



GRAHAM, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

For the Year Ended June 30, 2012

S. Preston Douglas & Associates, LLP
Certified Public Accountants

ALAMANCE COMMUNITY COLLEGE
GRAHAM, NORTH CAROLINA
FINANCIAL STATEMENT AUDIT REPORT

For the Year Ended June 30, 2012

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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, 2012, which collectively comprise the College's basic financial statements 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 basic 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 another auditor whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for this entity, are based on the report of the other auditor.

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 basic 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 significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditor provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of the 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, 2012, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 15, 2013 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 the 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 read in conjunction with this report in considering the results of our audit.

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, and historical context. We have applied certain limited procedures to the required supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. However, we do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

S. Preston Douglas & Associates, LLP

January 15, 2013

**ALAMANCE COMMUNITY COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS**

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, 2012. Our discussion and analysis presented in this section is intended to provide information regarding 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

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 essential to understanding the others. Our discussion 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, 2012. 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

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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, 2012 and 2011:

Condensed Statement of Net Assets				
	2012	2011	Change	Percent Change
ASSETS				
Current Assets	\$ 3,842,896.52	\$ 3,886,867.60	\$ (43,971.08)	(1.13) %
Capital Assets, Net	31,962,981.77	32,287,664.53	(324,682.76)	(1.01) %
Other Noncurrent Assets	1,205,918.61	308,453.98	897,464.63	290.96 %
Total Assets	37,011,796.90	36,482,986.11	528,810.79	1.45 %
LIABILITIES				
Current Liabilities	404,832.71	1,729,913.55	(1,325,080.84)	(76.60) %
Noncurrent Liabilities	386,231.53	391,152.52	(4,920.99)	(1.26) %
Total Liabilities	791,064.24	2,121,066.07	(1,330,001.83)	(62.70) %
NET ASSETS				
Invested in Capital Assets	31,962,981.77	32,287,664.53	(324,682.76)	(1.01) %
Restricted for:				
Expendable	1,422,481.36	528,579.54	893,901.82	169.11 %
Unrestricted	2,835,269.53	1,545,675.97	1,289,593.56	83.43 %
Total Net Assets	\$ 36,220,732.66	\$ 34,361,920.04	\$ 1,858,812.62	5.41 %

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 decreased by \$43,971.08 or 1.13 % largely due to a decrease in receivables. The decrease in receivables is primarily due to a decrease in intergovernmental receivables, resulting from decreased financial aid activity.
- Other noncurrent assets include restricted noncurrent cash that is used on capital projects and receivables due from primary governments. This amount increased by \$897,464.63 due to a \$962,780 receivable due from the State of North Carolina to be used on capital projects in fiscal year 2013. This receivable was offset by a small decrease in restricted noncurrent cash due to completion of several minor construction projects during fiscal year 2012.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

- The College's Current Liabilities decreased \$1,325,080.84 primarily due to a decrease in Accounts Payable for current expenses due to the completion of construction projects during the year. In addition, Current Liabilities decreased due to a decrease in unearned revenue of \$106,894 or 46% due to decreases in summer school enrollment.
- The College's total Net Assets increased by \$1,858,812.62 or 5.4%. Included in this increase is an increase in due from primary government in the amount of \$954,000. This increase is due to the significant receivable due from the State of North Carolina for pending capital projects. Also contributing to this increase is a significant decrease in accounts payable due to several construction projects being completed during the fiscal year.

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 operating 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, 2012 and 2011:

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

	2012	2011	Change	Percentage Change
Operating Revenues:				
Student Tuition and Fees, Net	\$ 4,650,152.21	\$ 4,312,930.30	\$ 337,221.91	7.82 %
Sales and Services, Net	907,021.29	1,084,781.49	(177,760.20)	(16.39) %
Other Operating Revenues	148,175.50	101,202.90	46,972.60	46.41 %
Total Operating Revenues	5,705,349.00	5,498,914.69	206,434.31	3.75 %
Operating Expenses:				
Operating Expenses:				
Salaries and Benefits	21,650,492.45	21,597,999.58	52,492.87	0.24 %
Supplies and Materials	2,136,109.40	2,438,810.78	(302,701.38)	(12.41) %
Services	1,847,039.66	3,296,171.42	(1,449,131.76)	(43.96) %
Scholarships and Fellowships	8,612,380.00	10,703,985.65	(2,091,605.65)	(19.54) %
Utilities	675,396.49	706,805.81	(31,409.32)	(4.44) %
Depreciation/Amortization	1,034,849.54	987,398.57	47,450.97	4.81 %
Total Operating Expenses	35,956,267.54	39,731,171.81	(3,774,904.27)	(9.50) %
Operating Loss	(30,250,918.54)	(34,232,257.12)	3,981,338.58	(11.63) %
Nonoperating Revenue (Expenses)				
State Aid	15,087,247.01	15,586,575.96	(499,328.95)	(3.20) %
County Appropriations	2,901,583.78	2,655,711.72	245,872.06	9.26 %
Noncapital Grants and Gifts	12,220,947.81	14,376,783.78	(2,155,835.97)	(15.00) %
Investment Income	12,869.86	20,859.13	(7,989.27)	(38.30) %
Other Nonoperating Revenues (Expenses)	(35,214.95)	(35,438.59)	223.64	0 %
Net Nonoperating Revenues	30,187,433.51	32,604,492.00	(2,417,058.49)	(7.41) %
Loss Before Other Revenues	(63,485.03)	(1,627,765.12)	1,564,280.09	(96.10) %
State Capital Aid	1,559,821.98	1,514,979.53	44,842.45	2.96 %
County Capital Aid	177,284.30	1,072,448.04	(895,163.74)	(83.47) %
Capital Grants and Gifts	185,191.37	118,976.00	66,215.37	55.65 %
Increase (Decrease) in Net Assets	1,858,812.62	1,078,638.45	780,174.17	72.33 %
NET ASSETS				
Net Assets, Beginning of Year	34,361,920.04	33,283,281.59	1,078,638.45	3.24 %
Net Assets, End of Year	\$ 36,220,732.66	\$ 34,361,920.04	\$ 1,858,812.62	5.41 %

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 \$30.2 million or a decrease of 11.63% 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 Operating Loss decreased due to the decrease in Operating Expenses in the amount of \$3,774,904.27 while Operating Revenues increased by \$206,434.31. The decrease in Operating Expenses can largely be attributed to decreases to Scholarships and Fellowships, Services, and Supplies and Materials. The increase in Operating Revenue is due to an increase in Student Tuition and Fees revenue caused by a corresponding increase in tuition rates.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

- Total Nonoperating Revenue decreased by approximately \$2.4 million or 7.41% for fiscal year 2012 over fiscal year 2011. Noncapital grants and gifts decreased by \$2,155,835.97 due primarily to a decrease in student financial aid due to decreased federal awards.
- Also note that County Capital Aid decreased by \$895,163.74 due to the end of the County's obligation to fund construction of the Literacy Building during the current fiscal year.

Capital Assets and Long-Term Debt Activities

- At June 30, 2012 the College's investment in capital assets net of accumulated depreciation totals \$31,962,981.77 a decrease of just \$324,682. The total investment in capital assets includes land, construction in progress, buildings, general infrastructure, and machinery and equipment. The decrease can be attributed to decreases in machinery and equipment purchases and decreases to building and infrastructure additions when compared to fiscal year 2011.

The College reevaluates estimated useful lives of assets annually and adjusts useful lives as necessary.

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. Though the College's 2012-2013 budget appears adequate to cover needs, we will continue to monitor discussions in Raleigh and particularly within the upcoming legislative session. Predictions of decreased 2013-2014 budgets are frequent, and we will continue to 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, 2012 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, 2012

Exhibit A-1

ASSETS

Current Assets:

Cash and Cash Equivalents	\$	2,544,783.47
Restricted Cash and Cash Equivalents		264,384.65
Receivables, Net (Note 3)		825,116.55
Inventories		208,611.85

Total Current Assets 3,842,896.52

Noncurrent Assets:

Restricted Cash and Cash Equivalents		243,138.61
Restricted Due from Primary Government		962,780.00
Capital Assets - Nondepreciable (Note 4)		1,613,735.95
Capital Assets - Depreciable, Net (Note 4)		30,349,245.82

Total Noncurrent Assets 33,168,900.38

Total Assets 37,011,796.90

LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 5)		225,089.19
Unearned Revenue		123,439.05
Funds Held for Others		34,395.10
Long-Term Liabilities - Current Portion (Note 6)		21,909.37

Total Current Liabilities 404,832.71

Noncurrent Liabilities:

Long-Term Liabilities (Note 6)		386,231.53
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Total Noncurrent Liabilities 386,231.53

Total Liabilities 791,064.24

NET ASSETS

Invested in Capital Assets, Net of Related Debt 31,962,981.77

Restricted for:

Expendable:

Scholarships and Fellowships		93,172.72
Capital Projects		1,205,918.61
Other		123,390.03

Unrestricted 2,835,269.53

Total Net Assets \$ 36,220,732.66

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, 2012

Exhibit A-2

REVENUES

Operating Revenues:

Student Tuition and Fees, Net (Note 8)	\$ 4,650,152.21
Sales and Services, Net (Note 8)	907,021.29
Other Operating Revenues	148,175.50

Total Operating Revenues	5,705,349.00
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EXPENSES

Operating Expenses (Note 9):

Salaries and Benefits	21,650,492.45
Supplies and Materials	2,136,109.40
Services	1,847,039.66
Scholarships and Fellowships	8,612,380.00
Utilities	675,396.49
Depreciation/ Amortization	1,034,849.54

Total Operating Expenses	35,956,267.54
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Operating Loss	(30,250,918.54)
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NONOPERATING REVENUES (EXPENSES)

State Aid	15,087,247.01
County Appropriations	2,901,583.78
Noncapital Grants - Student Financial Aid	12,117,196.35
Noncapital Gifts, Net (Note 8)	103,751.46
Investment Income, Net	12,869.86
Other Nonoperating Revenues (Expenses)	(35,214.95)

Net Nonoperating Revenues	30,187,433.51
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Income Before Other Revenues, Expenses, Gains, and Losses	(63,485.03)
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State Capital Aid	1,559,821.98
County Capital Aid	177,284.30
Capital Grants	185,191.37

Increase (Decrease) in Net Assets	1,858,812.62
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NET ASSETS

Net Assets, July 1, 2011	34,361,920.04
Net Assets, June 30, 2012	\$ 36,220,732.66

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, 2012

Exhibit A-3
Page 1 of 2

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 5,593,462.08
Payments to Employees and Fringe Benefits	(21,651,083.60)
Payments to Vendors and Suppliers	(5,861,260.68)
Payments for Scholarships and Fellowships	(8,628,187.75)
Other Receipts (Payments)	(46,355.38)
	<hr/>
Net Cash Provided (Used) by Operating Activities	(30,593,425.33)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Aid Received	15,087,247.01
County Appropriations	2,901,583.78
Noncapital Grants - Student Financial Aid	12,254,315.92
Noncapital Gifts and Endowments Received	103,751.46
	<hr/>
Net Cash Provided (Used) by Noncapital Financing Activities	30,346,898.17

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

State Capital Aid Received	605,822.02
County Capital Aid	177,284.30
Capital Grants Received	185,191.37
Acquisition and Construction of Capital Assets	(776,439.69)
	<hr/>
Net Cash Provided (Used) by Capital and Related Financing Activities	191,858.00

CASH FLOWS FROM INVESTING ACTIVITIES

Investment Income	12,869.86
	<hr/>
Net Cash Provided (Used) by Investing Activities	12,869.86

Net Increase (Decrease) in Cash and Cash Equivalents	(41,799.30)
Cash and Cash Equivalents, July 1, 2011	3,094,106.03
	<hr/>
Cash and Cash Equivalents, June 30, 2012	\$ 3,052,306.73

Alamance Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2012

Exhibit A-3
Page 2 of 2

**RECONCILIATION OF OPERATING LOSS
TO NET CASH USED BY OPERATING ACTIVITIES**

Operating Loss	\$ (30,250,918.54)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation/ Amortization Expense	1,034,849.54
Changes in Assets and Liabilities:	
Receivables, Net	(62,161.27)
Inventories	(16,251.19)
Accounts Payable and Accrued Liabilities	(1,188,118.84)
Unearned Revenue	(106,894.10)
Funds Held for Others	(4,994.68)
Compensated Absences	1,063.75
	<u>1,063.75</u>
Net Cash Used by Operating Activities	<u>\$ (30,593,425.33)</u>

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	\$ 2,544,783.47
Restricted Cash and Cash Equivalents	264,384.65
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	<u>243,138.61</u>
Total Cash and Cash Equivalents - June 30, 2012	<u>\$ 3,052,306.73</u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through Assumption of a Liability	\$ 54,652.38
Increase in Receivables Related to Nonoperating Income	953,999.96
Capital Asset Write-Offs	84,530.38

