STATE OF NORTH CAROLINA

COLLEGE OF THE ALBEMARLE

ELIZABETH CITY, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2006

OFFICE OF THE STATE AUDITOR

LESLIE W. MERRITT, JR., CPA, CFP

STATE AUDITOR

College of The Albemarle

Elizabeth City, North Carolina

Financial Statement Audit Report

For the Year Ended June 30, 2006

STATE OF NORTH CAROLINA
Office of the State Auditor

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

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601
Telephone: (919) 807-7500
Fax: (919) 807-7647
Internet
http://www.ncauditor.net

AUDITOR'S TRANSMITTAL

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

We have completed a financial statement audit of College of The Albemarle for the year ended June 30, 2006, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

Our consideration of internal control over financial reporting and compliance and other matters based on an audit of the financial statements disclosed certain deficiencies that are detailed in the Audit Findings and Recommendations section of this report. The College's response is included following each finding.

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., CPA, CFP
State Auditor

July 24, 2007

TABLE OF CONTENTS

STATE OF NORTH CAROLINA
Office of the State Auditor

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

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601
Telephone: (919) 807-7500
Fax: (919) 807-7647
Internet
http://www.ncauditor.net

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying basic financial statements of College of The Albemarle, a component unit of the State of North Carolina, as of and for the year ended June 30, 2006, 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 25 percent, 24 percent, and 5 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of College of The Albemarle as of June 30, 2006, 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 June 21, 2007, on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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.

Leslie W. Merritt, Jr.

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

June 21, 2007

Overview

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

The MD&A is a very important section of an annual report, especially for those analyzing the fundamentals, which include management and management style. Although this section contains useful information, the section is unaudited.

Our discussion and analysis of College of The Albemarle's financial performance provides an overview of COA's activities for the fiscal year ended June 30, 2006. 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, Gateway to College, workforce development training, small business assistance and training, internet 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 a total of $6.756 million of bond referendum project monies. The College completed a major project and had two other major projects in progress during the FY 2005-2006 timeframe. The completed project was the renovation of the Edenton-Chowan campus. The projects in progress are the renovation of the Manteo Middle School into the Roanoke Island Campus in Manteo and the expansion of Building A on the Elizabeth City campus. In addition, the College was provided a grant by the Golden LEAF Foundation for $300,000 in FY 2004-2005. This money was used to build and equip a boat building facility on the Edenton-Chowan campus. Special legislation provided the College $1 million for the continued renovation of the Edenton-Chowan campus. Major work has been completed including the boat building laboratory, a parking lot with canopy and lighting, signage, improvements to the culinary building, landscaping and renovations to all four buildings in use by the College.

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's financial posture and accounting practices are sound. 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. The College believes that its financial position will only improve in the future.

Funding for maintenance of plant and facilities management increased $92,655 over the previous fiscal year. This was directly attributable to an increase of $68,952 from the State for Maintenance of Plant and $23,703 from direct county budget increases. These increases were mainly utilized to pay for the two percent pay raise and to help with maintenance and repair of facilities.

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 implemented the Colleague Information System which is its primary accounting system.

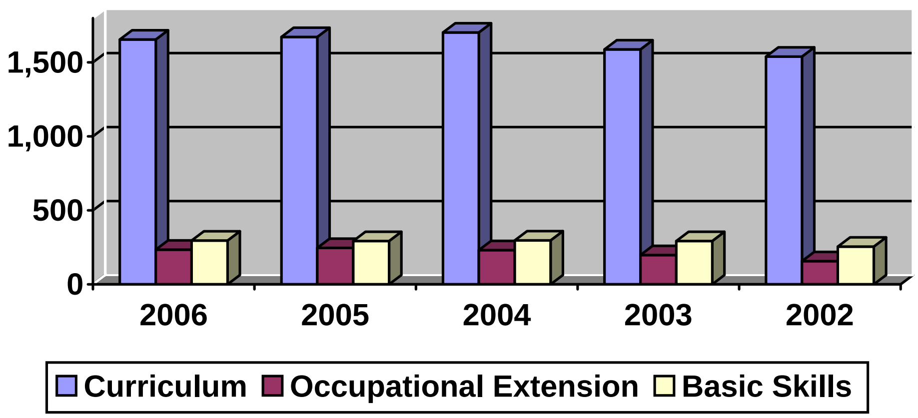
Major Initiatives

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

Budget FTE by Fiscal Year



The College receives funding from the State based on the full-time equivalents (FTE) generated from the previous fiscal year. The fiscal year for Curriculum is the fall and spring semesters in the State fiscal year period. The fiscal year for Occupational Extension and Basic Skills programs is the previous calendar year. Funding is based on separate FTE funding formulas for Curriculum, Occupational Extension and Basic Skills programs of instruction as well as administrative support. Curriculum has had a downward trend in FTE since 2003. The College has decreased from being funded at 1,702 FTE in FY 2003-2004 to 1,655 in FY 2005/2006. This downward trend reduces the amount of available State dollars for day-to-day operations. Occupational extension had a slight decrease (12 FTE) over the past fiscal year. The Basic Skills program slightly increased (+3 FTE) over the previous fiscal year. The FTE formula, which allows a specific dollar of funding for each FTE generated, changes annually based on pay raises and NCCCS available funding. To minimize the potential financial impact, the NCCCS provides budgeted FTE funding for the higher of the actual FTE achieved or the average of the three previous years actual FTE. The College conducts three semesters of instruction annually. 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. Curriculum generated FTE during the summer semester is not allowed when computing FTE generated. The College does not get FTE credit for any self supporting classes conducted.

