



# STATE OF NORTH CAROLINA

**FINANCIAL STATEMENT AUDIT REPORT OF**

**COLLEGE OF THE ALBEMARLE**

**ELIZABETH CITY, NORTH CAROLINA**

**FOR THE YEAR ENDED JUNE 30, 2002**

**OFFICE OF THE STATE AUDITOR**

**RALPH CAMPBELL, JR.**

**STATE AUDITOR**

**FINANCIAL STATEMENT AUDIT REPORT OF**

**COLLEGE OF THE ALBEMARLE**

**ELIZABETH CITY, NORTH CAROLINA**

**FOR THE YEAR ENDED JUNE 30, 2002**

**STATE BOARD OF COMMUNITY COLLEGES**

**THE NORTH CAROLINA COMMUNITY COLLEGE SYSTEM**

**H. MARTIN LANCASTER, PRESIDENT**

**BOARD OF TRUSTEES**

**PATSY R. MCGEE, CHAIRMAN**

**JAN C. RILEY, VICE CHAIRMAN**

**MAURICE K. BERRY, JR.  
MELVIN R. DANIELS, JR.  
JIMMIE DIXON  
PHILIP J. DONAHUE  
REV. CHARLES L. FOSTER  
RICHARD A. JOHNSON  
DR. GEORGIA S. LAWRENCE  
ELDON L. MILLER, JR.  
S. PAUL O'NEAL**

**J. C. ROUNTREE  
BENJAMIN C. SAUNDERS  
CHRISTOPHER L. SEAWELL  
VEOLA R. SPIVEY  
JERRY R. TILLET  
HARRY LEE WINSLOW  
G. MATT WOOD  
DAVID B. WRIGHT**

**ADMINISTRATIVE OFFICERS**

**DR. SYLVESTER E. MCKAY, PRESIDENT**

**JAMES TURDICI, VICE PRESIDENT FOR BUSINESS AND FINANCE**



Ralph Campbell, Jr.  
State Auditor

STATE OF NORTH CAROLINA  
Office of the State Auditor

2 S. Salisbury Street  
20601 Mail Service Center  
Raleigh, NC 27699-0601  
Telephone: (919) 807-7500  
Fax: (919) 807-7647  
Internet <http://www.osa.state.nc.us>

---

## AUDITOR'S TRANSMITTAL

---

The Honorable Michael F. Easley, Governor  
The General Assembly of North Carolina  
Board of Trustees, College of The Albemarle

This report presents the results of our financial statement audit of College of The Albemarle, a component unit of the State of North Carolina, for the year ended June 30, 2002. Our audit was made by authority of Article 5A of Chapter 147 of the General Statutes.

The accounts and operations of the College are an integral part of the State's reporting entity represented in the State's *Comprehensive Annual Financial Report (CAFR)* and the State's *Single Audit Report*. In those reports, the State Auditor expresses an opinion on the State's financial statements. In the *Single Audit Report*, the State Auditor also presents the audit results on the State's internal controls and on the State's compliance with laws, regulations, contracts, and grants applicable to the State's financial statements and to its federal financial assistance programs.

As part of the audit work necessary for the CAFR and the *Single Audit Report*, the accounts and operations of the College were subjected to audit procedures, as we considered necessary. In addition, we performed auditing procedures that we considered necessary for us to report on the accompanying financial statements that relate solely to College of The Albemarle. The audit procedures were conducted in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States.

The purpose of this report is to present the results of our audit on the accompanying financial statements that relate solely to College of The Albemarle. A summary of our reporting objectives and audit results is:

1. **Objective** – To express an opinion on the accompanying financial statements that relate solely to College of The Albemarle.

**Results** - The accompanying financial statements present fairly, in all material respects, the amounts and disclosures made in accordance with accounting principles generally accepted in the United States of America. These matters are more fully described in the Independent Auditor's Report on the Financial Statements.

## AUDITOR'S TRANSMITTAL (CONCLUDED)

---

2. **Objective** – To present significant deficiencies, if any, in internal control over financial reporting which could adversely affect the College's ability to record, process, summarize, and report financial data in the financial statements and present instances of noncompliance, if any, with laws, regulations, contracts, or grants.

**Results** - Our tests disclosed no material weaknesses in internal control over financial reporting and no instances of noncompliance, which require disclosure herein under *Government Auditing Standards*. These matters are more fully described in the Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting.

North Carolina General Statutes require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.



Ralph Campbell, Jr.  
State Auditor

# TABLE OF CONTENTS

---

	PAGE
INDEPENDENT AUDITOR’S REPORT .....	1
MANAGEMENT’S DISCUSSION AND ANALYSIS .....	3
FINANCIAL STATEMENTS	
Exhibits	
A    Statement of Net Assets .....	12
B    Statement of Revenues, Expenses, and Changes in Net Assets.....	13
C    Statement of Cash Flows .....	14
Notes to the Financial Statements .....	17
SUPPLEMENTARY INFORMATION	
Schedule	
1    Schedule of General Obligation Bond Project Authorizations, Budgets, and Expenditures .....	33
INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i> .....	35
DISTRIBUTION OF AUDIT REPORT .....	37



Ralph Campbell, Jr.  
State Auditor

STATE OF NORTH CAROLINA  
**Office of the State Auditor**

2 S. Salisbury Street  
20601 Mail Service Center  
Raleigh, NC 27699-0601  
Telephone: (919) 807-7500  
Fax: (919) 807-7647  
Internet <http://www.osa.state.nc.us>

---

**INDEPENDENT AUDITOR'S REPORT**

---

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

We have audited the accompanying basic financial statements of College of The Albemarle, a component unit of the State of North Carolina, as of and for the year ended June 30, 2002, as listed in the table of contents. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of College of The Albemarle Foundation, Inc., which represent 23 percent and 6 percent, respectively, of the assets and revenues of the College. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for College of The Albemarle, Inc., is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of College of The Albemarle as of June 30, 2002, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 14 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as amended by

## INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

---

GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities* and GASB Statement No. 38, *Certain Financial Statement Note Disclosures* during the year ended June 30, 2002.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 5, 2002 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis (MD&A) on pages 3 to 11 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. Schedule 1 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the report of other auditors, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Ralph Campbell, Jr.  
State Auditor

December 5, 2002

## MANAGEMENT'S DISCUSSION AND ANALYSIS

---

### **New Accounting Standards**

In June 1999, the Government Accounting Standard's Board (GASB) released Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis for State and Local Governments*, which established a new reporting format for annual financial statements. In November 1999, GASB released Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis for Public Colleges and Universities*, which is appropriate for colleges and universities. FY 2001-2002 is the first year that the College of The Albemarle has prepared its financial statements in accordance with these new standards. As it is the first year, some comparative analysis will not be possible. A full comparative analysis will be made in next year's financial statement presentation.

The following discussion and analysis provides an overview of the College's financial activities and outlook. As this is a transition year for the new format, only one year of information is presented in the audited financial statements. For Management's Discussion and Analysis we have restated the previous year's financial information in order to provide a comparison.

### **Economic Condition and Outlook**

The College of The Albemarle was established in 1960 and is the oldest comprehensive community college in the North Carolina Community College System. The College serves seven counties (Camden, Chowan, Currituck, Dare, Gates, Pasquotank, and Perquimans) and is spread over 1,800 square miles. Major campuses are located in the northeastern portion of North Carolina in the cities of Edenton, Elizabeth City, and Manteo.

The College offers more than 25 certificate, diploma, and degree programs. In addition, a full array of non-credit classes are offered including adult basic education, GED, Adult High School, workforce development training, small business training, computer classes, and personal interests. Each year more than 3,000 students enroll in classes that lead to a degree and more than 6,000 students complete workforce development and personal interest classes.

The College is to receive \$6.756 million of bond referendum project monies. While none of the bond projects monies have been released as yet, Pasquotank and Dare counties have approved advancing funds that must be repaid once bond referendum funds become available. These projects include roof repair and fire protection systems at the Elizabeth City campus and library renovation at the Dare campus. Pasquotank County has also funded dollars to clear the land in preparation for a Dr. Zack D. Owens Health Sciences Center. This project is the largest bond referendum project and is a joint effort with the South Hampton Roads YMCA.



## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

The Elizabeth City campus was the first customer of natural gas in the northeastern portion of North Carolina. It is anticipated that the College will save on utility bills because of this conversion. The winter of 2002 will be the first major use of natural gas for the College.

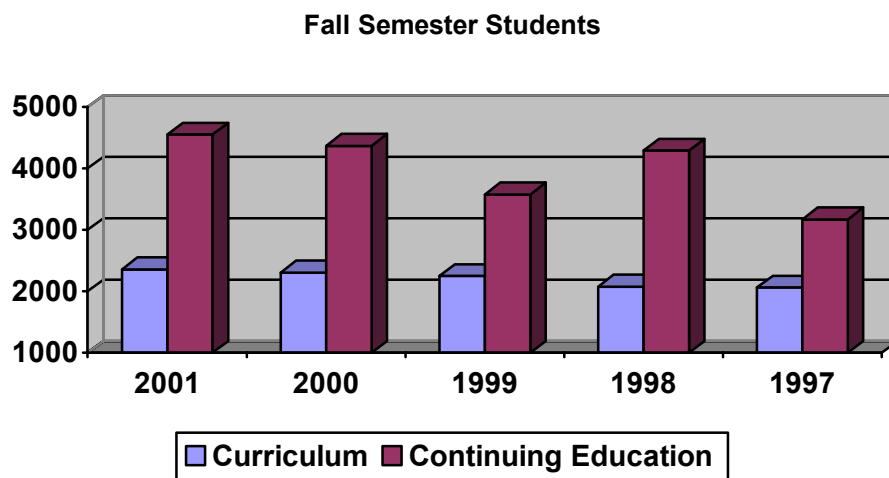
Office automation remains a high priority for the College. The College is converting to a new system, CIS, during 2002. This will increase the need for additional hardware and software purchases as well as travel expenses to attend required training.

### Major Initiatives

Following a comprehensive institutional planning process, the Board of Trustees have reviewed and are in the process of adopting the following strategic initiatives which will be used to guide departmental, programmatic, and individual action agendas for the future. The College has nine strategic initiatives, which drive most programs and the priority given to the budget. They are:

- Train the workforce for emerging high-skill jobs and a changing global workforce
- Serve the lifelong learning needs of diverse populations
- Promote quality and flexible programs and services
- Procure essential resources for all programs and services
- Ensure maximum use of resources (resources defined as time, people, money and policy)
- Leverage the power of technology
- Provide adequate facilities for COA's programs and services
- Develop a long range facilities plan for the College
- Develop a climate that promotes employee growth and satisfaction

### Historical Enrollment



## **MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

---

The curriculum student population continues to grow at a slow but steady pace. Continuing Education includes both Basic Skills and the traditional continuing education courses. The College conducts three semesters of instruction annually. The Fall semester traditionally has the highest enrollments; the Spring semester has slightly lower enrollments than the Fall and the Summer semester having significantly less students.

### **Using the Annual Report**

This annual report consists of a series of financial statements, prepared in accordance with GASB No. 35. These financial statements differ significantly, in both the form and accounting principles utilized from prior financial statements presented. The financial statements of the College have been prepared using the economic resource measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. The financial statements presented in the past focused on the accountability of funds, while these statements focus on the financial condition of the College, the results of operations, and cash flows for the College as a whole. The funds considered in this financial statement include funds provided by the State of North Carolina, county funds, COA Foundation funds, federal funds and auxiliary funds. Auxiliary funds are income derived from vending machines, trailer park and Community Center rentals, bookstore, food service and Community events. The College is provided county funds from the seven counties that it supports. The COA Foundation Financial Statements are audited annually and have been separately audited for FY 2001-2002 prior to their incorporation into these statements.

One of the most important questions asked about college finances is whether the college is better off this year as compared to last year. The answer is contained in the three main financial statements: Statement of Net Assets, Statement of Revenues, Expenses, and Changes in Net Assets, and Statement of Cash Flows. These statements closely resemble the statements provided by major corporations. The College's net assets and cash flows are two good indicators of the College's financial health. The numbers themselves do not give a clear indication without consideration of student enrollments, variety and quantity of College facilities, the condition of facilities, the stock market and the weather conditions for the reporting period. The notes to the financial statements also provide useful information on the content of the financial statements. As required by the newly adopted accounting principles, the annual report consists of three financial statements that provide information on the College as a whole. They are:

Statement of Net Assets	Exhibit A
Statement of Revenues, Expenses, and Changes in Net Assets	Exhibit B
Statement of Cash Flows	Exhibit C

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

---

### Financial Highlights

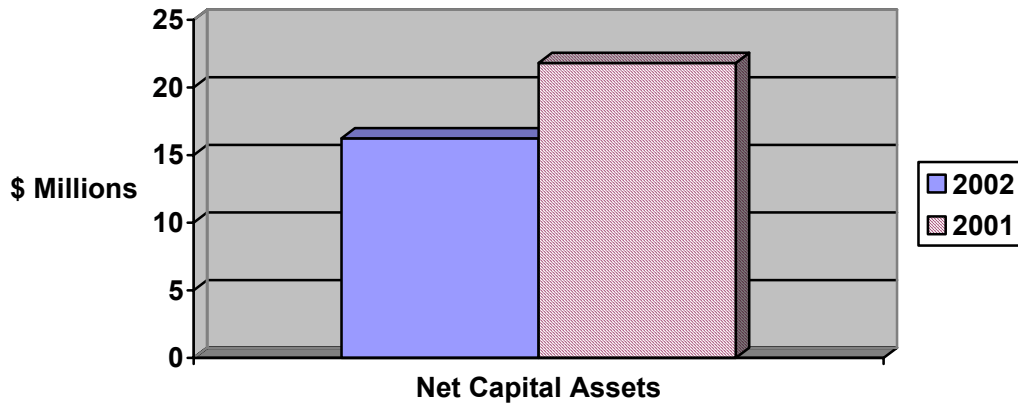
#### Statement of Net Assets

Current Assets	FY 2001-2002	FY 2000-2001	Difference
Cash and Cash Equivalents	\$ 773,960.67	\$ 695,426.60	\$ 78,534.07
Restricted Cash and Cash Equivalents	227,610.44	264,887.23	(37,276.79)
Short-Term Investments	264,955.86	296,341.33	(31,385.47)
Restricted Short-Term Investments	857,445.13	1,227,288.11	(369,842.98)
Receivables, Net	560,770.15	78,657.21	482,112.94
Due from State of NC Component Units		35,321.20	(35,321.20)
Inventories	53,081.44	35,386.20	17,695.24
Pre-paid Items		18,971.82	(18,971.82)
Total Current Assets	<u>\$ 2,737,823.69</u>	<u>\$ 2,652,279.70</u>	<u>\$ 85,543.99</u>

The decrease of short-term investments is directly tied to the decrease in the COA Foundation investments in the stock market. This is the second consecutive year that the Foundation has realized and unrealized losses associated with their investments. The net receivables increased considerably because the new accounting practices require the capture of pledges for future years. The Foundation received a pledge for donation of \$600,000 associated with the construction of a new Dr. Zack D. Owens Health Sciences Center and the College was named in a will that bequests approximately \$250,000 to the College. These are the primary reasons for the significant increase. The elimination of the Due from State of NC Component Units is the completion of a reimbursable order for the Edenton/Chowan Schools for services performed. Inventories increased because the College entered into an agreement to obtain academic systems software at a discount covering a multiple year period. This increase reflects the cost of those materials when added to the bookstore inventory. The change in the timing of submitted invoices for contractual services resulted in the elimination of the pre-paid balance.

