STATE OF
NORTH CAROLINA

COLLEGE OF THE ALBEMARLE

ELIZABETH CITY, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2010

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR

COLLEGE OF THE ALBEMARLE

ELIZABETH CITY, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2010

STATE OF NORTH CAROLINA

Office of the State Auditor

Beth A. Wood, CPA
State Auditor

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AUDITOR'S TRANSMITTAL

The Honorable Beverly E. Perdue, 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, 2010, 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 a deficiency that is detailed in the Audit Findings and Responses section of this report. The College's response is included following the 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

Beth A. Wood, CPA
State Auditor

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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, 2010, 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 17 percent, 16 percent, and 4 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, 2010, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 15 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 51, *Accounting and Financial Reporting for Intangible Assets* during the year ended June 30, 2010.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 26, 2011 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, 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 required 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 26, 2011

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 the College's activities for the fiscal year ended June 30, 2010. The intent of this discussion and analysis is to look at the College's financial performance as a whole: readers should also review the notes to the financial statements to enhance their understanding of the financial performance.

College of The Albemarle's financial posture and accounting practices are sound. 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.

Major Initiatives

The College has fourteen goals which drive most programs and the priority given to the budget. They are:

1. Identify high growth/high demand areas for new program offerings and/or expansions.
2. Enhance student access and success of a diversified study body through college-wide programs and services for underserved, underachieving, and international students.
3. Facilitate campus-wide access to appropriate technologies, infrastructure, and support to improve instructional content, delivery, and learning processes.
4. Continue current and develop new collaborations and cooperative agreements with other educational entities geared to further the College's mission.
5. Cultivate new and continuing community relationships.
6. Build a college climate centered around joint planning, decision-making and quality enhancement and improvement.
7. Perpetuate involvement of business and industry, advisory boards, and other community stakeholders in shaping current and future educational programs, services, and training/re-training opportunities identified by forecasts of local demographics and economic outlooks.
8. Prepare competent workers to support regional businesses, industries, and citizens.
9. Increase student knowledge and awareness of career opportunities and workplace behaviors.

10. Identify and seek external funding sources to support key implications identified in the College's Long Range Plan in terms of programs, services, and facilities.
11. Prioritize major personnel, facilities, and equipment needs in accordance with established planning, evaluation, and budgeting processes.
12. Improve the skills and performance of faculty and staff through learning opportunities and/or other incentives.
13. Implement a plan to raise faculty/staff salaries to the national average and beyond.
14. Develop and implement a Succession Plan designed to address high quality staffing and diversified leadership.

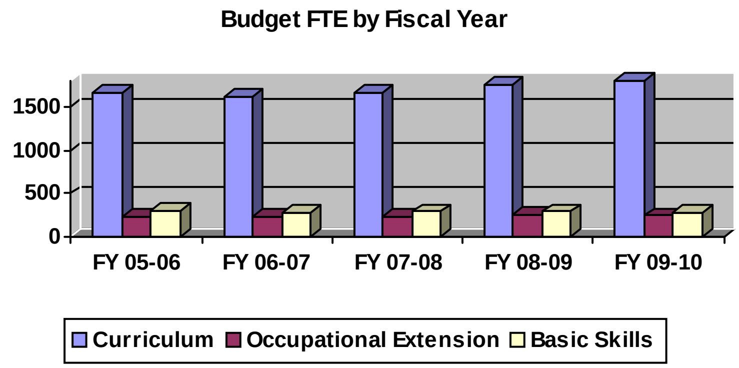
Economic Condition and Outlook

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 the land mass covers over 1,875 square miles. Major campuses are located in the northeastern portion of North Carolina in the cities of Edenton, Elizabeth City, and Manteo.

The College receives its funding from multiple sources. The primary source of funding the College receives annually is from the North Carolina Budget Appropriation and associated North Carolina Community College System (NCCCS) distribution of those funds. These funds are necessary for instruction and instructional support. To maintain the facilities at our three campus locations, funding is received from the seven counties supported. An annual budget is developed for both state and county funds and these budgets provide guidance for budget managers throughout the year. Three other sources of funding are internal auxiliary funds, Federal funds and support received from the College of The Albemarle Foundation, Inc. The College also receives funding reimbursement for construction projects through State Bond Referendum dollars and from counties.

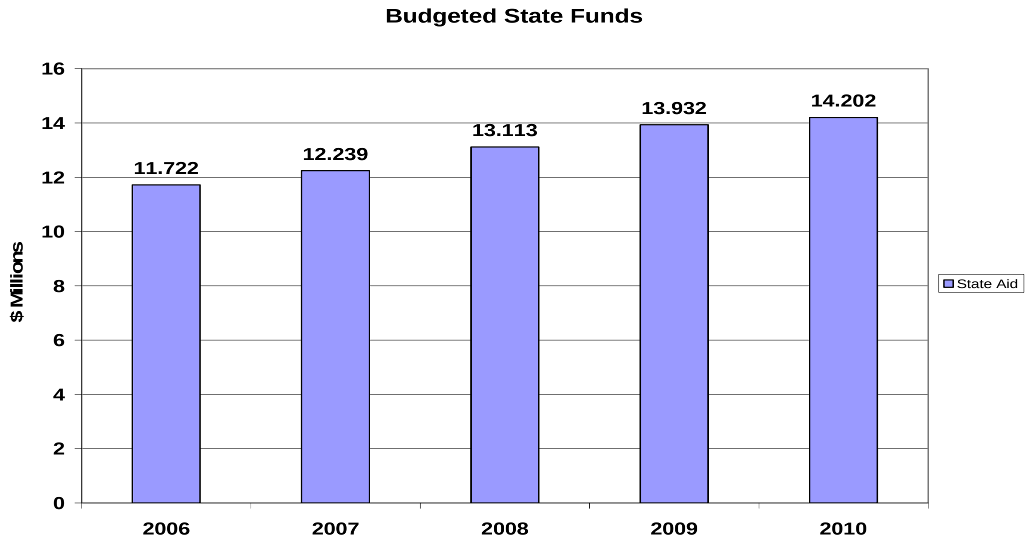
Budget Guidance from State

The College offers 36 certificate, 13 diploma and 25 associates' degree programs. In addition, a full array of credit and non-credit classes are offered through adult basic education, GED, Adult High School, Gateway to College, Occupational Extension, 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 or certificate and more than 6,000 students complete workforce development and personal interest classes.



