



# **COLLEGE OF THE ALBEMARLE**

## **FINANCIAL STATEMENTS**

***For the Year Ended June 30, 2013***

***And Independent Auditor's Report***

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## **Independent Auditor's Report**

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

### **Report on the Financial Statements**

We have audited the accompanying 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, 2013 and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

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. (the "Foundation") which are presented as component unit exhibits in the accompanying table of contents. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Foundation, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the Foundation were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the College's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **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 the College and the Foundation as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters***Required Supplementary Information*

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.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated January 10, 2014 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Cherry Bekaert LLP". The signature is written in a cursive, flowing style.

Charlotte, North Carolina  
January 10, 2014

**Overview**

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, Manteo, and Barco. In 2013, the College opened the Regional Aviation and Technical Training Center in Currituck County. The Center houses the following programs: Aviation Systems Technology, Computer Integrated Machining, Mechanical Engineering, and our Aviation Sheet Metal.

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 current year.

The MD&A is a very important section of an annual report, especially for those analyzing the fundamentals, which include management and management's 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 College's activities for the fiscal year ended June 30, 2013. The intent of management's discussion and analysis is to look at College's financial performance as a whole: readers should also review the notes to the financial statements to enhance their understanding of the financial performance.

**Using the Annual Report**

College of The Albemarle's discussion and analysis provides a summary of the College's basic financial statements. In prior years, The College of The Albemarle Foundation, Inc. was blended into the financial statements of College of The Albemarle. For the fiscal year ended June 30, 2013 the financial statements of the Foundation will be discretely presented. The following basic financial statements are included in this report:

Statement of Net Position	Exhibit A-1
Statement of Revenues, Expenses and Changes in Net Position	Exhibit A-2
Statement of Cash Flows	Exhibit A-3
Foundation-Statement of Net Position	Exhibit B-1
Foundation-Statement of Activities	Exhibit B-2

The Statement of Net Position presents information on all of the College's assets and liabilities with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the College is improving. The Foundation's Statement of Financial Position also presents the Foundation's assets and liabilities.

**Using the Annual Report (continued)**

The Statement of Revenues, Expenses and Changes in Net Position show how the College's net position changed during the most recent fiscal year. Revenues and expenses are presented in a format that distinguishes between operating and nonoperating revenues and expenses. The Foundation's Statement of Activities shows how the Foundation's net asset position has changed during the fiscal year. The revenues and expenses are shown by availability as unrestricted, temporarily restricted and permanently restricted.

The Statement of Cash Flows provides detail on the College's cash activity for the year. The direct method is used to present cash flows.

The Notes to Financial Statements provide additional information that is essential to a complete understanding of the data provided.

As of July 1, 2012, net position as previously reported was restated due to a change in reporting of College of The Albemarle Foundation, Inc. Beginning July 1, 2012, the Foundation's had a change in their by-laws which resulted in the Foundation no longer meeting the attributes necessary for presentation as a blended component unit of the College.

**Financial Highlights**
**Condensed Statement of Net Position**

	<b>2013</b>	<b>2012 (Restated)</b>	<b>Increase (Decrease)</b>	<b>Percent Change</b>
<b>Assets</b>				
Current	\$ 4,153,363.40	\$ 4,079,299.79	74,063.61	1.82%
Capital Assets, Net	31,576,670.75	31,388,394.20	188,276.55	0.60%
<b>Total Assets</b>	<b>35,730,034.15</b>	<b>35,467,693.99</b>	<b>262,340.16</b>	<b>0.74%</b>
<b>Liabilities</b>				
Current	702,443.50	505,257.13	197,186.37	39.03%
Noncurrent	388,029.82	346,421.54	41,608.28	12.01%
<b>Total Liabilities</b>	<b>1,090,473.32</b>	<b>851,678.67</b>	<b>238,794.65</b>	<b>28.04%</b>
<b>Net Position</b>				
Net Investment In Capital Assets	31,576,670.75	31,388,394.20	188,276.55	0.60%
Restricted Assets	1,780,458.79	1,406,571.53	373,887.26	26.58%
Unrestricted Assets.	1,282,431.29	1,821,049.59	(538,618.30)	-29.58%
<b>Total Net Position</b>	<b>\$ 34,639,560.83</b>	<b>\$ 34,616,015.32</b>	<b>\$ 23,545.51</b>	<b>0.07%</b>

**Financial Highlights (continued)**

The Net Position for the College increased \$23,545.51, or .07% for the fiscal year ended June 30, 2013 to \$34,639,560.83. Unrestricted net position decreased \$538,618.30. The majority of the decrease is the result of an increase of interfund borrowing of \$666,390.95. More unrestricted cash was used to cover deficit restricted cash balances mainly due to the start-up of the Regional Aviation Technical Training Center and the timing of billings of the restricted grants that supported this project. Restricted net position increased by \$373,887.26 and net investment in capital assets increased by \$188,276.55. The increase in restricted net position is the result of an increase in restricted use grant awards that were recognized in 2013 for the capital improvement of the welding training facility and library renovations.