Using the Annual Report

This annual report consists of a series of financial statements, prepared in accordance with GASB Statement No. 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. The 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, facilities rentals, bookstore, and community events. The College is provided county funds from the seven counties that it supports. The College of The Albemarle Foundation, Inc., is a separate organization and the Foundation Financial Statements are audited annually. The FY 2005-2006 Foundation Financial Statements were submitted to the auditor, have been blended into these statements, and a final audit opinion has been issued by an independent auditor.

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

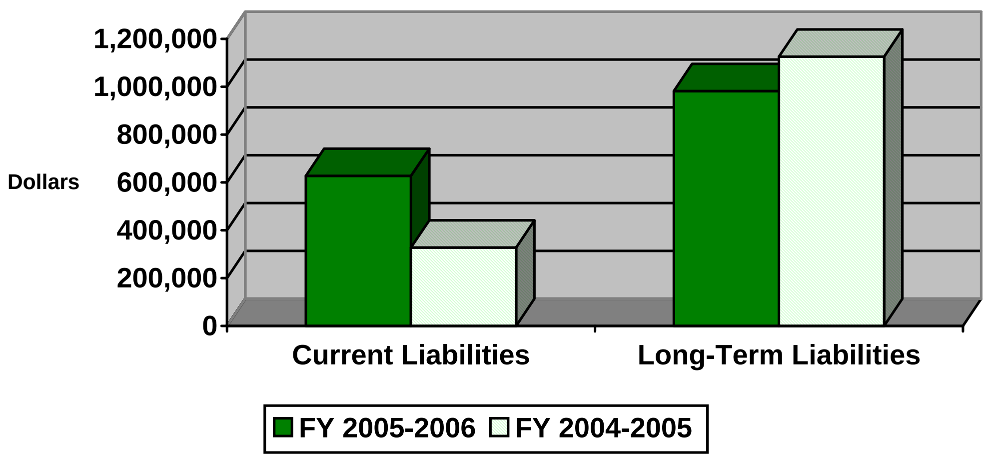
Financial Highlights

Condensed Statement of Net Assets

	FY 2005-2006	FY 2004-2005	Difference
Current Assets	$ 4,611,910.62	$ 4,396,358.63	$ 215,551.99
Noncurrent Assets:			
Restricted Cash and Cash Equivalents	99,421.42	69,473.30	29,948.12
Endowment Investments	2,698,915.23	2,485,291.30	213,623.93
Capital Assets - Nondepreciable	2,674,765.58	2,434,007.36	240,758.22
Capital Assets - Depreciable	14,899,748.75	14,591,425.61	308,323.14
Other Long-Term Investments	554,862.00	534,534.00	20,328.00
Other	761,082.82	264,496.38	496,586.44
Total Assets	$ 26,300,706.42	$ 24,775,586.58	$ 1,525,119.84
Current Liabilities	$ 627,384.45	$ 407,972.99	$ 219,411.46
Noncurrent Liabilities	981,815.71	1,045,152.73	(63,337.02)
Total Liabilities	1,609,200.16	1,453,125.72	156,074.44
Invested in Capital Assets	17,574,514.33	17,025,432.97	549,081.36
Restricted	5,613,763.37	5,057,613.34	556,150.03
Unrestricted	1,503,228.56	1,239,414.55	263,814.01
Total Net Assets	$ 24,691,506.26	$ 23,322,460.86	$ 1,369,045.40

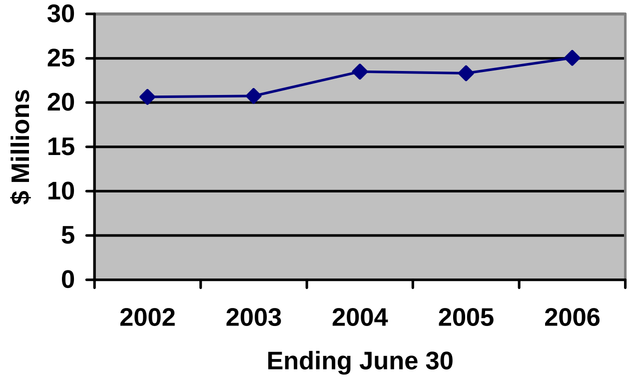
An increase in net assets is probably the most positive single indicator of the financial posture of an organization. Total assets increased $1.5 million over the previous fiscal year. The overall increases in current and noncurrent assets are indicative of positive Foundation growth and positive capital growth. The increase in capital assets - depreciable is attributable to the completion of construction work at the Edenton-Chowan campus and the completion of another section of the boardwalk on the Elizabeth City Campus. These lead to an increase of depreciable capital assets of $960,031 and accumulated depreciation of $651,708. The increase in other noncurrent assets is mainly because the College had more due from the Primary Government (State construction projects) for ongoing construction at the end of this year as compared to last year.

Liabilities



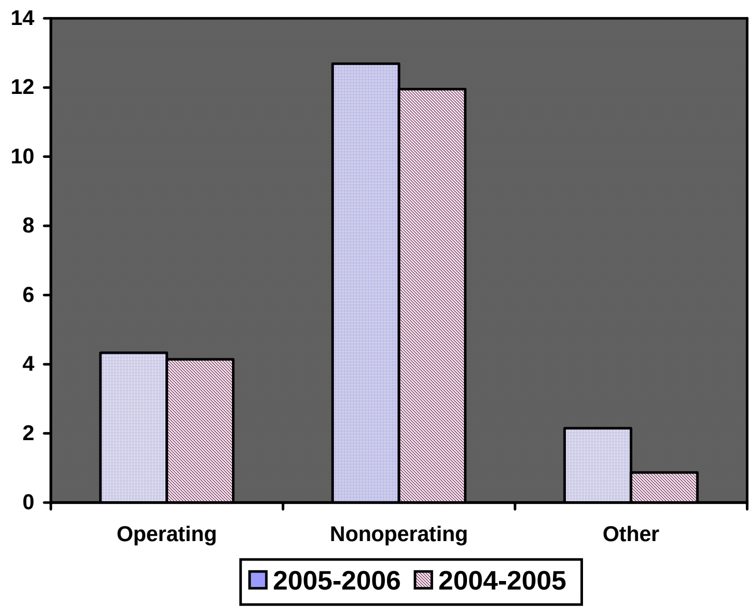
Current liabilities increased because of increases in accounts payable, accrued salaries and compensated absences. Accounts payable increased $104,234, accrued salaries increased $65,808 and compensated absences increased $52,606. The amount of accounts payable is a direct function of when the bills arrive at the end of the year and the amount of cash available. Every year there will be a certain amount of accrued salaries and the amount is based on the number of employees and the timing of the June calendar. The decrease in long-term liabilities is because Foundation Split-Interest agreements had payouts of $53,870. This is an annual expectation based on the endowment arrangement.

