ from the values that would have been used had a ready market existed for the investments. The net increase (decrease) in the fair value of investments is recognized as a component of investment income.

Money Market funds and other asset holdings are reported at cost, if purchased or at fair value or appraised value at date of gift, if donated. Land and other real estate held as investments by endowments are reported at fair value, consistent with how investments are normally reported. However, real estate investments not held by endowments are valued at cost or fair value at the date of donation and remainder interests in real estate is reported at fair value at the time of donation, less a present value discount.

G. **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 sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants, and pledges that are verifiable, measurable, and expected to be collected and available for expenditures for which the resource provider's conditions have been satisfied. Student receivables are recorded net of estimated uncollectible amounts. For pledges receivable, past experience has shown that uncollectible pledges are not material and therefore no allowance for uncollectible accounts has been made in these financial statements.

H. **Inventories** - Inventories, consisting of expendable supplies, are valued at cost using first-in, first-out.

I. **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 value of assets constructed includes all material direct and indirect construction costs. Interest costs incurred are capitalized during the period of construction.

The College capitalizes assets that have a value or cost of $5,000 or greater at the date of acquisition and an estimated useful life of more than one year except for internally generated software which is capitalized when the value or cost is $1,000,000 or greater and other intangible assets which are capitalized when the value or cost is $100,000 or greater. 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 75 years for general infrastructure, 10 to 50 years for buildings, and 2 to 30 years for equipment, and 2 to 30 years for computer software.

J. **Restricted Assets** - Certain resources are reported as restricted assets because restrictions on asset use change the nature or normal understanding of the availability of the asset. Resources that are not available for current operations and are reported as restricted include resources restricted for the acquisition or construction of capital assets, resources whose use is limited by external parties or statute, and endowment and other restricted investments.

K. **Noncurrent Long-Term Liabilities** - Noncurrent long-term liabilities include notes payable, capital lease obligations, compensated absences and annuity payable that will not be paid within the next fiscal year.

L. 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 July 1 or for which an employee can be paid upon termination of employment. When classifying compensated absences into current and noncurrent, leave is considered taken using a last-in, first-out (LIFO) method. 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 June 30 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.

There is no liability for unpaid accumulated sick leave because the College has no obligation to pay sick leave upon termination or retirement. However, additional service credit for retirement pension benefits is given for accumulated sick leave upon retirement.

M. Net Assets - The College's net assets are classified as follows:

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

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

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

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.

N. **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 classified as 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.

O. **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 investing, capital, or noncapital financing activities. Capital contributions are presented separately after nonoperating revenues and expenses.

P. **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 the College's print shop. 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.

Q. **Funds Held in Trust by Others** - Funds held in trust by others are resources neither in the possession nor the control of the College, but held and administered by an outside organization, with the College deriving income from such funds.

Such funds established under irrevocable trusts where the College has legally enforceable rights or claims in the future have not been recorded on the accompanying financial statements. These amounts are recorded as an asset and revenue when received by the College. At year end, the amount held in irrevocable trusts by others for the College was $64,932.02. Funds established under revocable trusts or where the trustees have discretionary power over distributions are recorded as revenue when distributions are received and resource provider conditions are satisfied.

R. **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.

S. **New Pronouncements** – The GASB has issued several statements not yet implemented by the College. Those statements which may have a future impact on the College include:

Statement No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34*, effective for periods beginning after June 15, 2012, modifies certain requirements for inclusion and blending of component units and adds clarification for misleading to exclude criterion. Under this standard, entities included as component units due to meeting fiscal dependency criteria must also provide a financial benefit or burden to continue such reporting. Entities blended due to meeting substantially the same governing body criteria will also be required to either provide a financial benefit or burden or be subject to operational responsibility by management of the primary government. The standard also redefines major discretely presented component units and provides certain clarifications as to when it is misleading to exclude an entity as a component unit. Management is currently evaluating the impact this statement will have on the College's financial statements.

Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, is effective for periods beginning after December 15, 2011. The objective of this Statement is to provide financial reporting guidance for deferred outflows of resources and deferred inflows of resources. The requirements of this Statement will improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government's net position. It alleviates uncertainty about reporting those financial statement elements by providing guidance where none previously existed. Management is currently evaluating the impact this statement will have on the College's financial statements.

