STATE OF NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT OF

ALAMANCE COMMUNITY COLLEGE

GRAHAM, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2002

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR

Financial Statement Audit Report Of

Alamance Community College

Graham, North Carolina

For the Year Ended June 30, 2002

STATE OF NORTH CAROLINA
Office of the State Auditor

Ralph Campbell, Jr.
State Auditor

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AUDITOR'S TRANSMITTAL

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

This report presents the results of our financial statement audit of Alamance Community College, 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 Alamance Community College. 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 Alamance Community College. 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 Alamance Community College.

   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.

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.

Ralph Campbell, Jr.
State Auditor

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Alamance Community College
Graham, North Carolina

We have audited the accompanying basic financial statements of Alamance Community College, 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 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 provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Alamance Community College 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 16 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 3, 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 7 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 in the audit of the basic financial statements and, in our opinion, based on our audit is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Ralph Campbell, Jr.

Ralph Campbell, Jr.
State Auditor

December 3, 2002

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management of Alamance Community College provides this Management's Discussion and Analysis of the College's financial statements and related matters for the readers of the College's financial report. This narrative overview addresses the fiscal year ended June 30, 2002. We encourage readers to consider this information in conjunction with the College's financial statements, which follow.

The college has implemented the new reporting model promulgated by the Governmental Standards Board in its statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities*, as adopted by the State of North Carolina. Because the College has implemented these new reporting standards for this fiscal year, with significant changes in content and structure, much of the information is not easily comparable to prior years. In future years, however, comparisons will be more meaningful and will provide better information relating to the College's financial position and the results of operations.

Financial Highlights

Net Assets - The assets of the College exceeded its liabilities by $12.7 million, and that amount is reported as "Net Assets". Of this amount, $1.2 million was reported as "Unrestricted" net assets. Unrestricted net assets represent the amount available to be used to meet the College's ongoing obligations to its students, the community, and its creditors.

Changes in Net Assets - The College's net assets decreased by $647 thousand, a 4.9% decrease, in fiscal 2001-02. Over half of this decrease is due to a special item, discussed below, which is not likely to recur.

Operating Loss - Under the new reporting model, State and county funding for the basic programs of the College, which makes up over 60% of the College's operating funds, is considered a "nonoperating revenue". Consequently, the College will always report a large operating loss, which will be largely, if not entirely, offset by State aid, county appropriations, and other nonoperating revenues. The operating loss in fiscal year 2001-02 was $11.3 million, which was offset, in part, by $10.4 million in State aid and county appropriations.

Decrease in cash and cash equivalents - Given the decrease in net assets, and the large, if expected, operating loss, it would be easy to attribute the decrease in cash and cash equivalents of $353 thousand to the same causes. That is not the case, however. The operating loss, as noted above, is offset by nonoperating and other revenues so that the decrease in net assets did not deplete the cash and cash equivalents of the College. In fact, if short-term investments are considered, the total of cash and cash equivalents and short-term investments actually increased by $127 thousand.

Overview of the Financial Statements

Under the new reporting model, the College is considered to be a "Business Type Activity", that is, an activity normally intended to recover all or a significant portion of its cost through user fees and charges to external users of goods and services. The financial statements are intended to provide a view of the College's operations in a manner similar to a private sector business. The financial statements and the notes to the financial statements provide both short-term and long-term information about the College's financial position.

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes can be found immediately following the financial statements.

Net Assets - Net assets may serve over time as a useful indicator of financial position. The College's net assets totaled $12.7 million at the end of fiscal 2001-02 compared to $13.3 million at the end of the previous year (as restated).

