



# **COLLEGE OF THE ALBEMARLE**

(A Component Unit of the State of North Carolina)

## **FINANCIAL STATEMENTS**

*As of and for the Year Ended June 30, 2016*

*And Report of Independent Auditor*

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## Report of Independent Auditor

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

We have audited the accompanying financial statements of College of The Albemarle (the "College"), a component unit of the State of North Carolina, and the discretely presented component unit, The College of the Albemarle Foundation, Inc. (the "Foundation") as of and for the year ended June 30, 2016, 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 the Foundation which are presented as component unit exhibits in the accompanying table of contents. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it related 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 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 from material misstatement. The financial statements of the Foundation were also audited in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States.

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, 2016, and the respective changes in financial position and cash flows, where applicable, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information, 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 24, 2017 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.

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

Charlotte, North Carolina  
January 24, 2017

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

Management's discussion and analysis 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 College's activities for the fiscal year ended June 30, 2016. The intent of management's discussion and analysis is to look at the 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. The College of The Albemarle Foundation, Inc. is a discretely presented component unit of the College. 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 Revenues, Expenses and Changes in Net Position	Exhibit B-2

The Statement of Net Position presents information on all of the College's assets, liabilities and deferred outflows and inflows 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 Net Position also presents the Foundation's assets, liabilities and deferred outflows and inflows.

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 Revenues, Expenses and Changes in Net Position show how the Foundation's net position has changed during the fiscal year.

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.

**Financial Highlights**

**Condensed Statement of Net Position**

	<u>2016</u>	<u>2015</u>	Increase (Decrease)	Percent Change
<b>Assets</b>				
Current and Other Assets	\$ 3,854,860.46	\$ 3,607,249.47	\$ 247,610.99	6.86%
Capital Asset, Net	<u>30,653,514.46</u>	<u>31,306,190.74</u>	<u>(652,676.28)</u>	<u>-2.08%</u>
<b>Total Assets</b>	<u>34,508,374.92</u>	<u>34,913,440.21</u>	<u>(405,065.29)</u>	<u>-1.16%</u>
<b>Deferred Outflows</b>	815,662.00	774,007.00	41,655.00	
<b>Liabilities</b>				
Current	907,665.56	869,332.97	38,332.59	4.41%
Noncurrent	<u>2,569,121.54</u>	<u>1,236,813.11</u>	<u>1,332,308.43</u>	<u>107.72%</u>
<b>Total Liabilities</b>	<u>3,476,787.10</u>	<u>2,106,146.08</u>	<u>1,370,641.02</u>	<u>65.08%</u>
<b>Deferred Inflows</b>	446,856.00	2,318,371.00	(1,871,515.00)	
<b>Net Position</b>				
Net Investment In Capital Assets	30,386,874.20	31,306,190.74	(919,316.54)	-2.94%
Restricted Net Position	1,101,361.52	832,585.73	268,775.79	32.28%
Unrestricted Net Position	<u>(87,841.90)</u>	<u>(875,846.34)</u>	<u>788,004.44</u>	<u>-89.97%</u>
<b>Total Net Position</b>	<u>\$31,400,393.82</u>	<u>\$31,262,930.13</u>	<u>\$ 137,463.69</u>	<u>0.44%</u>

The Net Position for the College increased \$137,463.69 or .44% for the fiscal year ended June 30, 2016 to \$31,400,393.82. Total assets decreased \$405,065.29 or 1.16%. Total current assets increased by 6.86% or \$247,610.99. The increase in current assets can be largely attributed to an increase in prepaid assets. Prepaid assets are the result of the College making payments on goods and services that will be used in a future period and which includes payments for insurance and software renewals. The College made the payment for fiscal year 2017 insurance in earlier this year June as opposed to July resulting in the increase in prepaid assets.

Capital Assets, Net decreased by \$652,676.28 or 2.08% which resulted from additions of \$627,854.03 offset by an increase in accumulated depreciation of \$1,271,051.25. The College purchased various equipment, completed roof repairs on Buildings B and C and replaced the boiler in Building C.

Deferred outflows related to the Teachers' and State Employees' Retirement System (TSERS) consist of contributions made subsequent to the measurement date. The College has recognized a deferred outflow related to pensions in the amount of \$815,662.00.

Total liabilities increased by \$1,370,641.02 or 65.08%. The increase in total liabilities is primarily the result of an increase in the net pension liability. The net pension liability is the College's share of the State of North Carolina's net pension liability for Teachers' and State Employees' Retirement Program (TSERS). TSERS experienced a decline in investment income which impacted the net pension liability.

Deferred inflows related to the Teachers' and State Employees' Retirement System (TSERS) consist of the difference between actual and expected experience, net differences between projected and actual earnings on pension plan investments and changes in proportion and differences between the College's contributions and proportionate share of the plan. The College recognized a deferred inflow related to pensions in the amount of \$446,856.00.

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.