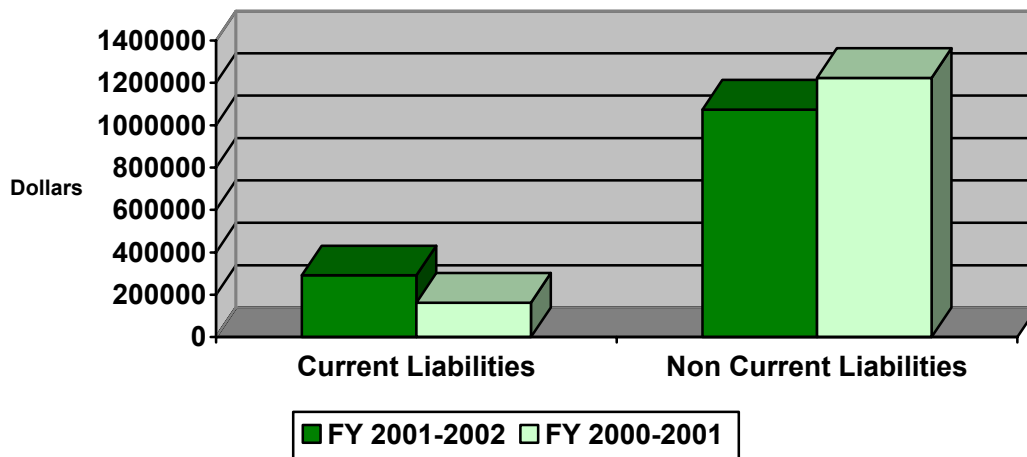
**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

**Net Capital Assets**



The net capital assets decreased approximately \$5.6 million from FY 2000-2001 to FY 2001-2002. Prior to the enactment of GASB Statement No. 35, capital asset values only increased as new buildings were constructed or major changes applied. A review of all capital assets recorded was conducted for these financial statements and those assets that extended beyond their useful life were removed from the asset inventory. This amounted to a reduction of the \$5.6 million.

**Liabilities**



The current and noncurrent liabilities remain relatively constant between the two years. The long-term liabilities are related to the Foundation donation arrangements.

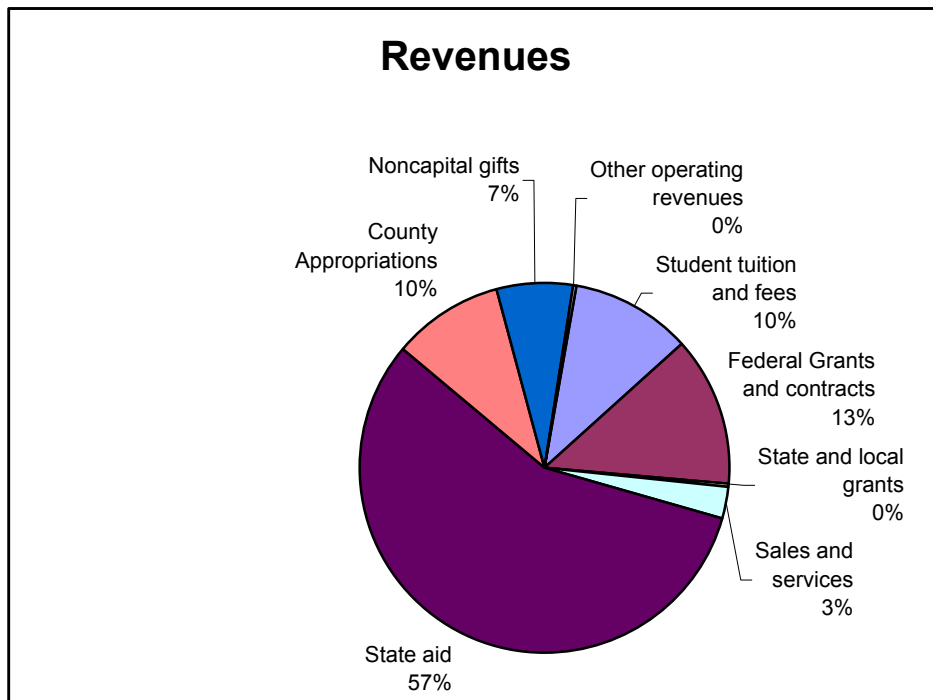
## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

### Net Assets

	<u>FY 2001-2002</u>	<u>FY 2000-2001</u>	<u>Difference</u>
Invested in Capital Assets, Net of Related Debt	\$ 16,241,012.74	\$ 21,814,026.66	\$ (5,573,013.92)
Restricted Nonexpendable Scholarships	1,982,285.79	2,312,888.31	(330,602.52)
Restricted Expendable Scholarships	1,412,747.55	756,856.90	655,890.65
Restricted Expendable Loans	1,045.86	318.04	727.82
Restricted Expendable Other	230,533.70	428,220.25	(197,686.55)
Unrestricted	<u>771,606.21</u>	<u>719,031.35</u>	<u>52,574.86</u>
Total Net Assets	<u>\$ 20,639,231.85</u>	<u>\$ 26,031,341.51</u>	<u>\$ (5,392,109.66)</u>

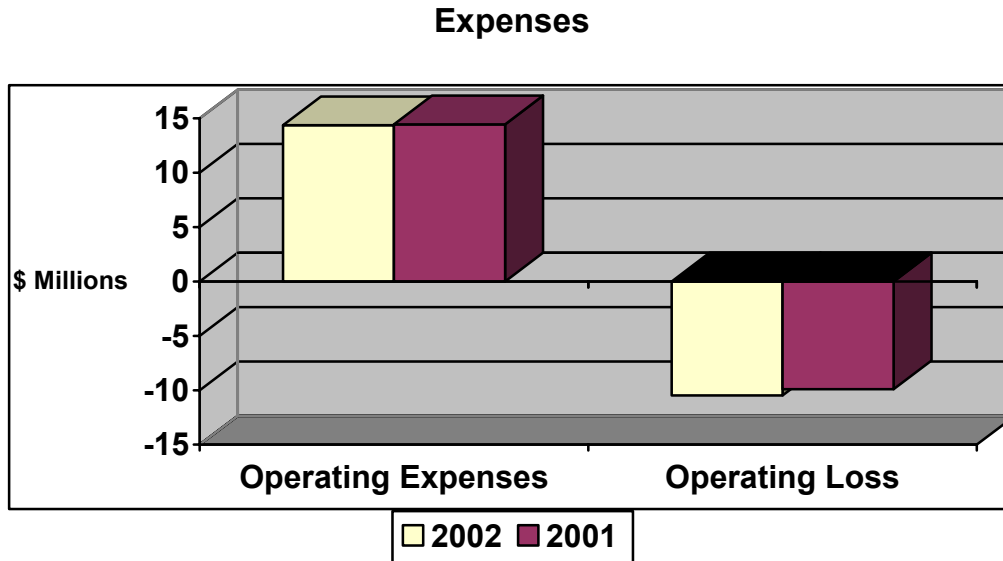
The \$5.6 million decrease in Invested in Net Assets change from last year to this year is directly attributable to the GASB requirement to depreciate capital assets. Buildings and other assets exceeding their useful life were fully depreciated and no longer appear on the inventory of assets. This reassessment of capital assets is also what comprises the major difference shown in the Total Net Assets line. The increase in scholarships is attributable to three factors. The first factor is an increase in the number of students attending the College and those requesting scholarship assistance. The second factor is an increasing amount provided for each scholarship. Lastly, organizations, such as the COA Foundation, are offering more scholarship dollars and the students are taking advantage of these increased dollars. The \$197k decrease in the Restricted Expendable Other is a decrease as a result in a shift of Foundation support to scholarships instead of other College programs.