Net Assets - June 30, 2002	
Current Assets	$ 1,897,088
Capital Assets	11,022,466
Other Assets	180,115
Total Assets	13,099,669
Current Liabilities	227,626
Noncurrent Liabilities	196,635
Total Liabilities	424,261
Invested in Capital Assets	11,022,466
Restricted Net Assets	452,488
Unrestricted Net Assets	1,200,454
Total Net Assets	$ 12,675,408

The largest portion of those net assets (87.0%) reflects the College's investment in capital assets, such as land, buildings, equipment, and infrastructure (roads, parking lots, landscaping, and other immovable assets). The College has no debt related to these capital assets. The College uses these assets to provide services to its students and the community; consequently these assets are not available for future spending.

An additional portion of the College's net assets (3.6%) represents resources that are subject to external restrictions on how they may be used. The remaining portion (9.4%) of net assets is unrestricted and may be used to meet the College's ongoing obligations to students, suppliers, and the community. Internally imposed designations of resources are not presented as restricted net assets.

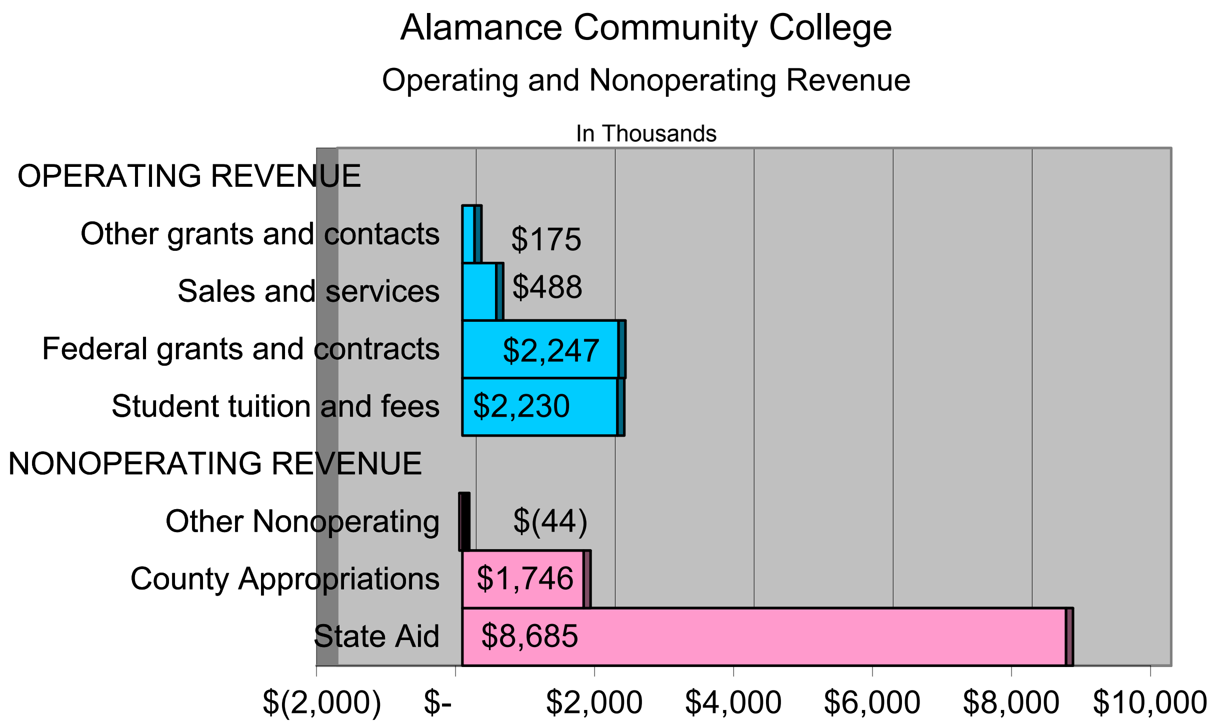
Changes in Net Assets - The College's net assets decreased by $647 thousand, a 4.9% decrease, in fiscal 2001-02. The components of this decrease can be categorized as follows:

Operating Revenues	$ 5,139,852
Operating Expenses (Excluding Depreciation)	(15,771,795)
Depreciation Expense	(618,229)
Net Operating Loss	(11,250,172)
State and County Appropriations	10,431,189
Other Non-operating Items	(43,674)
Net Loss Before Other Items	(862,657)
State and County Capital Appropriations	548,320
Net Loss Before Special Items	(314,337)
Special Items	(332,500)
Decrease in Net Assets	$ (646,837)

Depreciation expense is shown separately since this is the first year in which Alamance Community College has recognized depreciation on its financial statements. Were it not for the recognition of depreciation expense, net income before special items would be a positive $304 thousand rather than the deficit of $314 thousand currently shown. This is the greatest single quantitative difference from the presentation in prior years.

