

# STATE OF NORTH CAROLINA

**FINANCIAL STATEMENT AUDIT REPORT OF**

**COLLEGE OF THE ALBEMARLE**

**ELIZABETH CITY, NORTH CAROLINA**

**FOR THE YEAR ENDED JUNE 30, 2004**

**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, 2004**

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State Auditor

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**AUDITOR'S TRANSMITTAL**

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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, 2004. Our audit was made by authority of Article 5A of Chapter 147 of the *North Carolina 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)

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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 significant deficiencies 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 Internal Control over Financial Reporting and on Compliance and Other Matters.

*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.

*Leslie W. Merritt, Jr.*

Leslie W. Merritt, Jr., CPA, CFP  
State Auditor

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**INDEPENDENT AUDITOR'S REPORT**

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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, 2004, 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, 20 percent, and 8 percent, respectively, of the assets, net assets, and revenues of the College. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for College of The Albemarle Foundation, Inc., is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of College of The Albemarle Foundation, Inc., were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and 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 provides 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, 2004, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 30, 2005, 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

## INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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grant agreements and other matters. The purpose of this report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis, as listed in the table of contents, 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 in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Leslie W. Merritt, Jr.*

Leslie W. Merritt, Jr., CPA, CFP  
State Auditor

March 30, 2005

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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### **Accounting Standards**

College of The Albemarle (COA) has prepared its financial statements in accordance with Government Accounting Standard's Board (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*. Our discussion and analysis of College of The Albemarle's financial performance provides an overview of COA's activities for the fiscal ended June 30, 2004. The intent of this discussion and analysis is to look at COA's financial performance as a whole: readers should also review the Notes to the Financial Statements to enhance their understanding of the financial performance.

### **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 noncredit classes are offered including adult basic education, GED, adult high school, workforce development training, small business training, computer classes, and personal interest classes. 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. The College completed two major projects during the FY 2003-2004 timeframe. The larger project, construction of a Dr. Zack D. Owens Health Sciences Center, a joint effort with the South Hampton Roads YMCA, was substantially completed in December 2003, and opened to students in January 2004. The second project was the renovation of the former D. F. Walker School into the Edenton-Chowan Campus. The project was substantially completed on time, and students are to begin receiving instruction in August 2004. No new major projects are slated to begin construction in FY 2004-2005.

The College is providing a blended financial statement, which includes information on the College's Foundation, College of The Albemarle Foundation, Inc.

College of The Albemarle is in sound financial shape. Previous audits indicate a system of strong internal controls, reliable information systems and good fiscal practices. Employees are aware of the complexity of the programs they manage and are cognizant of spending rules and limits. Although NCCCS required a reversion of two percent of the College's budget

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

for FY 2003-2004, the College was able to properly manage all programs without jeopardizing instruction to the students. The College utilized all provided budgeted dollars and cash provided by NCCCS.

The College continues to place priority on the purchase of automation systems, improving computer laboratories, office computers, network systems and interconnectivity between the campuses. The College has converted two of the three required modules in transitioning to a new system, Colleague Information System. The College is waiting for NCCCS guidance before implementing the final module.

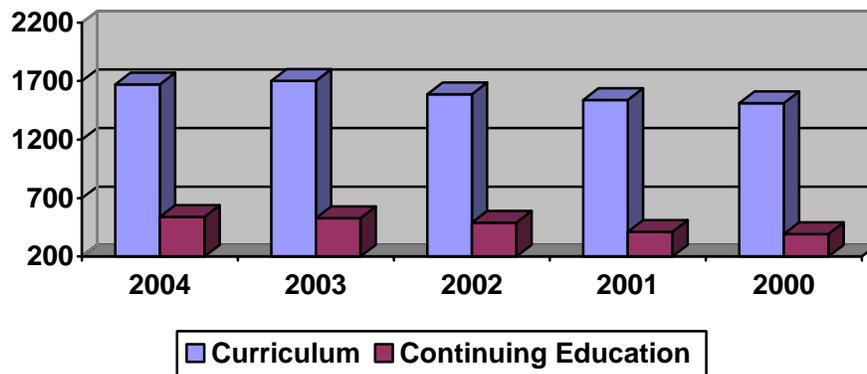
### Major Initiatives

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

FTE by Fiscal Year



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

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The College receives State aid current funding based on the full-time equivalents (FTE) generated from the previous fiscal year. Funding is based on separate FTE funding formulas for curriculum, basic skills, and occupational extension programs of instruction. FY 2002-2003 was the highest FTE level for curriculum over the past five years. A slight FTE curriculum decrease was experienced in FY 2003-2004. Continuing education includes both basic skills and continuing education occupational extension courses. The College conducts three semesters of instruction annually. There was a slight increase in the number of continuing education FTE during FY 2003-2004 over FY 2002-2003. The fall semester historically has the highest enrollments; the spring semester has slightly lower enrollments than the fall, and the summer semester has significantly less students.

### **Using the Annual Report**

This annual report consists of a series of financial statements, prepared in accordance with GASB Statement No. 34/35. The financial statements of the College have been prepared using the economic resource measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. 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, 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 2003-2004, prior to their incorporation into these statements.