Revenues



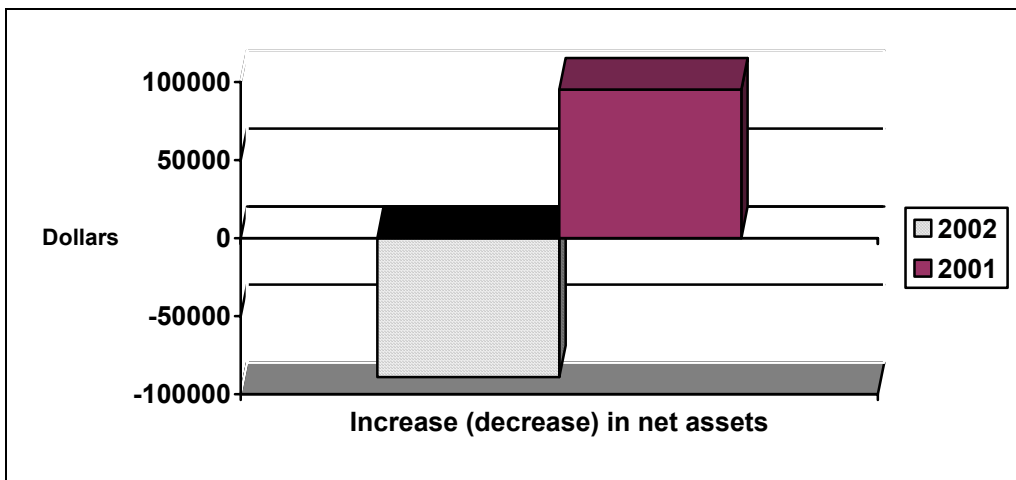
The State Aid comprises 57 percent or more of annual College revenues. The College is therefore somewhat dependent on the financial posture of the State of North Carolina. The North Carolina Community College System funds the College annually based on Full Time Equivalents (FTE) generated in the previous year. Curriculum tuition is retained by the State but tuition from Occupational Extension courses is retained by the College. Revenues from State and local grants and contracts decreased from \$408k in FY 2000-2001 to \$38k in FY 2001-2002. This decrease is associated with the completion of the Technology Buildings on the Dare and Elizabeth City campuses. This also includes the completion of reimbursable work with the Edenton/Chowan schools. The revenues for Sales and Services also decreased \$171k from the previous year. This decrease is partially from a reduction in the number of Pell Grants that needed to be refunded by students. The remainder of the decrease is the elimination of revenues generated by the internal printing shop. This internal reimbursable program was created in FY 2001-2002.

Expenses



The Total Operating Expenses remained about the same as the previous year and decreased by \$87k. The operating expenses increased by \$547.5k in FY 2001-2002 because of the GASB requirement to depreciate capital assets and decreased approximately \$600k because of funding constraints and restrictions. The overall operating loss was 5.8 percent lower in FY 2001-2002 than the previous year and was approximately \$10 million. It is evident that the College must be supplemented by State aid to have a balanced budget.

Nonoperating Revenues (Expenses)



## **MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)**

---

The change from approximately \$95k in FY 2000-2001 to a negative \$89k in FY 2001-2002 can be explained by reviewing several of the components of Nonoperating Revenues (Expenses).

	<u>FY 2001-2002</u>	<u>FY 2000-2001</u>	<u>Difference</u>
Noncapital Gifts, Net	\$ 989,421.44	\$ 576,847.00	\$ 412,574.44
Other Nonoperating Revenues	30,704.54	41,789.28	(11,084.74)
Income Before Other Revenues	\$ (532,886.85)	\$ (477,289.07)	\$ (55,597.78)
State Capital Aid	355,712.70	551,160.13	(195,447.43)
County Capital Appropriations	88,172.38	21,311.00	66,861.38
Increase (Decrease) in Assets	<u>\$ (89,001.77)</u>	<u>\$ 95,182.06</u>	<u>\$ (184,183.83)</u>

The Noncapital Gifts increase is mainly attributable to a pledge of \$600k and a donation through a will of approximately \$250k. Other nonoperating revenues decreased by \$11,084.74 because of a change in the method of allocating State funds for selected staff members. The State Capital Aid allocation remained about the same for the two years. However, the possibility of reversion coupled with cash constraints limited the amount of equipment that could be purchased in FY 2001-2002. There was an increase in capital spending of County funds in FY 2001-2002. This included roof repairs, renovations and improvements at the Elizabeth City campus.

### **Assets End of Year**

The Assets end of year match the total net assets and the explanations for the decrease were provided in that section.



<b>College of The Albemarle</b>		
<b>Statement of Net Assets</b>		
<b>For the Fiscal Year Ended June 30, 2002</b>		<b>Exhibit A</b>
<b>ASSETS</b>		
Current Assets:		
Cash and Cash Equivalents	\$ 773,960.67	
Restricted Cash and Cash Equivalents	227,610.44	
Short-Term Investments	264,955.86	
Restricted Short-Term Investments	857,445.13	
Receivables, Net (Note 4)	560,770.15	
Inventories	53,081.44	
<b>Total Current Assets</b>	<b>2,737,823.69</b>	
Noncurrent Assets:		
Restricted Cash and Cash Equivalents	89,528.86	
Receivables, Net (Note 4)	378,400.44	
Restricted Due from Primary Government	1,748.07	
Endowment Investments	2,556,828.14	
Capital Assets, Net (Note 5)	16,241,012.74	
<b>Total Noncurrent Assets</b>	<b>19,267,518.25</b>	
<b>Total Assets</b>	<b>22,005,341.94</b>	
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts Payable and Accrued Liabilities (Note 6)	193,430.02	
Deferred Revenue	8.78	
Funds Held for Others	14,520.78	
Long-Term Liabilities - Current Portion	83,872.80	
<b>Total Current Liabilities</b>	<b>291,832.38</b>	
Noncurrent Liabilities:		
Long-Term Liabilities	1,074,277.71	
<b>Total Liabilities</b>	<b>1,366,110.09</b>	
<b>NET ASSETS</b>		
Invested in Capital Assets, Net of Related Debt	16,241,012.74	
Restricted For:		
Nonexpendable:		
Scholarships and Fellowships	1,982,285.79	
Expendable:		
Scholarships and Fellowships	1,412,747.55	
Loans	1,045.86	
Other	230,533.70	
Unrestricted	771,606.21	
<b>Total Net Assets</b>	<b>\$ 20,639,231.85</b>	
The accompanying notes to the financial statements are an integral part of this statement.		

<b>College of The Albemarle</b>		
<b>Statement of Revenues, Expenses, and Changes in Net Assets</b>		
<b>For the Fiscal Year Ended June 30, 2002</b>		<b>Exhibit B</b>
<b>OPERATING REVENUES</b>		
Student Tuition and Fees, Net (Note 8)	\$	1,533,337.33
Federal Grants and Contracts		1,934,758.81
State and Local Grants and Contracts		37,706.63
Sales and Services, Net (Note 8)		380,532.93
Total Operating Revenues		3,886,335.70
<b>OPERATING EXPENSES</b>		
Personal Services		9,410,858.33
Supplies and Materials		967,924.03
Services		1,507,269.70
Scholarships and Fellowships		1,643,198.05
Utilities		284,715.95
Depreciation		547,541.43
Total Operating Expenses		14,361,507.49
Operating Loss		(10,475,171.79)
<b>NONOPERATING REVENUES (EXPENSES)</b>		
State Aid		7,966,356.54
County Appropriations		1,311,829.05
Noncapital Gifts, Net (Note 8)		989,421.44
Investment Income, Net		(356,026.63)
Other Nonoperating Revenues		30,704.54
Net Nonoperating Revenues		9,942,284.94
Loss Before Other Revenues, Expenses, Gains, and Losses		(532,886.85)
State Capital Aid		355,712.70
County Capital Appropriations		88,172.38
Decrease in Net Assets		(89,001.77)
Net Assets, July 1, 2001 as Restated		20,728,233.62
Net Assets, June 30, 2002	\$	20,639,231.85
The accompanying notes to the financial statements are an integral part of this statement.		