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. Cash on hand at June 30, 2012 was $1,875. The carrying amount of the College's deposits not with the State Treasurer, including certificates of deposit, was $2,080,070.01, and the bank balance was $2,317,136.30.

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, 2012, the College's bank balance in excess of federal depository insurance coverage was covered under the pooling method.

B. Investments - In addition to donated securities and real estate held by the College, the College is authorized to invest idle funds as provided by G.S. 115D-58.6. In accordance with this statute, the College and the Board of Trustees manage investments to ensure they can be converted into cash when needed.

Generally, funds belonging to the College may be invested in the form of investments pursuant to G.S. 159-30(c), as follows: a commingled investment pool established and administered by the State Treasurer pursuant to G.S. 147-69.3 (STIF); obligations of or fully guaranteed by the United States; obligations of the state of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain nonguaranteed federal agencies; prime quality commercial paper bearing specified ratings; specified bills of exchange; certain savings certificates; 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 of custodian.

At June 30, 2012, the amount shown on the Statement of Net Assets as cash and cash equivalents includes $1,005,266.85, 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 1.5 years as of June 30, 2012. 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.osc.nc.gov/ and clicking on "Reports" or by calling the State Controller's Financial Reporting Section at (919) 707-0500

Except as specified by the donor, endowment funds belonging to the College may be invested pursuant to G.S. 147-69.2. This statute authorizes investments for special funds held by the State Treasurer and includes the following investments: obligations of or fully guaranteed by the United States; obligations of certain federal agencies; repurchase agreements; obligations of the state of North Carolina; certificates of deposit of specified institutions; prime quality commercial paper; asset-backed securities and corporate bonds/notes with specified ratings; general obligations of other states; and general obligations of North Carolina local governments.

Investments of the College's component unit, College of The Albemarle Foundation, Inc., are subject to and restricted by G.S. 36E "Uniform Prudent Management of Institutional Funds Act" (UPMIFA) and any requirements placed on them by contract or donor agreements.

The following table presents the fair value of investments by type and investments subject to interest rate risk at June 30, 2012, for the College's investments. Interest rate risk is defined by GASB Statement No. 40 as the risk a government may face should interest rate variances affect the fair value of investments. The College does not have a formal investment policy that addresses interest rate risk.

Investments

	Fair Value	Investment Maturities (in Years) Less Than 1	1 to 5	6 to 10
Investment Type				
Debt Securities				
U.S. Treasuries	$ 486,707.82	$ -	$ 322,194.39	$ 164,513.43
U.S. Agencies	258,714.86	258,714.86	-	-
Mortgage Pass Throughs	89,221.34	-	18,156.52	71,064.82
State and Local Government	309,970.85	31,093.50	155,120.35	123,757.00
Domestic Corporate Bonds	1,002,200.66	264,276.68	508,762.85	229,161.13
Total Debt Securities	2,146,815.53	$ 554,085.04	$ 1,004,234.11	$ 588,496.38
Other Securities				
Cash	970.56			
Mutual Funds	294,711.02			
Remainder Interest in Real Estate	640,517.00			
Domestic Stocks	2,491,080.58			
Real Estate	736,600.00			
Other	834,059.66			
Total Investments	$ 7,144,754.35			

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The College's investment policy states that fixed income securities shall be investment grade "Baa" or higher and should have an average quality of A+ or higher. As of June 30, 2012, the College's fixed income securities were rated as follows:

	Fair Value	AAA Aaa	AA Aa	A	BBB Baa
U.S. Treasuries	$ 486,707.82	$ 486,707.82	$ -	$ -	$ -
U.S. Agencies	258,714.86	258,714.86	-	-	-
Mortgage Pass-Through	89,221.34	89,221.34	-	-	-
State and Local Government	325,328.00	-	325,328.00	-	-
Domestic Corporate Bonds	986,843.51	-	56,004.63	703,842.03	226,996.85
	$ 2,146,815.53	$ 834,644.02	$ 381,332.63	$ 703,842.03	$ 226,996.85

Rating Agency: Moody's and/or Standard and Poor's

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the College will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. All of the College's investments are uninsured and unregistered investments for which the securities are held by a counterparty's trust department or agent in the College's name. The College does not have a formal policy for custodial credit risk.

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributable to the magnitude of an investment in a single issuer. The College investment policy states that no more than 5% of the market value of the College's portfolio can be in any security and no more than 25% of the College's portfolio can be in a single class or market sector. Also no more than 10% of any single bond issue may be acquired.