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

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

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

### Financial Highlights

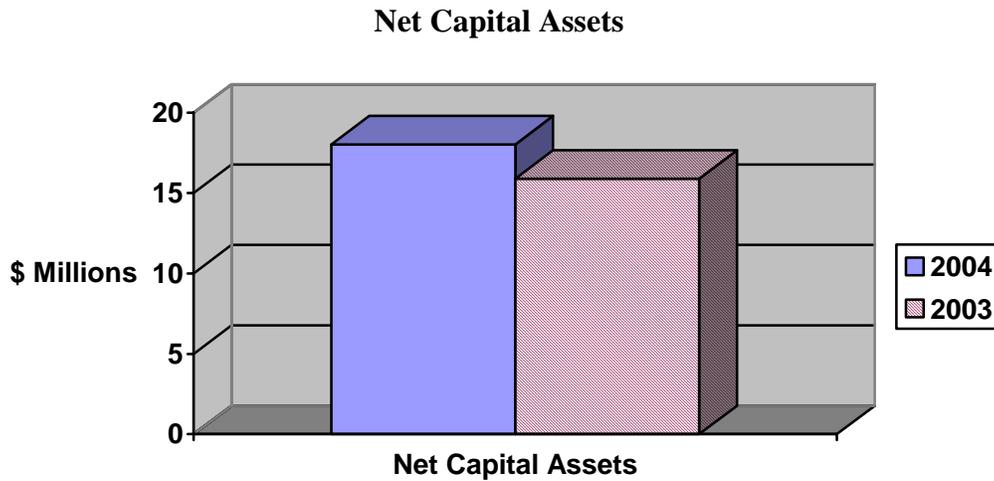
#### Statement of Net Assets (Condensed)

	FY 2003-2004	FY 2002-2003	Difference
Current Assets	\$3,461,928.16	\$3,328,188.34	\$133,739.82
Noncurrent Assets – Noncapital	3,846,798.63	2,799,226.99	1,047,571.64
Noncurrent Assets – Capital	18,041,624.42	15,981,623.09	2,060,001.33
Total Assets	\$25,350,351.21	\$22,109,038.42	\$3,241,312.79
Current Liabilities	739,818.20	340,882.50	398,935.70
Long-Term Liabilities	1,108,234.12	1,019,402.27	88,831.85
Total Liabilities	\$1,848,052.32	\$1,360,284.77	\$487,767.55
Invested in Capital Assets	18,041,624.42	15,981,623.09	2,060,001.33
Net Assets - Restricted	4,411,486.07	3,813,834.60	597,651.47
Net Assets - Unrestricted	1,049,188.40	953,295.96	95,892.44
Total Net Assets	\$23,502,298.89	\$20,748,753.65	\$2,753,545.24

The ending position of total assets at June 30, 2004, was \$25,350,351.21, which was an increase of \$3,241,312.79 over the previous year. Three factors contributed to this increase. Endowment investments increased almost \$450,000 over the previous year because of an increase in donations and positive growth in realized and unrealized gains for investments. Depreciable capital assets increased over \$2 million dollars because of the completion of the Dr. Zack D. Owens building. Bond funds (capital projects) were used for this building. The third reason was that cash increased by approximately \$65,000 and restricted due from primary government increased by \$525,000. Restricted due from primary government is the category used to account for the outstanding bond monies for four open bond projects. Current assets remained at the about the same level as last year with the largest increase occurring in restricted short-term investments. This is attributable to the rise in the value of invested stocks and bonds in the Foundation.

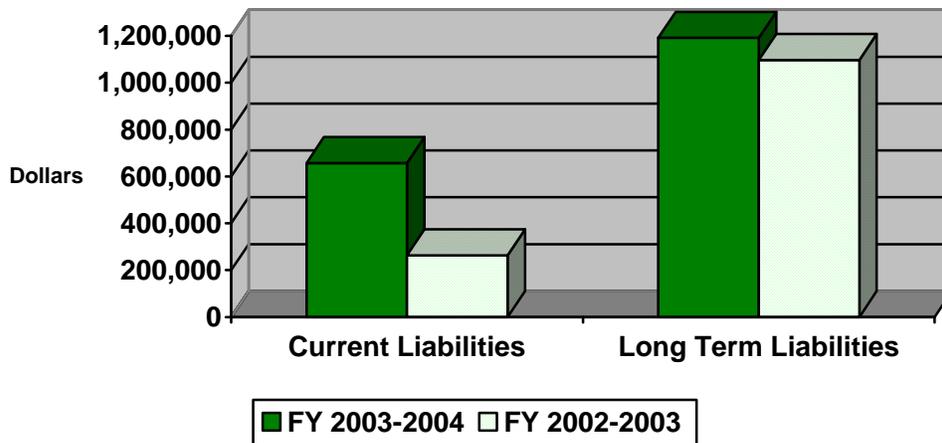
Net Assets increased \$2.8 million over the previous year and is mainly attributable to the Dr. Zack D. Owens construction project, a \$590,000 increase in scholarships and fellowships, and an increase of \$100,000 in unrestricted net assets. \$350,000 from the Frank W. Selig Estate was the largest contribution to scholarships and endowments.

This is the first year in three years that the Foundation had positive net realized and unrealized gains associated with their investments.



The net capital assets increased approximately \$2 million dollars because of the construction and completion of the Dr. Zack D. Owens Health Sciences Center.