The College receives most of its allocation of funding from the State (called State Aid) based on the full-time equivalents (FTE) generated from the previous fiscal year. A full-time equivalent is comparable to one student taking a full load of classes for both fall and spring semesters. 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 NCCCS FTE funding formulas for Curriculum, Occupational Extension and Basic Skills programs of instruction as well as administrative support. Curriculum had a sharp increase of 153 FTE in FY 2009-2010, resulting in growth for the third year in a row. The College hit a low point in FY 2006-2007 with 1613 FTE, and has grown to the highest FTE ever achieved in curriculum of 1904 in FY 2009-2010. Occupational extension had a slight decrease (-8 FTE) over the past fiscal year. The Basic Skills program again decreased slightly (-9 FTE) over the previous fiscal year making it the second year in a row that FTE have dropped. The FTE formula developed by NCCCS, 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 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 semester and the summer semester has significantly less students. Curriculum generated FTE during the summer semester is not allowed when computing FTE funding. The College does not get FTE credit for any Continuing Education self supporting classes conducted.

Below is a summary of the College's budgeted revenues from State sources:

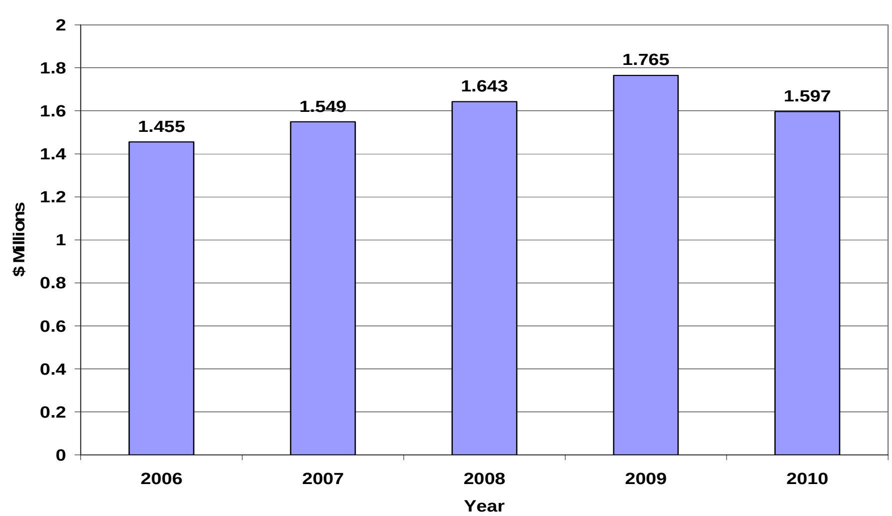


Over the past 5 years, the beginning budget position for the College from NCCCS has steadily increased. This is mainly because the overall College FTE has grown and included growth because of pay raises, bonuses, and special programs. The NCCCS policy of using a three year FTE average for funding when the FTE decreases over the previous year has also assisted the College initial funding position.

The College continues to place priority on its students and has been adequately funded to perform its mission.

Below is a summary of the College's budgeted revenues funded from county sources:

Budgeted County Support



Budgeted county funding had a decrease of $168,000 from FY 2008-2009 to FY 2009-2010. This decrease was as a result of the economic downturn and a lack of available county funds. The College implemented several steps to live within the bounds of the new budget by releasing a full-time staff member and part-time staff member, furloughing all employees for a day and making other economies to stay within budget. County funding provides resources for maintenance and repair of facilities and vehicles, utilities, custodial, security and insurance items. Our two remote campus locations, Dare County Campus and the Edenton-Chowan campus, are supported by the individual counties that house the campus locations.

Capital Projects

The College received a total of $6.756 million of year 2000 bond referendum monies and began the use of those monies in FY 2002-2003. These monies were divided into new construction and repair and renovation categories. The College developed eight major projects and all eight have been completed. The renovation of the old Manteo Middle School, construction of a new Professional Arts building, and construction of a boat storage building were completed in December 2009 with the welding lab being completed in April 2010. This campus is now known as the Roanoke Island Campus and is located in Manteo, NC.

Capital Projects Summary

Bond Referendum Expenses 2003-2009	New Construction	Repair and Renovation	County and Other support	Completed?
DF Walker Renovation	$ 905,612	$ 0.00	$ 66,202	Yes
Allied Health Center	2,552,136			Yes
Riverside Center Land Acquisition	42,948			Yes
Manteo Middle School Renovation	742,724		7,113,724	Yes
Replace Auditorium Roof		45,424	98,519	Yes
Cosmetology Renovation		90,000	74,788	Yes
Buildings A & C roof (bundled)		380,576		Yes
Expansion of Building A	1,021,353	975,244	4,735,790	Yes
Total	$ 5,264,773	$ 1,491,244	$ 12,089,023	

Using the Annual Report

This annual report consists of a series of financial statements, prepared in accordance with GASB 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 financial statements presented in the past focused on the accountability of funds, while these statements focus on the financial condition of the College, the results of operations, and cash flows for the College as a whole. The funds considered in this financial statement include funds provided by the State of North Carolina, county funds, the College of The Albemarle (COA) Foundation funds, Federal funds and auxiliary funds. Auxiliary funds are other revenue sources and include such activities as income from vending machines, facilities rentals, bookstore, and community events. The College is provided county funds from the seven counties that it supports. The

COA Foundation is a separate organization and Foundation financial statements are audited annually. The Foundation's FY 2009-2010 financial statements have been audited and the auditors provided an unqualified audit opinion. Copies of the FY 2009-2010 audit are available from the COA Foundation office. The Foundation's financial statements are blended with the College.