A reconciliation of deposits and investments for the College to the basic financial statements as of June 30, 2012, is as follows:

Cash on Hand	$	1,875.00
Carrying Amount of Deposits with Private Financial Institutions		2,080,070.01
Investments in the Short-Term Investment Fund		1,005,266.85
Other Investments		7,144,754.35
Total Deposits and Investments	$	10,231,966.21
Current:		
Cash and Cash Equivalents	$	2,437,736.03
Restricted Cash and Cash Equivalents		453,151.20
Short-Term Investments		295,561.17
Restricted Short-Term Investments		2,329,512.17
Noncurrent:		
Restricted Cash and Cash Equivalents		196,324.63
Restricted Investments		3,879,164.01
Other Investments		640,517.00
Total	$	10,231,966.21

NOTE 3 - ENDOWMENT INVESTMENTS

Investments of the College's endowment funds are pooled, unless required to be separately invested by the donor. If a donor has not provided specific instructions, state law permits the Board of Trustees to authorize for expenditure the net appreciation, realized and unrealized, of the investments of the endowment funds. Under the "Uniform Prudent Management of Institutional Funds Act" (UPMIFA), authorized by the North Carolina General Assembly on March 19, 2009, the Board may also appropriate expenditures from eligible nonexpendable balances if deemed prudent and necessary to meet program outcomes and for which such spending is not specifically prohibited by the donor agreements. However, all of the College's endowment donor agreements prohibit spending of nonexpendable balances and therefore the related nonexpendable balances are not eligible for expenditure.

Investment return of the College's endowment funds is predicated under classical trust doctrines. Unless the donor has stipulated otherwise, capital gains and losses are accounted for as part of the endowment principal and are not available for expenditure. The Investment Committee established a policy that 4% of the three year running average of the components of the endowment fund will be the amount of dollars to be provided for scholarships based on endowments. The December 31, 2011 value was $3,159,920.31 and the three year running average was $2,963,553.73. Applying the 4% policy resulted in a scholarship amount being $118,542.15 for the FY 2012-2013, but because of the current market conditions, not all endowments had enough income available for scholarships. This resulted in the Investment Committee only approving $112,376.26 for scholarships from endowments.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2012, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	$ 531,237.17	$ 294,254.89	$ 236,982.28
Student Sponsors	43,169.08	947.00	42,222.08
Accounts	32,916.11	-	32,916.11
Intergovernmental	696.00	-	696.00
Pledges	74,957.11	-	74,957.11
Investment Earnings	16,152.67	-	16,152.67
Other	4,696.90	-	4,696.90
Total Current Receivables	$ 703,825.04	$ 295,201.89	$ 408,623.15

NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2012, is presented as follows:

	Balance July 1, 2011	Increases	Decreases	Balance June 30, 2012
Capital Assets, Nondepreciable:				
Land and Permanent Easements	$ 2,169,607.36	$ -	$ -	$ 2,169,607.36
Total Capital Assets, Nondepreciable	2,169,607.36	-	-	2,169,607.36
Capital Assets, Depreciable:				
Buildings	36,134,215.95	-	-	36,134,215.95
Machinery and Equipment	2,852,507.48	128,669.01	99,897.37	2,881,279.12
General Infrastructure	801,110.24	-	-	801,110.24
Total Capital Assets, Depreciable	39,787,833.67	128,669.01	99,897.37	39,816,605.31
Less Accumulated Depreciation/Amortization for:				
Buildings	7,952,444.08	747,747.50	-	8,700,191.58
Machinery and Equipment	1,205,906.42	209,801.24	83,698.26	1,332,009.40
General Infrastructure	212,999.76	19,017.73	-	232,017.49
Total Accumulated Depreciation	9,371,350.26	976,566.47	83,698.26	10,264,218.47
Total Capital Assets, Depreciable, Net	30,416,483.41	(847,897.46)	16,199.11	29,552,386.84
Capital Assets, Net	$ 32,586,090.77	$ (847,897.46)	$ 16,199.11	$ 31,721,994.20

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2012, were as follows:

	Amount
Accounts Payable	$ 37,654.40
Accrued Payroll	260,547.42
Intergovernmental Payables	2,217.30
Other	2,290.09
Total Accounts Payable and Accrued Liabilities	$ 302,709.21