**Liabilities**



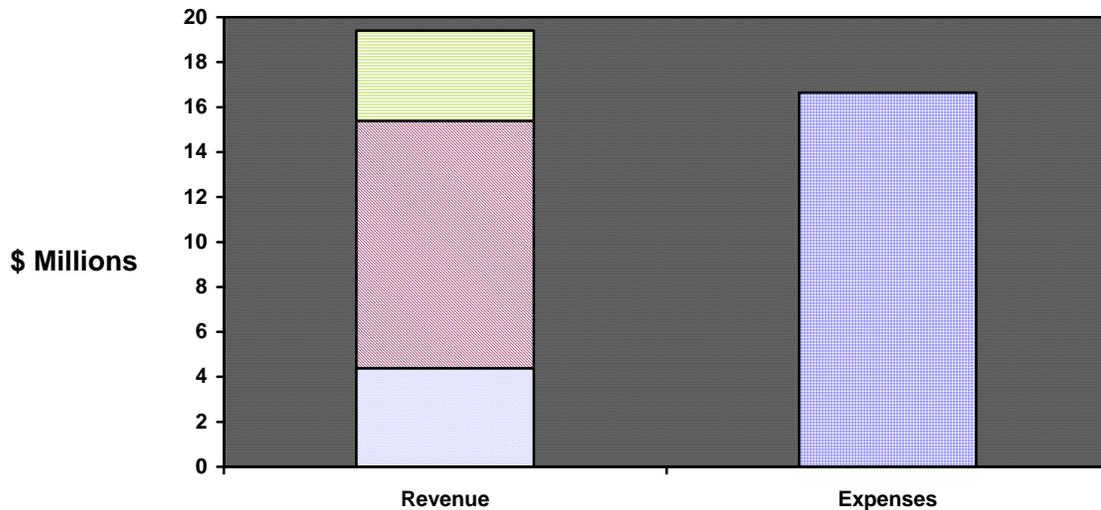
The current liabilities increased approximately \$400,000 over the previous year. This liability increase was associated with an invoice received late in the fiscal year for \$390,000 associated with the bond project of renovating the former D. F. Walker School into the Edenton-Chowan campus. The long-term liabilities increased approximately \$100,000 and are related to the split interest agreements of the Foundation and compensated absences. The compensated absences are mainly responsible for the overall increase. The compensated balances are defined in Note 1K and account for unused annual leave.

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

**Statement of Revenues, Expenses and Changes in Net Assets (Condensed)**

	FY 2003-2004	FY 2002-2003	Difference
<b>Operating Revenues</b>			
Student Tuition and Fees	\$1,205,596.09	\$1,156,648.84	\$48,947.25
Federal Grants and Contracts	2,439,122.58	2,355,144.78	83,977.80
Other Operating Revenues	739,694.47	970,049.72	(230,355.25)
<b>Net Nonoperating Revenues</b>			
State Aid	8,123,115.65	7,809,943.23	313,172.42
County Appropriations	1,647,833.29	1,631,276.96	16,556.33
Other Nonoperating Revenues	1,224,312.48	690,783.32	533,529.16
<b>Capital Contributions</b>	4,024,090.99	599,286.86	3,424,804.13
<b>Total Revenues</b>	<b>\$19,403,765.55</b>	<b>\$15,213,133.71</b>	<b>\$4,190,631.84</b>
<b>Operating Expenses</b>	16,650,220.31	15,103,611.91	1,546,608.40
Increase in Net Assets	2,753,545.24	109,521.80	2,644,023.44
Net Assets, July 1	20,748,753.65	20,639,231.85	109,521.80
Net Assets, June 30	\$23,502,298.89	\$20,748,753.65	\$2,753,545.24

**REVENUES AND EXPENSES**



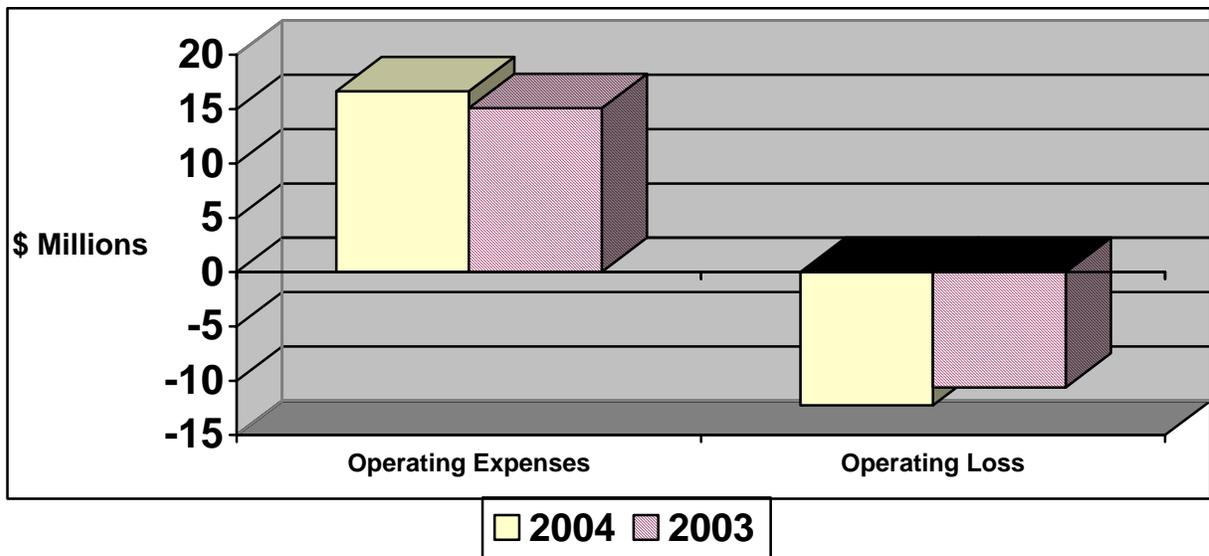
**Revenues and Expenses**

There are three types of revenues: operating revenues, nonoperating revenues, and other revenues. Operating revenues consist of six components. They are student tuition and fees, federal grants and contracts, State and local grants and contracts, nongovernmental grants and contracts, sales and services, and other operating revenues. The operating revenue