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, 2012

Exhibit B-1

	<u>2012</u>
ASSETS	
Cash and Cash Equivalents	\$ 273,953
Investments:	
Cash	192,766
Long-term investments	6,337,077
Prater and Dillingham trusts	932,255
Cash value - insurance policies	14,339
Accounts Receivable	37,688
Sales tax refund receivable	956
Promises to give, net	500,604
Total Assets	<u>\$ 8,289,638</u>
LIABILITIES	
Accounts payable	<u>837</u>
NET ASSETS	
Unrestricted	212,157
Temporarily Restricted	1,392,417
Permanently Restricted	<u>6,684,227</u>
Total Net Assets	<u>\$ 8,288,801</u>
Total Liabilities and Net Assets	<u>8,289,638</u>

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, 2012

Exhibit B-2

	<u>2012</u>
CHANGES IN UNRESTRICTED NET ASSETS	
Revenues and Gains:	
Contributions	\$ 458,021
Contributed goods and services	18,793
Support services from ACC	216,683
Gain (loss) from investments	(9,572)
Other	5,458
	<hr/>
Total Unrestricted Revenues and Gains	689,383
	<hr/>
Net Assets Released from Restrictions:	
Satisfaction of Program Restrictions	284,255
	<hr/>
Total Net Assets Released from Restrictions	284,255
	<hr/>
Total Unrestricted Revenues, Gains, and Other Support	973,638
	<hr/>
Expenses and Losses:	
Student Scholarships	627,259
College Work Study Match	81,000
Other Student Support	45,328
Programs/Resources for ACC faculty/staff	20,142
Other Education Related Programs	177,769
Support Services From ACC	191,906
Other Foundation Expenses	36,282
	<hr/>
Total Expenses	1,179,686
	<hr/>
Loss	0
	<hr/>
Total Expenses and Losses	1,179,686
	<hr/>
Increase/(Decrease) in Unrestricted Net Assets	(206,048)
	<hr/>
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS	
Contributions	85,038
Contributed Goods and Services	1,748
Gain (Loss) from Investments	(186,111)
Other	1,118
Net Assets Released from Restrictions:	
Satisfaction of Program Restrictions	(284,255)
	<hr/>
Increase/(Decrease) in Temporarily Restricted Net Assets	(382,462)
	<hr/>

Alamance Community College Foundation, Inc.
Statement of Activities (Continued)
For the Fiscal Year Ended June 30, 2012

Exhibit B-2

	<u>2012</u>
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS	
Contributions	345,488
Other	1,932
	<u>347,420</u>
Increase/(Decrease) in Permanently Restricted Net Assets	347,420
Increase/(Decrease) in Net Assets	(241,090)
Net Assets at Beginning of Year	<u>8,529,891</u>
Net Assets at End of Year	<u><u>\$ 8,288,801</u></u>

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

ALAMANCE COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

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 its component units for which the College's Board of Trustees is financially accountable. The College's component units are either blended or discretely presented in the College's financial statements. The blended component units, although legally separate, are, in substance, part of the College's operations and therefore, are reported as if they were part of the College. Discretely presented component units' financial data are reported in separate financial statements because of their use of different GAAP reporting models and to emphasize their legal separateness.

Discretely Presented Component Units - Alamance Community College Foundation, Inc. (Foundation) is a legally separate not-for-profit corporation and is reported as a discretely presented component unit based on the nature and significance of their 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 30 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The Foundation 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 the 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, 2012, the Foundation distributed \$773,729 to the College for both restricted and unrestricted purposes. Complete financial statements for the Foundation are available on the 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, 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- 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, and pledges that are verifiable, measurable, and expected to be collected and available for expenditures for which the resource provider's conditions have been satisfied. Receivables are recorded net of estimated uncollectible amounts.
- F. Inventories** - Inventories, consisting of expendable supplies, are valued at cost using last invoice cost. Merchandise for resale is valued at the lower of cost or market 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 value of assets constructed includes all material direct and indirect construction costs.

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 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 for the acquisition or construction of capital assets and resources whose use is limited by external parties or statute.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- 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. 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 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 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.

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

Invested in Capital Assets, Net of Related Debt - 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

The College is required by *North Carolina General Statute 147-77* to deposit any funds collected or received that belong to the state of North Carolina with the State Treasurer or with a depository institution in the name of the State Treasurer. All funds of the College, other than those required to be deposited with the State Treasurer, 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 \$1,544 and deposits in private financial institutions with a carrying value of \$1,241,459.89 and a bank balance of \$1,464,531.29.