The special item is the other large component of the $647 thousand decrease in net assets. This item is the recognition of a one-time charge for the loss of leasehold improvements at the College's Burlington Center. The lease was a ten-year sub-lease from K-Mart Corporation, and a total of $350,000 was spent renovating the building at the inception of the lease. When K-Mart Corporation defaulted on the parent lease, the College was left without a lease on the property. To date, no new lease for that property has been negotiated with the owners, and without an underlying lease, the undepreciated balance of the lease must be written off.

Operating and Nonoperating Revenues - The operating expenses of the College are funded by a combination of operating and nonoperating revenues. Together these revenues are expected to offset the operating expenses other than depreciation. In fiscal year 2001-02, these revenues totaled $15.5 million, compared to operating expenses (excluding depreciation) of $15.8 million.



The shortfall of $273 thousand resulted from the unavailability of cash appropriated by the State of North Carolina. Ongoing regular operating expenses continued to be incurred despite the lack of funds, but revenues were not received and therefore not paid out. At the end of the year, any State funding not paid out reverts to the State, and since the cash was not received from the State, it could not be paid out to the College's creditors.

CAPITAL ASSETS

The College's investment in capital assets amounts to $19.1 million, less accumulated depreciation of $8.1 million, leaving a net book value of $11.0 million. This investment in capital assets consists of land, buildings, equipment, infrastructure, and construction in progress.

The capital assets shown reflect two significant changes compared to prior years. First, and most significant, is the recognition of depreciation. Restatement of the balances at the end of the 2000-2001 fiscal year includes a recognition of $ 8.0 million of accumulated depreciation that had not been reflected under the prior reporting model. Second, a determination was made that, for the North Carolina Community College System, library books will no longer be presented as a capital asset, but rather, expensed in the year when purchased. This resulted in an adjustment of $1.3 million to the schedule of capital assets as of the end of the 2000-2001 fiscal year. These two changes affect the presentation and valuation of the capital assets, but do not represent any real change in the assets themselves.

Actual changes to the capital assets of the College include the sale of the College's old Burlington Campus and the loss of leasehold improvements at the new Burlington Center. The old Burlington Campus had a book value of $177 thousand ($398 thousand cost less accumulated depreciation of $221 thousand) and the leasehold improvements had a book value of $332 thousand ($350 thousand cost less $18 thousand in accumulated depreciation). Construction in progress at June 30, 2002 consisted of $170 thousand of the reconstruction of the College's main entrance bridge. Other changes are routine upgrades of facilities and purchases of new equipment and disposal of obsolete items.

ECONOMIC OUTLOOK

The College faces two major challenges - continuing enrollment growth and the State's economic crisis. Enrollment growth of about 18% in the 2001-2002 year has strained the capacity of the College, both in its physical facilities and its faculty and staff. Plans are in place for two new buildings, which will address the physical space limitations, and architectural plans are in the approval process for the first of those. Still, no additional space will be available for at least a year.

The strain on faculty resources is directly related to the State's economic crisis. Because of the lack of cash, the College is unable acquire the resources needed to meet its growth. In the last two years, the State legislature was unable to pass a budget until well into the fiscal year, which meant that the College started its academic year without knowing what funding would be available. In the 2002-2003 fiscal year, there was no expectation of any funding for growth, and the College was unable to hire additional faculty to meet the demand for the fall semester. Existing faculty have been assigned to teach additional classes, and qualified staff have also been pressed into service to teach.