Net Assets



The increase in net assets is predominately associated with Foundation growth and capitalization of completed bond referendum projects. The Foundation growth is due to sizeable Foundation donations, positive growth in investments, and close management of invested funds. Two in-progress capital projects will also have a positive effect on net assets in the near future.

Condensed Revenues



There are three types of revenues: Operating Revenues, Nonoperating Revenues, and Other Revenues, Expenses, Gains and Losses.

	FY 2005-2006	FY 2004-2005	Differences
Revenues (Operating and Nonoperating)	$ 17,033,085.52	$ 16,094,058.11	$ 939,027.41
Operating Expenses	17,817,181.51	17,145,197.84	671,983.67
Loss Before Other Revenues	(784,095.99)	(1,051,139.73)	267,043.74
Other Revenues			
State Capital Aid	1,664,772.75	771,620.91	893,151.84
County Capital Appropriations	111,053.86	22,000.00	89,053.86
Capital Grants	284,742.83		284,742.83
Capital Gifts	92,571.95	77,680.79	14,891.16
Change in Net Assets	$ 1,369,045.40	$ (179,838.03)	$ 1,548,883.43
Starting Position of Net Assets	$ 23,322,460.86	$ 23,502,298.89	
Change in Net Assets	1,369,045.40	(179,838.03)	
Ending Position of Net Assets	$ 24,691,506.26	$ 23,322,460.86	

Revenues

The change in net assets increased from a negative $179,838 in FY 2004-2005, to a positive $1,369,045 in FY 2005-2006. This increase was mainly attributable to increased State capital aid and changes in revenue exceeding changes in expenses. The capital grant was the Golden LEAF Grant established to build a Boat Building Lab and begin a boat building program in Edenton. The increase in State capital aid is in direct proportion to the number of bond projects the College has ongoing.

Operating Revenues

	FY 2005-2006	FY 2004-2005	Differences
Student Tuition and Fees, Net	$ 1,614,485.85	$ 1,296,517.36	$ 317,968.49
Federal Grants and Contracts	2,261,146.50	2,406,162.78	(145,016.28)
State and Local Grants and Contracts	142,336.70	75,319.71	67,016.99
Nongovernmental Grants and Contracts	103,172.26	79,503.81	23,668.45
Sales and Services, Net	195,025.47	242,685.80	(47,660.33)
Other Operating Revenues	31,124.20	42,674.52	(11,550.32)
Total Operating Revenues	$ 4,347,290.98	4,142,863.98	$ 204,427.00

Operating revenues consists 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.

Operating revenues increased approximately $204,400 over the previous fiscal year. The most significant changes were that tuition and fees increased approximately $318,000 because of a legislative mandated tuition increase, federal grants and contracts decreased about $145,000, State and local grants increased $67,000 and sales and services decreased by $47,700.

Nonoperating Revenues

	FY 2005-2006	FY 2004-2005	Differences
State Aid	$ 9,353,677.08	$ 8,869,946.21	$ 483,730.87
County Appropriations	1,973,005.14	1,888,597.23	84,407.91
Noncapital Grants	507,600.03	506,840.85	759.18
Noncapital Gifts	307,311.63	284,041.94	23,269.69
Net Investment Income	525,972.78	393,092.31	132,880.47
Other Nonoperating Revenues	18,227.88	8,675.59	9,552.29
Total Nonoperating Revenues	$ 12,685,794.54	$ 11,951,194.13	$ 734,600.41

Nonoperating revenues also increased by $734,600 with increases from State aid ($483,700), county appropriations ($84,400) and net investment income ($132,900) accounting for most of the increase. The State aid portion increased because of funding from the FTE formula and increased equipment funding. The county budget increased because of pay raises, insurance and adding the Roanoke Island campus as a site. The net investment income increase was mainly because the overall Foundation return of investment increased from 7.01% in FY 2004-2005 to 8.02% in FY 2005-2006.

Other revenues, expenses, gains and losses increased from $871,000 to $2,153,000. This $1,282,000 increase is because State capital aid, county capital appropriations, capital grants and gifts all increased. The largest increase was in State capital aid with an increase of $893,000 due to ongoing capital projects.

Operating Expenses

	FY 2005-2006	FY 2004-2005	Difference
Operating Expenses			
Personal Services	$ 11,382,632.84	$ 10,652,222.42	$ 730,410.42
Supplies and Materials	1,683,960.72	1,846,331.30	(162,370.58)
Services	2,350,828.37	2,181,450.92	169,377.45
Scholarships and Fellowships	1,396,120.32	1,609,801.50	(213,681.18)
Utilities	351,931.26	257,773.98	94,157.28
Depreciation	651,708.00	597,617.72	54,090.28
Total Operating Expenses	$ 17,817,181.51	$ 17,145,197.84	$ 671,983.67

Overall, operating expenses increased $671,984 over FY 2004-2005. It is normal to expect operating expenses to increase for Personal Services and Services when there is an increase in

State and county funding. Utilities increased because of more fuel and electricity used. Scholarships decreased because the number of students attending the College decreased and fewer students were eligible for financial aid. The amount of depreciation is based on the amount of existing depreciable capitalized assets and their associated useful life as well as those added during the year. The net depreciable assets increased ($308,323), and the amount of depreciation expense increased ($54,090).