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

component, shown as the bottom segment of the revenue bar graph, totaled \$4.384 million in FY 2003-2004, compared to \$4.481 million in FY 2002-2003. The difference is mainly explained by an increase in federal grants by approximately \$84,000, a decrease in State and local grants by \$266,000, and an increase in nongovernmental grants by \$69,000. The decrease in State and local grants is attributed to less dollars being planned, requested and expended for bond construction projects. Nonoperating revenues is the middle segment, the largest segment, and consists of State aid and county appropriations. State aid increased approximately \$313,000 and is directly associated with increased FTE. The county appropriations remained about the same as the previous year. The top segment is associated with State capital aid, county capital appropriations and capital gifts. Capital projects increased about \$3.4 million over the previous year and is directly associated with the bond construction projects and the completion of the Dr. Owens building. Revenues outpaced expenses by \$2.8 million.

### Expenses



Operating expenses increased \$1.5 million over the previous fiscal year. Increases were realized in salaries and benefits, supplies and materials, scholarships and fellowships, utilities and depreciation. The only operating expense to decrease was services by approximately \$280,000 because of a decrease in construction expenses and maintenance expenses. The category of operating loss is misleading because it compares the operating revenue to operating/nonoperating expenses, so therefore, all revenues are not considered. Since State aid and county appropriations account for over \$9 million, and State capital aid amounted to approximately \$3.6 million, the reader may be misled into believing that COA had a poor year

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

because of the operating loss. The overall increase of net assets of \$2.8 million is a better indicator of the soundness of the organization. This increase is mainly attributable to the construction of the Dr. Zack D. Owens Health Sciences Center.

### **Statement of Cash Flows (Condensed)**

The following chart is a comparison of the cash flows.

	June 30, 2004	June 30, 2003	Difference
Cash Flows from Operating Activities	\$(11,127,707.88)	\$(10,061,995.48)	(\$1,065,712.40)
Cash Flows from Noncapital Financing Activities	10,590,305.33	10,114,822.88	475,482.45
Cash Flows from Capital and Related Financing Activities	760,341.56	(6,103.40)	766,444.96
Cash Flows from Investing Activities	(157,622.98)	256,529.84	(414,152.82)
Noncash Investing, Capital and Financing Activities (Change in fair value of investments)	297,822.57	288,771.53	9,051.04
(Increase in Receivables Related to Nonoperating Income)	524,581.98	250,462.52	274,119.46
(Capital Asset Write-Offs)	23,912.44		23,912.44

The slight increase in cash flow used by operating activities is attributable to increased payments to vendors and suppliers. The increase in Noncapital Financing Activities is directly attributable to additional county funds received and utilized. The Cash Flow from Capital and Related Financing Activities increase is associated with completion of the Dr. Zack D. Owens Center and beginning the work of renovating buildings on the Edenton-Chowan campus. The decrease in Cash Flows from Investing Activities is related to increased purchases of investments and related fees. The Noncash Investing, Capital and Financing Activities differences, are attributable to the positive stock market change from FY 2002-2003 to FY 2003-2004. The value of stocks and bonds owned by the Foundation increased in FY 2003-2004, over the previous year.

### **Capital Contributions**

As previously mentioned capital contributions increased by \$3.4 million and is associated with donations and the receipt of bond monies for new construction and renovation projects.

