STATE OF NORTH CAROLINA

ALAMANCE COMMUNITY COLLEGE

GRAHAM, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2008

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR

ALAMANCE COMMUNITY COLLEGE

GRAHAM, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2008

STATE OF NORTH CAROLINA
Office of the State Auditor

Beth A. Wood, CPA
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 Beverly E. Perdue, Governor
The General Assembly of North Carolina
Board of Trustees, Alamance Community College

We have completed a financial statement audit of Alamance Community College for the year ended June 30, 2008, 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 Responses 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.

Beth A. Wood, CPA
State Auditor

TABLE OF CONTENTS

STATE OF NORTH CAROLINA
Office of the State Auditor

Beth A. Wood, CPA
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
Alamance Community College
Graham, North Carolina

We have audited the accompanying financial statements of Alamance Community College, a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 2008, which collectively comprise the College's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of Alamance Community College's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Alamance Community College Foundation, Inc., the College's discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinions, insofar as they relate to the amounts included for this entity, are 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 Alamance Community College 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 opinions.

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 respective financial position of Alamance Community College and its discretely presented component unit as of June 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 14 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and Statement 50, *Pension Disclosures*, during the year ended June 30, 2008.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

In accordance with *Government Auditing Standards*, we have also issued our report dated May 18, 2009 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.

Beth A. Wood

Beth A. Wood, CPA
State Auditor

May 18, 2009

Introduction

As the management of Alamance Community College, we are pleased to present the College's financial statements for the fiscal year ending June 30, 2008. Our discussion and analysis, presented in this section, is intended to provide information about the current fiscal year's data and about changes from the prior fiscal year.

We present the following three statements within this report:

- Statement of Net Assets
- Statement of Revenues, Expenses and Changes in Net Assets
- Statement of Cash Flows

In addition to this discussion and analysis, we also supplement these statements with various notes detailing certain reporting policies and assumptions. Readers should consider each of these three statements along with the notes and this discussion and analysis as interrelated. Each statement is integral to the understanding of the others. Our discussion and analysis will cover the following:

- Statement of Net Assets
- Statement of Revenues, Expenses, and Changes in Net Assets
- Capital Assets and Long-Term Debt Activities
- Economic Outlook

Statement of Net Assets

In the Statement of Net Assets, we present the assets (current and noncurrent), liabilities (current and noncurrent) and net assets (assets less liabilities) of the College at June 30, 2008. This statement presents information at a single point in time and is intended to provide the user with a financial snapshot of the College. We discuss the distinctions between current and noncurrent assets and liabilities in the notes to these financial statements.

From the information presented in the Statement of Net Assets a reader will be able to determine the assets available to continue operations of the College, amounts owed by the College and total net asset availability.

As required by accepted accounting practices, we have divided net assets into three major categories:

- Invested in Capital Assets
- Restricted Net Assets
- Unrestricted Net Assets

Invested in capital assets provides the College's total equity in property, plant and equipment while restricted net assets are divided into two categories, nonexpendable of which the College has none and expendable which are net assets restricted to certain uses.

Unrestricted net assets are available to the College for any lawful purpose.

Following is a comparative analysis of the condensed balances reported in the Statement of Net Assets as of June 30, 2007 and 2008:

Condensed Statement of Net Assets

	2008	2007 as Restated	Change	Percent Change
ASSETS				
Current Assets	$ 3,867,370.96	$ 3,553,523.50	$ 313,847.46	8.83 %
Capital Assets, Net	29,224,172.16	24,723,765.88	4,500,406.28	18.20 %
Other Noncurrent Assets	509,423.48	2,177,459.79	(1,668,036.31)	(76.60) %
Total Assets	33,600,966.60	30,454,749.17	3,146,217.43	10.33 %
LIABILITIES				
Current Liabilities	603,968.55	377,000.27	226,968.28	60.20 %
Noncurrent Liabilities	411,283.19	388,182.07	23,101.12	5.95 %
Total Liabilities	1,015,251.74	765,182.34	250,069.40	32.68 %
NET ASSETS				
Invested in Capital Assets	29,224,172.16	24,723,765.88	4,500,406.28	18.20 %
Restricted for:				
Expendable	724,852.30	2,484,367.57	(1,759,515.27)	(70.82) %
Unrestricted	2,636,690.40	2,481,433.38	155,257.02	6.26 %
Total Net Assets	$ 32,585,714.86	$ 29,689,566.83	$ 2,896,148.03	9.75 %

Please refer to Exhibit A-1 and the Notes to the Financial Statements for additional detail. Following are some highlights of the College's Statement of Net Assets:

- Total current assets increased by $313,847.46 largely due to an increase in accounts receivable resulting from the receipt of federal financial aid funding after the end of the fiscal year. This funding is composed primarily of Pell Grants awarded to students. In this case, funds had been disbursed to students but had not yet been collected from the federal Department of Education. These amounts were collected just after year end. Capital assets increased by over $4.5 million due to the completion of two major building projects.
- Other noncurrent assets include the College's construction projects in progress during the fiscal year. This amount dropped by nearly $1.7 million or 76% also as the result of the completion of the two major building projects. Once a project is complete, we transfer related amounts from other noncurrent assets to capital assets, net.