Ultimately, the budget passed in September did include funding for growth, so the strain on faculty and staff will be relieved in the spring semester, and the outlook has improved. Nevertheless, the College is directly affected when the State has to limit cash availability and when the State legislature is unable to enact a budget prior to the beginning of the academic year.

Alamance Community College
Statement of Net Assets
June 30, 2002 — ***Exhibit A***

ASSETS		
Current Assets:		
Cash and Cash Equivalents	$	1,103,990.82
Restricted Cash and Cash Equivalents		33,339.81
Short-Term Investments		549,582.61
Receivables, Net (Note 3)		156,244.74
Inventories		44,528.37
Notes Receivable		9,401.98
Total Current Assets		1,897,088.33
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		65,468.67
Restricted Due from Primary Government		114,646.06
Capital Assets, Net (Note 4)		11,022,466.43
Total Noncurrent Assets		11,202,581.16
Total Assets		13,099,669.49
LIABILITIES		
Current Liabilities:		
Accounts Payable and Accrued Liabilities (Note 5)		178,172.20
Deferred Revenue		49,454.25
Total Current Liabilities		227,626.45
Noncurrent Liabilities:		
Funds Held for Others		53,356.12
Long-Term Liabilities (Note 6)		143,278.66
Total Noncurrent Liabilities		196,634.78
Total Liabilities		424,261.23
NET ASSETS		
Invested in Capital Assets, Net of Related Debt		11,022,466.43
Restricted For:		
Expendable:		
Scholarships and Fellowships		23,649.37
Capital Projects		388,727.51
Other		40,110.50
Unrestricted		1,200,454.45
Total Net Assets	$	12,675,408.26

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

Alamance Community College
Statement of Revenues, Expenses, and Changes in Net Assets
For the Fiscal Year Ended June 30, 2002 ***Exhibit B***

REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net (Note 8)	$	2,230,138.26
Federal Grants and Contracts		2,247,396.06
State and Local Grants and Contracts		70,623.98
Nongovernmental Grants and Contracts		104,015.59
Sales and Services, Net (Note 8)		487,678.47
Total Operating Revenues		5,139,852.36
EXPENSES		
Operating Expenses:		
Personal Services		11,341,861.07
Supplies and Materials		1,115,940.97
Services		1,380,527.73
Scholarships and Fellowships		1,563,581.09
Utilities		369,884.12
Depreciation		618,229.35
Total Operating Expenses		16,390,024.33
Operating Loss		(11,250,171.97)
NONOPERATING REVENUES (EXPENSES)		
State Aid		8,684,688.64
County Appropriations		1,746,500.00
Noncapital Gifts, Net (Note 8)		23,636.00
Investment Income, Net		37,119.07
Other Nonoperating Expenses		(104,429.44)
Net Nonoperating Revenues		10,387,514.27
Loss Before Other Revenues, Expenses, Gains, and Losses		(862,657.70)
State Capital Aid		405,804.27
County Capital Appropriations		142,516.30
Special Items		(332,500.00)
Decrease in Net Assets		(646,837.13)
NET ASSETS		
Net Assets, July 1, 2001 as Restated (Note 17)		13,322,245.39
Net Assets, June 30, 2002	$	12,675,408.26

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

Alamance Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2002 — ***Exhibit C***