This annual report consists of three financial statements that provide information on the College as a whole. The annual report also includes the Notes to the Financial Statements. The financial statements 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

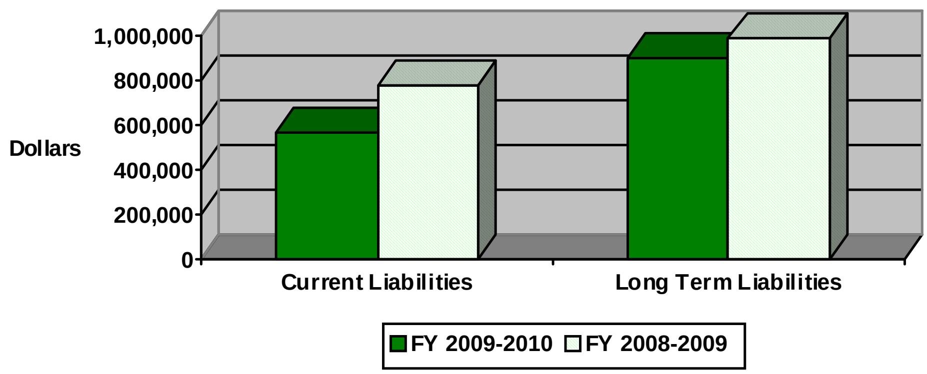
Condensed Statement of Total Assets

	FY 2009-2010	FY 2008-2009	Difference
Current Assets	$ 5,489,989.73	$ 4,763,840.34	$ 726,149.39
Noncurrent Assets:			
Endowment Investments	3,039,645.76	2,787,537.31	252,108.45
Capital Assets -Nondepreciable	2,212,472.36	6,143,250.01	(3,930,777.65)
Capital Assets – Depreciable	30,741,435.93	24,030,652.63	6,710,783.30
Cash and cash Equivalents	365,445.73	440,754.03	(75,308.30)
Other Long Term Investments	640,517.00	618,464.00	22,053.00
Restricted due from primary government	112,093.57	259,747.07	(147,653.50)
Total Assets	$ 42,601,600.08	$ 39,044,245.39	$ 3,557,354.69

The growth in Total Assets is probably the most positive single indicator of the financial growth of an organization. Total Assets increased approximately $3.5 million from the previous fiscal year. The main reasons for this increase were positive market returns from Foundation investments and the completion of the Professional Arts Building and Boat House on the Roanoke Island Campus. Nondepreciable capital assets decreased and depreciable capital assets increased because of the completion of the Roanoke Island Campus construction project. The building was awarded an occupancy notice in December 2009. The Foundation had an overall 9.36 percent return on investments during the last fiscal year. The decrease in restricted due from primary government is mainly from having less remaining available balances to draw from the State with the completion of the Roanoke Island Campus construction project.

Summary of Total Liabilities

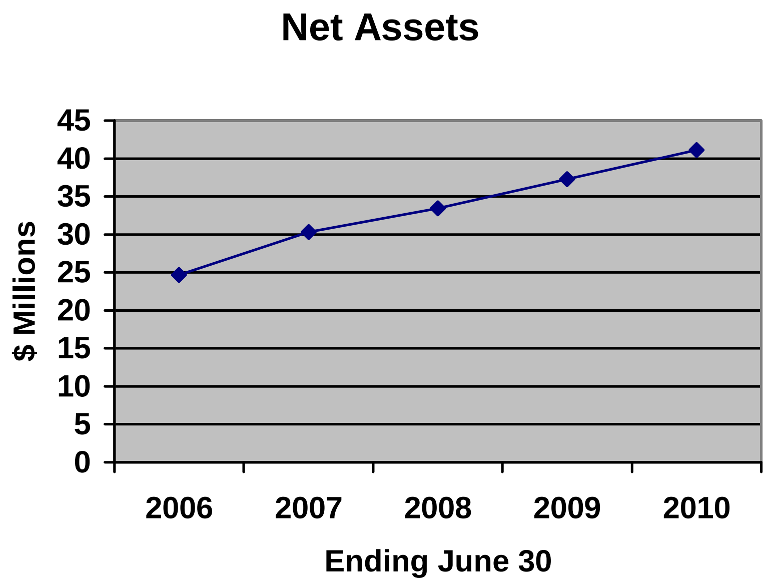
	FY 2009-2010	FY 2008-2009	Difference
Current Liabilities	$ 567,517.16	$ 776,749.99	$ (209,232.83)
Long Term Liabilities	896,124.87	986,701.27	(90,576.40)
Total Liabilities	$ 1,463,642.03	$ 1,763,451.26	$ (299,809.23)



Total Liabilities decreased in both Current and Long-Term liabilities. The main reason for the decrease in Long Term Liabilities is because of a reduction in Notes Payable and a reduction in Compensated Absences. The reduction in Compensated Absences was because of employees retiring and the payout of accrued annual leave. The Notes Payable consists of amounts owed on Foundation Split Interest Agreements. The Current Liabilities decreased mainly because of a reduction in Accrued Payroll. In order for the college to ensure employees accumulated accurate retirement credits the college began paying employees for partial months worked. Because of the change in the contractual pay dates, the college desired to reduce the burden on those employees selecting alternative pay. Therefore, the college allowed for one of an employee's summer payments to be spread over more months in the fiscal year, thereby reducing the payments in the next fiscal year and thereby reducing the accrued payroll amount.

Condensed Statement of Net Assets

	FY 2009-2010	FY 2008-2009	Difference
Invested in Capital Assets	$ 32,953,908.29	$ 30,173,902.64	$ 2,780,005.65
Restricted	7,163,163.65	6,288,580.06	874,583.59
Unrestricted	1,020,886.11	818,311.43	202,574.68
Total Net Assets	$ 41,137,958.05	$ 37,280,794.13	$ 3,857,163.92



The College has had a gradual increase in net assets over the past five years. In general this is because Foundation annual donations have been substantial, overall market returns in previous years have been positive and the College has completed several construction projects. The increase in Net Assets this past fiscal year is attributable to a large amount of work in completing the Roanoke Island Campus construction project and a positive return on Foundation investments.