NOTE 7 - LONG-TERM LIABILITIES

A. Changes in Long-Term Liabilities - A summary of changes in the long-term liabilities for the year ended June 30, 2012, is presented as follows:

	Balance July 1, 2011	Additions	Reductions	Balance June 30, 2012	Current Portion
Compensated Absences	$ 431,613.72	$ 367,072.15	$ 374,517.27	$ 424,168.60	$ 77,727.06
Split Interest Agreements	467,737.40	-	83,434.65	384,302.75	75,044.49
Total Long-Term Liabilities	$ 899,351.12	$ 367,072.15	$ 457,951.92	$ 808,471.35	$ 152,771.55

B. Split Interest Agreements - The College's Foundation has four split interest agreements.

The Jewel and Lee Davenport Endowment fund was established in 1994. The fund is a split interest agreement and is classified as a charitable remainder interest trust. The trust is responsible for paying the beneficiaries (Jewel and Lee Davenport) a guaranteed annual income of $50,000. The donor requested but did not direct that any assets remaining after the death of both beneficiaries will be used for scholarships. In recording the gift, contribution revenue was recognized equal to the present value of the gift or $404,400.65. A liability to the beneficiaries in the amount of $300,600.00 was established at the date of the gift to be used to fund the liability. The liability is being amortized over 18 years and is reported as revenue. The remaining liability at June 30, 2012 was $16,700.00.

The John Wood Foreman Unitrust Fund was established in 1999. The trust shall continue for a term of twenty (20) years. The trustee shall pay 7% of the net fair market value of trust assets valued as of the first day of the year to the trust beneficiaries. The payments are to be made in four (4) equal installments from trust income and, to the extent income is not sufficient, from principal. In recording the gift, contribution revenue was recognized equal to the present value (@ 6.6%) of the gift or $250,096.00. A liability to the beneficiaries in the amount of $729,799.00 was established at the date of the gift to be used to fund the liability. The liability is being amortized over 20 years and is reported as revenue. The remaining liability at June 30, 2012 was $236,239.47

The Winifred Wood Unitrust Fund was established in December, 1999. The trust is responsible to pay the beneficiary 7% of the net fair market value of the trust's assets valued as of the first day of the year. The payment is to be made in one annual installment. Any assets remaining after the death of the beneficiary are to be distributed to the Foundation (50%) and the Northeastern Development Corporation (50%). The funds distributed to the Foundation are to be used for general purposes. In recording the gift, contribution revenue was recognized equal to the present value (at 7.46%) of the gift or $36,059.99. A liability to the income beneficiaries in the amount of $36,060.00 was established at the date of the gift used to fund the liability. The liability to the income beneficiary is being amortized over 20 years and is reported as revenue. The liability to the co-remainder beneficiary was $31,950.82 at June 30, 2012 and the liability recorded to fund payments to the income beneficiary was $13,522.50.

The Lee and Jewel Davenport Charitable Remainder Unitrust was established in October, 2006 with a contribution of real estate. The trustee shall pay the Recipient an amount equal to the lesser of (a) 8% of the net fair market value of the assets of the trust valued as of the valuation date (the first day of each taxable year) or (b) the trust net income for the taxable year. Upon the occurrence of a triggering event, such as the sale and conveyance of at least one-half of the real estate initially contributed, the trustee shall pay the Recipient an amount equal to 8% of the fair market value of the trust assets as of the valuation date for the remaining years of the trust. The payments shall be paid in equal monthly installments at the end of each calendar month from income and to the extent income is not sufficient, from principal. Any income of the trust for a taxable year in excess of the 8% shall be added to principal. Any assets remaining after the death of the Recipient shall be distributed to the Foundation to be used for general purposes. In recording the gift, contribution revenue was recognized equal to the present value (at 5.80%) of the gift or $534,484.65. A liability to the beneficiaries in the amount of $200,515.35 was established at the date of the gift used to fund the liability. The liability to the income beneficiary is being amortized over 10 years and is reported as revenue. The remaining liability at June 30, 2012 was $86,889.96.

NOTE 8 - LEASE OBLIGATIONS

A. Operating Lease Obligations - The College entered into operating leases for equipment and temporary facilities. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2012:

Fiscal Year	Amount
2013	$ 68,776.92
2014	47,555.92
2015	40,615.14
2016	18,580.20
2017	6,325.00
Total Minimum Lease Payments	$ 181,853.18

Rental expense for all operating leases during the year was $160,585.41.