- The College's current liabilities increased $226,968.28 or 60% due to an increase in purchasing near the end of the fiscal year. We increased purchasing to equip new buildings and to fulfill certain supply and equipment needs which had been delayed throughout the year due to uncertainty surrounding potential State budget reversions. These items were purchased during the fiscal year ending June 30, 2008 but were not paid for until the following fiscal year. In this circumstance we are required to report a related current liability for those items physically received prior to year end but not paid for until the next fiscal year.
- The College's total net assets increased over $2.8 million or 9.75% during this fiscal year. Invested in capital assets make up 90% of the College's total net assets and the changes to capital assets during the fiscal year ending June 30, 2008 account for the majority of the 9.75% increase. The large reduction in restricted net assets is also related to capital assets and reflects the reduction in total net assets dedicated to building projects. As these projects were completed, we reclassified the related net assets from restricted to invested in capital assets.

Statement of Revenues, Expenses, and Changes in Net Assets

The Statement of Revenues, Expenses, and Changes in Net Assets provides information regarding the College's activities throughout the fiscal year. This statement summarizes the College's revenue and expenses, both operating and nonoperating as well as summarizing the beginning and ending net assets which are impacted by the activities of the College throughout the year.

We classify as operating revenues and expenses those amounts received or expended related to the College's provision of educational services and other goods or services to those students and other constituencies which we serve. Nonoperating revenues and expenses are amounts received or expended which are not related to the goods and services we provide. For example, tuition received from students is considered operation revenue and salaries paid to faculty members are considered operating expenses. However, we classify State appropriations as nonoperating revenue because those amounts are provided by the legislature without the receipt of any direct benefit.

Following is a comparative analysis of the condensed balances reported on the Statement of Revenues, Expenses, and Changes in Net Assets for the fiscal years June 30, 2007 and 2008:

	2008	2007	Change	Percentage Change
Operating Revenues:				
Student Tuition and Fees, Net	$ 3,355,042.16	$ 3,542,748.85	$ (187,706.69)	(5.30) %
Grants and Contracts	4,445,429.53	3,591,778.95	853,650.58	23.77 %
Sales and Services, Net	617,190.16	603,597.18	13,592.98	2.25 %
Other Operating Revenues	95,584.43	29,064.80	66,519.63	228.87 %
Total Operating Revenues	8,513,246.28	7,767,189.78	746,056.50	9.61 %
Operating Expenses:				
Operating Expenses:				
Personal Services	19,051,467.60	17,811,253.86	1,240,213.74	6.96 %
Supplies and Materials	2,665,574.81	1,802,450.69	863,124.12	47.89 %
Services	2,150,956.47	2,137,928.60	13,027.87	0.61 %
Scholarships and Fellowships	3,731,969.37	3,262,514.07	469,455.30	14.39 %
Utilities	572,827.54	541,083.96	31,743.58	5.87 %
Depreciation	802,792.40	701,326.41	101,465.99	14.47 %
Total Operating Expenses	28,975,588.19	26,256,557.59	2,719,030.60	10.36 %
Operating Loss	(20,462,341.91)	(18,489,367.81)	(1,972,974.10)	10.67 %
Nonoperating Revenue (Expenses)				
State Aid	15,724,687.72	14,584,059.97	1,140,627.75	7.82 %
County Appropriations	2,567,483.53	2,250,000.00	317,483.53	14.11 %
Noncapital Grants and Gifts	551,887.42	601,632.61	(49,745.19)	(8.27) %
Investment Income	139,886.64	116,508.71	23,377.93	20.07 %
Other Nonoperating Revenues (Expenses)	0.00	(43.97)	43.97	(100.00) %
Net Nonoperating Revenues	18,983,945.31	17,552,157.32	1,431,787.99	8.16 %
Loss Before Other Revenues	(1,478,396.60)	(937,210.49)	(541,186.11)	57.74 %
State Capital Aid	1,433,254.58	5,037,681.83	(3,604,427.25)	(71.55) %
County Capital Aid	2,786,522.65	2,342,805.40	443,717.25	18.94 %
Capital Grants and Gifts	154,767.40	7,621.34	147,146.06	1,930.71 %
Increase (Decrease) in Net Assets	2,896,148.03	6,450,898.08	(3,554,750.05)	(55.10) %
Net Assets				
Net Assets, July 1, 2007 as Restated	29,689,566.83	23,238,668.75	6,450,898.08	27.76 %
Net Assets, June 30, 2008	$ 32,585,714.86	$ 29,689,566.83	$ 2,896,148.03	9.75 %

Please refer to Exhibit A-2 and the Notes to the Financial Statements for additional detail. Following are some highlights of the College's Statement of Revenues, Expenses, and Changes in Net Assets:

- Our report shows the College incurring an operating loss of over $20.4 million or an increase of 10.6% over the previous fiscal year. A reader should expect such an operating loss for a publically funded educational institution because, as required, we report State support as nonoperating revenue. The increase in the loss over the previous fiscal year is a result of increasing employee salaries, increasing prices for necessary goods and services, a stable tuition rate as well as the purchase of additional supplies and materials needed to outfit completed building projects (which corresponds to the 47.89% increase in supplies and materials).
- The College's operating revenues increased 9.6% though tuition revenues did fall slightly as a result of slightly decreased enrollment for the Fall 2007 and Spring 2008 semesters (enrollment has since increased significantly, see below, Economic Outlook). The increase is primarily due to increased federal and State grants of financial aid which flow to students as various forms of assistance.
- Operating revenues increased by $746,056.50 or 9.6% and operating expenses showed a corresponding percentage increase of 10.36% or $2.7 million for a combined net increase in operating loss of $1.9 million or 10.67% over the previous year.
- Total operating expenses also increased at a similar rate, 10.36% over the previous fiscal year. This increase can be attributed to employee salary increases and supplies and materials costs related to our outfitting of buildings brought into service during the fiscal year.
- Net nonoperating revenues increased by $1.4 million or 8%, primarily due to an increase in State appropriations.
- Other revenues decreased by 40% or approximately $3 million due to a decrease in capital appropriations as building projects were completed. The significant costs and appropriations for these buildings occurred in previous fiscal years.

Capital Assets and Long-Term Debt Activities

At June 30, 2008 the College's investment in capital assets net of accumulated depreciation totals $29.2 million. The total increase for the year was $4.5 million. The College completed two significant projects this year including the Powell Building which contains our allied health curriculums and the Burlington Center which houses the continuing education division. The total investment in capital assets also includes land, construction in progress, buildings, general infrastructure, and machinery and equipment. The College reevaluated the estimated useful lives of assets and corrected errors previously made in establishing useful lives. We made such a correction for the preparation of this report. This correction required us to restate certain ending balances for the fiscal year ending June 30, 2007. Those restated balances are reflected in the financial statements, notes and in this discussion and analysis.

The College has no long-term debt activity.

Economic Outlook

While the current economic outlook both for Alamance County and for North Carolina is uncertain, we feel that the College is well placed to continue to provide the educational services needed by our constituents. The fiscal year which will end June 30, 2009 has already proved different from the year represented in these statements. As a result of current economic challenges we have seen an increase in enrollment of over 10%. The College has been required to revert, during the fiscal year ending June 30, 2009, significant portions of budgeted State appropriations and is planning for potential shortages of State cash in the last quarter of the fiscal year. However, we have witnessed a strong response from the College's faculty and staff who have managed resources in an exemplary fashion. We will continue to monitor budget discussions and closely manage the College's expenses. We know of no other immediate existing conditions that will significantly impact the financial position of the College during the fiscal year ending June 30, 2009 and we are committed to making sound fiscal decisions to maintain the College's ability to withstand economic uncertainty.

Alamance Community College
Statement of Net Assets
June 30, 2008 ***Exhibit A-1***

ASSETS		
Current Assets:		
Cash and Cash Equivalents	$	2,872,937.09
Restricted Cash and Cash Equivalents		443,482.66
Receivables, Net (Note 3)		489,868.83
Inventories		61,082.38
Total Current Assets		3,867,370.96
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		119,666.88
Restricted Due from Primary Government		389,756.60
Capital Assets - Nondepreciable (Note 4)		1,341,405.70
Capital Assets - Depreciable, Net (Note 4)		27,882,766.46
Total Noncurrent Assets		29,733,595.64
Total Assets		33,600,966.60
LIABILITIES		
Current Liabilities:		
Accounts Payable and Accrued Liabilities (Note 5)		463,448.89
Unearned Revenue		84,904.02
Funds Held for Others		35,703.54
Long-Term Liabilities - Current Portion (Note 6)		19,912.10
Total Current Liabilities		603,968.55
Noncurrent Liabilities:		
Long-Term Liabilities (Note 6)		411,283.19
Total Liabilities		1,015,251.74
NET ASSETS		
Invested in Capital Assets		29,224,172.16
Restricted for:		
Expendable:		
Scholarships and Fellowships		73,386.25
Capital Projects		509,423.48
Other		142,042.57
Unrestricted		2,636,690.40
Total Net Assets	$	32,585,714.86

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

Alamance Community College
Statement of Revenues, Expenses, and Changes in Net Assets
For the Fiscal Year Ended June 30, 2008 *Exhibit A-2*

REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net (Note 8)	$	3,355,042.16
Federal Grants and Contracts		3,820,814.50
State and Local Grants and Contracts		624,615.03
Sales and Services, Net (Note 8)		617,190.16
Other Operating Revenues		95,584.43
Total Operating Revenues		8,513,246.28
EXPENSES		
Operating Expenses:		
Personal Services		19,051,467.60
Supplies and Materials		2,665,574.81
Services		2,150,956.47
Scholarships and Fellowships		3,731,969.37
Utilities		572,827.54
Depreciation		802,792.40
Total Operating Expenses		28,975,588.19
Operating Loss		(20,462,341.91)
NONOPERATING REVENUES		
State Aid		15,724,687.72
County Appropriations		2,567,483.53
Noncapital Grants		404,239.54
Noncapital Gifts		147,647.88
Investment Income		139,886.64
Net Nonoperating Revenues		18,983,945.31
Loss Before Other Revenues		(1,478,396.60)
State Capital Aid		1,433,254.58
County Capital Aid		2,786,522.65
Capital Grants		78,834.65
Capital Gifts		75,932.75
Increase in Net Assets		2,896,148.03
NET ASSETS		
Net Assets, July 1, 2007 as Restated (Note 15)		29,689,566.83
Net Assets, June 30, 2008	$	32,585,714.86