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

	<u>2016</u>	<u>2015</u>	Increase (Decrease)	Percent Change
<b>Operating Revenue</b>				
Student Tuition and Fees, Net	\$ 2,208,006.81	\$ 2,308,225.52	\$ (100,218.71)	-4.34%
Grants and Contracts	278,804.14	215,486.47	63,317.67	29.38%
Sales and Services, Net	248,283.64	265,372.00	(17,088.36)	-6.44%
Other Operating Revenues	8,150.48	12,872.53	(4,722.05)	-36.68%
<b>Total Operating Revenue</b>	<u>2,743,245.07</u>	<u>2,801,956.52</u>	<u>(58,711.45)</u>	<u>-2.10%</u>
<b>Operating Expenses</b>				
Salaries and Benefits	13,111,617.12	13,018,818.56	92,798.56	0.71%
Other Expenses	8,129,366.17	7,970,410.07	158,956.10	1.99%
<b>Total Operating Expenses</b>	<u>21,240,983.29</u>	<u>20,989,228.63</u>	<u>251,754.66</u>	<u>1.20%</u>
<b>Operating Loss</b>	<u>(18,497,738.22)</u>	<u>(18,187,272.11)</u>	<u>(310,466.11)</u>	<u>1.71%</u>
<b>Nonoperating Revenue</b>				
State Aid	12,112,235.53	11,511,331.48	600,904.05	5.22%
County Appropriations	2,364,532.64	2,235,890.30	128,642.34	5.75%
Noncapital Grants and Gifts	3,463,314.30	4,284,967.24	(821,652.94)	-19.18%
Other Nonoperating Revenue (Expense)	19,408.56	(41,450.22)	60,858.78	-146.82%
<b>Total Nonoperating Revenue</b>	<u>17,959,491.03</u>	<u>17,990,738.80</u>	<u>(31,247.77)</u>	<u>-0.17%</u>
<b>Loss Before Other Revenue</b>	(538,247.19)	(196,533.31)	(341,713.88)	173.87%
Other Revenues	<u>675,710.88</u>	<u>373,565.91</u>	<u>302,144.97</u>	<u>80.88%</u>
<b>Increase in Net Position</b>	<u>\$ 137,463.69</u>	<u>\$ 177,032.60</u>	<u>\$ (39,568.91)</u>	<u>-22.35%</u>

Net position continues an increasing trend. In 2016, the change in net position of \$137,463.69 represents an increase over the change in net position for 2015. Total operating revenues for the College declined by \$58,711.45 or 2.10%. Operating revenues were impacted by an enrollment decline of 7.5%. The State tuition rates increased by \$4 per credit hour for in-state and out of state students effective in the spring 2016 term, which lessened the impact of the enrollment decline on revenues. Operating grant revenues increased \$63,317.67 or 29.38%. In fiscal year 2016, the College became a sub-recipient to the Department of Education's First in The World Grant with a goal to improve student retention and completion.

Total nonoperating revenues decreased \$31,247.77 or .17%. Nonoperating revenues include State and county appropriations as well as Federal financial aid including Pell Grant. State and county appropriation increased a total of \$729,546.39. The increase in county funding is due to increased allocations from Pasquotank and Dare County. Noncapital grants comprised the largest decline at \$582,581.19 or 14.40%. The Pell Grant is included in this caption and it declined from \$3,680,646.18 in 2015 to \$2,875,545.26 in 2016. The decline is the result of both a declined in student enrollment and a decline in student eligibility. Other revenues, including capital grants, increased by \$302,144.97 or 80.88%. The increase in capital grants is a result of our county's commitment to renovations and repairs of our campuses. The major projects include roof replacement and repair and the renovation of classroom space for use as biology labs.

Total operating expenses increased by \$251,754.66 or 1.20%. Salary and benefits expenses increased by \$92,798.56 or .71%. Other expenses, which include supplies and materials, services, scholarships, utilities, and depreciation expenses, increased by \$158,956.10 or 1.99%. The largest increase was to service expenses, which increased by \$948,231.00, which includes the College's commitment to the integrated engagement plan. The engagement plan was initiated in fiscal year 2016 and the goals of the plan are to build awareness of the College of The Albemarle as a viable educational resource for the seven county communities it serves and to increase full-time-equivalent (FTE) enrollment by 8.5% over a three year period.

### **Economic Forecast**

The College of the Albemarle is North Carolina's first community college, with four campuses across seven counties, excellent educational programs, and a strong tradition in the Albemarle region. In general, the economic outlook for the College of The Albemarle is positive. The College is anticipating an increase in enrollment of between 3-5% within the next two years. The College is experiencing growth in the high school student population through the Career and College Promise initiative as well as the Early College initiative. The College is projecting that adult student population enrollment will remain level through the academic year.

In addition to the positive enrollment outlook, the College will be favorably impacted by the Connect NC Bond which will improve and expand the College's capital resources and infrastructure. One of the major projects scheduled to begin in fiscal year 2017 is the renovation of B building on the Elizabeth City campus which includes converting the current library and classrooms into a learning commons and innovation center.

College of The Albemarle will continue to be a catalyst for transforming lives in the community we serve.

### **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, 2016**

**Exhibit A-1**

**ASSETS**

Current Assets:

Cash and Cash Equivalents	\$ 2,265,816.83
Restricted Cash and Cash Equivalents	336,359.68
Receivables, Net	267,684.48
Inventories	63,364.81
Prepaid Items	238,700.54
	<hr/>
Total Current Assets	3,171,926.34

Noncurrent Assets:

Restricted Due from Primary Government	682,934.12
Capital Assets - Nondepreciable	1,849,807.36
Capital Assets - Depreciable, Net	28,803,707.10
	<hr/>
Total Noncurrent Assets	31,336,448.58
	<hr/>
Total Assets	34,508,374.92

**DEFERRED OUTFLOWS OF RESOURCES**

Deferred Outflows Related to Pensions	815,662.00
	<hr/>
Total Deferred Outflows of Resources	815,662.00

**LIABILITIES**

Current Liabilities:

Accounts Payable and Accrued Liabilities	532,470.44
Unearned Revenue	72,990.12
Funds Held for Others	136,826.00
Long-Term Liabilities - Current Portion	165,379.00
	<hr/>
Total Current Liabilities	907,665.56

Noncurrent Liabilities:

Long-Term Liabilities	2,569,121.54
	<hr/>
Total Noncurrent Liabilities	2,569,121.54
	<hr/>
Total Liabilities	3,476,787.10

**DEFERRED INFLOWS OF RESOURCES**

Deferred Inflows Related to Pensions	446,856.00
	<hr/>
Total Deferred Inflows of Resources	446,856.00