CASH FLOWS FROM OPERATING ACTIVITIES		
Received from Customers	$	5,261,100.45
Payments to Employees and Fringe Benefits		(11,378,114.52)
Payments to Vendors and Suppliers		(2,767,952.47)
Payments for Scholarships and Fellowships		(1,561,599.89)
Other Payments		(385,609.15)
Net Cash Used by Operating Activities		(10,832,175.58)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State Aid Received		8,684,688.64
County Appropriations		1,746,500.00
Noncapital Grants Received		(53,386.02)
Noncapital Gifts and Endowments Received		23,636.00
Net Cash Provided by Noncapital Financing Activities		10,401,438.62
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
State Capital Aid Received		317,410.21
County Capital Appropriations		142,516.30
Proceeds from Sale of Capital Assets		218,406.16
Acquisition and Construction of Capital Assets		(159,691.91)
Net Cash Provided by Capital and Related Financing Activities		518,640.76
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Sales and Maturities of Investments		20,513.00
Interest on Investments		38,669.77
Purchase of Investments and Related Fees		(500,000.00)
Net Cash Used by Investing Activities		(440,817.23)
Net Decrease in Cash and Cash Equivalents		(352,913.43)
Cash and Cash Equivalents, July 1, 2001		1,555,712.73
Cash and Cash Equivalents, June 30, 2002	$	1,202,799.30

Alamance Community College
Statement of Cash Flows — ***Exhibit C***
For the Fiscal Year Ended June 30, 2002 — ***Page 2***

RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating Loss	$	(11,250,171.97)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense		618,229.35
Miscellaneous Nonoperating Income		(76,427.53)
Changes in Assets and Liabilities:		
Receivables, Net		115,114.37
Inventories		36,369.91
Prepaid Items		35,754.02
Accounts Payable and Accrued Liabilities		(49,040.11)
Deferred Revenue		10,533.25
Funds Held for Others		(311,599.95)
Compensated Absences		39,063.08
Net Cash Used by Operating Activities	$	(10,832,175.58)
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES		
Assets Acquired through Assumption of a Liability	$	55,200.00
Increase in Receivables Related to Nonoperating Income		141,780.08

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

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NOTES TO THE FINANCIAL STATEMENTS

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. Alamance Community College is a component unit of the State of North Carolina and an integral part of the State's *Comprehensive Annual Financial Report*.

The accompanying financial statements present all funds for which the College's Board of Trustees is financially accountable. Related foundations and similar non-profit corporations for which the College is not financially accountable are not part of the accompanying financial statements. These entities are not included because they are separately incorporated and there are neither common directors nor other evidence of common control.

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

Pursuant to the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments,* as amended by GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities* effective for the College's year ended 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 undeposited receipts, 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 consists of certificates of deposit held by the College and reported at cost.

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, and private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants. Receivables are recorded net of estimated uncollectible amounts.

G. **Inventories** – Inventories, consisting of expendable supplies and postage, are priced at cost using the last invoice cost 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 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 consist of 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 15 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 15 days at year-end is converted to sick leave.

When classifying compensated absences into current and noncurrent, leave is considered taken using a last-in, first-out method. Therefore, in years when the compensated absences balance is expected to increase, no portion of the balance is classified as current.

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

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

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

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

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

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

N. **Revenue and Expense Recognition –** The College 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 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. **County Appropriations –** County appropriations are provided to the College primarily to fund its plant operation and maintenance function and to fund construction projects, motor vehicle purchases, and maintenance of equipment. Unexpended county current appropriation and county capital appropriation do not revert and are available for future use by the College.

NOTE 2 - DEPOSITS AND INVESTMENTS

A. **Deposits** – All funds of the College are deposited in board-designated official depositories and are required to be collateralized in accordance with 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 $1,650.00. The carrying amount of cash on deposit was $1,750,731.91 and the bank balance was $1,963,771.53.

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	$ 643,609.96	$ 643,609.96
Cash on Deposit with Private Financial Institutions	1,107,121.95	1,320,161.57
	$ 1,750,731.91	$ 1,963,771.53

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 147-69.19(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.

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, $249,159.59 of the bank balance was covered by federal depository insurance, and $1,071,001.98 was covered by collateral held by an authorized escrow agent in the name of the State Treasurer (pooling method).

B. Investments – 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; and evidences of ownership of, or fractional undivided interests in, future interest and principal payments on either direct obligations of or fully guaranteed by the United States government, which are held by a specified bank or trust company or any State in the capacity.