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

Alamance Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2008 — *Exhibit A-3*

CASH FLOWS FROM OPERATING ACTIVITIES	
Received from Customers	$ 8,106,532.82
Payments to Employees and Fringe Benefits	(19,048,664.92)
Payments to Vendors and Suppliers	(5,282,892.27)
Payments for Scholarships and Fellowships	(3,728,070.32)
Other Receipts	2,446.07
Net Cash Used by Operating Activities	(19,950,648.62)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Aid Received	15,724,687.72
County Appropriations	2,567,483.53
Noncapital Grants Received	413,659.72
Noncapital Gifts Received	147,647.88
Cash Provided by Noncapital Financing Activities	18,853,478.85
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
State Capital Aid Received	3,220,957.77
County Capital Appropriations	2,786,522.65
Capital Grants Received	78,834.65
Proceeds from Sale of Capital Assets	7,514.88
Acquisition and Construction of Capital Assets	(5,097,297.57)
Net Cash Provided by Capital and Related Financing Activities	996,532.38
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment Income	139,886.64
Net Increase in Cash and Cash Equivalents	39,249.25
Cash and Cash Equivalents, July 1, 2007	3,396,837.38
Cash and Cash Equivalents, June 30, 2008	$ 3,436,086.63
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES	
Operating Loss	$ (20,462,341.91)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	802,792.40
Changes in Assets and Liabilities:	
Receivables, Net	(425,076.13)
Inventories	21,390.86
Accounts Payable and Accrued Liabilities	101,922.04
Unearned Revenue	20,774.56
Funds Held for Others	2,446.07
Compensated Absences	(12,556.51)
Net Cash Used by Operating Activities	$ (19,950,648.62)

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:		
Cash and Cash Equivalents	$	2,872,937.09
Restricted Cash and Cash Equivalents		443,482.66
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		119,666.88
Total Cash and Cash Equivalents - June 30, 2008	$	3,436,086.63

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through Assumption of a Liability	$	166,670.08
Assets Acquired through a Gift		75,932.75
Increase in Receivables Related to Nonoperating Income		1,787,703.19

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

Alamance Community College Foundation,Inc
Statement of Financial Position
June 30, 2008 — *Exhibit B-1*

ASSETS		
Cash and Cash Equivalents	$	398,313
Cash Value - Insurance Policies		18,516
Promises to Give, Net		1,048,393
Sales Tax Refund Receivable		4,472
Faculty Computer Loan		1,000
Accounts Receivable		6,711
Investments:		
Long-Term Investments		5,482,419
Prater Trust		87,253
Residential Housing Project in Process		92,264
Property and Equipment, Net		18,724
Total Assets	$	7,158,065
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts Payable	$	37,727
Net Assets:		
Unrestricted		984,720
Temporarily Restricted		1,145,195
Permanently Restricted		4,990,423
Total Net Assets		7,120,338
Total Liabilities and Net Assets	$	7,158,065

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

Alamance Community College Foundation, Inc.
Statement of Activities
For the Fiscal Year Ended June 30, 2008

Exhibit B-2

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE AND OTHER SUPPORT				
Contributions	$ 323,024	$ 319,498	$ 174,501	$ 817,023
Contributions - Future Payments	640,868	36,020	287,538	964,426
Contributed Goods and Services	76,696	7,693		84,389
Support Services from ACC	189,702			189,702
Losses from Investments	(48,085)	(455,397)		(503,482)
Other	2,589	2,293	1,471	6,353
Net Assets Released from Restrictions:				
Satisfaction of Program Restrictions	638,850	(638,850)		
Total Revenue and Other Support	1,823,644	(728,743)	463,510	1,558,411
EXPENSES				
Programs:				
Student Scholarships	250,177			250,177
College Work Study Match	112,000			112,000
Other Student Support	48,759			48,759
Programs/Resources for ACC Faculty/Staff	32,763			32,763
Other Education Related Programs	520,884			520,884
Support Services from ACC	158,380			158,380
Other Foundation Expenses	75,110			75,110
Total Expenses	1,198,073			1,198,073
Increase (Decrease) In Net Assets	625,571	(728,743)	463,510	360,338
Net Assets, Beginning	359,149	1,873,938	4,526,913	6,760,000
Net Assets, Ending	$ 984,720	$ 1,145,195	$ 4,990,423	$ 7,120,338

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

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

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

The accompanying financial statements present all funds of the College and the component unit for which the College's Board of Trustees is financially accountable. The College's component unit is discretely presented in the financial statements. The discretely presented component unit's financial data is reported in separate financial statements because of its use of a different GAAP reporting model and to emphasize its legal separateness.