**NET POSITION**

Net Investment in Capital Assets	30,386,874.20
Restricted for:	
Expendable:	
Scholarships and Fellowships	98,244.33
Loans	1,743.90
Capital Projects	989,460.00
Other	11,913.29
Unrestricted	(87,841.90)
	<hr/>
Total Net Position	\$ 31,400,393.82

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, 2016**

**Exhibit A-2**

**REVENUES**

Operating Revenues:	
Student Tuition and Fees, Net	\$ 2,208,006.81
Federal Grants and Contracts	210,546.93
State and Local Grants and Contracts	65,257.21
Nongovernmental Grants and Contracts	3,000.00
Sales and Services, Net	248,283.64
Other Operating Revenues	8,150.48
	<hr/>
Total Operating Revenues	2,743,245.07

**EXPENSES**

Operating Expenses:	
Salaries and Benefits	13,111,617.12
Supplies and Materials	1,298,412.92
Services	2,876,287.11
Scholarships and Fellowships	2,107,945.44
Utilities	575,669.45
Depreciation / Amortization	1,271,051.25
	<hr/>
Total Operating Expenses	21,240,983.29
	<hr/>
Operating Loss	(18,497,738.22)

**NONOPERATING REVENUES (EXPENSES)**

State Aid	12,112,235.53
County Appropriations	2,364,532.64
Noncapital Grants - Student Financial Aid	2,980,993.69
Noncapital Grants	221,902.00
Noncapital Gifts, Net	260,418.61
Investment Income	3,868.44
Other Nonoperating Revenues	15,540.12
	<hr/>
Net Nonoperating Revenues	17,959,491.03
	<hr/>
Loss Before Other Revenues, Expenses, Gains, and Losses	(538,247.19)
	<hr/>
State Capital Aid	22,562.00
County Capital Aid	616,924.19
Capital Grants	36,224.69
	<hr/>
Increase in Net Position	137,463.69

**NET POSITION**

Net Position, July 1, 2015	31,262,930.13
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Net Position, June 30, 2016	\$ 31,400,393.82

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, 2016**

**Exhibit A-3**  
**Page 1 of 2**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Received from Customers	\$ 2,693,291.48
Payments to Employees and Fringe Benefits	(13,636,079.34)
Payments to Vendors and Suppliers	(4,946,564.06)
Payments for Scholarships and Fellowships	(2,106,855.94)
Other Receipts	68,427.57
	<u>68,427.57</u>
Net Cash from Operating Activities	<u>(17,927,780.29)</u>

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

State Aid Received	12,112,235.53
County Appropriations	2,364,532.64
Noncapital Grants - Student Financial Aid	2,953,516.11
Noncapital Grants	221,902.00
Noncapital Gifts and Endowments	260,418.61
	<u>260,418.61</u>
Net Cash from Noncapital Financing Activities	<u>17,912,604.89</u>

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

County Capital Aid	616,924.19
Capital Grants	36,224.69
Acquisition and Construction of Capital Assets	(624,699.24)
Principal Paid on Capital Debt and Leases	(70,998.69)
	<u>(70,998.69)</u>
Net Cash from Capital and Related Financing Activities	<u>(42,549.05)</u>

**CASH FLOWS FROM INVESTING ACTIVITIES**

Investment Income	<u>4,109.79</u>
Net Cash from Investing Activities	<u>4,109.79</u>
Net Decrease in Cash and Cash Equivalents	(53,614.66)
Cash and Cash Equivalents, July 1, 2015	<u>2,655,791.17</u>
Cash and Cash Equivalents, June 30, 2016	<u>\$ 2,602,176.51</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, 2016**

**Exhibit A-3**  
**Page 2 of 2**

**RECONCILIATION OF OPERATING LOSS  
TO NET CASH USED BY OPERATING ACTIVITIES**

Operating Loss	\$ (18,497,738.22)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation / Amortization Expense	1,271,051.25
Pension Expense	214,119.00
Nonoperating Other Income	25,019.18
Changes in Assets, Liabilities, and Deferred Outflows of Resources:	
Receivables, Net	(58,882.48)
Inventories	(5,191.16)
Prepaid Items	(187,353.78)
Accounts Payable and Accrued Liabilities	14,193.84
Due to Primary Government	(2,999.86)
Unearned Revenue	15,740.91
Funds Held for Others	35,595.19
Deferred Outflows for Contributions Subsequent to the Measurement Date	(756,702.00)
Compensated Absences	5,367.84
	<hr/>
Net Cash from Operating Activities	<u><u>\$ (17,927,780.29)</u></u>

**RECONCILIATION OF CASH AND CASH EQUIVALENTS**

Current Assets:	
Cash and Cash Equivalents	\$ 2,265,816.83
Restricted Cash and Cash Equivalents	336,359.68
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Total Cash and Cash Equivalents - June 30, 2016	<u><u>\$ 2,602,176.51</u></u>

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

Assets Acquired through Assumption of a Liability	\$ 3,154.79
Increase in Receivables Related to Nonoperating Income	\$ 50,039.58
Loss on Disposal of Capital Assets	\$ (9,479.06)

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, 2016**

**Exhibit B-1**

**ASSETS**

Cash and cash equivalents	\$ 963,217.87
Investments	7,503,262.09
Accrued interest receivable	20,435.74
Sales tax receivable	2,471.76
Pledges receivable	1,600.00
Postage	63.87
Other assets	1,924.87
Land	333,600.00

Total Assets 8,826,576.20

**LIABILITIES**

Accounts Payable	16,982.85
Liability for amounts held in trust for others	96,963.47

Total Liabilities 113,946.32

**NET POSITION**

Net Investment in Capital Assets	333,600.00
Restricted:	
Nonexpendable	5,229,607.54
Expendable	2,495,904.12
Unrestricted	653,518.22