<b>College of The Albemarle</b>		
<b>Statement of Net Assets</b>		
<b>June 30, 2004</b>		<b>Exhibit A-1</b>
<b>ASSETS</b>		
Current Assets:		
Cash and Cash Equivalents	\$	1,136,840.68
Restricted Cash and Cash Equivalents		212,451.88
Short-Term Investments		294,296.89
Restricted Short-Term Investments		1,034,505.82
Receivables, Net (Note 4)		723,972.35
Inventories		55,592.54
Prepaid Items		4,268.00
<b>Total Current Assets</b>		<b>3,461,928.16</b>
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		110,377.28
Restricted Due from Primary Government		776,772.77
Endowment Investments		2,959,648.58
Capital Assets - Nondepreciable, Net (Note 5)		2,403,135.17
Capital Assets - Depreciable, Net (Note 5)		15,638,489.25
<b>Total Noncurrent Assets</b>		<b>21,888,423.05</b>
<b>Total Assets</b>		<b>25,350,351.21</b>
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts Payable and Accrued Liabilities (Note 6)		612,200.59
Deferred Revenue		27,828.06
Funds Held for Others		16,567.02
Long-Term Liabilities - Current Portion (Note 7)		83,222.53
<b>Total Current Liabilities</b>		<b>739,818.20</b>
Noncurrent Liabilities:		
Long-Term Liabilities (Note 7)		1,108,234.12
<b>Total Liabilities</b>		<b>1,848,052.32</b>
<b>NET ASSETS</b>		
Invested in Capital Assets		18,041,624.42
Restricted for:		
Nonexpendable:		
Scholarships and Fellowships		2,877,268.76
Expendable:		
Scholarships and Fellowships		1,132,191.45
Capital Projects		386,339.37
Other		15,686.49
Unrestricted		1,049,188.40
<b>Total Net Assets</b>	<b>\$</b>	<b>23,502,298.89</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</b>		
<b>Changes in Net Assets</b>		
<b>For the Fiscal Year Ended June 30, 2004</b>		<b>Exhibit A-2</b>
<b>REVENUES</b>		
Operating Revenues:		
Student Tuition and Fees, Net (Note 9)	\$	1,205,596.09
Federal Grants and Contracts		2,439,122.58
State and Local Grants and Contracts		424,792.55
Nongovernmental Grants and Contracts		78,641.63
Sales and Services, Net (Note 9)		196,052.06
Other Operating Revenues		40,208.23
Total Operating Revenues		4,384,413.14
<b>EXPENSES</b>		
Operating Expenses:		
Salaries and Benefits		9,969,885.74
Supplies and Materials		2,322,969.08
Services		1,748,781.31
Scholarships and Fellowships		1,691,993.84
Utilities		289,985.69
Depreciation		626,604.65
Total Operating Expenses		16,650,220.31
Operating Loss		(12,265,807.17)
<b>NONOPERATING REVENUES</b>		
State Aid		8,123,115.65
County Appropriations		1,647,833.29
Noncapital Grants		445,449.96
Noncapital Gifts		290,744.54
Investment Income, Net		487,397.63
Other Nonoperating Revenues		720.35
Total Nonoperating Revenues		10,995,261.42
Loss Before Other Revenues		(1,270,545.75)
State Capital Aid		3,599,239.07
County Capital Appropriations		24,423.18
Capital Gifts		400,428.74
Increase in Net Assets		2,753,545.24
<b>NET ASSETS</b>		
Net Assets, July 1, 2003		20,748,753.65
Net Assets, June 30, 2004	\$	23,502,298.89
The accompanying notes to the financial statements are an integral part of this statement.		

<b>College of The Albemarle</b>		
<b>Statement of Cash Flows</b>		
<b>For the Fiscal Year Ended June 30, 2004</b>		<b>Exhibit A-3</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Received from Customers		\$ 4,358,108.91
Payments to Employees and Fringe Benefits		(9,793,675.48)
Payments to Vendors and Suppliers		(3,988,214.58)
Payments for Scholarships and Fellowships		(1,691,993.84)
Other Payments		(11,932.89)
Net Cash Used by Operating Activities		(11,127,707.88)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
State Aid Received		8,123,115.65
County Appropriations		1,647,833.29
Noncapital Grants Received		445,449.96
Noncapital Gifts Received		373,906.43
Cash Provided by Noncapital Financing Activities		10,590,305.33
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
State Capital Aid Received		3,074,657.09
County Capital Appropriations		24,423.18
Capital Gifts Received		400,428.74
Acquisition and Construction of Capital Assets		(2,686,605.98)
Principal Paid on Split Interest Agreements		(52,561.47)
Net Cash Provided by Capital and Related Financing Activities		760,341.56
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from Sales and Maturities of Investments		136,933.34
Investment Income		180,491.61
Purchase of Investments and Related Fees		(475,047.93)
Net Cash Used by Investing Activities		(157,622.98)
Net Increase in Cash and Cash Equivalents		65,316.03
Cash and Cash Equivalents, July 1, 2003		1,394,353.81
Cash and Cash Equivalents, June 30, 2004		\$ 1,459,669.84
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES</b>		
Operating Loss		\$ (12,265,807.17)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense		626,604.65
Miscellaneous Nonoperating Income		720.35
Changes in Assets and Liabilities:		
Receivables, Net		(10,266.43)
Due from Community College Component Units		(15,020.30)
Inventories		(4,268.00)
Accounts Payable and Accrued Liabilities		421,595.94
Deferred Revenue		(16,037.80)
Funds Held for Others		(12,653.24)
Compensated Absences		147,424.12
Net Cash Used by Operating Activities		\$ (11,127,707.88)

<b><i>College of The Albemarle</i></b>		
<b><i>Statement of Cash Flows</i></b>		<b><i>Exhibit A-3</i></b>
<b><i>For the Fiscal Year Ended June 30, 2004</i></b>		<b><i>Page 2</i></b>
<b>RECONCILIATION OF CASH AND CASH EQUIVALENTS</b>		
Current Assets:		
Cash and Cash Equivalents	\$	1,136,840.68
Restricted Cash and Cash Equivalents		212,451.88
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		110,377.28
Total Cash and Cash Equivalents - June 30, 2004	\$	<u>1,459,669.84</u>
<b>NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES</b>		
Change in Fair Value of Investments	\$	297,822.57
Increase in Receivables Related to Nonoperating Income		524,581.98
Capital Asset Write-Offs		23,912.44
The accompanying notes to the financial statements are an integral part of this statement.		