The College's increase in total assets of \$262,340.16 was offset by an increase in liabilities of \$238,794.64. Accrued salaries increased by \$48,000 as the result of more faculty being paid over a 12 month period and a general 2% salary increase for faculty and staff. Faculty who work 9 and 10 months have the option to spread their salary over a 12 month period. Accrued payroll includes faculty salaries earned but not yet paid. Accounts payable also increased \$138,280.12 as a result of invoices for services and supplies received before June 30, 2013 but paid in the next fiscal year. The largest invoices outstanding at the end of the fiscal year were for the summer session books, equipment for the new campus, and utilities costs.

The Statement of Revenues, Expenses, and Changes in Net Position presents information showing how the College's net position changed during the most recent fiscal year. Revenues and expenses are presented in a format that distinguishes between operating and non-operating revenues and expenses.

## Financial Highlights (continued)

## Condensed Statement of Revenues, Expenses and Changes in Net Position

	2013	2012 (Restated)	Increase (Decrease)	Percent Change
<b>Operating Revenue</b>				
Student Tuition and Fees, Net	\$ 2,198,836.04	\$ 2,522,988.16	(324,152.12)	-12.85%
Grants and Contracts	423,550.59	627,272.15	(203,721.56)	-32.48%
Sales and Services, Net	279,260.34	307,319.04	(28,058.70)	-9.13%
Other Operating Revenues	15,452.86	176,267.66	(160,814.80)	-91.23%
<b>Total Operating Revenue</b>	<u>2,917,099.83</u>	<u>3,633,847.01</u>	<u>(716,747.18)</u>	<u>-19.72%</u>
<b>Operating Expenses</b>				
Salaries and Benefits	13,805,452.16	13,494,728.47	310,723.69	2.30%
Other Expenses	8,529,706.09	8,706,809.02	(177,102.93)	-2.03%
<b>Total Operating Expenses</b>	<u>22,335,158.25</u>	<u>22,201,537.49</u>	<u>133,620.76</u>	<u>0.60%</u>
<b>Operating Loss</b>	<u>(19,418,058.42)</u>	<u>(18,567,690.48)</u>	<u>(850,367.94)</u>	<u>4.58%</u>
<b>Nonoperating Revenue</b>				
State Aid	11,108,340.52	10,886,400.91	221,939.61	2.04%
County Appropriations	2,171,736.38	1,988,858.23	182,878.15	9.20%
Noncapital Grants and Gifts	5,093,919.09	5,287,242.55	(193,323.46)	-3.66%
Other Nonoperating Revenue	55,397.31	36,945.66	18,451.65	49.94%
<b>Total Nonoperating Revenue</b>	<u>\$ 18,429,393.30</u>	<u>\$ 18,199,447.35</u>	<u>\$ 229,945.95</u>	<u>1.26%</u>
<b>Loss Before Other Revenues</b>	<u>(988,665.12)</u>	<u>(368,243.13)</u>	<u>(620,421.99)</u>	<u>168.48%</u>
Other Revenues	<u>1,012,210.63</u>	<u>537,348.15</u>	<u>474,862.48</u>	<u>88.37%</u>
<b>Increase (Decrease) in Net Position</b>	<u>23,545.51</u>	<u>169,105.02</u>	<u>(145,559.51)</u>	<u>-86.08%</u>

Total operating revenues for College of The Albemarle decreased by 19.72%, or \$716,747.18. Student tuition and fees net had a reduction of \$324,152.12 or 12.85%. This is a result of declining enrollment and an increase in the allowance for doubtful student accounts. Total Enrollment (curriculum, continuing education and basic skills) at College of The Albemarle has declined 5% from 2012 to 2013. Taken separately, enrollment in curriculum programs has declined 9.1%. Curriculum FTE (Full-Time-Equivalent) was 2,169 in 2012 and 1,971 in 2013, a reduction of 198 FTE. An FTE student is a calculation that results from converting student credit hours into equivalent full-time students in terms of credit load. A student is considered to be full-time if they are enrolled in 16 hours of class instruction per semester.

Total nonoperating revenues increased less than 1.3%, or \$229,945.95. Nonoperating revenues include State and county appropriations as well as Federal Financial Aid including Pell Grant. State aid and county appropriation increased a total of \$404,817.76. The increase in county funding is due to special allocations from Chowan and Dare counties to support repairs and improvements at the Edenton-Chowan Campus and the Manteo Campus.