The following chart is a comparison of the condensed cash flows.

	FY 2005-2006	FY 2004-2005	Differences
Net Cash Used - Operating Activities	$ (12,851,750.52)	$ (12,741,459.51)	$ (110,291.01)
Net Cash Provided - Noncapital Financing Activities	12,201,793.35	11,953,558.43	248,234.92
Net Cash Provided - Capital and Related Financing Activities	325,297.31	1,185,557.07	(860,259.76)
Net Cash Used - Investing Activities	(13,229.84)	(86,178.41)	72,948.57
Net Increase/Decrease in Cash	$ (337,889.70)	$ 311,477.58	$ (649,367.28)
Cash & Cash Equivalents - End of Year Position	$ 1,433,257.72	$ 1,771,147.42	$ (337,889.70)

The Cash for Operating Activities increased over the previous year because of increased budgets and operating expenses. Operating expenses mainly increased because of payments to employees (pay raise) and to vendors and suppliers. As budgets increased so did the noncapital financing activities including State aid, county funding and 3rd-party funding. Capital and related financing is a direct relationship to the requested funds for State Bond referendum projects, grants and other 3rd-party financing.

Overall the cash position dropped $337,889 from $1,771,147 to $1,433,258. This is in contrast to the previous fiscal year in which cash increased by almost the same amount. Overall, the College's cash posture is sound.

College of The Albemarle
Statement of Net Assets
June 30, 2006 — ***Exhibit A-1***

ASSETS	
Current Assets:	
Cash and Cash Equivalents	$ 1,051,526.92
Restricted Cash and Cash Equivalents	282,309.38
Short-Term Investments	362,689.38
Restricted Short-Term Investments	2,223,860.28
Receivables, Net (Note 4)	522,604.07
Due from State of North Carolina Component Units	83,907.89
Inventories	85,012.70
Total Current Assets	4,611,910.62
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	99,421.42
Restricted Due from Primary Government	761,082.82
Endowment Investments	2,698,915.23
Other Long-Term Investments	554,862.00
Capital Assets - Nondepreciable (Note 5)	2,674,765.58
Capital Assets - Depreciable, Net (Note 5)	14,899,748.75
Total Noncurrent Assets	21,688,795.80
Total Assets	26,300,706.42
LIABILITIES	
Current Liabilities:	
Accounts Payable and Accrued Liabilities (Note 6)	423,426.56
Unearned Revenue	29,529.79
Funds Held for Others	24,739.60
Long-Term Liabilities - Current Portion (Note 7)	149,688.50
Total Current Liabilities	627,384.45
Noncurrent Liabilities:	
Long-Term Liabilities (Note 7)	981,815.71
Total Liabilities	1,609,200.16
NET ASSETS	
Invested in Capital Assets	17,574,514.33
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	2,643,910.54
Expendable:	
Scholarships and Fellowships	2,559,998.10
Loans	1,842.90
Capital Projects	408,011.83
Unrestricted	1,503,228.56
Total Net Assets	$ 24,691,506.26

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

College of The Albemarle
Statement of Revenues, Expenses, and Changes in Net Assets
For the Fiscal Year Ended June 30, 2006

Exhibit A-2

REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net (Note 9)	$	1,614,485.85
Federal Grants and Contracts		2,261,146.50
State and Local Grants and Contracts		142,336.70
Nongovernmental Grants and Contracts		103,172.26
Sales and Services, Net (Note 9)		195,025.47
Other Operating Revenues		31,124.20
Total Operating Revenues		4,347,290.98
EXPENSES		
Operating Expenses:		
Personal Services		11,382,632.84
Supplies and Materials		1,683,960.72
Services		2,350,828.37
Scholarships and Fellowships		1,396,120.32
Utilities		351,931.26
Depreciation		651,708.00
Total Operating Expenses		17,817,181.51
Operating Loss		(13,469,890.53)
NONOPERATING REVENUES		
State Aid		9,353,677.08
County Appropriations		1,973,005.14
Noncapital Grants		507,600.03
Noncapital Gifts		307,311.63
Investment Income, Net		525,972.78
Other Nonoperating Revenues		18,227.88
Net Nonoperating Revenues		12,685,794.54
Loss Before Other Revenues		(784,095.99)
State Capital Aid		1,664,772.75
County Capital Appropriations		111,053.86
Capital Grants		284,742.83
Capital Gifts		92,571.95
Increase in Net Assets		1,369,045.40
NET ASSETS		
Net Assets, July 1, 2005 as Restated (Note 15)		23,322,460.86
Net Assets, June 30, 2006	$	24,691,506.26

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

College of The Albemarle
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2006 *Exhibit A-3*

CASH FLOWS FROM OPERATING ACTIVITIES	
Received from Customers	$ 4,110,460.05
Payments to Employees and Fringe Benefits	(11,256,890.47)
Payments to Vendors and Suppliers	(4,322,924.08)
Payments for Scholarships and Fellowships	(1,396,120.32)
Other Receipts	13,724.30
Net Cash Used by Operating Activities	(12,851,750.52)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Aid Received	9,353,677.08
County Appropriations	1,973,005.14
Noncapital Grants Received	500,290.50
Noncapital Gifts Received	374,820.63
Cash Provided by Noncapital Financing Activities	12,201,793.35
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
State Capital Aid Received	1,168,186.31
County Capital Appropriations	111,053.86
Capital Grants Received	208,144.47
Capital Gifts Received	92,571.95
Acquisition and Construction of Capital Assets	(1,200,789.36)
Principal Paid on Split Interest Agreements	(53,869.92)
Net Cash Provided by Capital and Related Financing Activities	325,297.31
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from Sales and Maturities of Investments	1,187,821.50
Investment Income	259,339.65
Purchase of Investments and Related Fees	(1,460,390.99)
Net Cash Used by Investing Activities	(13,229.84)
Net Decrease in Cash and Cash Equivalents	(337,889.70)
Cash and Cash Equivalents, July 1, 2005	1,771,147.42
Cash and Cash Equivalents, June 30, 2006	$ 1,433,257.72