Discretely Presented Component Unit – Alamance Community College Foundation, Inc. is a legally separate tax-exempt corporation and is reported as a discretely presented component unit based on the nature and significance of its relationship to the College.

The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the College in support of its programs. The Foundation board consists of thirty local community business leaders, two trustees from the Alamance Community College Board of Trustees, and three ex-officio members consisting of the College's President, the Vice-President for Institutional Advancement, and a Faculty Representative. Although the College does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, that the Foundation holds and invests are restricted to the activities of the College by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of the College, the Foundation is considered a component unit of the College and is reported in separate financial statements because of the difference in its reporting model, as described below.

The Alamance Community College Foundation, Inc. is a private not-for-profit organization that reports its financial results under Financial Accounting Standards Board (FASB) Statements. As such, certain revenue recognition criteria and presentation features are different from Governmental Accounting Standards Board (GASB) revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information in the College's financial reporting entity for these differences.

During the year ended June 30, 2008, the Foundation distributed $964,583 to the College for both restricted and unrestricted purposes. Complete financial statements for the Foundation are available on the Alamance Community College Foundation's website http://www.accfoundation.com.

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. **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 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.

F. **Inventories** - Inventories, consisting of expendable supplies, are valued at cost using last invoice cost. Merchandise for resale is valued using the retail inventory method.

G. **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, generally 10 to 50 years for general infrastructure, 10 to 50 years for buildings, and 5 to 40 years for equipment.

H. **Restricted Assets** - Certain resources are reported as restricted assets because restrictions on asset use change the nature or normal understanding of the availability of the asset. Resources that are not available for current operations and are reported as restricted include resources restricted or designated for the acquisition or construction of capital assets and resources whose use is limited by external parties or statute.

I. **Noncurrent Long-Term Liabilities** - Noncurrent long-term liabilities include compensated absences that will not be paid within the next fiscal year.

J. **Compensated Absences** - The College's policy is to record the cost of vacation leave when earned. The policy provides for a maximum accumulation of unused vacation leave of 15 days which can be carried forward each July 1 or for which an employee can be paid upon termination of employment. Also, any accumulated vacation leave in excess of 15 days at year end is converted to sick leave. 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.

K. **Net Assets** - The College's net assets are classified as follows:

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

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

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

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

L. **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.

M. **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.

N. **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 a copy center. 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.

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

NOTE 2 - DEPOSITS AND INVESTMENTS

A. Deposits - All funds of the College are deposited in board-designated official depositories and are required to be collateralized in accordance with *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 $2,550.00, and deposits in private financial institutions with a carrying value of $1,465,331.03, and a bank balance of $1,856,705.41.

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, 2008, the College's bank balance in excess of federal depository insurance coverage was covered under the dedicated method.

B. Investments - 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, 2008, the amount shown on the Statement of Net Assets as cash and cash equivalents includes $1,968,205.60, 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 2.9 years as of June 30, 2008. 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.

Component Unit - Investments of the College's discretely presented component unit, the Alamance Community College 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. Because Alamance Community College Foundation, Inc. reports under the FASB reporting model, disclosure of the various investment risks is not required. The following is an analysis of investments by type at June 30, 2008:

Investments:	Fair Market Value (U.S. Dollars)
Fixed Income	$ 1,342,097.00
Equities	4,140,322.00
Total	$ 5,482,419.00

NOTE 3 - RECEIVABLES

Receivables at June 30, 2008, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	$ 92,653.50	$ 53,741.28	$ 38,912.22
Accounts	80,766.93	30,471.73	50,295.20
Accounts - Daycare	26,389.52	16,001.98	10,387.54
Intergovernmental	390,273.87		390,273.87
Total Current Receivables	$ 590,083.82	$ 100,214.99	$ 489,868.83

NOTE 4 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2008, is presented as follows:

	Balance July 1, 2007 (as Restated)	Increases	Decreases	Balance June 30, 2008
Capital Assets, Nondepreciable:				
Land	$ 862,330.12	$ 0.00	$ 0.00	$ 862,330.12
Construction in Progress	4,607,711.08	479,075.58	4,607,711.08	479,075.58
Total Capital Assets, Nondepreciable	5,470,041.20	479,075.58	4,607,711.08	1,341,405.70
Capital Assets, Depreciable:				
Buildings	23,851,137.64	8,749,570.16	42,044.55	32,558,663.25
Machinery and Equipment	2,438,946.57	288,522.90	81,407.46	2,646,062.01
General Infrastructure	1,171,517.68	401,256.00		1,572,773.68
Total Capital Assets, Depreciable	27,461,601.89	9,439,349.06	123,452.01	36,777,498.94
Less Accumulated Depreciation:				
Buildings	6,898,982.02	563,677.56	42,044.55	7,420,615.03
Machinery and Equipment	1,047,698.64	211,671.93	73,892.58	1,185,477.99
General Infrastructure	261,196.55	27,442.91		288,639.46
Total Accumulated Depreciation	8,207,877.21	802,792.40	115,937.13	8,894,732.48
Total Capital Assets, Depreciable, Net	19,253,724.68	8,636,556.66	7,514.88	27,882,766.46
Capital Assets, Net	$ 24,723,765.88	$ 9,115,632.24	$ 4,615,225.96	$ 29,224,172.16

NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2008, were as follows:

	Amount
Accounts Payable	$ 355,610.03
Accrued Payroll	107,838.86
Total Accounts Payable and Accrued Liabilities	$ 463,448.89

NOTE 6 - LONG-TERM LIABILITIES

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

	Balance July 1, 2007	Additions	Reductions	Balance June 30, 2008	Current Portion
Compensated Absences	$ 443,751.77	$ 414,266.26	$ 426,822.74	$ 431,195.29	$ 19,912.10

NOTE 7 - OPERATING LEASE OBLIGATIONS

Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2008:

Fiscal Year	Amount
2009	$ 94,694.57
2010	89,284.34
2011	71,295.10
2012	35,844.94
Total Minimum Lease Payments	$ 291,118.95

Rental expense for all operating leases during the year was $141,671.16.

NOTE 8 - REVENUES

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

	Gross Revenues	Internal Sales Eliminations	Less Scholarship Discounts	Less Allowance for Uncollectibles	Net Revenues
Operating Revenues:					
Student Tuition and Fees	$ 4,697,186.12	$ 0.00	$ 1,271,111.41	$ 71,032.55	$ 3,355,042.16
Sales and Services:					
Sales and Services of Auxiliary Enterprises:					
Duplicating Center	$ 250,470.42	$ 250,470.42	$ 0.00	$ 0.00	$ 0.00
Dining	71,525.42				71,525.42
Bookstore Commissions	129,238.00				129,238.00
Daycare	332,495.84			4,633.44	327,862.40
Sales and Services of Education and Related Activities	88,564.34				88,564.34
Total Sales and Services	$ 872,294.02	$ 250,470.42	$ 0.00	$ 4,633.44	$ 617,190.16

NOTE 9 - 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	$ 11,951,105.62	$ 2,078,265.04	$ 370,861.53	$ 16,723.69	$ 0.00	$ 0.00	$ 14,416,955.88
Public Service	323,747.35	46,198.36	6,819.46				376,765.17
Academic Support	2,405,712.12	146,151.08	54,846.71				2,606,709.91
Student Services	1,159,023.60	53,085.89	47,542.39				1,259,651.88
Institutional Support	2,873,807.46	163,931.42	694,241.06	3,380.62			3,735,360.56
Operations and Maintenance of Plant	314,299.46	30,628.33	951,473.95		572,827.54		1,869,229.28
Student Financial Aid			37.07	3,711,865.06			3,711,902.13
Auxiliary Enterprises	23,771.99	147,314.69	25,134.30				196,220.98
Depreciation						802,792.40	802,792.40
Total Operating Expenses	$ 19,051,467.60	$ 2,665,574.81	$ 2,150,956.47	$ 3,731,969.37	$ 572,827.54	$ 802,792.40	$ 28,975,588.19

NOTE 10 - PENSION PLANS

A. Retirement Plans - Each permanent full-time employee, as a condition of employment, is a member of the Teachers' and State Employees' Retirement System. The Teachers' and State Employees' Retirement System (System) is a 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, 2008, these rates were set at 3.05% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the College had a total payroll of $16,277,762.51, of which $11,637,892.99 was covered under the Teachers' and State Employees' Retirement System. Total employer and employee contributions for pension benefits for the year were $354,955.74 and $698,273.57, respectively.

Required employer contribution rates for the years ended June 30, 2007, and 2006, were 2.66% and 2.34%, respectively, while employee contributions were 6% each year. The College made 100% of its annual required contributions for the years ended June 30, 2008, 2007, and 2006, which were $354,955.74, $291,715.08, and $240,664.78, 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.ncosc.net/ 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 $2,400.00 for the year ended June 30, 2008.

IRC Section 401(k) Plan - All members of the Teachers' and State Employees' Retirement System are eligible to enroll in the Supplemental Retirement Income Plan, a defined contribution plan, created under Internal Revenue Code Section 401(k). All costs of administering the Plan are the responsibility of the Plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to $157,328.96 for the year ended June 30, 2008.

IRC Section 403(b) and 403(b)(7) Plans - Eligible College employees can participate in tax sheltered annuity plans created under Internal Revenue Code Sections 403(b) and 403(b)(7). The employee's eligible contributions, made through salary reduction agreements, are exempt from federal and State income taxes until the annuity is received or the contributions are withdrawn. These plans are exclusively for employees of colleges and certain charitable and other nonprofit institutions. All costs of administering and funding these plans are the responsibility of the Plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to $107,505.41 for the year ended June 30, 2008.

NOTE 11 - OTHER POSTEMPLOYMENT BENEFITS

A. Health Benefits - The College participates in the Comprehensive Major Medical Plan (the Plan), a cost-sharing, multiple-employer defined benefit health care plan that provides postemployment health insurance to eligible former employees. Eligible former employees include long-term disability beneficiaries of the Disability Income Plan of North Carolina and retirees of the Teachers' and State Employees' Retirement System. Coverage eligibility varies depending on years of contributory membership service in their retirement system prior to disability or retirement.