**Financial Highlights (continued)**

Operating expenses for the fiscal year 2013 increased by \$133,620.76 or less than 1%. Salary expenses increased as the result of 2% across the board salary increase for all full-time employees and the implementation of a compensation study. Utilities expenses increased by \$221,731.84 or 41.29%. This is the result of increased heating and cooling costs on all campuses of approximately \$77,000, increases due to the additional heating and cooling costs for the new campus in Currituck County of approximately \$11,000, as well as a change that resulted in additional utility costs of approximately \$134,000 being paid by the College and reimbursed from County appropriations. Those costs were previously paid directly by the County.

**Economic Forecast**

College of the Albemarle is cautiously optimistic about the upcoming fiscal year and the economic conditions of our region. As a comprehensive community college, we offer services to business owners such as customized training and to individuals such as assistance in earning a high school credential or equivalent, industry certification, an associate's degree, as well as skill based learning and personal enrichment courses. In April 2013, College of the Albemarle opened the Regional Aviation and Technical Training Center in Currituck County, with courses starting in May. The new center offers career paths such as Aviation, Basic Sheet Metal, Advanced Aviation Sheet Metal, Advanced Composites and Aviation Basic Hydraulic/Pneumatics. In the very near future, College of The Albemarle will offer a certified Federal Aviation Administration (FAA) Part 147 Airframes and Powerplants curriculum. College of The Albemarle is poised to be an integral part of the economic recovery for our region.

**Request for Information**

Request for information should be addressed to the Chief Financial Officer, College of The Albemarle, 1208 N Road Street, PO Box 2327, Elizabeth City, NC 27909, (252)335-0821.

***College of The Albemarle***  
***Statement of Net Position***  
***June 30, 2013***

***Exhibit A-1***

**ASSETS**

Current Assets:

Cash and Cash Equivalents	\$ 1,788,262.16
Restricted Cash and Cash Equivalents	238,835.97
Receivables, Net (Note 3)	324,836.92
Due from Primary Government	949,076.07
Due from State of North Carolina Component Units	791,590.36
Inventories	60,761.92
	<hr/>
Total Current Assets	4,153,363.40

Noncurrent Assets:

Capital Assets - Nondepreciable (Note 4)	1,848,513.61
Capital Assets - Depreciable, Net (Note 4)	29,728,157.14
	<hr/>
Total Noncurrent Assets	31,576,670.75
	<hr/>
Total Assets	35,730,034.15

**LIABILITIES**

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 5)	487,971.20
Unearned Revenue	59,576.54
Funds Held for Others	97,426.36
Long-Term Liabilities - Current Portion (Note 6)	57,469.40
	<hr/>
Total Current Liabilities	702,443.50

Noncurrent Liabilities:

Long-Term Liabilities (Note 6)	388,029.82
	<hr/>
Total Liabilities	1,090,473.32

**NET POSITION**

Net Investment in Capital Assets	31,576,670.75
Restricted for:	
Expendable:	
Scholarships and Fellowships	1,011,826.75
Loans	1,743.90
Capital Projects	721,387.43
Other	45,500.71
	<hr/>
Unrestricted	1,282,431.29
	<hr/>
Total Net Position	\$ 34,639,560.83

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 Position***  
***For the Fiscal Year Ended June 30, 2013***

***Exhibit A-2***

**REVENUES**

Operating Revenues:

Student Tuition and Fees, Net (Note 8)	\$ 2,198,836.04
Federal Grants and Contracts	302,489.50
State and Local Grants and Contracts	8,117.17
Nongovernmental Grants and Contracts	112,943.92
Sales and Services, Net (Note 8)	279,260.34
Other Operating Revenues	15,452.86
Total Operating Revenues	<u>2,917,099.83</u>

**EXPENSES**

Operating Expenses:

Salaries and Benefits	13,805,452.16
Supplies and Materials	1,733,511.14
Services	2,005,398.67
Scholarships and Fellowships	3,039,019.77
Utilities	758,791.16
Depreciation/ Amortization	992,985.35
Total Operating Expenses	<u>22,335,158.25</u>
Operating Loss	<u>(19,418,058.42)</u>

**NONOPERATING REVENUES (EXPENSES)**

State Aid	11,108,340.52
County Appropriations	2,171,736.38
Noncapital Grants - Student Financial Aid	4,321,749.59
Noncapital Grants	565,688.00
Noncapital Gifts, Net (Note 8)	206,481.50
Investment Income, Net	2,118.46
Other Nonoperating Revenues (Expenses)	53,278.85
Net Nonoperating Revenues	<u>18,429,393.30</u>
Loss Before Other Revenues, Expenses, Gains, and Losses	(988,665.12)
State Capital Aid	397,000.00
County Capital Aid	363,444.85
Capital Grants	251,765.78
Increase in Net Position	<u>23,545.51</u>