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, 2012, the College's bank balance in excess of federal depository insurance coverage was covered under the pooling method.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 any form of investment established or managed by certain investment advisors pursuant to G.S. 115D-58.6 (d1) or 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, 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; specified bills of exchange; certain savings certificates; 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, 2012, the amount shown on the Statement of Net Assets as cash and cash equivalents includes \$1,808,950.84 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 1.5 years as of June 30, 2012. 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) 707-0500.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Component Units - Investments of the College's discretely presented component unit(s), The Alamance Community College Foundation, Inc. are 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. Because the Alamance Community College Foundation, Inc. reports under the FASB reporting model, disclosures of the various investment risks are not required. The following is an analysis of investments by type:

Investments	Fair Market Value (U.S. Dollars)
Cash & Cash Equivalents	\$ 192,766.00
Fixed Income	1,898,874.00
Equities	4,438,204.00
Prater and Dillingham trust	932,255.00
Total	\$ 7,462,099.00

NOTE 3 - RECEIVABLES

Receivables at June 30, 2012, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	\$ 519,106.56	413,551.98	105,554.58
Accounts	26,241.24	11,488.52	14,752.72
Accounts - Daycare	27,511.50	16,453.06	11,058.44
Intergovernmental	642,142.57		642,142.57
Other	51,608.24		51,608.24
Total Current Receivables	\$ 1,266,610.11	\$ 441,493.56	\$ 825,116.55

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 4 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2012, is presented as follows:

	Balance July 1, 2011	Increases	Decreases	Balance June 30, 2012
Capital Assets, Nondepreciable:				
Land	\$ 1,529,546.00	\$ -	\$ -	\$ 1,529,546.00
Construction in Progress	103,720.00	84,189.95	103,720.00	84,189.95
Total Capital Assets, Nondepreciable	1,633,266.00	84,189.95	103,720.00	1,613,735.95
Capital Assets, Depreciable:				
Buildings	35,942,371.26	74,530.00	0.00	36,016,901.26
Machinery and Equipment	3,744,028.24	623,292.76	84,530.38	4,282,790.62
General Infrastructure	2,427,905.21	67,089.02	0.00	2,494,994.23
Total Capital Assets, Depreciable	42,114,304.71	764,911.78	84,530.38	42,794,686.11
Less Accumulated Depreciation/Amortization for:				
Buildings	9,455,148.75	719,592.72	0.00	10,174,741.47
Machinery and Equipment	1,612,653.10	266,027.83	49,315.43	1,829,365.50
General Infrastructure	392,104.33	49,228.99	0.00	441,333.32
Total Accumulated Depreciation	11,459,906.18	1,034,849.54	49,315.43	12,445,440.29
Total Capital Assets, Depreciable, Net	30,654,398.53	(269,937.76)	35,214.95	30,349,245.82
Capital Assets, Net	\$ 32,287,664.53	\$ (185,747.81)	\$ 138,934.95	\$ 31,962,981.77

NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2012, were as follows:

	Amount
Accounts Payable	\$ 98,274.77
Accrued Payroll	126,814.42
Total Accounts Payable and Accrued Liabilities	\$ 225,089.19

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 6 - LONG-TERM LIABILITIES

A. Changes in Long-Term Liabilities - A summary of changes in the long-term liabilities for the year ended June 30, 2012, is presented as follows:

	Balance July 1, 2011	Additions	Reductions	Balance June 30, 2012	Current Portion
Compensated Absences	407,077.15	463,796.88	462,733.13	408,140.90	21,909.37
Total Long-Term Liabilities	\$ 407,077.15	\$ 463,796.88	\$ 462,733.13	\$ 408,140.90	\$ 21,909.37

NOTE 7 - OPERATING LEASE OBLIGATIONS -

The College entered into operating leases for copiers and mailing system. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2012:

<u>Fiscal Year</u>	<u>Amount</u>
2013	\$ 77,103.30
2014	65,108.01
2015	60,732.01
2016	\$ 0.00
Total Minimum Lease Payments	\$ 202,943.32

Rental expense for all operating leases during the year was \$111,289.17.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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	\$ 9,070,480.54	\$ 0.00	\$ 3,995,287.83	\$ 425,040.50	\$ 4,650,152.21
Sales and Services:					
Sales and Services of Auxiliary Enterprises:					
Duplicating Center	\$ 225,272.43	\$ 225,272.25	-	-	\$ 0.18
Dining	78,224.53	-	-	-	78,224.53
Bookstore Commissions	284,242.95	-	-	-	284,242.95
Daycare	458,826.06	-	-	16,453.06	442,373.00
Sales and Services of Education and Related Activities	102,180.73	-	-	-	102,180.73
Total Sales and Services	\$ 1,148,746.70	\$ 225,272.25	-	\$ 16,453.06	\$ 907,021.39
Nonoperating - Noncapital Gifts	\$ 103,751.46	-	-	-	\$ 103,751.46