**COLLEGE OF THE ALBEMARLE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2004**

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES**

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

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

**Blended Component Unit** – 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 College Business and Finance Office, P.O. Box 2327, Elizabeth City, NC 27909, or by calling (252) 335-0821. Other related foundations and similar nonprofit 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).

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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Pursuant to the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, as amended by GASB Statement No. 35, *Basic Financial Statements – and Management’s Discussion and Analysis – for Public Colleges and Universities*, the full scope of the College’s activities is considered to be a single business-type activity (BTA) and accordingly, is reported within a single column in the basic financial statements.

In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the College does not apply 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.

- 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.
- D. **Cash and Cash Equivalents** – This classification includes petty cash, cash on deposit with private bank accounts, and deposits held by the State Treasurer in the short-term investment portfolio. 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 long-term fixed income investments, equity investments, 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 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 State and local governments, private sources in connection with reimbursement of allowable expenditures made pursuant

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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to contracts and grants, and pledges that are verifiable, measurable, and expected to be collected and available for expenditures for which the resource provider's conditions have been satisfied. Receivables are recorded net of estimated uncollectible amounts.

- G. Inventories** – Inventories, consisting of postage, fuel oil and expendable supplies, are valued at cost 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 more than one year. Library books are generally not considered to have a useful life of more than one year unless part of a collection and are expensed in the year of acquisition.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets. The College utilizes the North Carolina Community College System (NCCCS) Asset Useful Lives and Capitalization Limits guide for capitalization limits and asset useful lives. These useful lives are built into the NCCCS accounting software for assets purchased. The College makes the useful life determination using this guide for assets purchased using other sources of funding outside the accounting software, generally 25 years for general infrastructure, 40 years for buildings, and 3 to 5 years for equipment.

- I. Restricted Assets** – Unexpended capital contributions are classified as restricted assets because their use is limited by donor/grantor agreements. Certain other assets are classified as restricted because their use is limited by external parties or statute.
- J. Noncurrent Long-Term Liabilities** – Noncurrent long-term liabilities include split interest agreements 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 June 30th, plus the leave earned, less the leave taken between July 1st and June 30th.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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In addition to the vacation leave described above, compensated absences includes the accumulated unused portion of the special annual leave bonuses awarded by the College to all full-time permanent employees as of July 1, 2003. The unused portion of this leave remains available until used, notwithstanding the limitation on annual leave carried forward described above.

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** – This represents the College’s total investment in capital assets.

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

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

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

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

**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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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 classifies its revenues and expenses as operating or nonoperating in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the College’s principal ongoing operations. Operating revenues include activities that have characteristics of exchange transactions, such as (1) student tuition and fees, (2) sales and services of auxiliary enterprises, and (3) certain federal, State and local grants and contracts. Operating expenses are all expense transactions incurred other than those related to capital and noncapital financing or investing activities as defined by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*.

Nonoperating revenues include activities that have the characteristics of nonexchange transactions. Revenues from nonexchange transactions and State aid that represent subsidies or gifts to the College, as well as investment income, are considered nonoperating since these are either investing, capital or noncapital financing activities. Capital contributions are presented separately after nonoperating revenues and expenses.

- O. Internal Sales Activities** – Certain institutional auxiliary operations provide goods and services to College departments, as well as to its customers. These institutional auxiliary operations include activities such as the College’s print shop. 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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College. At year end the amount held in irrevocable trusts by others for the College was \$759,130.33. 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 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 Investment Pool. Also, the College may establish time deposit accounts, money market accounts, and certificates of deposit. At year-end, cash on hand was \$2,010.00. The carrying amount of cash on deposit was \$1,457,659.84 and the bank balance was \$1,665,590.08. 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.

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

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Cash on deposit at year end consisted of the following:

	Book Balance	Bank Balance
Cash on Deposit with State Treasurer	\$ 724,416.28	\$ 726,024.83
Cash on Deposit with Private Financial Institutions	733,243.56	939,565.25
	\$ 1,457,659.84	\$ 1,665,590.08

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 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.

The financial statements and disclosures for the State Treasurer’s 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, 2004, \$101,861.13 of the bank balance was covered by federal depository insurance and \$837,704.12 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 personal property 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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government or public authority; obligations of certain nonguaranteed 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.

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.

Investments of the College's Foundation are subject to and restricted by General Statute 36B "Uniform Management of Institutional Funds Act" (UMIFA) and any requirements placed on them by contract or donor 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 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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

A summary of the College's investments at June 30, 2004, is presented below:

	1	2	3	Total
<b>Categorized Investments:</b>				
Equity Investments	\$ 0.00	\$ 2,399,449.27	\$ 0.00	\$ 2,399,449.27
Fixed Income Investments		1,392,386.90		1,392,386.90
<b>Total Categorized Investments</b>	\$ 0.00	\$ 3,791,836.17	\$ 0.00	3,791,836.17
<b>Investments Not Categorized:</b>				
Miscellaneous/Other				229,410.23
Money Market Funds				265,604.89
Personal Property				1,600.00
<b>Total Investments Not Categorized</b>				496,615.12
<b>Total Investments</b>				\$ 4,288,451.29