**NET POSITION**

Net Position, July 1, 2012 as Restated (Note 15)	<u>34,616,015.32</u>
Net Position, June 30, 2013	<u>\$ 34,639,560.83</u>

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

***College of The Albemarle***  
***Statement of Cash Flows***  
***For the Fiscal Year Ended June 30, 2013***

***Exhibit A-3***

***Page 1 of 2***

**CASH FLOWS FROM OPERATING ACTIVITIES**

Received from Customers	\$ 2,983,425.35
Payments to Employees and Fringe Benefits	(13,734,849.09)
Payments to Vendors and Suppliers	(4,369,645.60)
Payments for Scholarships and Fellowships	(3,039,019.77)
Other Receipts (Payments)	66,457.29
	<hr/>
Net Used by Operating Activities	(18,093,631.82)

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

State Aid Received	11,108,340.52
County Appropriations	2,171,736.38
Noncapital Grants - Student Financial Aid	4,322,445.59
Noncapital Grants Received	318,733.70
Noncapital Gifts Received	206,481.50
William D. Ford Direct Lending Receipts	3,907.00
William D. Ford Direct Lending Disbursements	(3,907.00)
	<hr/>
Net Cash Provided by Noncapital Financing Activities	18,127,737.69

**CASH FLOWS FROM CAPITAL AND RELATED  
FINANCING ACTIVITIES**

State Capital Aid Received	12,222.50
Capital Grants Received	251,765.78
Proceeds from Insurance on Capital Assets	22,500.00
Acquisition and Construction of Capital Assets	(1,159,828.87)
	<hr/>
Net Cash Used by Capital and Related Financing Activities	(873,340.59)

**CASH FLOWS FROM INVESTING ACTIVITIES**

Investment Income	2,440.37
	<hr/>
Net Cash Provided by Investing Activities	2,440.37
	<hr/>
Net Decrease in Cash and Cash Equivalents	(836,794.35)
Cash and Cash Equivalents, July 1, 2012	2,578,434.18
	<hr/>
Cash and Cash Equivalents, June 30, 2013	\$ 1,741,639.83

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

***College of The Albemarle***  
***Statement of Cash Flows***  
***For the Fiscal Year Ended June 30, 2013***

***Exhibit A-3***

***Page 2 of 2***

**RECONCILIATION OF OPERATING LOSS**

**TO NET CASH USED BY OPERATING ACTIVITIES**

Operating Loss	\$ (19,418,058.42)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation and Amortization Expense	992,985.35
Miscellaneous Nonoperating Income	30,778.85
Changes in Assets and Liabilities:	
Receivables, Net	69,742.07
Inventories	13,558.71
Accounts Payable and Accrued Liabilities	163,828.96
Unearned Revenue	(292.30)
Funds Held for Others	32,494.34
Compensated Absences	21,330.62
Net Cash Used by Operating Activities	<u>\$ (18,093,631.82)</u>

**RECONCILIATION OF CASH AND CASH EQUIVALENTS**

Current Assets:	
Cash and Cash Equivalents	\$ 1,788,262.16
Restricted Cash and Cash Equivalents	<u>238,835.97</u>
Total Cash and Cash Equivalents - June 30, 2013	<u>\$ 2,027,098.13</u>

**NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES**

Assets Acquired through Assumption of a Liability	\$ 24,234.35
Increase in Receivables Related to Nonoperating Grant Revenue	709,022.35

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

***College of The Albemarle Foundation, Inc.***  
***Statement of Net Position***  
***June 30, 2013***

***Exhibit B-1***

**ASSETS**

Cash and Cash Equivalents	\$ 646,914.34
Investments	6,081,656.09
Assets Held in Charitable Trusts and Annuities	640,517.00
Real Estate Held for Resale	865,000.00
Receivables, Net	14,396.44
Pledges Receivable	40,417.74
Inventory	98.78
Personal Property	1,600.00
Property and Equipment, Net	333,600.00
	<hr/>
Total Assets	8,624,200.39

**LIABILITIES**

Accounts Payable and Accrued Expenses	1,461.67
Split Interest Agreement Obligations	309,523.22
	<hr/>
Total Liabilities	310,984.89

**NET POSITION**

Net Investment in Capital Assets	333,600.00
Restricted for:	
Nonexpendable	4,069,786.45
Expendable	3,280,037.81
Unrestricted	629,791.24
	<hr/>
Total Net Position	\$ 8,313,215.50

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

***College of The Albemarle Foundation, Inc.***  
***Statement of Activities***  
***For the Fiscal Year Ended June 30, 2013***

***Exhibit B-2***

**REVENUES**

Operating Revenues:	
Contributions	\$ 473,587.45
Donated Services	130,943.68
Change in Value Split Interest Agreements	<u>75,779.53</u>
Total Operating Revenues	<u>680,310.66</u>