Statement of Revenues, Expenses and Changes in Net Assets

There are two types of revenues; Operating Revenues and Nonoperating Revenues.

Operating Revenues

	FY 2009-2010	FY 2008-2009	Differences
Student Tuition and Fees	$ 2,202,497.32	$ 1,619,772.89	$ 582,724.43
State and Local Grants and Contracts	235,659.50	496,400.99	(260,741.49)
NonGovernment Grants and Contracts	94,489.79	114,072.50	(19,582.71)
Sales and Services	227,052.46	199,250.00	27,802.46
Other Operating Revenues	64,054.31	25,870.29	38,184.02
Total Operating Revenues	$ 2,823,753.38	$ 2,455,366.67	$ 368,386.71

Overall, the Operating Revenue increased over the previous year and is associated with the revenue from Student Tuition and Fees. Student tuition and fees increased because (1) tuition increased from $42.00 to $50.00 per curriculum semester hour (2) Occupational Extension course fees increased significantly and the college had an overall increase in the number of courses requiring lab fees. As noted earlier this was also the largest enrollment of students and FTE that the College has ever attained.

Nonoperating Revenues

	FY 2009-2010	FY 2008-2009	Differences
State Aid	$ 9,931,406.47	$ 10,713,571.54	$ (782,165.07)
County Appropriations	2,175,501.88	2,241,919.31	(66,417.43)
Noncapital grants	6,262,046.27	3,706,910.08	2,555,136.19
Noncapital gifts	220,217.73	167,795.62	52,422.11
Net Investment Income	560,065.36	(482,887.87)	1,042,953.23
Other Nonoperating Revenues	40,654.37	92,222.65	(51,568.28)
Total Nonoperating Revenues	$ 19,189,892.08	$ 16,439,531.33	$ 2,750,360.75

Nonoperating revenues increased by approximately $2.75 million over the previous year and are explained by the increases in PELL, SEOG and Workstudy programs (Noncapital Grants) and the positive return on Foundation investments (Net Investment Income). Net investment income had an overall loss of 11.84 percent on market investments in FY 2008-2009. The positive return in FY 2009-2010 is attributable to an overall 9.36 percent positive return on market investments. The Foundation also received typical annual contributions from college employees, families and organizations. State Aid is the dollars received from the NCCCS System Office for operations net of tuition and fees, non State payroll, and State capital aid. The decrease in State Aid from the previous year is a combination of not drawing down all the budget that was authorized coupled with an increase in tuition and fees.

Operating Expenses

	FY 2009-2010	FY 2008-2009	Difference
Personal Services	$ 13,021,016.32	$ 13,239,472.09	$ (218,455.77)
Supplies and Materials	1,365,292.54	1,215,071.11	150,221.43
Services	2,345,740.48	2,353,070.02	(7,329.54)
Scholarships and Fellowships	3,865,228.15	2,412,534.56	1,452,693.59
Utilities	482,516.63	455,469.62	27,047.01
Depreciation	857,157.37	696,683.60	160,473.77
Total Operating Expenses	$ 21,936,951.49	$ 20,372,301.00	$ 1,564,650.49

Overall, Total Operating Expenses increased approximately $1.6 million and again is associated with increased Scholarships and Fellowships provided to the record number of students. State Aid was spent less on salaries and compensation and more on supplies and materials than the year before. The NCCCS returned two percent of a five percent reversion in December 2009 and the College could not program sufficient classes for these returned funds.

Condensed Statement of Revenues, Expenses and Changes in Net Assets

	FY 2009-2010	FY 2008-2009	Differences
Revenues (Operating and Nonoperating)	$ 22,013,645.46	$ 18,894,898.00	$ 3,118,747.46
Operating Expenses	21,936,951.49	20,372,301.00	1,564,650.49
Income/Loss before Other Revenues	76,693.97	(1,477,403.00)	1,554,096.97
Other Revenues:			
State Capital Aid	470,803.24	762,687.07	(291,883.83)
County Capital Aid	3,309,666.71	4,041,180.21	(731,513.50)
Capital Gifts		90,194.53	(90,194.53)
Change in Net Assets	$ 3,857,163.92	$ 3,416,658.81	$ 440,505.11
Beginning Net Assets	$ 37,280,794.13	$ 33,285,755.50	
Change in Net Assets	3,857,163.92	3,416,658.81	
Net Asset Restatements		578,379.82	
Ending Net Assets	$ 41,137,958.05	$ 37,280,794.13	

As shown above the change in net assets was approximately $3.8 million in the current year. In addition to the impact of other items mentioned above, the $3.8 million is from receiving approximately $470,000 in equipment funding from the State and the $3.3 million in capital funding from Dare County for the Roanoke Island Campus renovation. This amount of county construction support declined from the prior year as the Roanoke Island Campus was completed during the year. The Net Asset restatement is associated with posting two construction invoices and tuition revenue in the wrong fiscal year.

College of The Albemarle
Statement of Net Assets
June 30, 2010 ***Exhibit A-1***

ASSETS		
Current Assets:		
Cash and Cash Equivalents	$	1,317,449.99
Restricted Cash and Cash Equivalents		428,476.53
Short-Term Investments		267,139.87
Restricted Short-Term Investments		2,375,931.11
Receivables, Net (Note 4)		338,664.54
Due from State of North Carolina Component Units		698,760.00
Inventories		63,567.69
Total Current Assets		5,489,989.73
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		365,445.73
Restricted Due from Primary Government		112,093.57
Restricted Endowment Investments		3,039,645.76
Other Restricted Investments		640,517.00
Capital Assets - Nondepreciable (Note 5)		2,212,472.36
Capital Assets - Depreciable, Net (Note 5)		30,741,435.93
Total Noncurrent Assets		37,111,610.35
Total Assets		42,601,600.08
LIABILITIES		
Current Liabilities:		
Accounts Payable and Accrued Liabilities (Note 6)		350,189.55
Unearned Revenue		22,709.69
Funds Held for Others		49,145.88
Long-Term Liabilities - Current Portion (Note 7)		145,472.04
Total Current Liabilities		567,517.16
Noncurrent Liabilities:		
Long-Term Liabilities (Note 7)		896,124.87
Total Noncurrent Liabilities		896,124.87
Total Liabilities		1,463,642.03
NET ASSETS		
Invested in Capital Assets		32,953,908.29
Restricted for:		
Nonexpendable:		
Scholarships and Fellowships		3,142,761.54
Expendable:		
Scholarships and Fellowships		2,914,685.96
Loans		1,842.90
Capital Projects		350,338.44
Restricted for Specific Programs		717,351.97
Other		36,182.84
Unrestricted		1,020,886.11
Total Net Assets	$	41,137,958.05