College of the Albemarle
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2006

RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES

Operating Loss	$	(13,469,890.53)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense		651,708.00
Miscellaneous Nonoperating Income		18,227.88
Changes in Assets and Liabilities:		
Receivables, Net		(237,769.72)
Inventories		(23,970.51)
Accounts Payable and Accrued Liabilities		170,042.38
Unearned Revenue		(15,528.65)
Funds Held for Others		(4,503.58)
Compensated Absences		59,934.21
Net Cash Used by Operating Activities	$	(12,851,750.52)

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:		
Cash and Cash Equivalents	$	1,051,526.92
Restricted Cash and Cash Equivalents		282,309.38
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		99,421.42
Total Cash and Cash Equivalents - June 30, 2006	$	1,433,257.72

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Change in Fair Value of Investments	$	190,369.04
Decrease in Receivables Related to Nonoperating Income		(427,844.91)

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

[This Page Left Blank Intentionally]

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 the component unit 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 was 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 19-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).

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

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 fund. The short-term investment fund 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, mutual funds, money market funds, remainder interest in real estate, and other asset holdings by the College. Except for money market funds and other asset holdings, investments are accounted for at fair value, as determined by quoted market prices, or an amount determined by management if quoted market prices are not available. The net increase (decrease) in the fair value of investments is recognized as a component of investment income.

Money market funds, remainder interest in real estate, 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 charged to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from the federal government, State and local governments, private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants, and pledges that are verifiable, measurable, and expected to be collected and available for expenditures for which the resource provider's conditions have been satisfied. Receivables are recorded net of estimated uncollectible amounts.

G. **Inventories –** Inventories, consisting of expendable supplies, are valued at cost using the first-in, first-out method.

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 1 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 30 equals the leave carried forward at the previous June 30 plus the leave earned, less the leave taken between July 1 and June 30.

In addition to the vacation leave described above, compensated absences include the accumulated unused portion of the special annual leave bonuses awarded by the North Carolina General Assembly. The bonus leave balance on June 30 is retained by employees and transferred into the next fiscal year. It is not subject to the limitation on annual leave carried forward described above and is not subject to conversion to sick leave.

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 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 College. At year end the amount held in irrevocable trusts by others for the College was $647,622.84. 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 *North Carolina General Statute* 115D-58.7. Official depositories may be established with any bank or savings and loan association whose principal office is located in North Carolina. Also, the College may establish time deposit accounts, money market accounts, and certificates of deposit. The amount shown on the Statement of Net Assets as cash and cash equivalents includes cash on hand totaling $1,925.00, and deposits in private financial institutions with a carrying value of $609,955.09, and a bank balance of $902,795.31.

The North Carolina Administrative Code (20 NCAC 7) requires all depositories to collateralize public deposits in excess of federal depository insurance coverage by using one of two methods, dedicated or pooled. Under the dedicated method, a separate escrow account is established by each depository in the name of each local governmental unit and the responsibility of monitoring collateralization rests with the local unit. Under the pooling method, each depository establishes an escrow account in the name of the State Treasurer to secure all of its public deposits. This method shifts the monitoring responsibility from the local unit to the State Treasurer.

Custodial credit risk is the risk that in the event of a bank failure, the College's deposits may not be returned to it. As of June 30, 2006, the College's bank balance in excess of federal depository insurance coverage was covered under the pooling method.

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

Generally, funds belonging to the College may be invested in the form of investments pursuant to G.S. 159-30(c), as follows: a commingled investment pool established and administered by the State Treasurer pursuant to G.S. 147-69.3 (STIF), obligations of or fully guaranteed by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain nonguaranteed federal agencies; prime quality commercial paper bearing specified ratings 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, 2006, the amount shown on the Statement of Net Assets as cash and cash equivalents includes $821,377.63, which represents the College's equity position in the State Treasurer's Short-Term Investment Fund. The Short-Term Investment Fund (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission and does not have a credit rating) had a weighted average maturity of 1.18 years as of June 30, 2006. Assets and shares of the Short-Term Investment Fund are valued at amortized cost, which approximates fair value. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's Short-Term Investment Fund) 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.ncosc.net/ and clicking on "Financial Reports," or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

Except as specified by the donor, endowment funds belonging to the College may be invested pursuant to G.S. 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 component unit, the College of The Albemarle Foundation, Inc., are subject to and restricted by G.S. 36B "Uniform Management of Institutional Funds Act" (UMIFA) and any requirements placed on them by contract or donor agreements.

The following table presents the fair value of investments by type and investments subject to interest rate risk at June 30, 2006, for the College's investments. Interest rate risk is defined by GASB Statement No. 40 as the risk a government may face should interest rate variances affect the fair value of investments. The College does not have a formal investment policy that addresses interest rate risk.