<b><i>College of The Albemarle</i></b>		
<b><i>Statement of Cash Flows</i></b>		
<b><i>For the Fiscal Year Ended June 30, 2002</i></b>		<b><i>Exhibit C</i></b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Received from Customers	\$	3,821,280.30
Payments to Employees and Fringe Benefits		(9,408,782.70)
Payments to Vendors and Suppliers		(2,729,595.51)
Payments for Scholarships and Fellowships		(1,643,198.05)
Other Receipts		21,330.04
Net Cash Used by Operating Activities		(9,938,965.92)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
State Aid Received		7,966,356.54
County Appropriations		1,311,829.05
Noncapital Grants Received		35,321.20
Noncapital Gifts and Endowments Received		192,719.72
Net Cash Provided by Noncapital Financing Activities		9,506,226.51
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
State Capital Aid Received		355,712.70
County Capital Appropriations		88,172.38
Acquisition and Construction of Capital Assets		(277,635.40)
Net Cash Provided by Capital and Related Financing Activities		166,249.68
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from Sales and Maturities of Investments		266,933.56
Interest on Investments		153,903.32
Purchase of Investments and Related Fees		(121,136.11)
Net Cash Provided by Investing Activities		299,700.77
Net Increase in Cash and Cash Equivalents		33,211.04
Cash and Cash Equivalents, July 1, 2001		1,057,888.93
Cash and Cash Equivalents, June 30, 2002	\$	1,091,099.97

<b>College of The Albemarle</b>		
<b>Statement of Cash Flows</b>		<b>Exhibit C</b>
<b>For the Fiscal Year Ended June 30, 2002</b>		<b>Page 2</b>
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES</b>		
Operating Loss		\$ (10,475,171.79)
Adjustments to Reconcile Operating Loss to Net Cash		
Used by Operating Activities:		
Depreciation Expense		547,541.43
Miscellaneous Nonoperating Income		30,704.54
Changes in Assets and Liabilities:		
Receivables, Net		(65,064.18)
Inventories		(17,695.24)
Prepaid Items		18,971.82
Accounts Payable and Accrued Liabilities		30,708.82
Deferred Revenue		8.78
Funds Held for Others		(9,374.50)
Compensated Absences		404.40
Total Adjustments		536,205.87
Net Cash Used by Operating Activities		\$ (9,938,965.92)
<b>NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES</b>		
Change in Fair Value of Investments		\$ (119,100.42)
Increase in Receivables Related to Nonoperating Income		796,351.72
The accompanying notes to the financial statements are an integral part of this statement.		

[ This Page Left Blank Intentionally ]

**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2002**

---

**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES**

- A. Financial Reporting Entity** - The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their constituents for their actions. As required by accounting principles generally accepted in the United States of America, the financial reporting entity includes both the primary government and all of its component units. An organization other than a primary government serves as a nucleus for a reporting entity when it issues separate financial statements. College of The Albemarle is a component unit of the North Carolina Community College System which is a part of the primary government of the State of North Carolina and an integral part of the State's *Comprehensive Annual Financial Report*.

The accompanying financial statements present all funds of the College and component units for which the College's Board of Trustees is financially accountable. Although legally separate, the College of The Albemarle Foundation, Inc. (Foundation) is reported as if it were part of the College. The Foundation is governed by a 22-member board. The Foundation's purpose is to aid, support, and promote teaching, research, and service in the various educational, scientific, scholarly, professional, artistic, and creative endeavors of the College. Because the elected directors of the Foundation are appointed by the members of the College of The Albemarle Board of Trustees and the Foundation's sole purpose is to benefit College of The Albemarle, its financial statements have been blended with those of the College.

Separate financial statements for the Foundation may be obtained from the Business and Finance Office of the College, P.O. Box 2327, Elizabeth City, NC 27909, or by calling (252) 335-0821. Other related foundations and similar non-profit corporations for which the College is not financially accountable are not part of the accompanying financial statements.

- B. Basis of Presentation** - The accompanying financial statements are presented in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

Pursuant to the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Public Colleges and Universities* effective for the College's year ended

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

---

June 30, 2002, the full scope of the College's activities is considered to be a single business-type activity (BTA) 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. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the College does not apply Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, for proprietary activities, unless the GASB amends its pronouncements to specifically adopt FASB pronouncements issued after that date.

- D. Cash and Cash Equivalents** – This classification appears on the Statement of Net Assets and the Statement of Cash Flows and includes petty cash, cash on deposit with private bank accounts, and short-term investments with the State Treasurer's Cash and Investment Pool (a governmental external investment pool). The short-term investment portfolio maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.
- E. Investments** - This classification includes equity investments, mutual funds, money market funds, and other asset holdings by the College. Except for money market funds and other asset holdings, investments are accounted for at fair value, as determined by quoted market prices, or an amount determined by management if quoted market prices are not available. The net increase (decrease) in the fair value of investments is recognized as a component of investment income.

Money market funds and other asset holdings are reported at cost, if purchased, or at fair value or appraised value at date of gift, if donated.

- F. Receivables** – Receivables consist of tuition and fees charges 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

---

available for expenditures for which the resource providers conditions have been satisfied. Receivables are recorded net of estimated uncollectible amounts.

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

**H. Capital Assets** - Capital assets are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. The College capitalizes assets that have a value or cost in excess of \$5,000 at the date of acquisition and an expected useful life of one or more years. Library books are expensed.

Depreciation is computed using the straight-line and/or units of output method over the estimated useful lives of the assets, generally 15 to 75 years for general infrastructure, 10 to 50 years for buildings, and 3 to 15 years for equipment.

**I. Restricted Assets** - Restricted assets represent assets whose use is restricted by external parties or by law through constitutional provisions or enabling legislation.

**J. Noncurrent Long-Term Liabilities** - Noncurrent long-term liabilities include notes payable, capital lease obligations, and 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 1st or for which an employee can be paid upon termination of employment. Also, any accumulated vacation leave in excess of 30 days at year-end is converted to sick leave. Under this policy, the accumulated vacation leave for each employee at June 30th equals the leave carried forward at the previous July 1st plus the leave earned, less the leave taken between July 1st and June 30th.

When classifying compensated absences into current and noncurrent, leave is considered taken using a last-in, first-out method.

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

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



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

---

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

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

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

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

- M. Scholarship Discounts** – Student tuition and fees revenues and certain other revenues from College charges are reported net of scholarship discounts in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. The scholarship discount is the difference between the actual charge for goods and services provided by the College and the amount that is paid by students or by third parties on the students' behalf. Student financial assistance grants, such as Pell grants, and other federal, State or nongovernmental programs, are recorded as either operating or nonoperating revenues in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. To the extent that revenues from these programs are used to satisfy tuition, fees, and other charges, the College has recorded a scholarship discount.
- N. Revenue and Expense Recognition** – The College presents its revenues and expenses as operating or nonoperating based on recognition definitions from GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*. Operating activities are those activities that are necessary and essential to the mission of the College. Operating revenues include all charges to customers, grants received for student financial assistance, and interest earned on loans. Grants received for student financial assistance are considered operating revenues because they provide resources for student charges and such programs are

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

---

necessary and essential to the mission of the College. Revenues from nonexchange transactions and State appropriations that represent subsidies or gifts to the College, as well as investment income, are considered nonoperating since these are either capital or noncapital financing or investing activities. Operating expenses are all expense transactions incurred other than those related to capital or noncapital financing or investing activities. Revenues received for capital financing activities, as well as related expenses, are considered neither operating nor nonoperating activities and are presented after nonoperating activities on the accompanying Statement of Revenues, Expenses, and Changes in Net Assets.

- O. Internal Sales Activities** – Certain institutional auxiliary operations provide goods and services to College departments as well as to its customers. In addition, the College has other miscellaneous sales and service units that operated either on a reimbursement or charge basis. All internal sales activities to College departments from auxiliary operations and sales and service units have been eliminated in the accompanying financial statements. These eliminations are recorded by removing the revenue and expense in the auxiliary operations and sales and service units and, if significant, allocating any residual balances to those departments receiving the goods and services during the year.
- P. Funds Held in Trust by Others** - Funds held in trust by others are resources neither in the possession nor the control of the College, but held and administered by an outside organization, with the College deriving income from such funds. Such funds established under irrevocable trusts where the College has legally enforceable rights or claims in the future have not been recorded on the accompanying financial statements. These amounts are recorded as an asset and revenue when received by the College. At year end the amount held in irrevocable trusts by others for the College was \$870,380.08. Funds established under revocable trusts or where the trustees have discretionary power over distributions are recorded as revenue when distributions are received and resource provider conditions are satisfied.
- 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 vehicles and maintenance equipment. Unexpended county current appropriation and county capital appropriation do not revert and are available for future use by the College.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

---

**NOTE 2 - DEPOSITS AND INVESTMENTS**

**A. Deposits** - All funds of the College are deposited in board-designated official depositories and are required to be collateralized in accordance with 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 or with the State Treasurer’s Cash and Investment Pool. Also, the College may establish time deposit accounts, money market accounts, and certificates of deposit. At year-end, cash on hand was \$1,920.00. The carrying amount of cash on deposit was \$1,091,099.97 and the bank balance was \$1,351,769.82.