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, 2010

Exhibit A-2

REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net (Note 9)	$	2,202,497.32
State and Local Grants and Contracts		235,659.50
Nongovernmental Grants and Contracts		94,489.79
Sales and Services, Net (Note 9)		227,052.46
Other Operating Revenues		64,054.31
Total Operating Revenues		2,823,753.38
EXPENSES		
Operating Expenses:		
Salaries and Benefits		13,021,016.32
Supplies and Materials		1,365,292.54
Services		2,345,740.48
Scholarships and Fellowships		3,865,228.15
Utilities		482,516.63
Depreciation		857,157.37
Total Operating Expenses		21,936,951.49
Operating Loss		(19,113,198.11)
NONOPERATING REVENUES		
State Aid		9,931,406.47
County Appropriations		2,175,501.88
Noncapital Grants - Federal Student Financial Aid		4,232,186.39
Noncapital Grants		2,029,859.88
Noncapital Gifts		220,217.73
Investment Income		560,065.36
Other Nonoperating Revenues		40,654.37
Nonoperating Revenues		19,189,892.08
Income Before Other Revenues		76,693.97
State Capital Aid		470,803.24
County Capital Aid		3,309,666.71
Increase in Net Assets		3,857,163.92
NET ASSETS		
Net Assets, July 1, 2009 as Restated (Note 16)		37,280,794.13
Net Assets, June 30, 2010	$	41,137,958.05

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, 2010 *Exhibit A-3*

CASH FLOWS FROM OPERATING ACTIVITIES	
Received from Customers	$ 2,728,542.20
Payments to Employees and Fringe Benefits	(13,203,435.71)
Payments to Vendors and Suppliers	(4,249,045.38)
Payments for Scholarships and Fellowships	(3,865,228.15)
Other Receipts	48,282.43
Net Cash Used by Operating Activities	(18,540,884.61)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Aid Received	9,931,406.47
County Appropriations	2,175,501.88
Noncapital Grants - Federal Student Financial Aid	4,232,186.39
Noncapital Grants Received	1,581,497.87
Noncapital Gifts Received	241,070.14
Cash Provided by Noncapital Financing Activities	18,161,662.75
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
State Capital Aid Received	618,456.74
County Capital Aid	3,341,031.85
Acquisition and Construction of Capital Assets	(3,637,163.02)
Principal Paid on Split Interest Agreements	(74,266.64)
Net Cash Provided by Capital and Related Financing Activities	248,058.93
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from Sales and Maturities of Investments	209,370.96
Investment Income	290,950.65
Purchase of Investments and Related Fees	(429,916.42)
Net Cash Provided by Investing Activities	70,405.19
Net Decrease in Cash and Cash Equivalents	(60,757.74)
Cash and Cash Equivalents, July 1, 2009	2,172,129.99
Cash and Cash Equivalents, June 30, 2010	$ 2,111,372.25

RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES

Operating Loss	$	(19,113,198.11)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense		857,157.37
Miscellaneous Nonoperating Income		40,654.37
Changes in Assets and Liabilities:		
Receivables, Net		(88,961.07)
Inventories		(10,994.58)
Accounts Payable and Accrued Liabilities		(191,507.91)
Unearned Revenue		(6,316.51)
Funds Held for Others		7,694.46
Compensated Absences		(35,412.63)
Net Cash Used by Operating Activities	$	(18,540,884.61)

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:		
Cash and Cash Equivalents	$	1,317,449.99
Restricted Cash and Cash Equivalents		428,476.53
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		365,445.73
Total Cash and Cash Equivalents - June 30, 2010	$	2,111,372.25

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Change in Fair Value of Investments	$	216,727.23
Increase in Receivables Related to Nonoperating Income		448,760.00

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

Blended Component Unit - Although legally separate, College of The Albemarle Foundation, Inc. (Foundation) is reported as if it was part of the College. The Foundation is governed by a 20-member board consisting of one ex officio director and 19 elected directors. 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, 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, PO 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, 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, regardless of the timing of the cash flows.

Nonexchange transactions, in which the College receives (or gives) value without directly giving (or receiving) equal value in exchange includes State appropriations, certain grants, and donations. Revenues are recognized, net of estimated uncollectible amounts, as soon as all eligibility requirements imposed by the provider have been met, if probable of collection.

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 -** Investments generally are reported at fair value, as determined by quoted market prices or estimated amounts determined by management if quoted market prices are not available. Because of the inherent uncertainty in the use of estimates, values that are based on estimates may differ from the values that would have been used had a ready market existed for the investments. The net increase (decrease) in the fair value of investments is recognized as a component of investment income.

Money market funds and other asset holdings are reported at cost, if purchased, or at fair value or appraised value at date of gift, if donated. Land and other real estate held as investments by endowments are reported at fair value, consistent with how investments are normally reported. However, real estate investments not held by endowments are valued at cost or fair value at the date of donation and remainder interests in real estate is reported at fair value at the time of donation, less a present value discount.

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. Student receivables are recorded net of estimated uncollectible amounts. For pledges receivable, past experience has shown that uncollectible pledges are not material and therefore no allowance for uncollectible accounts has been made in these financial statements.