**EXPENSES**

Operating Expenses:	
Administration	47,722.93
Development	7,058.49
In-kind Salary	130,943.68
Investment Expense	29,682.51
Distribution to Beneficiaries	108,177.52
Scholarships	144,546.19
College Support	<u>136,026.87</u>
Total Operating Expenses	<u>604,158.19</u>
Operating Income	<u>76,152.47</u>

**NONOPERATING REVENUES (EXPENSES)**

Interest and Dividend Income	171,325.39
Net Unrealized and Realized Gains	361,180.56
Other income	<u>11,715.00</u>
Net Nonoperating Revenues (Expenses)	<u>544,220.95</u>
Increase in Net Position	620,373.42

**NET POSITION**

Net Position at Beginning of Year	<u>7,692,842.08</u>
Net Position at End of Year	<u>\$ 8,313,215.50</u>

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

**COLLEGE OF THE ALBEMARLE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

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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 (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 of the College and its component units for which the College's Board of Trustees is financially accountable. The College's component unit is discretely presented in the College's financial statements. Discretely presented component unit's financial data is reported in separate financial statements to emphasize their legal separateness.

**Discretely Presented Component Unit** – The College of The Albemarle Foundation, Inc. is a legally separate not-for-profit corporation and is reported as a discretely presented component unit based on the nature and significance of their relationship to the College. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the College in support of its programs. The Foundation is governed by a 20-member board consisting of one ex officio director and 19 elected directors. Although the College does not control the timing or amount of receipts from the Foundation, the majority of resources or income thereon that the Foundation holds and invests is restricted to the activities of the College by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of the College, the Foundation is considered a component unit of the College.

During the year ended June 30, 2013, the Foundation distributed \$280,573.06 to the College for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from College's Business 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 GASB.



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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.

- 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 (STIF). The STIF 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** - 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 the date of the gift, if donated. Land and other real estate held as investments by endowment 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

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in real estate is reported at fair value at the time of donation, less a present value discount.

- 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 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. Receivables are recorded net of estimated uncollectible amounts.
- G. Inventories** - Inventories, consisting of expendable supplies, are valued at cost using first-in, first-out.
- 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 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.

- I. 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.

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**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 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.

**L. Net Position** - The College's net position is classified as follows:

**Net Investment in Capital Assets** - This represents the College's total investment in capital assets, net of outstanding debt obligations related to those capital assets.

**Restricted Net Position - Nonexpendable** - Nonexpendable restricted net position includes 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 Position - Expendable** - Expendable restricted net position includes resources for which the College is legally or contractually obligated to spend in accordance with restrictions imposed by external parties.

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**Unrestricted Net Position** - Unrestricted net position includes 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 Position. 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 nonoperating revenues in the accompanying Statement of Revenues, Expenses, and Changes in Net Position. 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 Position. 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,

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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 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. 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 appropriations and county capital appropriations do not revert and are available for future use by the College.

**NOTE 2 - DEPOSITS AND INVESTMENTS**

The College is required by *North Carolina General Statute* 147-77 to deposit any funds collected or received that belong to the State of North Carolina with the State Treasurer or with a depository institution in the name of the State Treasurer. All funds of the College, other than those required to be deposited with the State Treasurer, 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 Position as cash and cash equivalents includes cash on hand totaling \$1,175.00, and deposits in private financial institutions with a carrying value of \$1,490,371.57 and a bank balance of \$2,023,809.55.

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

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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, 2013, the College's bank balance in excess of federal depository insurance coverage was covered under the pooling method.

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

Generally, funds belonging to the College may be invested in any form of investment established or managed by certain investment advisors pursuant to G.S. 115D-58.6 (d1) or in the form of investments pursuant to G.S. 159-30(c), as follows: a commingled investment pool established and administered by the State Treasurer pursuant to G.S. 147-69.3, obligations of or fully guaranteed by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain nonguaranteed federal agencies; prime quality commercial paper bearing specified ratings; 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, 2013, the amount shown on the Statement of Net Position as cash and cash equivalents includes \$535,551.56 which represents the College's equity position in the State Treasurer's Short-Term Investment Fund (STIF). The STIF (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, 2013. Assets and shares of the STIF 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 STIF) 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

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“Reports” or by calling the State Controller’s Financial Reporting Section at (919) 707-0500.

**Component Units** - The Foundation deposits funds received into board-designated depositories. As of June 30, 2013, these depositories included a bank and an account with the State Treasurer. At June 30, 2013, cash on hand was \$200.00. The carrying amount of cash on deposit was \$646,714.34 and the bank balance was \$350,272.35.