### 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.

Investment return of the College's endowment funds is predicated under classical trust doctrines. Unless the donor has stipulated otherwise, capital gains and losses are accounted for as part of the endowment principal and are not available for expenditure. The Investment Committee approves award amounts for each year. Based on the December 31st scholarship endowment accounting report, the Investment Committee assesses the level of disbursements (normally 4.5% to 5% of the market value of the endowment fund which includes the restricted amounts) as the basis for determination of the next year's scholarship contribution to the College. The Investment Committee determines the level of contributions and whether said level should be raised or lowered in the interest of protecting long-term growth of the fund and maximizing College contributions. Every effort is made to keep individual scholarship awards at a constant or increasing level from year to year. The December 31, 2003, endowment value was \$1,530,099, therefore allowing \$53,169 to be allocated to scholarships at 3.47%.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 4 - RECEIVABLES

Receivables at June 30, 2004, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
<b>Current Receivables:</b>			
Students	\$ 162,161.05	\$ 1,409.61	\$ 160,751.44
Accounts	24,020.98		24,020.98
Intergovernmental	26,369.70		26,369.70
Pledges	509,920.80		509,920.80
Investment Earnings	1,608.55		1,608.55
Other	1,300.88		1,300.88
<b>Total Current Receivables</b>	<b>\$ 725,381.96</b>	<b>\$ 1,409.61</b>	<b>\$ 723,972.35</b>

### NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2004, is presented as follows:

	Balance July 1, 2003	Adjustments	Increases	Decreases	Balance June 30, 2004
Capital Assets, Nondepreciable:					
Land	\$ 2,403,135.17	\$ 0.00	\$ 0.00	\$ 0.00	\$ 2,403,135.17
Construction in Progress		(2,530,364.52)	2,530,364.52		
<b>Total Capital Assets, Nondepreciable</b>	2,403,135.17	(2,530,364.52)	2,530,364.52		2,403,135.17
Capital Assets, Depreciable:					
Buildings	16,484,878.91	2,530,364.52			19,015,243.43
Machinery and Equipment	1,335,539.92		156,241.46	23,912.44	1,467,868.94
General Infrastructure	367,789.13				367,789.13
<b>Total Capital Assets, Depreciable</b>	18,188,207.96	2,530,364.52	156,241.46	23,912.44	20,850,901.50
Less Accumulated Depreciation:					
Buildings	3,458,000.92		463,057.02		3,921,057.94
Machinery and Equipment	829,859.12		158,124.83	23,912.44	964,071.51
General Infrastructure	321,860.00		5,422.80		327,282.80
<b>Total Accumulated Depreciation</b>	4,609,720.04		626,604.65	23,912.44	5,212,412.25
<b>Total Capital Assets, Depreciable, Net</b>	13,578,487.92	2,530,364.52	(470,363.19)		15,638,489.25
<b>Capital Assets, Net</b>	<b>\$ 15,981,623.09</b>	<b>\$ 0.00</b>	<b>\$ 2,060,001.33</b>	<b>\$ 0.00</b>	<b>\$ 18,041,624.42</b>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2004, were as follows:

	Amount
Accounts Payable	\$ 460,477.29
Accrued Payroll	151,723.30
<b>Total Accounts Payable and Accrued Liabilities</b>	<b>\$ 612,200.59</b>

### NOTE 7 - LONG-TERM LIABILITIES

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

	Balance July 1, 2003	Additions	Reductions	Balance June 30, 2004	Current Portion
Split Interest Agreements	\$ 811,691.80	\$ 0.00	\$ 52,561.47	\$ 759,130.33	\$ 45,547.82
Compensated Absences	284,902.20	416,019.44	268,595.32	432,326.32	37,674.71
<b>Total Long-Term Liabilities</b>	<b>\$ 1,096,594.00</b>	<b>\$ 416,019.44</b>	<b>\$ 321,156.79</b>	<b>\$ 1,191,456.65</b>	<b>\$ 83,222.53</b>

### NOTE 8 - OPERATING LEASE OBLIGATIONS

Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2004:

Fiscal Year	Amount
2005	\$ 53,226.56
2006	20,559.00
2007	7,311.00
<b>Total Minimum Lease Payments</b>	<b>\$ 81,096.56</b>

Rental expense for all operating leases during the year was \$63,354.77.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 9 - 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>				
<b>Student Tuition and Fees</b>	\$ 2,013,043.91	\$ 0.00	\$ 807,447.82	\$ 1,205,596.09
<b>Sales and Services:</b>				
Sales and Services of Auxiliary Enterprises:				
Print Shop	\$ 331,976.36	\$ 135,924.30	\$ 0.00	\$ 196,052.06

### NOTE 10 - OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	\$ 4,645,307.62	\$ 728,322.35	\$ 377,550.91	\$ 0.00	\$ 0.00	\$ 0.00	\$ 5,751,180.88
Academic Support	943,971.36	107,210.26	51,551.15				1,102,732.77
Student Services	1,204,504.77	56,160.60	66,150.14				1,326,815.51
Institutional Support	2,503,390.79	558,435.44	351,577.89				3,413,404.12
Operations and Maintenance of Plant	605,896.53	781,401.74	757,896.82		288,716.08		2,433,911.17
Student Financial Aid			50,922.13	1,691,993.84			1,742,915.97
Auxiliary Enterprises	66,814.67	91,438.69	93,132.27		1,269.61		252,655.24
Depreciation						626,604.65	626,604.65
Total Operating Expenses	\$ 9,969,885.74	\$ 2,322,969.08	\$ 1,748,781.31	\$ 1,691,993.84	\$ 289,985.69	\$ 626,604.65	\$ 16,650,220.31