G. **Inventories** - Inventories, consisting of expendable supplies, are valued at cost using 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 value of assets constructed includes all material direct and indirect construction costs. Interest costs incurred are capitalized during the period of construction.

The College capitalizes assets that have a value or cost of $5,000 or greater at the date of acquisition and an estimated useful life of more than one year except for internally generated software which is capitalized when the value or cost is $1,000,000 or greater and other intangible assets which are capitalized when the value or cost is $100,000 or greater. 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 75 years for general infrastructure, 10 to 50 years for buildings, 2 to 30 years for equipment, and 2 to 30 years for computer software.

I. 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.

J. Noncurrent Long-Term Liabilities - Noncurrent long-term liabilities include compensated absences and split interest agreements 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. When classifying compensated absences into current and noncurrent, leave is considered taken using a last-in, first-out (LIFO) method. 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 calendar year. It is not subject to the limitation on annual leave carried forward described above and is not subject to conversion to sick leave.

There is no liability for unpaid accumulated sick leave because the College has no obligation to pay sick leave upon termination or retirement. However, additional service credit for retirement pension benefits is given for accumulated sick leave upon retirement.

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 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 $542,818.33. Funds established under revocable trusts or where the trustees have discretionary power over distributions are recorded as revenue when distributions are received and resource provider conditions are satisfied.

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

NOTE 2 - DEPOSITS AND INVESTMENTS

A. Deposits - All funds of the College are deposited in board-designated official depositories and are required to be collateralized in accordance with *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 $1,875.00, and deposits in private financial institutions with a carrying value of $1,203,063.06 and a bank balance of $1,495,040.99.

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, 2010, the College's bank balance in excess of federal depository insurance coverage was covered under 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, 2010, the amount shown on the Statement of Net Assets as cash and cash equivalents includes $906,434.19 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 1.6 years as of June 30, 2010. 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.osc.nc.gov/ and clicking on "Proceed directly to OSC's index page," then "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 and corporate bonds/ notes with specified ratings; general obligations of other states; and general obligations of North Carolina local governments.

Investments of the College's component unit, the College of The Albemarle Foundation, Inc. is subject to and restricted by G.S. 36E "Uniform Prudent Management of Institutional Funds Act" (UPMIFA) 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, 2010, 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.

		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	$ 622,298.61	$ 123,846.12	$ 419,919.69	$ 78,532.80	$ 0.00
U.S. Agencies	287,190.82		18,211.76	168,276.56	100,702.50
Mortgage Pass Throughs	161,535.86		10,591.27	26,709.51	124,235.08
State and Local Government	301,516.35	9,963.10	150,295.55	141,257.70	
Domestic Corporate Bonds	659,245.65	15,252.29	419,574.19	224,419.17	
		$ 149,061.51	$ 1,018,592.46	$ 639,195.74	$ 224,937.58
Other Securities					
Cash	288.00				
Money Market Fund	493,847.65				
Equity Funds	78,954.94				
Domestic Stocks	1,860,742.66				
Other (Index Shares)	480,496.20				
Remainder Interest in Real Estate	640,517.00				
Real Estate	736,600.00				
Total Investments	$ 6,323,233.74				

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. 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. As of June 30, 2010, the College's investments were rated as follows:

	Fair Value	AAA Aaa	AA Aa	A
U.S. Treasuries	$ 622,298.61	$ 622,298.61	$ 0.00	$ 0.00
U.S. Agencies	287,190.82	287,190.82		
Motrgage Pass Throughs	161,535.86	161,535.86		
State and Local Government	301,516.35	71,703.45	229,812.90	
Domestic Corporate Bonds	659,245.65		71,240.15	588,005.50
Total	$ 2,031,787.29	$ 1,142,728.74	$ 301,053.05	$ 588,005.50

Rating Agency: Moody's and/or Standard & Poor'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: Concentration of credit risk is the risk of loss attributable to the magnitude of an investment in a single issuer. 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.

A reconciliation of deposits and investments for the College to the basic financial statements at June 30, 2010, is as follows:

	Amount
Cash on Hand	$ 1,875.00
Carrying Amount of Deposits with Private Financial Institutions	1,203,063.06
Investments in the Short Term Investment Fund	906,434.19
Other Investments	6,323,233.74
Total Deposits and Investments	$ 8,434,605.99
Current:	
Cash and Cash Equivalents	$ 1,317,449.99
Restricted Cash and Cash Equivalents	428,476.53
Short-Term Investments	267,139.87
Restricted Short-Term Investments	2,375,931.11
Noncurrent:	
Restricted Cash and Cash Equivalents	365,445.73
Endowment Investments	3,039,645.76
Other Long-Term Investments	640,517.00
Total	$ 8,434,605.99

NOTE 3 - ENDOWMENT INVESTMENTS

Investments of the College's endowment funds are pooled, unless required to be separately invested by the donor. 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. Under the "Uniform Prudent Management of Institutional Funds Act" (UPMIFA), authorized by the North Carolina General Assembly on March 19, 2010, the Board may also appropriate expenditures from eligible nonexpendable balances if deemed prudent and necessary to meet program outcomes and for which such spending is not specifically prohibited by the donor agreements. However, all of the College's endowment donor agreements prohibit spending of nonexpendable balances and therefore the related nonexpendable balances are not eligible for expenditure.