The cash on deposit with the State Treasurer is pooled with state agencies and similar institutions in short-term investments with the State Treasurer's Cash and Investment Pool. These monies are invested in accordance with the General Statutes (147-69.I(c) and 147-69.2), and as required by law are "readily convertible into cash". All investments of the fund are held either by the Department of State Treasurer or its agent in the State's name. The fund's uninvested cash is either covered by federal depository insurance or, pursuant to 20 NCAC 7, is collateralized under either the dedicated or pooling method. Of the cash on deposit with private financial institutions at June 30, 2013, \$50,421.08 (100%) of the balance was covered by federal depository insurance.

Investments of the Foundation 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. Because the Foundation reports under the GASB reporting model, disclosures of the various investment risks are proved below.

Investment Type	Fair Value	Investment Maturities (in Years)		
		Less Than 1	1 to 5	6 to 10
<b>Debt Securities</b>				
U.S. Treasuries	\$ 475,587.79	\$ 240,803.91	\$ 93,541.96	\$ 141,241.92
U.S. Agencies	248,681.15	-	248,681.15	-
Mortgage Pass Throughs	64,058.84	786.76	9,257.37	54,014.71
State and Local Government	270,024.80	10,202.80	149,259.10	110,562.90
Domestic Corporate Bonds	883,172.91	66,828.97	317,579.80	498,764.14
<b>Total Debt Securities</b>	<b>1,941,525.49</b>	<b>\$ 318,622.44</b>	<b>\$ 818,319.38</b>	<b>\$ 804,583.67</b>
<b>Other Securities</b>				
Certificates of Deposit	125,312.50			
Mutual Funds	500,663.54			
Domestic Stocks	2,526,341.94			
Real Estate	865,000.00			
Other	987,812.62			
<b>Total Investments</b>	<b>\$ 6,946,656.09</b>			

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**A. Credit Risk:** Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Foundation'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, 2013, the Foundation's investments were rated as follows:

	Fair Value	AAA Aaa	AA Aa	A	BBB Baa
U.S. Treasuries	\$ 475,587.79	\$ 475,587.79	\$ -	\$ -	\$ -
U.S. Agencies	248,681.15	248,681.15	-	-	-
Mortgage Pass Throughs	64,058.84	64,058.84	-	-	-
State and Local Government	270,024.80	-	270,024.80	-	-
Domestic Corporate Bonds	883,172.91	453,973.55	236,192.88	69,247.03	123,759.45
Totals	<u>\$ 1,941,525.49</u>	<u>\$ 1,242,301.33</u>	<u>\$ 506,217.68</u>	<u>\$ 69,247.03</u>	<u>\$ 123,759.45</u>

Rating Agency: [Moody's](#) and/or [Standard and Poor's](#)

**B. Reconciliation of Deposits and Investments** - A reconciliation of deposits and investments for the College to the basic financial statements as of June 30, 2013, is as follows:

Cash on Hand	\$ 1,175.00
Carrying Amount of Deposits with Private Financial Institutions	1,490,371.57
Investments in the Short-Term Investment Fund	<u>535,551.56</u>
<b>Total Deposits and Investments</b>	<u><u>\$ 2,027,098.13</u></u>
Current:	
Cash and Cash Equivalents	\$ 1,788,262.16
Restricted Cash and Cash Equivalents	<u>238,835.97</u>
<b>Total Deposits and Investments</b>	<u><u>\$ 2,027,098.13</u></u>

**NOTE 3 - RECEIVABLES**

Receivables at June 30, 2013, were as follows:

	Receivables	Allowance	Net
<b>Current Receivables:</b>			
Students	\$ 588,675.19	\$ 522,477.85	\$ 66,197.34
Student Sponsors	50,502.58	-	50,502.58
Accounts	27,146.15	-	27,146.15
Intergovernmental	173,873.17	-	173,873.17
Other	7,117.68	-	7,117.68
<b>Total Current Receivables</b>	<u>\$ 847,314.77</u>	<u>\$ 522,477.85</u>	<u>\$ 324,836.92</u>