At June 30, 2002, the College held certificates of deposit in the amount of $549,582.61 which is not subject to categorization of custodial credit risk. The aforementioned certificates of deposit are a component of the deposit totals reported in the deposits section of this note.

NOTE 3 - RECEIVABLES

Receivables at June 30, 2002 were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	$ 62,030.44	$ 26,879.00	$ 35,151.44
Accounts	1,602.00		1,602.00
Intergovernmental	32,076.58		32,076.58
Investment Earnings	2,590.43		2,590.43
Other	84,824.29		84,824.29
Total Current Receivables	$ 183,123.74	$ 26,879.00	$ 156,244.74

NOTE 4 - 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	$ 271,721.12	$ 0.00	$ 0.00	$ 0.00	$ 271,721.12
Construction in Progress	16,720.00	(16,720.00)	170,568.67		170,568.67
Total Capital Assets, Non-Depreciable	288,441.12	(16,720.00)	170,568.67		442,289.79
Capital Assets, Depreciable:					
Buildings	16,889,782.43	16,720.00	26,209.49	783,927.29	16,148,784.63
Machinery and Equipment	2,092,801.59		6,571.48	359,126.69	1,740,246.38
General Infrastructure	780,592.12		11,542.27	2,722.21	789,412.18
Total Capital Assets, Depreciable	19,763,176.14	16,720.00	44,323.24	1,145,776.19	18,678,443.19
Less Accumulated Depreciation:					
Buildings	6,347,206.26		430,662.33	273,995.84	6,503,872.75
Machinery and Equipment	1,108,637.06		146,675.66	290,810.86	964,501.86
General Infrastructure	591,062.00		40,891.36	2,061.42	629,891.94
Total Accumulated Depreciation	8,046,905.32		618,229.35	566,868.12	8,098,266.55
Total Capital Assets, Depreciable, Net	11,716,270.82	16,720.00	(573,906.11)	578,908.07	10,580,176.64
Capital Assets, Net	$ 12,004,711.94	$ 0.00	$ (403,337.44)	$ 578,908.07	$ 11,022,466.43

NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	Amount
Accounts Payable	$ 124,946.58
Accrued Payroll	43,885.16
Other	9,340.46
Total Accounts Payable and Accrued Liabilities	$ 178,172.20

NOTE 6 - LONG-TERM LIABILITIES

A summary of changes in the long-term liabilities is presented as follows:

	Balance July 1, 2001	Additions	Reductions	Balance June 30, 2002	Current Portion
Compensated Absences	$ 104,215.58	$ 39,063.08	$ 0.00	$ 143,278.66	$ 0.00

NOTE 7 - OPERATING LEASE OBLIGATIONS

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

Fiscal Year	Amount
2003	$ 50,745.00
2004	49,440.00
2005	49,440.00
2006	6,970.00
Total Minimum Lease Payments	$ 156,595.00

Rental expense for all operating leases during the year was $74,413.68.

NOTE 8 - REVENUES

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

	Gross Revenues	Less Scholarship Discounts	Less Allowance for Uncollectibles	Net Revenues
Operating Revenues:				
Student Tuition and Fees	$ 2,718,665.89	$ 486,973.63	$ 1,554.00	$ 2,230,138.26
Sales and Services:				
Sales and Services of Auxiliary Enterprises:				
Dining	$ 48,869.92	$ 0.00	$ 0.00	$ 48,869.92
Student Activities	29,048.40			29,048.40
Bookstore	69,559.00			69,559.00
Parking	52,015.36			52,015.36
Other	14,780.25			14,780.25
Daycare	226,147.54		4,185.00	221,962.54
Sales and Services of Educational and Related Activities	51,443.00			51,443.00
Total Sales and Services	$ 491,863.47	$ 0.00	$ 4,185.00	$ 487,678.47
Nonoperating - Noncapital Gifts	$ 23,636.00	$ 0.00	$ 0.00	$ 23,636.00