Total Net Position \$ 8,712,629.88

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

**College of The Albemarle Foundation, Inc.**  
**Statement of Revenues, Expenses, and**  
**Changes in Net Position**  
**For the Fiscal Year Ended June 30, 2016**

**Exhibit B-2**

**EXPENSES**

Administration	\$ 45,661.54
Development	72,666.04
In-Kind Salary	150,358.95
Investment Expense	48,254.52
Distribution to Beneficiary	89,820.64
Scholarships	199,283.27
College Support	126,503.99
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Total Expense	732,548.95

**PROGRAM REVENUE**

Contributions	379,406.46
Donated Services	150,358.95
Change in Value of Split Interest Agreement	56,541.49
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Total Program Revenue	586,306.90

Net Program Expenses	<hr/> (146,242.05)
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**GENERAL REVENUE AND TRANSFERS**

Other Income	381.05
Interest and Divident Income	197,366.76
Realized Gains	156,490.22
Unrealized Losses	(334,443.44)
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Total Nonoperating Revenue	19,794.59

Change in Net Position	<hr/> (126,447.46)
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**NET POSITION**

Net Position at Beginning of Year	<hr/> 8,839,077.34
Net Position at End of Year	<hr/> <u>\$ 8,712,629.88</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, 2016**

**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 unit 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. The College's discretely presented component unit's financial data is reported in separate financial statements to emphasize its legal separateness. See below for further discussion of the College's component unit.

**Discretely Presented Component Unit** - The College of The Albemarle Foundation, Inc. (the Foundation) is a legally separate, nonprofit 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 board consists of a 23-member board consisting of 4 ex-officio directors 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 are restricted to the activities of the College by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of the College, the Foundation is considered a component unit of the College and is reported in separate financial statements because of the difference in its reporting model, as described below.

The Foundation is considered to be a governmental non-profit organization that reports financial results under generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB).

During the year ended June 30, 2016, the Foundation distributed \$325,787.26 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 calling (252) 335-0821.

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- 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.

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. 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. 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 the first-in, first-out method. Merchandise for resale is valued at the lower of cost or market using the retail inventory method.

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- 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 100 years for buildings, and 2 to 30 years for equipment and computer software.

- 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.
- J. Deferred Outflows/Inflows of Resources** - Deferred outflows and inflows of resources relate to the pension plan. See Note 11 for further description.
- K. Noncurrent Long-Term Liabilities** - Noncurrent long-term liabilities include net pension liability, capital lease obligations, and compensated absences that will not be paid within the next fiscal year.

The net pension liability represents the College's proportionate share of the collective net pension liability reported in the State of North Carolina's 2015 *Comprehensive Annual Financial Report*. This liability represents the College's portion of the collective total pension liability less the fiduciary net position of the Teachers' and State Employees' Retirement System. See Note 11 for further information regarding the College's policies for recognizing liabilities, expenses, and deferred outflows and inflows related to pensions.

- 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

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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 fiscal 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 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 liabilities 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. The College has no Restricted Net Position - Nonexpendable as of June 30, 2016.

**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.

**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. Both restricted and unrestricted net position include consideration of deferred outflows and inflows of resources.

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- 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 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.
- 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 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 that represent subsidies or gifts to the College, as well as investment income, are considered nonoperating since these are either investing, capital, or noncapital financing activities. Capital contributions are presented separately after nonoperating revenues and expenses.
- 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 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.

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- 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 and in some instances as approved by the county commissioners.
- R. New Pronouncements** - During the fiscal year ended June 30, 2016, the College adopted Governmental Accounting Standards Board Statement No. 72, Fair Value Measurement and Application. See Note 3 for the new disclosures related to the College's implementation of this standard.

**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 \$2,056,451.50 and a bank balance of \$2,574,738.06.

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, 2016, 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.

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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, 2016, the amount shown on the Statement of Net Position as cash and cash equivalents includes \$544,550.01 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 or subject to any other regulatory oversight and does not have a credit rating) had a weighted average maturity of 1.5 years as of June 30, 2016. Assets and shares of the STIF are valued at 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 "Reports" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

**Reconciliation of Deposits and Investments** - A reconciliation of deposits and investments for the College to the basic financial statements as of June 30, 2016, is as follows:

Cash on Hand	\$ 1,175.00
Carrying Amount of Deposits with Private Financial Institutions	2,056,451.50
Investments in the Short-Term Investment Fund	<u>544,550.01</u>
<b>Total Deposits and Investments</b>	<b><u>\$ 2,602,176.51</u></b>
Deposits	
Current:	
Cash and Cash Equivalents	\$ 2,265,816.83
Restricted Cash and Cash Equivalents	<u>336,359.68</u>
<b>Total Deposits and Investments</b>	<b><u>\$ 2,602,176.51</u></b>

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**Component Unit** - The Foundation deposits funds received into board-designated depositories. As of June 30, 2016, cash on hand was \$200.00. The carrying amount of cash on deposit was \$963,017.87 and the bank balance was \$964,339.99.

The cash on deposit with the State Treasurer was \$762,624.78 as of June 30, 2016 and 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 (147-69.1(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, 2016, \$201,715.21 (100%) was covered by federal depository insurance.

Investments of the College's component unit, the College of The Albemarle 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.

The following table presents the fair value of investments by type and investments subject to interest rate risk at June 30, 2016, for the Foundation'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.