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**NOTE 4 - CAPITAL ASSETS**

**A. College** - A summary of changes in the capital assets for the year ended June 30, 2013, is presented as follows:

	Balance July 1, 2012 (as restated)	Increases	Decreases	Balance June 30, 2013
Capital Assets, Nondepreciable:				
Land and Permanent Easements	\$ 1,836,007.36	\$ -	\$ -	\$ 1,836,007.36
Construction in Progress	-	12,506.25	-	12,506.25
<b>Total Capital Assets, Nondepreciable</b>	<u>1,836,007.36</u>	<u>12,506.25</u>	<u>-</u>	<u>1,848,513.61</u>
Capital Assets, Depreciable:				
Buildings	36,134,215.95	608,598.39	-	36,742,814.34
Machinery and Equipment	2,881,279.12	531,553.26	-	3,412,832.38
General Infrastructure	801,110.24	28,604.00	-	829,714.24
<b>Total Capital Assets, Depreciable</b>	<u>39,816,605.31</u>	<u>1,168,755.65</u>	<u>-</u>	<u>40,985,360.96</u>
Less Accumulated Depreciation/Amortization for:				
Buildings	8,700,191.58	760,827.30	-	9,461,018.88
Machinery and Equipment	1,332,009.40	212,936.01	-	1,544,945.41
Art, Literature, and Artifacts	232,017.49	19,222.04	-	251,239.53
<b>Total Accumulated Depreciation/Amortization</b>	<u>10,264,218.47</u>	<u>992,985.35</u>	<u>-</u>	<u>11,257,203.82</u>
<b>Total Capital Assets, Depreciable, Net</b>	<u>29,552,386.84</u>	<u>175,770.30</u>	<u>-</u>	<u>29,728,157.14</u>
<b>Capital Assets, Net</b>	<u>\$ 31,388,394.20</u>	<u>\$ 188,276.55</u>	<u>\$ -</u>	<u>\$ 31,576,670.75</u>

**B. Foundation** – The Foundation’s capital assets consist solely of land. The land was valued at its fair market value in the year the land was received. There were no acquisitions or disposals during the year. Included in capital assets is \$304,000 gift of land to the Foundation. It is the intent of the Board of Directors to keep this land in its natural state so that students of the College will be able to use it in their studies of biology and wildlife. During the year ended June 30, 1999, land valued at \$20,000 was given to the Foundation. During the year ended June 30, 2001, land valued at \$9,600 was given to the Foundation.

**NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

Accounts payable and accrued liabilities at June 30, 2013, were as follows:

	Amount
<b>Current Accounts Payable and Accrued Liabilities:</b>	
Accounts Payable	\$ 178,151.33
Accrued Payroll	<u>308,819.87</u>
<b>Total</b>	<u>\$ 486,971.20</u>

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**NOTE 6 - LONG-TERM LIABILITIES**

- A. Changes in Long-Term Liabilities** - A summary of changes in the long-term liabilities for the year ended June 30, 2013, is presented as follows:

	Balance July 1, 2012 (Restated)	Additions	Reductions	Balance June 30, 2013	Current Portion
Compensated Absences	\$ 434,168.60	\$ 382,858.37	\$ 361,527.75	\$ 455,499.22	\$ 57,469.40

**NOTE 7 - 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, 2013:

<u>Fiscal Year</u>	<u>Amount</u>
2014	\$ 55,918.96
2015	48,978.18
2016	26,973.24
2017	12,719.20
<b>Total Minimum Lease Payments</b>	<b>\$ 144,589.58</b>

Rental expense for all operating leases during the year was \$172,098.55.

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**NOTE 8 - REVENUES**

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

	Gross Revenues	Internal Sales Eliminations	Less Scholarship Discounts	Less Allowance for Uncollectibles	Net Revenues
<b>Operating Revenues:</b>					
Student Tuition and Fees	\$ 3,997,159.51	\$ -	\$ 1,571,047.51	\$ 227,275.96	\$ 2,198,836.04
<b>Sales and Services:</b>					
Sales and Services of Auxiliary Enterprises:					
Bookstore	173,599.41	-	-	-	173,599.41
Print Shop	54,545.98	54,545.98	-	-	-
Other	105,660.93	-	-	-	105,660.93
<b>Total Sales and Services</b>	<b>\$ 333,806.32</b>	<b>\$ 54,545.98</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 279,260.34</b>

**NOTE 9 - OPERATING EXPENSES BY FUNCTION**

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

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation/Amortization	Total
Instruction	\$ 8,214,161.38	\$ 910,848.14	\$ 299,917.64	\$ -	\$ -	\$ -	\$ 9,424,927.16
Academic Support	1,423,483.23	110,263.86	162,598.63	-	-	-	1,696,345.72
Student Services	1,181,778.60	113,697.80	171,197.88	27,465.00	-	-	1,494,139.28
Institutional Support	2,120,295.81	426,912.19	914,261.05	-	-	-	3,461,469.05
Operations and Maintenance of Plant	806,193.99	164,751.41	366,292.02	-	758,791.16	-	2,096,028.58
Student Financial Aid	50,244.25	-	-	3,011,554.77	-	-	3,061,799.02
Auxiliary Enterprises	9,294.90	7,037.74	91,131.45	-	-	-	107,464.09
Depreciation and Amortization	-	-	-	-	-	992,985.35	992,985.35
<b>Total Operating Expenses</b>	<b>\$ 13,805,452.16</b>	<b>\$ 1,733,511.14</b>	<b>\$ 2,005,398.67</b>	<b>\$ 3,039,019.77</b>	<b>\$ 758,791.16</b>	<b>\$ 992,985.35</b>	<b>\$ 22,335,158.25</b>

**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 (TSERS) 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 a 14-member Board of Trustees, with the State Treasurer serving as Chairman of the Board.