Investments

		Investment Maturities (in Years)			
	Fair Value	Less Than 1	1 to 5	6 to 10	More than 10
Investment Type					
Debt Securities					
U.S. Treasuries	$ 585,051.87	$ 0.00	$ 317,217.03	$ 267,834.84	$ 0.00
U.S. Agencies	701,903.57	119,535.89	453,218.24	100,146.94	29,002.50
Motrgage Pass Throughs	42,422.33		12,968.28		29,454.05
State and Local Government	215,220.94	46,399.87	109,091.17	59,729.90	
Domestic Corporate Bonds	250,513.70	143,411.59	102,110.69	4,991.42	
Foreign Government Bonds	18,130.62		18,130.62		
Index Shares (Lehman 1-3 Tres. Index)	8,765.90		8,765.90		
		$ 309,347.35	$ 1,021,501.93	$ 432,703.10	$ 58,456.55
Other Securities					
Money Market Fund	180,566.91				
Domestic Stocks	2,898,342.09				
Remainder Interest in Real Estate	556,462.00				
Other	382,946.96				
Total Investments	$ 5,840,326.89				

Credit Risk: The College's investment policy states that fixed income securities shall be investment grade "Baa" or higher and should have an average quality of A+ or higher. Equities shall be rated B or higher. As of June 30, 2006, the College's investments were rated as follows:

	Fair Value	AAA Aaa	AA Aa	A	Unrated
U.S. Treasuries	$ 585,051.87	$ 585,051.87	$ 0.00	$ 0.00	$ 0.00
U.S. Agencies	701,903.57	701,903.57			
Mortgage Pass Throughs	42,422.33	42,422.33			
State and Local Government	215,220.94	85,390.60	129,830.34		
Domestic Corporate Bonds	250,513.70	32,579.50	29,124.31	174,078.89	14,731.00
Foreign Government Bonds	18,130.62	18,130.62			
Index Shares	8,765.90	8,765.90			

Rating Agency: Moody's

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the College will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. All of the College's investments are uninsured and unregistered investments for which the securities are held by a counterparty's trust department or agent in the College's name. The College does not have a formal policy for custodial credit risk.

Concentration of Credit Risk: The College's investment policy states that no more than 5% of the market value of the College's portfolio can be in any security and no more than 25% of the College's portfolio can be in a single class or market sector. Also, no more than 10% of any single bond issue may be acquired.

Foreign Currency Risk: Foreign currency risk is defined by GASB Statement No. 40 as the risk that changes in exchange rates will adversely affect the fair value of an investment. The College does not have a formal policy for foreign currency risk.

A reconciliation of deposits and investments for the College to the basic financial statements at June 30, 2006, is as follows:

Cash on Hand	$	1,925.00
Carrying Amount of Deposits with Private Financial Institutions		609,955.09
Investments in the Short-Term Investment Fund		821,377.63
Other Investments		5,840,326.89
Total Deposits and Investments	$	7,273,584.61
Current:		
Cash and Cash Equivalents	$	1,051,526.92
Restricted Cash and Cash Equivalents		282,309.38
Short-Term Investments		362,689.38
Restricted Short-Term Investments		2,223,860.28
Noncurrent:		
Restricted Cash and Cash Equivalents		99,421.42
Endowment Investments		2,698,915.23
Other Long-Term Investments		554,862.00
Total	$	7,273,584.61

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 each year. Based on the December 31st scholarship endowment accounting report, the Investment Committee assesses the level of disbursements. The Investment Committee established a policy that 4% of the three year running average of the endowment fund will be the amount of dollars to be provided to the College for scholarships based on endowments. The December 31, 2005, endowment value was $2,992,193 and the three year running average was $2,064,942. Applying the 4% policy resulted in the scholarship amount being $81,686 for FY 2006-2007. The amount is slightly less than the 4% because all endowments did not have sufficient funds to award a scholarship.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2006, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	$ 435,479.04	$ 1,187.56	$ 434,291.48
Accounts	20,721.57		20,721.57
Intergovernmental	8,795.41		8,795.41
Pledges	38,287.00		38,287.00
Investment Earnings	2,740.29		2,740.29
Other	17,768.32		17,768.32
Total Current Receivables	$ 523,791.63	$ 1,187.56	$ 522,604.07

NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2006, is presented as follows:

	Balance July 1, 2005	Increases	Balance June 30, 2006
Capital Assets, Nondepreciable:			
Land	$ 2,434,007.36	$ 0.00	$ 2,434,007.36
Construction in Progress		240,758.22	240,758.22
Total Capital Assets, Nondepreciable	2,434,007.36	240,758.22	2,674,765.58
Capital Assets, Depreciable:			
Buildings	19,992,186.52	468,969.00	20,461,155.52
Machinery and Equipment	1,450,667.24	154,630.14	1,605,297.38
General Infrastructure	394,479.98	336,432.00	730,911.98
Total Capital Assets, Depreciable	21,837,333.74	960,031.14	22,797,364.88
Less Accumulated Depreciation:			
Buildings	5,872,604.25	521,300.09	6,393,904.34
Machinery and Equipment	1,037,768.71	119,347.76	1,157,116.47
General Infrastructure	335,535.17	11,060.15	346,595.32
Total Accumulated Depreciation	7,245,908.13	651,708.00	7,897,616.13
Total Capital Assets, Depreciable, Net	14,591,425.61	308,323.14	14,899,748.75
Capital Assets, Net	$ 17,025,432.97	$ 549,081.36	$ 17,574,514.33

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2006, were as follows:

	Amount
Accounts Payable	$ 144,287.35
Accrued Payroll	279,139.21
Total Accounts Payable and Accrued Liabilities	$ 423,426.56

NOTE 7 - LONG-TERM LIABILITIES

A. Changes in Long-Term Liabilities – A summary of changes in the long-term liabilities is presented as follows:

	Balance July 1, 2005	Additions	Reductions	Balance June 30, 2006	Current Portion
Compensated Absences	$ 423,947.16	$ 313,983.92	$ 254,049.71	$ 483,881.37	$ 94,695.55
Split Interest Agreements	701,492.76		53,869.92	647,622.84	54,992.95
Total Long-Term Liabilities	$ 1,125,439.92	$ 313,983.92	$ 307,919.63	$ 1,131,504.21	$ 149,688.50