The Plan's benefit and contribution provisions are established by Chapter 135-7, Article 1, and Chapter 135, Article 3, of the General Statutes and may be amended only by the North Carolina General Assembly. The Plan does not provide for automatic post-retirement benefit increases.

By General Statute, a Retiree Health Benefit Fund (the Fund) has been established as a fund in which accumulated contributions from employers and any earnings on those contributions shall be used to provide health benefits to retired and disabled employees and applicable beneficiaries. By statute, the Fund is administered by the Board of Trustees Teachers' and State Employees' Retirement System and contributions to the fund are irrevocable. Also by law, Fund assets are dedicated to providing benefits to retired and disabled employees and applicable beneficiaries and are not subject to the claims of creditors of the employers making contributions to the Fund. Contribution rates to the Fund, which are intended to finance benefits and administrative expenses on a pay-as-you-go basis, are determined by the General Assembly in the Appropriations Bill.

For the current fiscal year the College contributed 4.1% of the covered payroll under the Teachers' and State Employees' Retirement System to the Fund. Required contribution rates for the years ended June 30, 2007, and 2006, were 3.8% and 3.8%, respectively. The College made 100% of its annual required contributions to the Plan for the years ended June 30, 2008, 2007, and 2006, which were $477,153.61, $416,735.83, and $390,789.49, respectively. The College assumes no liability for retiree health care benefits provided by the programs other than its required contribution.

Additional detailed information about these programs can be located in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page http://www.ncosc.net/ and clicking on "Financial Reports," or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

B. **Disability Income** - The College participates in the Disability Income Plan of North Carolina (DIPNC), a cost-sharing, multiple-employer defined benefit plan, to provide short-term and long-term disability benefits to eligible members of the Teachers' and State Employees' Retirement System. Benefit and contribution provisions are established by Chapter 135, Article 6, of the General Statutes, and may be amended only by the North Carolina General Assembly. The plan does not provide for automatic post-retirement benefit increases.

Disability income benefits are funded by actuarially determined employer contributions that are established in the Appropriations Bill by the General Assembly. For the fiscal year ended June 30, 2008, the College made a statutory contribution of .52% of covered payroll under the Teachers' and State Employees' Retirement System to the DIPNC. Required contribution rates for the years ended June 30, 2007, and 2006, were .52% and .52%, respectively. The College made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2008, 2007, and 2006, which were $60,517.04, $57,027.01, and $53,477.19, respectively. The College assumes no liability for long-term disability benefits under the Plan other than its contribution.

Additional detailed information about the DIPNC is disclosed in the State of North Carolina's *Comprehensive Annual Financial Report*.

NOTE 12 - RISK MANAGEMENT

The College is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These exposures to loss are handled via a combination of methods, 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 $1,000,000 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 contracts with private insurance companies. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

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

The College is protected for losses from employee dishonesty and computer fraud for employees paid in whole or in part from State funds. This coverage is with a private insurance company and is handled by the North Carolina Department of Insurance with coverage of $5,000,000 per occurrence with a $75,000 deductible and a 10% participation in each loss above the deductible. Losses from such occurrences for employees paid from county and institutional funds are covered by private insurance companies with coverage of $25,000 per occurrence.

Employees and retirees are provided health care coverage by the Comprehensive Major Medical Plan (Plan), a component unit of the State. The Plan is funded by employer and employee contributions and is administered by a third-party contractor.

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 13 - COMMITMENTS

The College has established an encumbrance system to track its outstanding commitments on construction projects. Outstanding commitments on construction contracts were $236,548.65 at June 30, 2008.

NOTE 14 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2008, the College implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

> GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.
>
> GASB Statement No. 50, *Pension Disclosures*.

GASB Statement No. 45, requires cost-sharing employers to recognize OPEB expense for their contractually required contributions to the plan generally consistent with the approach in adopted in GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers, with modifications to reflect differences between pension benefits and OPEB.*

GASB Statement No. 50, aligns financial reporting requirements for pensions with those of other postemployment benefits, to conform with GASB Statement No. 45. This Statement amends GASB Statement No. 27 to require note disclosure of the employer contribution rates and percentage of the amount contributed for the current and preceding two years and to disclose how the required contribution rates are established.

NOTE 15 - NET ASSET RESTATEMENTS

As of July 1, 2007, net assets as previously reported was restated as follows:

	Amount
July 1, 2007 Net Assets as Previously Reported	$ 27,130,416.06
Restatements:	
Error in Estimated Useful Lives of Depreciable Fixed Assets	2,610,602.56
Correction of Prior Year Error in Unrestricted Net Assets	(51,451.79)
July 1, 2007 Net Assets as Restated	$ 29,689,566.83

STATE OF NORTH CAROLINA
Office of the State Auditor

Beth A. Wood, CPA
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
Alamance Community College
Graham, North Carolina

We have audited the financial statements of Alamance Community College, a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 2008, which collectively comprise the College's basic financial statements and have issued our report thereon dated May 18, 2009. Our report was modified to include a reference to other auditors.

As discussed in Note 14 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and Statement 50, *Pension Disclosures*, during the year ended June 30, 2008.