Benefit and contribution provisions for the TSERS 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

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contribution rates are set each year by the North Carolina General Assembly based on annual actuarial valuations. For the year ended June 30, 2013, these rates were set at 8.33% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the College had a total payroll of \$11,661,918.76, of which \$8,409,901.03 was covered under the TSERS. Total employer and employee contributions for pension benefits for the year were \$700,544.76 and \$504,595.08 respectively.

Required employer contribution rates for the years ended June 30, 2012, and 2011, were 7.44% and 4.93%, respectively, while employee contributions were 6% each year. The College made 100% of its annual required contributions for the years ended June 30, 2013, 2012, and 2011, which were \$700,544.76, \$607,472.10, and \$413,376.22, respectively.

The TSERS 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 \$41,325 for the year ended June 30, 2013.

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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 \$114,711.00 for the year ended June 30, 2013.

**NOTE 11 - 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.

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For the current fiscal year the College contributed 5.30% of the covered payroll under the Teachers' and State Employees' Retirement System to the Fund. Required contribution rates for the years ended June 30, 2012, and 2011, were 5.0% and 4.9%, respectively. The College made 100% of its annual required contributions to the Plan for the years ended June 30, 2013, 2012, and 2011, which were \$445,724.75, \$408,247.38, and \$410,860.74, 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, 2013, the College made a statutory contribution of .44% of covered payroll under the Teachers' and State Employees' Retirement System to the DIPNC. Required contribution rates for the years ended June 30, 2012, and 2011, were .52% and .52%, respectively. The College made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2013, 2012, and 2011, which were \$37,003.56, \$42,457.73, and \$43,601.55, 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*.

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**NOTE 12 - RISK MANAGEMENT**

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

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 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

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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.

**NOTE 13 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING**

For the fiscal year ended June 30, 2013, the College implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*

GASB Statement No. 61, *The Financial Reporting Entity – Omnibus – An Amendment of GASB Statements No. 14 and No. 34*

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*



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*GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*

GASB Statement No. 60 sets forth criteria used to establish when a Service Concession Arrangement exists, and the various reporting and disclosure requirements related to both transferors and governmental operators in such an arrangement.

GASB Statement No. 61 sets forth additional requirements for identifying component units, blending identified component units, presenting condensed combining information for blended component units, and accounting for certain equity interests.

GASB Statement No. 62 does not propose any new guidance. The purpose of this statement is to incorporate into the GASB's authoritative literature certain guidance from Pre-November 1989 FASB Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins from the AICPA Committee on Accounting Procedure.

GASB Statement No. 63 provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related disclosures.

**NOTE 14 - COMMITMENTS AND CONTINGENCIES**

- A. Commitments** - The College tracks its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were \$284,420.00 at June 30, 2013.
- B. Contingencies** - Federal funded financial aid programs are subject to special audits. Such audits could result in claims against the resources of the College.

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**NOTE 15 - NET POSITION RESTATEMENT**

As of July 1, 2012, net position as previously reported was restated due to a change in reporting of College of The Albemarle Foundation, Inc. (the "Foundation"). Beginning July 1, 2012, the Foundation's had a change in their by-laws which resulted in the Foundation no longer meeting the attributes necessary for presentation as a blended component unit of the College. The Foundation was previously reported as a blended component unit due to the Foundation's governing body being substantively the same as the governing body of the College.

	<u>Amount</u>
July 1, 2012 Net Position as Previously Reported	\$ 42,308,857.40
Restatements: Change in reporting of College of The Albemarle Foundation, Inc. to Descretely Presented	<u>(7,692,842.08)</u>
July 1, 2012 Net Position as Restated	<u><u>\$ 34,616,015.32</u></u>

**NOTE 16 - SUBSEQUENT EVENTS**

The College has evaluated subsequent events through January 10, 2014, which is the date the financial statements were available to be issued.

**NOTE 17 - AUDIT HOURS AND COST**

The audit required 300 hours at an approximate cost of \$33,500. The cost represents 0.094% of the College's total assets and 0.149% of total expenses subjected to audit.

**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***

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of College of The Albemarle ("the College") as of and for the years ended June 30, 2013, and the related notes to the financial statements, and have issued our report thereon dated January 10, 2014. Our report includes a reference to other auditors who audited the financial statements of College of The Albemarle Foundation, Inc. (the "Foundation"), as described in our report on the College's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported separately by those auditors. The financial statements of the Foundation were not audited in accordance with *Government Auditing Standards*.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the College's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control. Accordingly, we do not express an opinion on the effectiveness of the College's internal control.

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 a 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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**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*.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the College's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Cherry Bekaert LLP

Charlotte, North Carolina  
January 10, 2014