### NOTE 11 - PENSION PLANS

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

Benefit and contribution provisions for the Teachers' and State Employees' Retirement System are established by *North Carolina General Statutes* 135-5 and 135-8 and may be amended only by the North Carolina General Assembly. Employer and member contribution rates are set each year by the North Carolina General Assembly based on annual actuarial valuations. For the year ended June 30, 2004, these rates were set at .22% of covered payroll for employers and 6% of covered payroll for members.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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For the year ended June 30, 2004, the College had a total payroll of \$8,429,423.50, of which \$6,717,533.51 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were \$403,052.01 and \$14,778.57, respectively. The College made one hundred percent of its annual required contributions for the years ended June 30, 2004, 2003, and 2002, which were \$14,778.57, \$0.00, and \$322,779.25, 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. 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 \$50,616.00 for the year ended June 30, 2004.

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 \$94,245.50 for the year ended June 30, 2004.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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### NOTE 12 - 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 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 3.2% of the covered payroll under the Teachers' and State Employees' Retirement System for these health care benefits. For the fiscal year ended

June 30, 2004, the College's total contribution to the Plan was \$214,961.07. 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*.

**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. Employer contributions are established in the Appropriations Bill by the General Assembly. The College was not required to contribute to the DIPNC for the fiscal year ended June 30, 2004. The College assumes no liability for long-term disability benefits under the Plan other than its contribution. Additional detailed information about the DIPNC is disclosed in the State of North Carolina's *Comprehensive Annual Financial Report*.

### NOTE 13 - RISK MANAGEMENT

The College is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These exposures to loss are handled via a combination of methods, including participation in State-administered insurance programs, purchase of commercial insurance, and self-retention of certain risks. Except for a reduction in the public officers' and employees' liability insurance from \$11,000,000 to \$5,000,000, there have been no significant reductions in

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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 \$5,000,000 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 the Public School Insurance Fund, a State-administered public entity risk pool. This fund is financed by premiums and interest and incurs a \$10 million self-insured deductible per occurrence. Reinsurance is purchased by the fund to cover catastrophic events in excess of the \$10 million deductible. 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. 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.

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.

## NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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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. There were no employer contributions required for the current fiscal year.

Additional details on the State-administered risk management programs are disclosed in the State's *Comprehensive Annual Financial Report*, issued by the Office of the State Controller.

### NOTE 14 - COMMITMENTS AND CONTINGENCIES

**Community College General Obligation Bonds** – The 1999-2000 Session of the General Assembly of North Carolina authorized the issuance of \$600,000,000 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 were authorized for issuance 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 of \$3,878,780.14 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.

**College of The Albemarle  
Schedule of General Obligation Bond Project Authorizations,  
Budgets, and Expenditures  
For Project-to-Date as of June 30, 2004**

**Schedule 1**

Capital Improvement Projects	Original Projected Start Date	Revised/ Actual Start Date	General Obligation Bonds Authorized	Other Sources	Total Project Budget	Amount Expended	Percent Completed	Original Expected Completion Date	Revised/ Actual Completion Date
<b>Projects Approved by the State Board</b>									
D. F. Walker Public School Takeover Renovation #1241	May 2003	May 2004	\$ 905,612.00	\$ 0.00	\$ 905,612.00	\$ 160,069.35	17.68%	Aug 2004	Oct 2005
Allied Health and Wellness Center Project #1247	Jul 2002	Jul 2002	3,573,438.00		3,573,438.00	2,499,368.52	69.94%	Dec 2003	May 2005
Land Acquisition and Renovation of Riverside Project #1315	Oct 2003	Oct 2003	43,000.00		43,000.00	30,872.19	71.80%	Oct 2003	Jun 2005
Building A & C Roof Repairs Bundled Project #1197	Jul 2004	Jul 2004	386,000.00		386,000.00	186,927.80	48.43%	Mar 2006	Oct 2005
<b>Projects Not Started - To Be Funded in Future Years</b>									
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			Jul 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	
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 Renovation	Mar 2006		250,000.00		250,000.00			Nov 2006	
Learning Resources Center Renovation	Jul 2005		250,000.00		250,000.00			Nov 2006	
Learning Resources Center Renovation (Dare Co.)	Jul 2005		50,000.00		50,000.00			Jan 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>\$ 0.00</b>	<b>\$ 6,756,018.00</b>	<b>\$ 2,877,237.86</b>			

Note: The 1999-2000 Session of the General Assembly of North Carolina authorized the issuance of \$600 million 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.

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Leslie W. Merritt, Jr., CPA, CFP  
State Auditor

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

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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, 2004, and have issued our report thereon dated March 30, 2005. We did not audit the financial statements of College of The Albemarle Foundation, Inc., which represent 23 percent, 20 percent, and 8 percent, respectively, of the assets, net assets, and revenues of the College. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for College of The Albemarle Foundation, Inc., is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. 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 College of The Albemarle Foundation, Inc.

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 an opinion 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 reportable 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 caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected

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

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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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the College's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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.

*Leslie W. Merritt, Jr.*

Leslie W. Merritt, Jr., CPA, CFP  
State Auditor

March 30, 2005

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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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State Treasurer  
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State Budget Officer  
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President, College of The Albemarle  
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College of The Albemarle

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Mr. James D. Johnson

Director, Fiscal Research Division

April 27, 2005

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