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 Alamance Community College Foundation, Inc., the discretely presented component unit, as described in our report on the College's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of Alamance Community College Foundation, Inc. were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the College's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the College's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the College's financial statements that is more than inconsequential will not be prevented or detected by the College's internal control. We consider both of the deficiencies described in the Audit Findings and Responses section of this report to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the College's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies 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*.

**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)**

We noted certain matters that we reported to management of the College in a separate letter dated May 26, 2009.

The College's responses to the findings identified in our audit are described in the Audit Findings and Responses section of this report. We did not audit the College's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management of the College the Board of Trustees, others within the entity, the State Board of Community Colleges, 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.

Beth A. Wood

Beth A. Wood, CPA
State Auditor

May 18, 2009

[This Page Left Blank Intentionally]

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. DEFICIENCIES IN FINANCIAL REPORTING

The financial statements and related notes prepared by Alamance Community College contained misstatements that were corrected as a result of our audit. Without these corrections, the financial statements could have been misleading to readers.

Misstatements noted during our audit included:

a. The College made a number of errors in their capital assets records and in their estimate of useful lives of depreciable capital assets resulting in an understatement of capital assets in the amount of $2,382,190. An adjustment was made to reasonably estimate the useful lives of capital assets and to capitalize items that had been expensed in error. In addition, the adjustment corrected other errors including the understatement of depreciation recorded in 2007, failure to post audit adjustments from the 2006 audit and numerous small classification, data entry, formula and calculation errors in the College's records of capital assets.

b. Current unrestricted cash was overstated $563,150, current restricted cash was understated by $443,483, and noncurrent restricted cash was understated by $119,667. The College did not accurately record the effect of interfund borrowing of unrestricted cash to cover deficit balances in restricted funds. In addition, the College had incorrectly recorded unexpended plant fund cash and agency fund cash as unrestricted rather than restricted cash.

c. Accounts receivable did not agree to the subsidiary ledger and was understated by $47,581.

d. The College misclassified net assets. This caused unrestricted net assets to be overstated by $23,085, capital projects–expendable to be overstated by $50,301, and scholarships and fellowships-expendable to be understated by $73,386.

e. Compensated absences was miscalculated causing personal services expense to be overstated by $48,983, current long-term liabilities to be overstated by $40,232, and noncurrent long-term liabilities to be overstated by $8,751.

Recommendation: The College should place greater emphasis on the year-end financial reporting process and implement effective internal controls to ensure completeness and accuracy of the financial statements and notes. Management should implement policies and procedures to reconcile financial records to the underlying subsidiary ledgers.

College's Response: We agree with the finding and the recommendation listed in item (b). Reporting of unrestricted cash in this fashion could have been misleading to readers and does represent a failure of specific internal controls surrounding our accrual basis financial reporting process. Because such controls are meant to reduce and not eliminate risk of misstatements, we have planned measures to reduce the risk of this occurrence in the future. We will implement these measures during our next opportunity to prepare such statements.

While we did consent to the other adjustments listed, we believe that the original figures would not have necessarily been misleading to readers. The most significant change, which is listed in item (a) and deals with estimated useful lives of buildings and infrastructure, corresponds to an evolving interpretation of accounting standards which include highly subjective estimates. Current reporting of other adjustments is also based on evolving standards and interpretations. Considering these recommendations however, we will modify our system of internal control to lower the risk that auditors will need to suggest such adjustments in the future.

Auditor's Comment: The individual misstatements noted in the finding are not meant to represent separate internal control deficiencies, but rather the cumulative effect of the misstatements are indicative of a financial reporting process in need of improvement. While estimates are inherently lacking in precision, the requirement that they be based on sound assumptions is not subject to interpretation.

2. INAPPROPRIATE INFORMATION SYSTEM ACCESS

The College granted information system access rights that were inconsistent with adequate segregation of duties to the controller. This increases the risk that an error or fraud could occur and not be detected. The controller was granted access rights that allowed him to requisition goods, create purchase orders, receipt goods, post journal entries, update the fixed assets module, create vendors, process payments, and update the general ledger. There is no adequate compensating control that would detect unauthorized transactions or errors by this employee.

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 to reduce the opportunities to allow any person to be in a position to both perpetrate and conceal errors or fraud in the normal course of his or her duties.

There were two terminated employees that had not had their access rights revoked. These employees had access to critical financial or student financial aid screens in the information system.

Recommendation: The College should review access rights and strengthen internal control by segregating the incompatible duties within its business process. If there are situations where segregation of duties is not feasible, the College should implement effective compensating controls. Management should establish procedures to ensure that computer access rights for separated employees are cancelled timely.

College's Response: The College's controller is responsible for many business processes and does have the information system access detailed in this finding. Staffing limitations periodically force the controller to directly execute certain tasks which require such access. We believe very strongly that compensating controls and process structures do exist which lower the associated risk. However, we do seek to continually improve our system of internal control and have made significant changes in the structure of our business office over the last six months, including the creation of an assistant controller position. As this position is fully integrated we expect to alter information system access within our Business Office, further decreasing risk associated with segregation of duties.

Information system access was not revoked in a timely fashion for two employees and we will modify current controls to lower the risk of future occurrences.

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