<u>Investment Type</u>	<b>June 30, 2016</b>	<b>Maturity (in Years)</b>		
	<b>Market Value</b>	<b>Less Than 1 Year</b>	<b>1 to 5 Years*</b>	<b>6 to 10 Years*</b>
<u>Debt Securities</u>				
U. S. Treasuries	\$ 532,869.06	\$ -	\$ 231,004.93	\$ 301,864.13
U. S. Agencies	151,486.43	151,486.43	-	-
Mortgage Pass-Throughs	14,395.88	186.10	14,209.78	-
State & Local Government	285,556.95	170,610.30	114,946.65	-
Domestic Corporates	1,645,329.10	90,656.76	1,280,523.21	274,149.13
Sub-total Debt Sec.	<b>\$2,629,637.42</b>	<b>\$ 412,939.59</b>	<b>\$1,640,684.57</b>	<b>\$ 576,013.26</b>

\* Final maturities only as shown.  
Many are callable at earlier dates

<u>Other Securities</u>	
Cash	\$ 8,122.52
Money Market Fund	441,849.53
Equity Funds	2,567,523.47
Domestic Stocks	1,121,129.15
Real Estate	735,000.00
Total June 30, 2016	<u>\$7,503,262.09</u>

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In addition to the interest rate risk disclosed above, the Foundation's investments include investments with fair values highly sensitive to interest rate changes.

*Credit Risk:* Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The College does not have a formal policy that addresses credit risk. As of June 30, 2016, the College's investments were rated as follows:

	Fair Value June 30, 2016	AAA Aaa	AA Aa	A
US Treasuries	\$ 532,869.06	\$ 532,869.06	\$ -	\$ -
US Agencies	151,486.43	151,486.43	-	-
Mortgage Pass-Throughs	14,395.88	14,395.88	-	-
State and Local Gov't	285,556.95	-	285,556.95	-
Domestic Corporates	1,645,329.10	-	298,575.32	1,346,753.78
<b>TOTALS</b>	<u>\$2,629,637.42</u>	<u>\$ 698,751.37</u>	<u>\$ 584,132.27</u>	<u>\$1,346,753.78</u>

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

**NOTE 3 - FAIR VALUE MEASUREMENTS**

**College** - To the extent available, certain assets of the College are recorded at fair value as of June 30, 2016. GASB Statement No. 72, *Fair Value Measurement and Application*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Inputs are used in applying the various valuation techniques and take into account the assumptions that market participants use to make valuation decisions. Inputs may include price information, credit data, interest and yield curve data, and other factors specific to the financial instrument. Observable inputs reflect market data obtained from independent sources. In contrast, unobservable inputs reflect the entity's assumptions about how market participants would value the financial instrument. Valuation techniques should maximize the use of observable inputs to the extent available.

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A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used for financial instruments measured at fair value on a recurring basis:

- Level 1            Investments whose values are based on quoted prices (unadjusted) for identical assets in active markets that a government can access at the measurement date.
  
- Level 2            Investments with inputs - other than quoted prices included within Level 1 - that are observable for an asset, either directly or indirectly.
  
- Level 3            Investments classified as Level 3 have unobservable inputs and may require a degree of professional judgment.

**Short-Term Investment Fund** - At year-end, the assets valued at \$544,550.01 were held in the STIF which is a Level 2 asset. Ownership interest of the STIF is determined on a fair market valuation basis as of fiscal year end in accordance with the STIF operating procedures. Valuation of the underlying assets is performed by the custodian.

**NOTE 4 - RECEIVABLES**

Receivables at June 30, 2016 were as follows:

	<u>Gross Receivables</u>	<u>Less Allowance for Doubtful Accounts</u>	<u>Net Receivables</u>
Current Receivables:			
Students	\$ 259,316.85	\$ 177,634.88	\$ 81,681.97
Student Sponsors	133,269.55	-	133,269.55
Intergovernmental	5,185.43	-	5,185.43
Investment Earnings	37,924.45	-	37,924.45
Other	9,623.08	-	9,623.08
	<u>          </u>	<u>          </u>	<u>          </u>
Total Current Receivables	<u>\$ 445,319.36</u>	<u>\$ 177,634.88</u>	<u>\$ 267,684.48</u>

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**NOTE 5 - CAPITAL ASSETS**

A summary of changes in the capital assets for the year ended June 30, 2016 is presented as follows:

	Balance July 1, 2015	Increases	Decreases	Balance June 30, 2016
Capital Assets, Nondepreciable:				
Land and Permanent Easements	\$ 1,836,007.36	\$ -	\$ -	\$ 1,836,007.36
Construction in Progress	13,800.00	-	-	13,800.00
<b>Total Capital Assets, Nondepreciable</b>	<b>1,849,807.36</b>	<b>-</b>	<b>-</b>	<b>1,849,807.36</b>
Capital Assets, Depreciable:				
Buildings	37,630,701.91	406,500.00	-	38,037,201.91
Machinery and Equipment	3,775,190.45	221,354.03	66,822.00	3,929,722.48
General Infrastructure	967,139.94	-	-	967,139.94
<b>Total Capital Assets, Depreciable</b>	<b>42,373,032.30</b>	<b>627,854.03</b>	<b>66,822.00</b>	<b>42,934,064.33</b>
Less Accumulated Depreciation/Amortization for:				
Buildings	11,050,673.91	813,607.57	-	11,864,281.48
Machinery and Equipment	1,567,538.29	434,980.87	57,342.94	1,945,176.22
General Infrastructure	298,436.72	22,462.81	-	320,899.53
<b>Total Accumulated Depreciation</b>	<b>12,916,648.92</b>	<b>1,271,051.25</b>	<b>57,342.94</b>	<b>14,130,357.23</b>
<b>Total Capital Assets, Depreciable, Net</b>	<b>29,456,383.38</b>	<b>(643,197.22)</b>	<b>9,479.06</b>	<b>28,803,707.10</b>
<b>Capital Assets, Net</b>	<b>\$ 31,306,190.74</b>	<b>\$ (643,197.22)</b>	<b>\$ 9,479.06</b>	<b>\$ 30,653,514.46</b>

**NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

Accounts payable and accrued liabilities at June 30, 2016 were as follows:

	Balance
Accounts Payable	\$ 126,679.87
Accrued Payroll	381,657.26
Intergovernmental Payables	24,133.31
<b>Total Accounts Payable and Accrued Liabilities</b>	<b>\$ 532,470.44</b>

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**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, 2016 is presented as follows:

	Balance July 1, 2015	Additions	Reductions	Balance June 30, 2016	Current Portion
Capital Lease Payable	\$ 334,484.16	\$ 3,154.79	\$ 70,998.69	\$ 266,640.26	\$ 73,074.84
Net pension liability (Note 10)	641,900.00	1,370,587.00	-	2,012,487.00	-
Compensated absences	450,005.44	416,969.54	411,601.70	455,373.28	92,304.16
	<u>\$ 1,426,389.60</u>	<u>\$ 1,790,711.33</u>	<u>\$ 482,600.39</u>	<u>\$ 2,734,500.54</u>	<u>\$ 165,379.00</u>

Additional information regarding capital lease obligations is included in Note 8.  
Additional information regarding the net pension liability is included in Note 11.

**NOTE 8 - LEASE OBLIGATIONS**

**A. Capital Lease Obligations** - Capital lease obligations relating to copier equipment are recorded at the present value of the minimum lease payments. Future minimum lease payments under capital lease obligations consist of the following at June 30, 2016:

Fiscal Year	Amount
2017	\$ 81,242.40
2018	81,242.40
2019	81,242.40
2020	40,205.39
	<hr/>
Total Minimum Lease Payments	283,932.59
Amount Representing Interest (3.5% Rate of Interest)	<hr/>
	17,292.33
Present Value of Future Lease Payments	<u>\$ 266,640.26</u>

Machinery and equipment acquired under capital lease amounted to \$372,158.00 at June 30, 2016.

Depreciation for the capital assets associated with capital leases is included in depreciation expense, and accumulated depreciation for assets acquired under capital lease totaled \$111,359.63 at June 30, 2016.

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**B. Operating Lease Obligations** - The College entered into operating leases for copier equipment and an automobile. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2016:

Fiscal Year	Amount
2016	\$ 51,559.58
2017	11,623.68
2018	2,643.64
Total Minimum Lease Payments	\$ 65,826.90

Rental expense for all operating leases during the year was \$164,848.00 which includes a payoff for copier equipment totaling \$103,391.28.

**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	\$ 3,524,086.54	\$ -	\$ 1,261,318.03	\$ 54,761.70	\$ 2,208,006.81
Sales and Services:					
Sales and Services of Auxiliary Enterprises					
Bookstore	\$ 110,629.90	\$ -	\$ -	\$ -	\$ 110,629.90
Print Shop	202,723.78	202,723.78	-	-	-
Performing Arts Center	36,860.25	-	-	-	36,860.25
COAST Players	31,273.92	-	-	-	31,273.92
Vending Commission	23,592.20	-	-	-	23,592.20
Other	45,927.37	-	-	-	45,927.37
Total Sales and Services, Net	\$ 451,007.42	\$ 202,723.78	\$ -	\$ -	\$ 248,283.64

**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	Total
Instruction	\$ 7,445,436.89	\$ 720,916.38	\$ 382,714.54	\$ -	\$ -	\$ -	\$ 8,549,067.81
Academic Support	1,715,111.05	76,466.47	44,828.15	-	-	-	1,836,405.67
Student Services	1,145,478.86	56,085.66	179,858.00	-	-	-	1,381,422.52
Institutional Support	1,548,574.16	295,156.80	1,599,247.77	-	-	-	3,442,978.73
Operations and Maintenance of Plant	891,076.67	105,128.65	657,534.97	-	575,669.45	-	2,229,409.74
Student Financial Aid	39,655.25	-	-	2,107,945.44	-	-	2,147,600.69
Auxiliary Enterprises	13,765.24	44,658.96	12,103.68	-	-	-	70,527.88
Depreciation	-	-	-	-	-	1,271,051.25	1,271,051.25
Pension Expense	214,119.00	-	-	-	-	-	214,119.00
Total Operating Expenses	\$13,013,217.12	\$ 1,298,412.92	\$ 2,876,287.11	\$ 2,107,945.44	\$ 575,669.45	\$ 1,271,051.25	\$21,142,583.29

**COLLEGE OF THE ALBEMARLE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 11 - PENSION PLANS**

**Defined Benefit Plan**

*Plan Administration:* The State of North Carolina administers the Teachers' and State Employees' Retirement System (TSERS) plan. This plan is a cost-sharing, multiple-employer, defined benefit pension plan established by the State to provide pension benefits for general employees and law enforcement officers (LEOs) of the State, general employees and LEOs of its component units, and employees of Local Education Agencies (LEAs) and charter schools not in the reporting entity. Membership is comprised of employees of the State (state agencies and institutions), universities, community colleges, and certain proprietary component units along with the LEAs and charter schools. Benefit provisions are established by General Statute 135-5 and may be amended only by the North Carolina General Assembly.

*Benefits Provided:* TSERS provides retirement and survivor benefits. Retirement benefits are determined as 1.82% of the member's average final compensation times the member's years of creditable service. A member's average final compensation is calculated as the average of a member's four highest consecutive years of compensation. General employee plan members are eligible to retire with full retirement benefits at age 65 with five years of creditable service, at age 60 with 25 years of creditable service, or at any age with 30 years of creditable service. General employee plan members are eligible to retire with partial retirement benefits at age 50 with 20 years of creditable service or at age 60 with five years of creditable service. Survivor benefits are available to eligible beneficiaries of general members who die while in active service or within 180 days of their last day of service and who also have either completed 20 years of creditable service regardless of age, or have completed five years of service and have reached age 60. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions. The plan does not provide for automatic post-retirement benefit increases. Increases are contingent upon actuarial gains of the plan.