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.

Cash on deposit at year end consisted of the following:

	Book Balance	Bank Balance
Cash on Deposit with State Treasurer	\$ 646,268.38	\$ 646,268.38
Cash on Deposit with Private Financial Institutions	444,831.59	705,501.44
	\$ 1,091,099.97	\$ 1,351,769.82

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 moneys are invested in accordance with 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 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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

---

The financial statements and disclosures for the State Treasurer's Cash and Investment Pool 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.state.nc.us/> and clicking on "Financial Reports", or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

Of the cash on deposit with private financial institutions at June 30, 2002, \$104,361.00 of the bank balance was covered by federal depository insurance and \$601,140.44 was covered by collateral held by an authorized escrow agent in the name of the State Treasurer (pooling method).

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

Generally, funds belonging to the College may be invested in the form of investments pursuant to General Statute 159-30(c), as follows: 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 non-guaranteed federal agencies; prime quality commercial paper bearing specified ratings and banker's acceptances; The North Carolina Capital Management Trust, an SEC registered mutual fund; repurchase agreements; 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.

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Investments of the College's Foundation are restricted only by requirements placed on them by contract or donor/pool participant agreements.

The College's investments are categorized to give an indication of the level of risk assumed by the College. The credit risk categories are concerned with custodial credit risk, which is the risk that a government will not be able to recover the value of investment or collateral securities that are in possession of an outside party if the counterparty to the investment transaction fails. Category 1 includes investments that are insured or registered or for which the securities are held by the College or its agent in the College's name. Category 2 includes uninsured and unregistered investments for which the securities are held by a counterparty's trust department or agent in the College's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by a counterparty's trust department or agent, but not in the College's name.

A summary of the College's investments at June 30, 2002 is presented below:

	Fair Value			Total
	Risk Category			
	1	2	3	
<b>Investments Categorized:</b>				
Corporate Bonds	\$ 0.00	\$ 1,466,362.30	\$ 0.00	\$ 1,466,362.30
Corporate Stock		2,088,648.28		2,088,648.28
<b>Total Investments Categorized</b>	<u>\$ 0.00</u>	<u>\$ 3,555,010.58</u>	<u>\$ 0.00</u>	<u>3,555,010.58</u>
<b>Investments Not Categorized:</b>				
Mutual Funds				66,400.86
Money Market Funds				56,217.69
Personal Property				1,600.00
<b>Total Investments Not Categorized</b>				<u>124,218.55</u>
<b>Total Investments</b>				<u>\$ 3,679,229.13</u>

### NOTE 3 - ENDOWMENT INVESTMENTS

Investments of the College's endowment funds are separately invested. If a donor has not provided specific instructions, State law permits the Board of Trustees to authorize for expenditure the net appreciation, realized and unrealized, of the investments of the endowment funds.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Investment return of the College's endowment funds is predicated under classical trust doctrines. Unless the donor has stipulated otherwise, capital gains and losses are accounted for as part of the endowment principal and are not available for expenditure.

### NOTE 4 - RECEIVABLES

Receivables at June 30, 2002 were as follows:

	Net Receivables
<b>Current Receivables:</b>	
Students	\$ 87,008.23
Accounts	53,107.55
Pledges	417,951.28
Investment Earnings	2,703.09
<b>Total Current Receivables</b>	<b>\$ 560,770.15</b>
<b>Noncurrent Receivables:</b>	
Pledges	<b>\$ 378,400.44</b>

### NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets is presented as follows:

	Balance July 1, 2001	Adjustments	Increases	Decreases	Balance June 30, 2002
Capital Assets, Non-Depreciable:					
Land	\$ 2,403,135.17	\$ 0.00	\$ 0.00	\$ 0.00	\$ 2,403,135.17
Total Capital Assets, Non-Depreciable	2,403,135.17				2,403,135.17
Capital Assets, Depreciable:					
Buildings	16,368,325.33		94,074.58		16,462,399.91
Machinery and Equipment	1,021,120.41		183,560.82	79,336.86	1,125,344.37
General Infrastructure	355,289.13				355,289.13
Total Capital Assets, Depreciable	17,744,734.87		277,635.40	79,336.86	17,943,033.41
Less Accumulated Depreciation:					
Buildings	2,608,290.50		421,191.82		3,029,482.32
Machinery and Equipment	715,563.03		122,176.81	79,336.86	758,402.98
General Infrastructure	313,097.74		4,172.80		317,270.54
Total Accumulated Depreciation	3,636,951.27		547,541.43	79,336.86	4,105,155.84
Total Capital Assets, Depreciable, Net	14,107,783.60		(269,906.03)		13,837,877.57
<b>Capital Assets, Net</b>	<b>\$ 16,510,918.77</b>	<b>\$ 0.00</b>	<b>\$ (269,906.03)</b>	<b>\$ 0.00</b>	<b>\$ 16,241,012.74</b>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2002 were as follows:

	Amount
Accounts Payable	\$ 90,234.46
Accrued Payroll	103,195.56
<b>Total Accounts Payable and Accrued Liabilities</b>	<b>\$ 193,430.02</b>

### NOTE 7 - LEASE OBLIGATIONS

Future minimum lease payments under non-cancelable operating leases consist of the following at June 30, 2002:

Fiscal Year	Amount
2003	\$ 26,801.04
2004	26,801.04
2005	20,100.78
Total Minimum Lease Payments	<b>\$ 73,702.86</b>

Rental expense for all operating leases during the year was \$26,801.04.

### NOTE 8 - REVENUES

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

	Gross Revenues	Internal Sales Eliminations	Less Scholarship Discounts	Net Revenues
<b>Operating Revenues:</b>				
Student Tuition and Fees	\$ 2,059,709.01	\$ 0.00	\$ 526,371.68	\$ 1,533,337.33
<b>Sales and Services:</b>				
Sales and Services of Auxiliary Enterprises	\$ 499,954.99	\$ 119,422.06	\$ 0.00	\$ 380,532.93
<b>Nonoperating - Noncapital Gifts</b>	\$ 989,421.44	\$ 0.00	\$ 0.00	\$ 989,421.44

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 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	Total
Instruction	\$ 5,830,724.39	\$ 598,380.07	\$ 275,569.06	\$ 0.00	\$ 0.00	\$ 0.00	\$ 6,704,673.52
Academic Support	796,629.44	27,292.87	56,687.57		180.19		880,790.07
Student Services	877,362.36	47,042.35	120,629.05				1,045,033.76
Institutional Support	1,336,915.59	104,561.04	421,367.79		11,428.43		1,874,272.85
Operations and Maintenance of Plant	518,762.27	151,754.92	413,123.17		271,958.58		1,355,598.94
Student Financial Aid			38,175.00	1,643,198.05			1,681,373.05
Auxiliary Enterprises	50,464.28	38,892.78	181,718.06		1,148.75		272,223.87
Depreciation						547,541.43	547,541.43
Total Operating Expenses	<u>\$ 9,410,858.33</u>	<u>\$ 967,924.03</u>	<u>\$ 1,507,269.70</u>	<u>\$ 1,643,198.05</u>	<u>\$ 284,715.95</u>	<u>\$ 547,541.43</u>	<u>\$ 14,361,507.49</u>

### NOTE 10 - PENSION PLANS

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

After five years of creditable service, members of the Teachers' and State Employees' Retirement System qualify for a vested deferred benefit. Employees who retire on or after age 65 and complete 5 years of membership service (age 55 and 5 years of creditable service for law enforcement officers), reach age 60 with 25 years of membership service, or complete 30 years of creditable service receive a retirement allowance of 1.81% of an average final compensation (based on the 4 consecutive years that produce the highest average) multiplied by the number of years of creditable service. Employees may retire with reduced benefits if they reach age 50 with 20 years of creditable service or reach age 60 with 5 years of creditable service (age 50 with 15 years creditable service for law enforcement officers).

Benefit and contribution provisions for the Teachers' and State Employees' Retirement System are established by North Carolina General Statutes 135-5 and 135-8 and may be amended only by the North Carolina General Assembly. Employer and member contribution rates are set each year by the North Carolina General Assembly based on annual actuarial valuations. For the year ended June 30, 2002, these rates were set at 1.97% of covered payroll for employers and 6% of covered payroll for members.