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 components of the endowment fund will be the amount of dollars to the provided for scholarships based on endowments. The December 31, 2009 endowment value was $2,197,864 and the three year running average was $2,309,403. Applying the 4% policy resulted in a scholarship amount being $92,376.00, for the FY 2010-2011, but because of the current market conditions, not all endowments had enough income available for scholarships. This resulted in the Investment Committee only approving $62,026.00 for scholarships from endowments.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2010, were as follows:

	Gross Receivables	Less Allowance for Uncollectibles	Net Receivables
Current Receivables:			
Students	$ 305,570.90	$ 203,941.25	$ 101,629.65
Accounts	43,208.08		43,208.08
Intergovernmental	71,612.87		71,612.87
Pledges	117,048.53		117,048.53
Investment Earnings	1,144.46		1,144.46
Other	4,020.95		4,020.95
Total Current Receivables	$ 542,605.79	$ 203,941.25	$ 338,664.54

NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2010, is presented as follows:

	Balance July 1, 2009	Increases	Decreases	Balance June 30, 2010
Capital Assets, Nondepreciable:				
Land	$ 2,169,607.36	$ 0.00	$ 0.00	$ 2,169,607.36
Construction in Progress	3,973,642.65	3,402,090.10	7,332,867.75	42,865.00
Total Capital Assets, Nondepreciable	6,143,250.01	3,402,090.10	7,332,867.75	2,212,472.36
Capital Assets, Depreciable:				
Buildings	28,641,422.20	7,332,867.75		35,974,289.95
Machinery and Equipment	2,150,443.24	235,072.92		2,385,516.16
General Infrastructure	801,110.24			801,110.24
Total Capital Assets, Depreciable	31,592,975.68	7,567,940.67		39,160,916.35
Less Accumulated Depreciation for:				
Buildings	6,529,126.31	673,067.07		7,202,193.38
Machinery and Equipment	858,232.44	165,072.57		1,023,305.01
General Infrastructure	174,964.30	19,017.73		193,982.03
Total Accumulated Depreciation	7,562,323.05	857,157.37		8,419,480.42
Total Capital Assets, Depreciable, Net	24,030,652.63	6,710,783.30		30,741,435.93
Capital Assets, Net	$ 30,173,902.64	$ 10,112,873.40	$ 7,332,867.75	$ 32,953,908.29

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2010, were as follows:

		Amount
Accounts Payable	$	108,587.65
Accrued Payroll		241,601.90
Total Accounts Payable and Accrued Liabilities	$	350,189.55

NOTE 7 - LONG-TERM LIABILITIES

A. Changes in Long-Term Liabilities - A summary of changes in the long-term liabilities for the year ended June 30, 2010, is presented as follows:

	Balance July 1, 2009	Additions	Reductions	Balance June 30, 2010	Current Portion
Compensated Absences	$ 534,191.21	$ 367,313.95	$ 402,726.58	$ 498,778.58	$ 70,427.55
Split Interest Agreements	617,084.97		74,266.64	542,818.33	75,044.49
Total Long-Term Liabilities	$ 1,151,276.18	$ 367,313.95	$ 476,993.22	$ 1,041,596.91	$ 145,472.04

B. Split Interest Agreements – The College's Foundation has four 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, 2010, was $50,100.00.

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, 2010, was $309,219.37.

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 trust's 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 $39,377.42 at June 30, 2010, and the liability recorded the fund payments to the income beneficiary was $17,128.50.

The Lee and Jewel Davenport Charitable Remainder Unitrust was established in 2006 with a contribution of real estate. The trust is responsible to pay the beneficiary an amount equal to the lesser of (a) 8% of the net fair market value of the assets of the trust as of the first day of each taxable year, or (b) the trust net income for the taxable year. Upon the occurrence of a triggering event, such as the sale and conveyance of at least one-half of the real estate initially contributed, the trustee shall pay the beneficiary an amount equal to 8% of the fair market value of the trust assets as of the first day of the taxable year, for the remaining years of the trust. The payments are to be made in equal monthly installments. Any assets remaining after the death of the beneficiary shall be distributed to be used for general purposes. In recording the gift, contribution revenue was recognized equal to the present value (5.80%) of the gift or $534,484.65. A liability to the beneficiaries in the amount of $200,515.35 was established at the date of the gift to fund the liability. The liability to the beneficiary is being amortized over 10 years and is reported as revenue. The remaining liability at June 30, 2010 was $126,993.04.

NOTE 8 - OPERATING LEASE OBLIGATIONS

The College entered into operating leases for copiers. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2010:

Fiscal Year	Amount
2011	$ 62,143.36
2012	53,291.52
2013	19,796.00
2014	1,701.00
Total Minimum Lease Payments	$ 136,931.88

Rental expense for all operating leases during the year was $133,016.53.

NOTE 9 - 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	$ 3,414,814.42	$ 0.00	$ 1,190,961.38	$ 21,355.72	$ 2,202,497.32
Sales and Services:					
Sales and Services of Auxiliary Enterprises:					
Bookstore Commissions	$ 89,189.98	$ 0.00	$ 0.00	$ 0.00	$ 89,189.98
Printshop	113,229.30	113,229.30			
Other	137,862.48				137,862.48
Total Sales and Services	$ 340,281.76	$ 113,229.30	$ 0.00	$ 0.00	$ 227,052.46

NOTE 10 - OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	$ 7,469,944.32	$ 994,795.75	$ 345,823.63	$ 0.00	$ 0.00	$ 0.00	$ 8,810,563.70
Academic Support	1,356,395.61	90,095.87	47,876.58				1,494,368.06
Student Services	1,426,872.65	58,707.42	388,690.87				1,874,270.94
Institutional Support	1,967,542.02	144,893.35	530,459.95				2,642,895.32
Operations and Maintenance of Plant	712,871.70	70,723.57	977,363.82		482,516.63		2,243,475.72
Student Financial Aid	40,060.74			3,865,228.15			3,905,288.89
Auxiliary Enterprises	47,329.28	6,076.58	55,525.63				108,931.49
Depreciation						857,157.37	857,157.37
Total Operating Expenses	$ 13,021,016.32	$ 1,365,292.54	$ 2,345,740.48	$ 3,865,228.15	$ 482,516.63	$ 857,157.37	$ 21,936,951.49

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 is a cost-sharing multiple-employer defined benefit pension plan established by the State to provide pension benefits for employees of the State, its component units and local boards of education. The plan is 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, 2010, these rates were set at 3.57% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the College had a total payroll of $10,836,156.11, of which $8,671,352.90 was covered under the Teachers' and State Employees' Retirement System. Total employer and employee contributions for pension benefits for the year were $309,567.30 and $520,281.18 respectively.