B. Split Interest Agreements – The Foundation has three split interest agreements.

The Jewel and Lee Davenport Endowment Fund was established in 1994. The fund is a split interest agreement and is classified as a charitable remainder interest trust. The trust is responsible for paying the beneficiaries (Jewel and Lee Davenport) a guaranteed annual income of $50,000.00. Any assets remaining after the death of both beneficiaries will be used for scholarships. In recording the gift, contribution revenue was recognized equal to the present value of the gift or $404,400.65. A liability to the beneficiaries in the amount of $300,600.00 was established at the date of the gift to be used to fund the liability. The liability is being amortized over 18 years and is reported as revenue. The remaining liability at June 30, 2006, was $116,900.00.

The John Wood Foreman Unitrust Fund was established in 1999. The trust shall continue for a term of 20 years. The trustee shall pay 7% of the net fair market value of trust assets valued as of the first day of the year to the trust beneficiaries. The payments are to be made in four equal installments from trust income and, to the extent income is not sufficient, from principal. In recording the gift, contribution revenue was recognized equal to the present value (at 6.6%) of the gift or $250,096.00. A liability to the beneficiaries in the amount of $729,799.00 was established at the date of the gift to be used to fund the liability. The liability is being amortized over 20 years and is reported as revenue. The remaining liability at June 30, 2006, was $455,179.17.

The Winifred Wood Unitrust Fund was established in December, 1999. The trust is responsible to pay the beneficiary 7% of the net fair market value of the trusts assets valued as of the first day of the year. The payment is to be made in one annual installment. Any assets remaining after the death of the beneficiary are to be distributed to the Foundation (50%) and to the Northeastern Development Corporation (50%). The funds distributed to the Foundation are to be used for general purposes. In recording the gift, contribution revenue was recognized equal to the present value (at 7.46%) of the gift or $36,059.99. A liability to the income beneficiaries in the amount of $36,060.00 was established at the date of the gift used to fund the liability. The liability to the income beneficiary is being amortized over 20 years and is reported as revenue. The liability to the co-remainder beneficiary was $51,203.17 at June 30, 2006, and the liability recorded to fund payments to the income beneficiary was $24,340.50.

NOTE 8 - LEASE OBLIGATIONS

Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2006:

Fiscal Year	Amount
2007	$ 41,665.80
2008	20,535.65
2009	5,448.55
2010	549.00
Total Minimum Lease Payments	$ 68,199.00

Rental expense for all operating leases during the year was $111,267.22.

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
Operating Revenues:				
Student Tuition and Fees	$ 2,473,166.23	$ 0.00	$ 858,680.38	$ 1,614,485.85
Sales and Services:				
Sales and Services of Auxiliary Enterprises:				
Printshop	$ 135,168.55	$ 135,168.55	$ 0.00	$ 0.00
Bookstore Commission	66,365.90			66,365.90
Other	128,659.57			128,659.57
Total Sales and Services	$ 330,194.02	$ 135,168.55	$ 0.00	$ 195,025.47

NOTE 10 - OPERATING EXPENSES BY FUNCTION

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

	Personal Services	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	$ 6,641,307.45	$ 506,396.61	$ 452,958.34	$ 0.00	$ 0.00	$ 0.00	$ 7,600,662.40
Academic Support	974,642.02	40,773.88	58,551.98				1,073,967.88
Student Services	1,294,587.42	17,081.94	310,043.60				1,621,712.96
Institutional Support	1,700,147.66	161,130.96	385,508.62				2,246,787.24
Operations and Maintenance of Plant	684,113.42	910,068.71	957,552.95		351,931.26		2,903,666.34
Student Financial Aid	54,273.48			1,396,120.32			1,450,393.80
Auxiliary Enterprises	33,561.39	48,508.62	186,212.88				268,282.89
Depreciation						651,708.00	651,708.00
Total Operating Expenses	$ 11,382,632.84	$ 1,683,960.72	$ 2,350,828.37	$ 1,396,120.32	$ 351,931.26	$ 651,708.00	$ 17,817,181.51

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, 2006, these rates were set at 2.34% of covered payroll for employers and 6% of covered payroll for members.

For the year ended June 30, 2006, the College had a total payroll of $9,446,280.91, of which $7,576,154.96 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were $454,569.30 and $177,282.03, respectively. The College made 100% of its annual required contributions for the years ended June 30, 2006, 2005, and 2004, which were $177,282.03, $155,588.49, and $14,778.57, 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 $46,764.00 for the year ended June 30, 2006.

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 $94,508.00 for the year ended June 30, 2006.

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 3.8% of the covered payroll under the Teachers' and State Employees' Retirement System for these health care benefits. For the fiscal year ended June 30, 2006, the College's total contribution to the Plan was $287,893.88. The College assumes no liability for retiree health care benefits provided by the programs other than its required contribution. Additional detailed information about these programs can be located in the State of North Carolina's *Comprehensive Annual Financial Report*.

B. Long-Term Disability – The College participates in the Disability Income Plan of North Carolina (DIPNC). Established by Chapter 135, Article 6, of the General Statutes, DIPNC provides short-term and long-term disability benefits to eligible members of the Teachers' and State Employees' Retirement System. Long-term disability income benefits are advance funded on an actuarially determined basis using the one-year term cost method. The College contributes .52% of covered payroll under the Teachers' and State Employees' Retirement System to the DIPNC. For the year ended June 30, 2006, the College's total contribution to the DIPNC was $39,396.01. 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, and can include 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 $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.

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. The employer contribution rate was .16% for the current fiscal year.