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

---

For the year ended June 30, 2002, the College had a total payroll of \$8,117,352.77 of which \$6,455,580.44 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were \$387,185.93 and \$322,779.25, respectively. The College made one hundred percent of its annual required contributions for the years ended June 30, 2002, 2001, and 2000, which were \$322,779.25, \$322,126.30, and \$479,395.76, respectively.

The Teachers' and State Employees' Retirement System's financial information is included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.state.nc.us/> and clicking on "Financial Reports", or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

- B. Supplemental Retirement Income Plans - IRC Section 401(k) Plan -** All members of the Teachers' and State Employees' Retirement System are eligible to enroll in the Supplemental Retirement Income Plan, a defined contribution plan, created under Internal Revenue Code Section 401(k). All costs of administering the plan are the responsibility of the Plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to \$175,966.00 for the year ended June 30, 2002.

IRC Section 403(b) and 403(b)(7) Plans - Eligible College employees can participate in tax sheltered annuity plans created under Internal Revenue Code Sections 403(b) and 403(b)(7). The employee's eligible contributions, made through salary reduction agreements, are exempt from federal and State income taxes until the annuity is received or the contributions are withdrawn. These plans are exclusively for employees of colleges and certain charitable and other non-profit institutions. All costs of administering and funding these plans are the responsibility of the Plan participants. No costs are incurred by the College. There were no contributions by employees to these plans for the year ended June 30, 2002.

### NOTE 11 - OTHER POSTEMPLOYMENT BENEFITS

- A. Health Care for Long-Term Disability Beneficiaries and Retirees -** The College participates in State-administered programs, which provide postemployment health insurance to eligible former employees. Eligible former employees include long-term disability beneficiaries of the

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

---

Disability Income Plan of North Carolina and retirees of the Teachers' and State Employees' Retirement System. These benefits were established by Chapter 135, Article 3, Part 3, of the General Statutes and may be amended only by the North Carolina General Assembly. Funding for the health care benefit for long-term disability beneficiaries and retirees is financed on a pay-as-you-go basis. The College contributed 2.35% of the covered payroll under the Teachers' and State Employees' Retirement System for these health care benefits. For the fiscal year ended June 30, 2002, the College's total contribution to the Plan was \$151,706.14. The College assumes no liability for retiree health care benefits provided by the programs other than its required contribution. Additional detailed information about these programs can be located in the State of North Carolina's *Comprehensive Annual Financial Report*.

- B. Long-Term Disability** - The College participates in the Disability Income Plan of North Carolina (DIPNC). Established by Chapter 135, Article 6, of the General Statutes, DIPNC provides short-term and long-term disability benefits to eligible members of the Teachers' and State Employees' Retirement System. Long-term disability income benefits are advance funded on an actuarially determined basis using the one-year term cost method. The College contributes .52% of covered payroll under the Teachers' and State Employees' Retirement System to the DIPNC. For the fiscal year ended June 30, 2002, the College's total contribution to the DIPNC was \$33,569.02. The College assumes no liability for long-term disability benefits under the plan other than its contribution. Additional detailed information about the DIPNC is disclosed in the State of North Carolina's *Comprehensive Annual Financial Report*.

### NOTE 12 - RISK MANAGEMENT

The College is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These exposures to loss are handled via a combination of methods, 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.

Tort claims of up to \$500,000 are self-insured under the authority of the State Tort Claims Act. In addition, the State provides excess public officers' and employees' liability insurance up to \$11,000,000 via contract with a private insurance company. The premium, based on a composite rate, is paid by the

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

---

North Carolina Community College System Office directly to the private insurer.

Fire and other property losses are covered by the Public School Insurance Fund, a State-administered public entity risk pool. This fund is financed by premiums and interest and reinsures losses greater than \$10,000,000 per occurrence. The excess insurer provides property coverage up to \$30,000,000 per location annually. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

State-owned vehicles used for instructional purposes are covered by liability insurance handled by the State Department of Insurance. Liability insurance for other College-owned vehicles are covered by contracts with private insurance companies.

The College is protected for losses from employee dishonesty and computer fraud for employees paid in whole or in part from State funds. The blanket honesty bond is with a private insurance company and is handled by the North Carolina Department of Insurance with coverage of \$5,000,000 per occurrence and a \$50,000 deductible. Employees paid entirely from County and Institutional Funds are covered by commercial insurance with coverage of \$50,000 per occurrence.

Employees and retirees are provided health care coverage by the Comprehensive Major Medical Plan (Plan), a component unit of the State. The Plan is funded by employer and employee contributions and is administered by a third-party contractor. Effective for the October 1, 2001 through September 30, 2002 year, the Plan no longer offers health coverage through HMO plans.

The State Board of Community Colleges makes the necessary arrangements to carry out the provisions of the Workers' Compensation Act which are applicable to employees whose wages are paid in whole or in part from State funds. The College purchases workers' compensation insurance for employees whose salaries or wages are paid by the board entirely from County or Institutional Funds.

Term life insurance of \$25,000 to \$50,000 is provided to eligible workers. This self-insured death benefit program is administered by the State Treasurer and funded via employer contributions.

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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

---

### NOTE 13 - COMMITMENTS AND CONTINGENCIES

- A. Commitments** - The College has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on other purchases were \$39,327.03 at June 30, 2002.
- B. 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. The College was a party to litigation at June 30, 2002. However, the complaint was withdrawn at the request of the charging party on July 26, 2002.
- C. Community College General Obligation Bonds** – The 1999-2000 Session of the General Assembly of North Carolina authorized the issuance of six hundred million dollars of general obligation bonds of the State, as subsequently approved by a vote of qualified voters of the State, to provide funds for capital improvements for the North Carolina Community College System. The funds authorized are to be used solely to construct new buildings and to renovate and modernize existing buildings on the North Carolina Community College System campuses. The bond legislation specifies the amount of bond funding for each College campus as well as the intended amount for new construction and repair and replacement. The legislation further provides that the State Board of Community Colleges shall be responsible for the approval of projects in accordance with provisions of the legislation. The bonds are authorized to be issued over a six-year period beginning in 2001 at a level not to exceed amounts provided in the legislation. Using a cash flow financing approach, The Community College System's Office (CCSO), establishes annual amounts not to exceed for each approved project. The amounts not to exceed are subject to change due to actual cash availability and needs during the year. Subsequent to the bond sales and the availability of bond proceeds, CCSO notifies the Office of State Budget and Management (OSBM) of the amount not to exceed for the total of the approved projects. Within this amount, based on an official request of cash needs from the State Board of Community Colleges, OSBM authorizes allotments. These allotments are then recorded to specific community college allotment accounts by the CCSO. The College records the allotments as revenue on the accompanying financial statements. The College's remaining authorization \$6,756,018.00 is

## NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

---

contingent on future bond sales and CCSO allotment approval. Because of uncertainty and time restrictions the remaining authorization is not recorded as an asset or revenue on the accompanying financial statements.

### NOTE 14 - ACCOUNTING CHANGES

Effective July 1, 2001, the College implemented 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 financial statement presentation required by these Statements is a single-column enterprise activity rather than the fund-group perspective previously reported. Significant accounting changes in order to comply with the new requirements include adopting depreciation on capital assets, reporting revenues net of discounts and allowances, eliminating interfund activities, classifying activities as operating or nonoperating, classifying assets and liabilities as current or noncurrent, and prorating summer school activities to periods earned.

In addition, the College implemented GASB Statement No. 38, *Certain Financial Statement Note Disclosures*. Changes in existing disclosures include more detailed information on debt service requirements, obligations under leases, and short-term debt. New disclosures include variable debt interest information and the major components of receivable and payable balances.

### NOTE 15 - NET ASSET RESTATEMENT

As referred to in Note 14, the College implemented 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*.