Required employer contribution rates for the years ended June 30, 2009, and 2008, were 3.36% and 3.05%, respectively, while employee contributions were 6% each year. The College made 100% of its annual required contributions for the years ended June 30, 2010, 2009, and 2008, which were $309,567.30, $294,271.86, and $260,915.62 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.nc.gov/ and clicking on "Proceed directly to OSC's index page," then "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 $51,983.00 for the year ended June 30, 2010.

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 $161,502.00 for the year ended June 30, 2010.

NOTE 12 - 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 North Carolina General Statute 135-7 and Chapter 135, Article 3A, 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 of the

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.

For the current fiscal year the College contributed 4.5% of the covered payroll under the Teachers' and State Employees' Retirement System to the Fund. Required contribution rates for the years ended June 30, 2009, and 2008, were 4.1% and 4.1%, respectively. The College made 100% of its annual required contributions to the Plan for the years ended June 30, 2010, 2009, and 2008, which were $390,210.88, $359,081.74, and $350,739.03, 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.osc.nc.gov/ and clicking on "Proceed directly to OSC's index page," then "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 by the General Assembly. For the fiscal year ended June 30, 2010, 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, 2009, and 2008, were .52% and .52%, respectively. The College made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2010, 2009, and 2008, which were $45,091.04, $45,542.07, and $44,483.97, 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 13 - RISK MANAGEMENT

The College is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These exposures to loss are handled via a combination of methods, including participation in State-administered insurance programs, purchase of commercial insurance, and self-retention of certain risks. 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 retained under the authority of the State Tort Claims Act. In addition, the State provides excess public officers' and employees' liability insurance up to $10,000,000 via contract with a private insurance company. The North Carolina Community College System Office pays the premium, based on a composite rate, 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 retains the risk for the $10 million 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. If property is leased by the College, the County is responsible for the insurance covering fire and other property loss while the College is responsible for the building contents.

State-owned vehicles are covered by liability insurance through a private insurance company and handled by the North Carolina Department of Insurance. The liability limits for losses are $1,000,000 per claim and $10,000,000 per occurrence. The community college pays premiums to the North Carolina Department of Insurance for the coverage. 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. North Carolina Community College System Office is charged a premium by the private insurance company. Coverage limit is $5,000,000 per occurrence. The private insurance company pays 90% of each loss less a $75,000 deductible. Employees paid entirely from county and institutional funds are covered by commercial insurance with coverage of $100,000 per occurrence and $1,000 deductible.

College employees and retirees are provided comprehensive major medical care benefits. Coverage is funded by contributions to the State Health Plan (Plan), a pension and other employee benefit trust fund of the State of North Carolina. The Plan is funded by employer and employee contributions. The Plan has contracted with third parties to process claims.

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 (death benefits) of $25,000 to $50,000 is provided to eligible workers. This Death Benefit Plan 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 $125,847.79 at June 30, 2010.

NOTE 15 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2010, the College implemented the Governmental Accounting Standards Board (GASB) Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. This statement requires reporting certain intangible assets as capital assets.

NOTE 16 - NET ASSET RESTATEMENTS

As of July 1, 2009, net assets as previously reported were restated as follows:

	Amount
July 1, 2009 Net Assets as Previously Reported	$ 36,702,414.31
Restatements:	
Error Related to Recording Revenue in the Incorrect Period	712,970.00
Error Related to the Improper Classification of a Capital Asset	(134,590.18)
July 1, 2009 Net Assets as Restated	$ 37,280,794.13

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, 2010 and have issued our report thereon dated May 26, 2011. Our report was modified to include a reference to another auditor.

As discussed in Note 15 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 51, *Accounting and Financial Reporting for Intangible Assets* during the year ended June 30, 2010.

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. Another auditor 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*.

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.

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the College's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting that we consider to be a significant deficiency in internal control over financial reporting. A significant deficiency is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the finding in the Audit Findings and Responses section of this report to be a significant deficiency.

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*.

The College's response to the finding identified in our audit is 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 College Board of Trustees, others within the entity, the State Board of Community Colleges, the Governor, the General Assembly, and the State Controller, 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 26, 2011

Matters Related to Financial Reporting

The following audit finding was identified during the current audit and describe conditions that represent a deficiency in internal control.

DEFICIENCIES IN FINANCIAL REPORTING

The financial statements prepared by College of The Albemarle contained misstatements that were corrected as a result of our audit. These misstatements indicate that the College's internal control over financial reporting was not effective, and without our corrections, the financial statements could have been misleading to readers. The misstatements noted during our audit included:

a. The College reported $847,000 in county capital aid in the wrong fiscal year. As a result, current year revenues were overstated and beginning net assets were understated.
b. The College reported approximately $134,700 in tuition and fee revenue in the wrong fiscal year. As a result, current year revenues were understated and beginning net assets were overstated.
c. Various noncapital revenues were not properly classified in the financial statements. As a result, the College reported approximately $1 million of nonoperating revenues as operating revenues.
d. The College recorded approximately $143,500 in county capital aid and a related expense twice. As a result, revenues and expenses were overstated.
e. The College did not properly classify cash. As a result, restricted cash was understated and unrestricted cash was overstated by approximately $181,700.
f. The College did not properly classify net assets. As a result, restricted net asset accounts were understated and unrestricted net assets were overstated by approximately $106,000. In addition, adjustments of over $717,000 were made to reclassify net assets across the various restricted net asset categories.

Recommendation: The College should place greater emphasis on the year-end financial reporting process and strengthen internal controls to ensure the completeness and accuracy of the financial statements.

Response: The College will place greater emphasis on the year end-financial reporting process and will strengthen appropriate internal controls to ensure the completeness and accuracy of the financial statements. The College has already taken some steps on improving financial statement completeness and accuracy by realigning our Director of Accounting position to a Controller with more responsibility in oversight of the noted areas of concern. Further, we are using available accounting system features to prevent premature billing entries. Our review process before submission will be much more extensive and should capture all of the deficiencies noted.

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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:

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