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	$ 7,080,408.50	$ 455,981.57	$ 31,391.58	$ 0.00	$ 827.81	$ 0.00	$ 7,568,609.46
Academic Support	1,287,654.50	92,230.28	29,506.61		600.00		1,409,991.39
Student Services	693,744.55	47,424.78	57,831.00		300.00		799,300.33
Institutional Support	1,857,545.86	372,356.03	474,774.93		2,812.53		2,707,489.35
Operations and Maintenance of Plant	193,685.18	56,262.72	792,223.09		363,423.78		1,405,594.77
Student Financial Aid		21.00	(21,147.64)	1,563,581.09			1,542,454.45
Auxiliary Enterprises	228,822.48	91,664.59	15,948.16		1,920.00		338,355.23
Depreciation						618,229.35	618,229.35
Total Operating Expenses	$ 11,341,861.07	$ 1,115,940.97	$ 1,380,527.73	$ 1,563,581.09	$ 369,884.12	$ 618,229.35	$ 16,390,024.33

NOTE 10 - PENSION PLANS

J. 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.

For the year ended June 30, 2002, the College had a total payroll of $9,850,978.40, of which $6,842,130.00 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were $410,527.84 and $134,789.98, respectively. The College made one hundred percent of its annual required contributions for the years ended June 30, 2002, 2001, and 2000, which were $134,789.98, $361,665.09, and $513,566.00, 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.

K. Deferred Compensation and Supplemental Retirement Income Plans

IRC Section 457 Plan – The State of North Carolina offers its permanent employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 through the North Carolina Public Employee Deferred Compensation Plan (the Plan). The Plan permits each participating employee to defer a portion of his or her salary until future years. The deferred compensation is available to employees upon separation from service, death, disability, retirement, or financial hardships if approved by the Board of Trustees of the Plan. The Board, a part of the North Carolina Department of Administration, maintains a separate fund for the exclusive benefit of the participating employees and their beneficiaries, *the North Carolina Public Employee Deferred Compensation Trust Fund*. The Board also contracts with an external third party to perform certain administrative requirements and to manage the trust fund's assets. All costs of administering and funding the Plan are the responsibility of the Plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to $1,803.84 for the year ended June 30, 2002.

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. The voluntary contributions by employees amounted to $60,233.00 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. The voluntary contributions by employees amounted to $85,374.70 for the year ended June 30, 2002.

NOTE 11 - OTHER POSTEMPLOYMENT BENEFITS

L. **Health Care for Long-Term Disability Beneficiaries and Retirees** – The College participates in State-administered programs which provide postemployment health insurance to eligible former employees. Eligible former employees include long-term disability beneficiaries of the Disability Income Plan of North Carolina and retirees of the Teachers' and State Employees' Retirement System. These benefits were established by Chapter 135, Article 3, Part 3, of the General Statutes and may be amended only by the North Carolina General Assembly. Funding for the health care benefit for long-term disability beneficiaries and retirees is financed on a pay-as-you-go basis. The College contributed 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 $160,790.07. 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.*

M. **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 and the Optional

Retirement Program to the DIPNC. For the fiscal year ended June 30, 2002, the College's total contribution to the DIPNC was $35,579.08. 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 North Carolina Community College System Office directly to the private insurer.

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

The College is protected for losses from employee dishonesty and computer fraud for employees paid in whole or in part from State funds. The blanket honesty bond is with a private insurance company and is handled by the North Carolina Department of Insurance with coverage of $5,000,000 per occurrence and a $50,000 deductible. Losses from such occurrences for employees paid from County and Institutional funds are covered by private insurance companies with coverage of $25,000 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.