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

NOTE 14 - COMMITMENTS

The College has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were $487,542.00 at June 30, 2006.

NOTE 15 - NET ASSET RESTATEMENTS

As of July 1, 2005, net assets as previously reported was restated as follows:

	Amount
July 1, 2005, Net Assets as Previously Reported	$ 23,313,803.44
Restatements:	
Received a remainder interest in real estate that was not included in the 6/30/05 financial statements	534,534.00
Capitalized DF Walker School	903,759.49
Corrected Accumulated Depreciation	(1,429,636.07)
July 1, 2005, Net Assets as Restated	$ 23,322,460.86

STATE OF NORTH CAROLINA
Office of the State Auditor

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

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601
Telephone: (919) 807-7500
Fax: (919) 807-7647
Internet
http://www.ncauditor.net

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*

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, 2006, and have issued our report thereon dated June 21, 2007.

Our report was modified to include a reference to 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. Other auditors audited the financial statements of College of The Albemarle Foundation, Inc., as described in our report on the College's financial statements. The financial statements of College of The Albemarle Foundation, Inc., were not audited in accordance with *Government Auditing Standards*.

<u>Internal Control Over Financial Reporting</u>

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. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the College's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the Audit Findings and Recommendations section of this report.

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)

Findings

1. Improper Accounting for Depreciation and Construction in Progress
2. Access Rights Inconsistent with Adequate Segregation of Duties and Inadequate Management Oversight

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 within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider Finding 1 to be a material weakness.

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, the State Board of Community Colleges, management of the College, the Governor, the State Controller, and the General Assembly, 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

June 21, 2007

AUDIT FINDINGS AND RECOMMENDATIONS

Matters Related to Financial Reporting

The following findings were identified during the current audit and describe conditions that represent significant deficiencies in internal control.

1. IMPROPER ACCOUNTING FOR DEPRECIATION AND CONSTRUCTION IN PROGRESS

   The College incorrectly computed depreciation for some of its buildings and did not capitalize construction in progress. Had the financial statements not been corrected as a result of our audit, they could have been misleading to users.

   When the College implemented new accounting standards in the 2002 fiscal year requiring that capital assets be depreciated, certain buildings that had been used for several years were assigned useful lives as if they were newer buildings. This resulted in a current year misstatement of depreciation expense of $1,429,636.07. Also, the College did not capitalize $240,758.22 of construction projects that were underway at year-end, resulting in an understatement of assets and an overstatement of expenses.

   Recommendation: The College should closely review depreciation calculations and analyze construction costs that potentially should be capitalized to ensure that reported financial statement amounts are accurate.

   College's Response: The College agrees with the finding and will take the following corrective actions. When the College implemented the new accounting standards for the FY 2002/2003 financial statements it failed to record the proper amount of accumulated depreciation for one building. Because of that original omission the correct amount of accumulated depreciation for that building has been understated in subsequent financial statements. The College has corrected this error and future adjustments to accumulated depreciation will be closely monitored and reviewed.

   The College has been expensing construction project costs. The College will now properly capitalize those costs instead. Annually, a review will be conducted to ensure that costs from construction projects are capitalized.

2. ACCESS RIGHTS INCONSISTENT WITH ADEQUATE SEGREGATION OF DUTIES AND INADEQUATE MANAGEMENT OVERSIGHT

   The College has granted access rights inconsistent with adequate segregation of duties in the following areas:

   - The Director of Administrative Support Services could create vendor address files, enter requisitions, generate purchase orders, process invoices, print checks, and mail checks without any management review or approval. Management did not review any vendor exception reports, which would indicate changes to the vendor file. The Director of Administrative Support Services reviewed voucher packets against printed checks prior to their release for any checks created by other Account Payable personnel; however, any checks she processed were not reviewed by management. Nothing precluded the Director of Administrative Support Services from concealing payments for personal purchases and/or manipulating the vendor files.

- The Payroll Clerk had the access rights of the Human Resource Director. She could enter employees into the payroll system and alter their pay. Management did not review any payroll exception reports that would indicate any new employees or changes made to payroll. Because the Payroll Clerk had these access rights, she could establish fictitious employees and/or alter their pay without it being detected.
- The Director of Accounting who had access rights to the payroll module and authorized transactions prepared and posted journal entries without any further review or approval from management. This allowed her the opportunity to perpetrate and conceal errors or fraud.

Segregation of duties is a basic internal control that requires assigning different people the responsibilities of authorizing transactions, recording transactions, and maintaining custody of assets. This would reduce the opportunities for any person to be in a position to both perpetrate and conceal errors or fraud in the normal course of his or her duties.

Recommendation: The College should strengthen internal controls by removing the Director of Administrative Support Services' access to the vendor file as well as reviewing all voucher packets against checks she prepares prior to their disbursement. Management should either eliminate the Payroll Clerk's access to the Human Resource Director functions or review daily the payroll exception reports for changes made to the payroll and personnel files. Management should review and approve all journal entries prepared by the Director of Accounting.

College's Response: The College agrees with the findings and will take the following corrective actions. In lieu of removing the Director of Administrative Support Services accesses, the Vice President of Business and Finance will review all new vendors entered into the system for validity and will review all general expense reports initiated by the Director of Administrative Support Services.

The Vice President for Business and Finance will review exception reports that reflect changes made to payroll and personnel files.

The Vice President for Business and Finance will review and approve all journal entries prepared by the Director of Accounting.

ORDERING INFORMATION

Audit reports issued by the Office of the State Auditor can be obtained from the web site at www.ncauditor.net. Also, parties may register on the web site to receive automatic email notification whenever reports of interest are issued. Otherwise, copies of audit reports may be obtained by contacting the:

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

Telephone: 919/807-7500

Facsimile: 919/807-7647