NOTE 9 - 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	$ 4,344,271.04	$ -	$ 2,681,027.70	$ 28,903.10	$ 1,634,340.24
Sales and Services:					
Sales and Services of Auxiliary Enterprises:					
Bookstore Commission	$ 151,611.14	$ -	$ -	$ -	$ 151,611.14
Printshop	226,502.92	226,502.92	-	-	-
Other	155,707.90	-	-	-	155,707.90
Total Sales and Services	$ 533,821.96	$ 226,502.92	$ -	$ -	$ 307,319.04

NOTE 10 - OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation/ Amortization	Total
Instruction	$ 7,579,144.30	$ 830,609.33	$ 296,659.50	$ -	$ -	$ -	$ 8,706,413.13
Academic Support	1,769,967.31	114,575.39	152,209.26	-	-	-	2,036,751.96
Student Services	1,306,688.76	67,178.77	250,915.24	27,405.00	-	-	1,652,187.77
Institutional Support	1,949,355.75	337,676.36	971,159.17	-	-	-	3,258,191.28
Operations and Maintenance of Plant	838,964.91	336,846.92	462,639.26	-	537,059.32	-	2,175,510.41
Student Financial Aid	45,224.00	-	-	2,524,740.55	-	-	2,569,964.55
Auxiliary Enterprises	5,383.44	17,916.31	62,756.49	-	-	-	86,056.24
Depreciation/ Amortization	-	-	-	-	-	976,566.47	976,566.47
Total Operating Expenses	$ 13,494,728.47	$ 1,704,803.08	$ 2,196,338.92	$ 2,552,145.55	$ 537,059.32	$ 976,566.47	$ 21,461,641.81

NOTE 11 - 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 (Plan) is a cost-sharing multiple-employer defined benefit pension plan established by the state to provide pension benefits for employees of the state, its component units and local boards of education. The Plan is 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, 2012, these rates were set at 7.44% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the College had a total payroll of $11,534,602.21, of which $8,164,947.64 was covered under the Teachers' and State Employees' Retirement System. Total employer and employee contributions for pension benefits for the year were $607,472.10 and $489,674.37, respectively.

Required employer contribution rates for the years ended June 30, 2011, and 2010, were 4.93% and 3.57%, respectively, while employee contributions were 6% each year. The College made 100% of its annual required contributions for the years ended June 30, 2012, 2011, and 2010, which were $607,472.10, $413,376.22, and $309,567.30, 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.nc.gov/ and clicking on "Reports" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

B. Deferred Compensation and Supplemental Retirement Income Plans

Internal Revenue Code 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 $48,995.00 for the year ended June 30, 2012.

Internal Revenue Code 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 except for a 5% employer contribution for the College's law enforcement officers, which is mandated under General Statute 143-166.30(e). The voluntary contributions by employees amounted to $125,887.00 for the year ended June 30, 2012.

NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS

A. Health Benefits - The College participates in the Comprehensive Major Medical Plan (the Plan), a cost-sharing, multiple-employer defined benefit health care plan that provides 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. Coverage eligibility varies depending on years of contributory membership service in their retirement system prior to disability or retirement.

The Plan's benefit and contribution provisions are established by the State Treasurer and the Board of Trustees of the State Health Plan for Teachers and State Employees as authorized by Chapter 135, Article 3B, of the General Statutes. The Plan does not provide for automatic post-retirement benefit increases.

By General Statute, a Retiree Health Benefit Fund (the Fund) has been established as a fund in which accumulated contributions from employers and any earnings on those contributions shall be used to provide health benefits to retired and disabled employees and applicable beneficiaries. By statute, the Fund is administered by the Board of Trustees of the Teachers' and State Employees' Retirement System and contributions to the fund are irrevocable. Also by law, Fund assets are dedicated to providing benefits to retired and disabled employees and applicable beneficiaries and are not subject to the claims of creditors of the employers making contributions to the Fund. Contribution rates to the Fund, which are intended to finance benefits and administrative expenses on a pay-as-you-go basis, are determined by the State Treasurer and the Board of Trustees of the State Health Plan for Teachers and State Employees.