July 1, 2001 Fund Equity as previously reported	\$ 26,031,341.51
Implementation of GASB 34/35	<u>(5,303,107.89)</u>
July 1, 2001 Net Assets as Restated	<u><u>\$ 20,728,233.62</u></u>

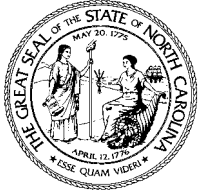
**College of the Albemarle**  
**Schedule of General Obligation Bond Project Authorizations, Budgets, and Expenditures**  
**For Project-to-Date as of June 30, 2002**

**Schedule 1**

<b>Capital Improvement Projects</b>	<b>Projected Start Date</b>	<b>General Obligation Bonds Authorized</b>	<b>Other Sources</b>	<b>Total Project Budget</b>	<b>Amount Expended</b>	<b>Percent Completed</b>	<b>Expected Completion Date</b>
<i>Projects Approved by the State Board</i>							
D. F. Walker Public School Takeover Renovation	Dec 2002	\$ 905,612.00	\$ 0.00	\$ 905,612.00	\$ 0.00	0.00%	Jan 2004
Allied Health and Wellness Center	Jan 2003	3,616,438.00	1,500,000.00	5,116,438.00			Nov 2004
Vocational Training Center	Jan 2005	500,000.00		500,000.00			Jul 2006
Building A Roofing, Carpeting, and Painting (Bundled)	Jul 2004	100,000.00		100,000.00			Jul 2005
External Signage	Jul 2004	50,000.00		50,000.00			Mar 2005
Marine Science Classroom/Laboratory	Sep 2004	50,000.00		50,000.00			Mar 2005
Cosmetology Program Area Renovation	Sep 2004	50,000.00		50,000.00			Mar 2005
Buildings A & C Roof Repairs	Jul 2005	386,000.00		386,000.00			Mar 2006
Upgrade Parking Areas	Aug 2005	225,000.00		225,000.00			Feb 2006
Community Center Repairs and Renovations	Jul 2005	50,000.00		50,000.00			Jan 2006
Student Services Area Renovations	Mar 2006	250,000.00		250,000.00			Nov 2006
Learning Resources Center Renovations	Jul 2005	50,000.00		50,000.00			Jan 2006
Learning Resources Center Renovations	Mar 2006	250,000.00		250,000.00			Nov 2006
Individual Insignificant Repairs and Renovations	Jul 2005	42,724.00		42,724.00			Jan 2006
Upgrade Science Classrooms and Laboratories	Jul 2005	150,000.00		150,000.00			Jan 2006
Individual Insignificant Repairs and Renovations	Jul 2005	80,244.00		80,244.00			Jan 2006
<b>Total All Projects</b>		<b>\$ 6,756,018.00</b>	<b>\$ 1,500,000.00</b>	<b>\$ 8,256,018.00</b>	<b>\$ 0.00</b>		

Note: The 1999-2000 Session of the General Assembly of North Carolina authorized the issuance of six hundred million dollars of general obligation bonds of the State, as subsequently approved by a vote of qualified voters of the State, to provide funds for capital improvements for the North Carolina Community College System. The projects listed on this schedule are those funded or to be funded by bond proceeds from the general obligation bonds authorized by Senate Bill 912.

[ This Page Left Blank Intentionally ]



Ralph Campbell, Jr.  
State Auditor

STATE OF NORTH CAROLINA  
Office of the State Auditor

2 S. Salisbury Street  
20601 Mail Service Center  
Raleigh, NC 27699-0601  
Telephone: (919) 807-7500  
Fax: (919) 807-7647  
Internet <http://www.osa.state.nc.us>

**INDEPENDENT AUDITOR'S REPORT  
ON COMPLIANCE AND ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

---

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

We have audited the financial statements of College of The Albemarle, a component unit of the State of North Carolina, as of and for the year ended June 30, 2002, and have issued our report thereon dated December 5, 2002. We did not audit the financial statements of College of The Albemarle Foundation, Inc., which represent 23 percent and 6 percent, respectively, of the assets and revenues of the College. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for College of The Albemarle Foundation, Inc., is based on the report of the other auditors.

As discussed in Note 14 to the financial statements, the College implemented Governmental Accounting Standards Board 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* and GASB Statement No. 38, *Certain Financial Statement Note Disclosures* during the year ended June 30, 2002.

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. The financial statements of College of The Albemarle Foundation, Inc. were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not extend to that Foundation.

Compliance

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 grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However,



**INDEPENDENT AUDITOR'S REPORT  
ON COMPLIANCE AND ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS (CONCLUDED)**

---

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*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the College's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Board of Trustees and the State Board of Community Colleges, management and staff of the College, the Governor, the State Controller, the General Assembly, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.



Ralph Campbell, Jr.  
State Auditor

December 5, 2002

## DISTRIBUTION OF AUDIT REPORT

---

In accordance with General Statutes 147-64.5 and 147-64.6(c)(14), copies of this report have been distributed to the public officials listed below. Additional copies are provided to other legislators, state officials, the press, and the general public upon request.

### EXECUTIVE BRANCH

The Honorable Michael F. Easley	Governor of North Carolina
The Honorable Beverly M. Perdue	Lieutenant Governor of North Carolina
The Honorable Richard H. Moore	State Treasurer
The Honorable Roy A. Cooper, III	Attorney General
Mr. David T. McCoy	State Budget Officer
Mr. Robert L. Powell	State Controller
Mr. H. Martin Lancaster	President, North Carolina Community College System
Ms. Lynne M. Bunch	Interim President, College of The Albemarle
Mr. James Turdici	Vice President for Business and Finance College of The Albemarle
Ms. Jan C. Riley	Chairman, Board of Trustees College of The Albemarle

### LEGISLATIVE BRANCH

Appointees to the Joint Legislative Commission on Governmental Operations

Senator Marc Basnight, Co-Chairman	Representative James B. Black, Co-Chairman
Senator Charlie Albertson	Representative Martha B. Alexander
Senator Frank W. Ballance, Jr.	Representative Flossie Boyd-McIntyre
Senator Charles Carter	Representative E. Nelson Cole
Senator Kever M. Clark	Representative James W. Crawford, Jr.
Senator Daniel G. Clodfelter	Representative William T. Culpepper, III
Senator Walter H. Dalton	Representative W. Pete Cunningham
Senator James Forrester	Representative Beverly M. Earle
Senator Linda Garrou	Representative Ruth M. Easterling
Senator Wilbur P. Gulley	Representative Stanley H. Fox
Senator Kay R. Hagan	Representative R. Phillip Haire
Senator David W. Hoyle	Representative Dewey L. Hill
Senator Ellie Kinnaird	Representative Mary L. Jarrell
Senator Howard N. Lee	Representative Maggie Jeffus
Senator Jeanne H. Lucas	Representative Edd Nye
Senator R. L. Martin	Representative Warren C. Oldham
Senator William N. Martin	Representative William C. Owens, Jr.
Senator Stephen M. Metcalf	Representative E. David Redwine
Senator Fountain Odom	Representative R. Eugene Rogers
Senator Aaron W. Plyler	Representative Drew P. Saunders
Senator Eric M. Reeves	Representative Wilma M. Sherrill
Senator Dan Robinson	Representative Ronald L. Smith
Senator Larry Shaw	Representative Gregg Thompson
Senator Robert G. Shaw	Representative Joe P. Tolson
Senator R. C. Soles, Jr.	Representative Russell E. Tucker
Senator Ed N. Warren	Representative Thomas E. Wright
Senator David F. Weinstein	Representative Douglas Y. Yongue
Senator Allen H. Wellons	

## **DISTRIBUTION OF AUDIT REPORT (CONCLUDED)**

---

### **Other Legislative Officials**

Representative Philip A. Baddour, Jr.  
Senator Anthony E. Rand  
Senator Patrick J. Ballantine  
Representative N. Leo Daughtry  
Representative Joe Hackney  
Mr. James D. Johnson

Majority Leader of the N.C. House of Representatives  
Majority Leader of the N.C. Senate  
Minority Leader of the N.C. Senate  
Minority Leader of the N.C. House of Representatives  
N. C. House Speaker Pro-Tem  
Director, Fiscal Research Division

January 22, 2003

## ORDERING INFORMATION

---

Copies of this report may be obtained by contacting the:

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

Internet: <http://www.ncauditor.net>

Telephone: 919/807-7500

Facsimile: 919/807-7647