*Contributions:* Contribution provisions are established by General Statute 135-8 and may be amended only by the North Carolina General Assembly. Employees are required to contribute 6% of their compensation. The contribution rate for employers is set each year by the NC General Assembly in the Appropriations Act based on the actuarially-determined rate recommended by the actuary. The College's contractually-required contribution rate for the year ended June 30, 2016 was 9.15% of covered payroll. The College's contributions to the pension plan were \$756,704.00, and employee contributions were \$496,194.38 for the year ended June 30, 2016.

**COLLEGE OF THE ALBEMARLE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

The TSERS Plan's financial information, including all information about the plan's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fiduciary net position, is included in the State of North Carolina's fiscal year 2015 *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.

*TSERS Basis of Accounting:* The financial statements of the TSERS plan were prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has a legal requirement to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan. The plan's fiduciary net position was determined on the same basis used by the pension plan.

*Methods Used to Value TSERS Investment:* Pursuant to *North Carolina General Statutes*, the State Treasurer is the custodian and administrator of the retirement systems. The State Treasurer maintains various investment portfolios in its Investment Pool. The pension trust funds are the primary participants in the Long-term Investment portfolio and the sole participants in the External Fixed Income Investment, Equity Investment, Real Estate Investment, Alternative Investment, Credit Investment, and Inflation Protection Investment portfolios. The investment balance of each pension trust fund represents its share of the fair market value of the net position of the various portfolios within the pool. Detailed descriptions of the methods and significant assumptions regarding investments of the State Treasurer are provided in the 2015 *Comprehensive Annual Financial Report*.

*Net Pension Liability:* At June 30, 2016, the College reported a liability of \$2,012,487.00 for its proportionate share of the collective net pension liability. The net pension liability was measured as of June 30, 2015. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2014, and update procedures were used to roll forward the total pension liability to June 30, 2015. The College's proportion of the net pension liability was based on the present value of future salaries for the College relative to the present value of future salaries for all participating employers, actuarially-determined. As of June 30, 2015, the College's proportion was .05461%, which was a decrease of .00014% from its proportion measured as of June 30, 2014.

**COLLEGE OF THE ALBEMARLE  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2016**

*Actuarial Assumptions:* The following table presents the actuarial assumptions used to determine the total pension liability for the TSERS plan at the actuarial valuation date:

Valuation Date	12/31/2014
Inflation	3%
Salary Increases*	4.25% - 9.10%
Investment Rate of Return**	7.25%

\* Salary increases include 3.5% inflation and productivity factor.

\*\* Investment rate of return is net of pension plan investment expense, including inflation.

TSERS currently uses mortality tables that vary by age, gender, employee group (i.e. teacher, general, law enforcement officer), and health status (i.e. disabled and healthy). The current mortality rates are based on published tables and based on studies that cover significant portions of the U.S. population. The healthy mortality rates also contain a provision to reflect future mortality improvements.

The actuarial assumptions used in the December 31, 2014 valuations were based on the results of an actuarial experience study for the period January 1, 2005 through December 31, 2009.

Future ad hoc Cost of Living Adjustment (COLA) amounts are not considered to be substantively automatic and are therefore not included in the measurement.

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

**COLLEGE OF THE ALBEMARLE  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2016**

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2015 (the valuation date) are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return
Fixed Income	2.2%
Global Equity	5.8%
Real Estate	5.2%
Alternatives	9.8%
Credit	6.8%
Inflation Protection	3.4%

The information above is based on 30-year expectations developed with the consulting actuary for the 2014 asset, liability, and investment policy study for the North Carolina Retirement Systems. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.19%. All rates of return and inflation are annualized.

*Discount Rate:* The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

*Sensitivity of the Net Pension Liability to Changes in the Discount Rate:* The following presents the net pension liability of the plan calculated using the discount rate of 7.25%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.25%) or 1-percentage point higher (8.25%) than the current rate:

Net Pension Liability (Asset)		
1% Decrease (6.25%)	Current Discount Rate	1% Increase (8.25%)
\$ 6,256,675.10	\$ 2,012,487.00	\$ (1,419,774.26)

**COLLEGE OF THE ALBEMARLE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

*Deferred Inflows of Resources and Deferred Outflows of Resources Related to Pensions:* For the year ended June 30, 2016, the College recognized pension expense of \$214,119.00. At June 30, 2016, the College reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

**Employer Balances of Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions by Classification:**

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between actual and expected experience	\$ -	\$ 228,820.00
Net difference between projected and actual earnings on pension plan investments	-	218,036.00
Change in proportion and differences between agency's contributions and proportionate share of contributions	58,958.00	-
Contributions subsequent to the measurement date	<u>756,704.00</u>	
Total	<u>\$ 815,662.00</u>	<u>\$ 446,856.00</u>

The amount of \$756,704.00 reported as deferred outflows of resources related to pensions will be included as a reduction of the net pension liability in the fiscal year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

**Schedule of the Net Amount of the Employer's Balances of Deferred Outflows of Resources and Deferred Inflows of Resources That will be Recognized in Pension Expense:**

Year ended June 30:	<u>Amount</u>
2017	\$ (244,016.00)
2018	(244,016.00)
2019	(237,309.00)
2020	<u>337,443.00</u>
	<u>\$ (387,898.00)</u>

**COLLEGE OF THE ALBEMARLE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**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 (TSERS). 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 Chapter 135, Article 3B, 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.

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 TSERS 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 established by the General Assembly.

For the current fiscal year, the College contributed 5.60% of the covered payroll under TSERS to the Fund. Required contribution rates for the years ended June 30, 2015 and 2014, were 5.49% and 5.4%, respectively. The College made 100% of its annual required contributions to the Plan for the years ended June 30, 2016, 2015, and 2014, which were \$463,119.68, \$449,960.57, and \$447,133.03, 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.