NOTE 9 - OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	\$ 14,037,214.69	1,510,745.22	290,134.18	1,604.00	-	-	\$ 15,839,698.09
Public Service	389,487.04	32,749.45	1,188.05	-	-	-	423,424.54
Academic Support	2,409,506.08	159,478.42	32,137.66	-	-	-	2,601,122.16
Student Services	1,360,257.16	78,106.01	78,669.82	-	-	-	1,517,032.99
Institutional Support	3,095,629.39	331,657.42	592,333.18	-	-	-	4,019,619.99
Operations and Maintenance of Plant	337,284.59	-	404,892.82	-	675,396.49	-	1,417,573.90
Student Financial Aid	-	-	-	8,608,357.81	-	-	8,608,357.81
Auxiliary Enterprises	21,113.50	23,372.88	447,683.95	2,418.19	-	-	494,588.52
Depreciation	-	-	-	-	-	1,034,849.54	1,034,849.54
Total Operating Expenses	\$ 21,650,492.45	\$ 2,136,109.40	\$ 1,847,039.66	\$ 8,612,380.00	\$ 675,396.49	\$ 1,034,849.54	\$ 35,956,267.54

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 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, 2012, these rates were set at 7.44% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the College had a total payroll of \$17,904,145.66, of which \$12,498,833.20 was covered under the Teachers' and State Employees' Retirement System. Total employer and employee contributions for pension benefits for the year were \$749,929.93 and \$929,913.19, respectively.

Required employer contribution rates for the years ended June 30, 2011, and 2010, were 4.93% and 3.57%, respectively, while employee contributions were 6% each year. The College made 100% of its annual required contributions for the years ended June 30, 2012, 2011, and 2010, which were \$749,929.93, \$604,484.61, and \$432,162.03, 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) 707-0500.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 \$3,600 for the year ended June 30, 2012.

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 \$174,838.93 for the year ended June 30, 2012.

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. The plan administrators are Prudential. No costs are incurred by the College. The voluntary contributions by employees amounted to \$59,010.02 for the year ended June 30, 2012.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 the State Treasurer and the Board of Trustees of the State Health Plan for Teachers and State Employees as authorized by Chapter 135, Article 3B, of the General Statutes. 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 State Treasurer and the Board of Trustees of the State Health Plan for Teachers and State Employees.

For the current fiscal year the College contributed 5.0% of the covered payroll under the Teachers' and State Employees' Retirement System to the Fund. Required contribution rates for the years ended June 30, 2011, and 2010, were 4.9% and 4.5%, respectively. The College made 100% of its annual required contributions to the Plan for the years ended June 30, 2012, 2011, and 2010, which were \$624,941.66, \$600,806.20, and \$544,742.05, 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) 707-0500.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- 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, 2012, 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, 2011, and 2010, were .52% and .52%, respectively. The College made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2012, 2011, and 2010, which were \$64,993.93, \$63,759.03, and \$62,947.97, 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 12 - RISK MANAGEMENT

The College is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These exposures to loss are handled via a combination of methods, including participation in State-administered insurance programs, purchase of commercial insurance, and self-retention of certain risks. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

The risk of tort claims of up to \$1,000,000 per claimant is 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 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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. 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.

College employees and retirees are provided comprehensive major medical care benefits. Coverage is funded by contributions to the State Health Plan (Plan), a discretely presented component unit 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 13 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2012, the College implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 64, Derivative Instruments: Application of Hedge Accounting Termination Provisions.

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

GASB Statement No. 64 sets forth criteria used to establish when an effective hedging relationship continues and hedge accounting should continue to be applied when the swap counterparty or a swap counterparty's credit support provider has been replaced.



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**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, 2012, which collectively comprise the College's basic financial statements and have issued our report thereon dated January 15, 2013. Our report was modified to include a reference to other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the discretely presented component unit, as described in our report on the College's financial statements. The financial statements of the discretely presented component unit were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

The College's management is responsible for establishing and maintaining effective 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 opinions 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 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 the internal control over financial reporting was for 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.

Compliance and Other Matters

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

This report is intended solely for the information and use of management, others within the entity, the Board of Trustees, federal and State awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

S. Preston Douglas & Associates, LLP

January 15, 2013

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This audit required 267 audit hours at a cost of \$17,000.