For the current fiscal year, the College contributed 5.0% of the covered payroll under the Teachers' and State Employees' Retirement System to the Fund. Required contribution rates for the years ended June 30, 2011, and 2010, were 4.9% and 4.5%, respectively. The College made 100% of its annual required contributions to the Plan for the years ended June 30, 2012, 2011, and 2010, which were $408,247.38, $410,860.74, and $390,210.88, respectively. 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*. 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.nc.gov/ and clicking on "Reports" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

B. **Disability Income** - The College participates in the Disability Income Plan of North Carolina (DIPNC), a cost-sharing, multiple-employer defined benefit plan, to provide short-term and long-term disability benefits to eligible members of the Teachers' and State Employees' Retirement System. Benefit and contribution provisions are established by Chapter 135, Article 6, of the General Statutes, and may be amended only by the North Carolina General Assembly. The Plan does not provide for automatic post-retirement benefit increases.

Disability income benefits are funded by actuarially determined employer contributions that are established by the General Assembly. For the fiscal year ended June 30, 2012, the College made a statutory contribution of .52% of covered payroll under the Teachers' and State Employees' Retirement System to the DIPNC. Required contribution rates for the years ended June 30, 2011, and 2010, were .52% and .52%, respectively. The College made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2012, 2011, and 2010, which were $42,547.73, $43,601.55, and $45,091.04, respectively. 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 13 - RISK MANAGEMENT

The College is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These exposures to loss are handled via a combination of methods, including participation in state-administered insurance programs, purchase of commercial insurance, and self-retention of certain risks. 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.

The risk of tort claims of up to $1,000,000 per claimant is retained under the authority of the State Tort Claims Act. In addition, the State provides excess public officers' and employees' liability insurance up to $10,000,000 via contract with a private insurance company. The North Carolina Community College System Office pays the premium, based on a composite rate, directly to the private insurer.

Fire and other property losses are covered by the Public School Insurance Fund (Fund), a state-administered public entity risk pool. The Fund is financed by premiums and interest collected through membership participation and retains a $10 million deductible per occurrence. Reinsurance is purchased by the Fund to cover catastrophic events in excess of the $10 million deductible. Membership insured property is covered under an all risk coverage contract. Building and contents are valued under a replacement cost basis. No coinsurance penalties apply. 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. If property is leased by the College, the County is responsible for the insurance covering fire and property loss while the College is responsible for the Building contents.

State-owned vehicles are covered by liability insurance through a private insurance company and handled by the North Carolina Department of Insurance. The liability limits for losses are $1,000,000 per claim and $10,000,000 per occurrence. The community college pays premiums to the North Carolina Department of Insurance for the coverage. 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. This coverage is with a private insurance company and is handled by the North Carolina Department of Insurance. North Carolina Community College System Office is charged a premium by the private insurance company. Coverage limit is $5,000,000 per occurrence. The private insurance company pays 90% of each loss less a $75,000 deductible. Employees paid entirely from county and institutional funds are covered by commercial insurance with coverage of $100,000 per occurrence and $1,000 deductible.

College employees and retirees are provided comprehensive major medical care benefits. Coverage is funded by contributions to the State Health Plan (Plan), a discretely presented component unit of the state of North Carolina. The Plan is funded by employer and employee contributions. The Plan has contracted with third parties to process claims.

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 (death benefits) of $25,000 to $50,000 is provided to eligible workers. This Death Benefit Plan 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.

This audit required 440 audit hours at a cost of $32,500 (including $2,500 out-of-pocket expenses). The cost represents .075% and .15% of the College's total assets and total expenses subjected to audit, respectively.

CHERRY BEKAERT & HOLLAND
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

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*

Members of the Board of Trustees
College of The Albemarle
Elizabeth City, North Carolina

We have audited the financial statements of College of the Albemarle (the "College"), a component unit of the State of North Carolina, as of and for the years ended June 30, 2012, which collectively comprise the College's basic financial statements, and have issued our report thereon dated December 10, 2012. Our report includes 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 College of The Albemarle Foundation, Inc. as described in our report of the College's financial statements. The financial statements of College of The Albemarle Foundation, Inc. were not audited in accordance with *Government Auditing Standards.*

Internal Control Over Financial Reporting

Management of the College is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the College's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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 that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the College in a separate letter dated December 10, 2012.

This report is intended solely for the information and use of the Board of Trustees, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Cherry, Bekaert & Holland, L.L.P.

Charlotte, North Carolina
December 10, 2012