NOTE 13 - COMMITMENTS AND CONTINGENCIES

N. **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.

O. **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 $7,095,774.00 is 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 – SPECIAL ITEM – LOSS ON LEASEHOLD IMPROVEMENTS

During the year ended June 30, 2001, Alamance Community College entered into a 10-year sub-lease with K-Mart Corporation for the building that houses the College's Burlington Center. The College made improvements to the building that totaled $350,000.00, which were to be depreciated over the life of that lease. In February 2002, the College was notified that under the provision of its bankruptcy, K-Mart Corporation would reject the parent lease. This action invalidated the College's sub-lease, and while the College continues to rent the premises from the owner on a month-to-month basis, there is no longer any long-term lease under which to depreciate the leasehold improvements. For this reason, the College is recognizing a loss of $332,500.00, which is the original cost of the leasehold improvements less accumulated depreciation.

NOTE 15 - ALAMANCE COMMUNITY COLLEGE FOUNDATION

The Alamance Community College Foundation is a separately incorporated non-profit foundation associated with the College. This organization serves as the primary fundraising arm of the College through which individuals, corporations, and other organizations support College programs by providing scholarships, fellowships, faculty salary supplements, and unrestricted funds to specific departments and the College's overall academic environment. The College's financial statements do not include the assets, liabilities, net assets, or operational transactions of the Foundation, except for the distributions made and benefits provided by the Foundation. The distributions received and/or benefits provided approximated $270,177.00 for the year ended June 30, 2002.

NOTE 16 - 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 17 - NET ASSET RESTATEMENT

As referred to in Note 16, 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	$ 22,662,629.07
Implementation of GASB 34/35	(9,340,383.68)
July 1, 2001 Net Assets as Restated	$ 13,322,245.39

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

Schedule 1

Capital Improvement Projects	Projected Start Date	General Obligation Bonds Authorized	Other Sources	Total Project Budget	Amount Expended	Percent Completed	Expected Completion Date
Projects Approved by the State Board							
Student Services/Learning Resources Center/ Administration Building - Project No. 1129	Jan 2001	$ 2,000,000.00	$ 4,500,000.00	$ 6,500,000.00	$ 36,674.00	0.56%	Dec 2003
Renovations Project Phase I - Bridge - Project No. 1201	Jul 2001	100,000.00		100,000.00	42,008.00	42.01%	Aug 2002
Allied Health Building - Project No. 1130	Jan 2003	3,747,351.00		3,747,351.00			Nov 2005
Projects Pending Approval by the State Board							
Renovations Project Phase II - Classrooms	Jul 2002	127,105.00		127,105.00			
Renovations - Old Student Services Area	Jan 2003	240,000.00		240,000.00			
Renovations - Old LRC Area	Mar 2003	240,000.00		240,000.00			
Renovations - Old Business Area	May 2003	150,000.00		150,000.00			
Renovations Project Phase III	Jul 2003	100,000.00		100,000.00			
Renovations Project Phase IV	Jul 2004	100,000.00		100,000.00			
Renovations - Child Development Center	Jan 2005	220,000.00		220,000.00			
Renovations - Parking Lots	Jul 2005	150,000.00		150,000.00			
Total All Projects		$ 7,174,456.00	$ 4,500,000.00	$ 11,674,456.00	$ 78,682.00		

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.

STATE OF NORTH CAROLINA
Office of the State Auditor

Ralph Campbell, Jr.
State Auditor

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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
Alamance Community College
Graham, North Carolina

We have audited the financial statements of Alamance Community College, 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 3, 2002.

As discussed in Note 16 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.

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, 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*.

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)

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.

Ralph Campbell, Jr.
State Auditor

December 3, 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.

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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
Dr. Martin H. Nadelman	President, Alamance Community College
Ms. Debra Dixon-Doss	Vice President for Administrative and Fiscal Services Alamance Community College
Dr. Richard N. Fisher	Chairman, Board of Trustees Alamance Community College

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Other Legislative Officials

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Senator Patrick J. Ballantine	Minority Leader of the N. C. Senate
Representative N. Leo Daughtry	Minority Leader of the N. C. House of Representatives
Representative Joe Hackney	N. C. House Speaker Pro-Tem
Mr. James D. Johnson	Director, Fiscal Research Division

February 20, 2003

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