**COLLEGE OF THE ALBEMARLE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

- 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 TSERS. 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, 2016, the College made a statutory contribution of .41% of covered payroll under TSERS to the DIPNC. Required contribution rates for the years ended June 30, 2015 and 2014, were .41% and .44%, respectively. The College made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2016, 2015, and 2014, which were \$33,906.98, \$33,454.25, and \$36,433.06, 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.

**A. Public Entity Risk Pool**

**Public School Insurance Fund**

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.

**COLLEGE OF THE ALBEMARLE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**B. Employee Benefit Plans**

**1. State Health Plan**

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.

**2. Death Benefit Plan of North Carolina**

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.

**C. Other Risk Management and Insurance Activities**

**1. Automobile, Fire, and Other Property Losses**

Fire and other property losses are covered by contracts with private insurance companies. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

State-owned vehicles 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.

**2. Public Officers' and Employees' Liability Insurance**

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.

**COLLEGE OF THE ALBEMARLE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**3. Employee Dishonesty and Computer Fraud**

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 \$100,000 deductible. Employees paid in whole or in part from institutional or county funds are covered under private insurance. The coverage limit is \$100,000 per occurrence and the deductible is \$1,000.

**4. Statewide Workers' Compensation Program**

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.

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 14 - COMMITMENTS AND CONTINGENCIES**

- A. Pending Litigation and Claims** - The College is a party to litigation and claims in the ordinary course of its operations. Since it is not possible to predict the ultimate outcome of these matters, no provision for any liability has been made in the financial statements. College management is of the opinion that the liability, if any, for any of these matters will not have a material adverse effect on the financial position of the College.
- B. Contingencies** - Federally-funded financial aid programs are subject to special audits. Such audits could result in claims against the resources of the College.
- C. Commitments** - The College has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. The College did not have any outstanding commitments at June 30, 2016.

**COLLEGE OF THE ALBEMARLE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 15 - SUBSEQUENT EVENTS**

The College has evaluated subsequent events through January 24, 2017, which is the date the financial statements were available to be issued.

**NOTE 16 - AUDIT HOURS AND COST**

The audit required 275 hours at an approximate cost of \$35,000. The cost represents 0.10% of the College's total assets and 0.17% of total expenses subject to audit.

**College of The Albemarle**  
**Required Supplementary Information**  
**Schedule of the Proportionate Net Pension Liability**  
**Teachers' and State Employees' Retirement System**  
**Last Three Fiscal Years**

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	<u>2015</u>	<u>2014</u>	<u>2013</u>
(1) Proportionate Share Percentage of Collective Net Pension Liability	0.05461%	0.05475%	0.05551%
(2) Proportionate Share of TSERS Collective Net Pension Liability	\$ 2,012,487.00	\$ 641,900.00	\$ 3,370,023.00
(3) Covered-Employee Payroll	\$ 8,159,573.15	\$ 8,280,241.31	\$ 8,409,901.03
(4) Net Pension Liability as a Percentage of Covered-Employee Payroll	24.66%	7.75%	40.07%
(5) Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	94.64%	98.24%	90.60%

**College of The Albemarle**  
**Required Supplementary Information**  
**Schedule of College Contributions**  
**Teachers' and State Employees' Retirement System**  
**Last Ten Fiscal Years**

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	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
(1) Contractually Required Contribution	\$ 756,704.49	\$ 745,784.99	\$ 719,552.95	\$ 700,544.76	\$ 607,472.10
(2) Contributions in Relation to the Contractually Determined Contribution	<u>756,704.49</u>	<u>745,784.99</u>	<u>719,552.95</u>	<u>700,544.76</u>	<u>607,472.10</u>
(3) Contribution Deficiency (Excess)	<u>\$ -</u>				
(4) Covered-Employee Payroll	\$ 8,269,994.42	\$ 8,159,573.15	\$ 8,280,241.13	\$ 8,409,901.03	\$ 8,164,947.64
(5) Contributions as a Percentage of Covered-Employee Payroll	9.15%	9.14%	8.69%	8.33%	7.44%

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	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
(1) Contractually Required Contribution	\$ 413,376.22	\$ 309,567.30	\$ 294,271.86	\$ 260,915.62	\$ 217,555.85
(2) Contributions in Relation to the Contractually Determined Contribution	<u>413,376.22</u>	<u>309,567.30</u>	<u>294,271.86</u>	<u>260,915.62</u>	<u>217,555.85</u>
(3) Contribution Deficiency (Excess)	<u>\$ -</u>				
(4) Covered-Employee Payroll	\$ 8,384,913.14	\$ 8,671,353.00	\$ 8,758,091.22	\$ 8,554,610.63	\$ 8,178,791.38
(5) Contributions as a Percentage of Covered-Employee Payroll	4.93%	3.57%	3.36%	3.05%	2.66%

**College of The Albemarle**  
**Notes to Required Supplementary Information**  
**Schedule of College Contributions**  
**Teachers' and State Employees' Retirement System**  
***Last Ten Fiscal Years***

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*Changes of Benefit Terms:*

**Cost of Living Increase**

<b>2015*</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
1.00%	N/A	1.00%	N/A	N/A	N/A	2.20%	2.20%	3.00%

*Changes of assumptions.* In 2008, and again in 2012, the rates of withdrawal, mortality, service retirement and salary increase for active members and the rates of mortality for beneficiaries were adjusted to more closely reflect actual experience. Assumptions for leave conversions and loads were also revised in 2012.

**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 year ended June 30, 2016, and the related notes to the financial statements, and have issued our report thereon dated January 24, 2017. Our report includes a reference to other auditors who audited the financial statements of The 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.

**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 24, 2017