

STATE OF NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT OF
FAYETTEVILLE TECHNICAL COMMUNITY COLLEGE
FAYETTEVILLE, NORTH CAROLINA
FOR THE YEAR ENDED JUNE 30, 2003

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR

FINANCIAL STATEMENT AUDIT REPORT OF
FAYETTEVILLE TECHNICAL COMMUNITY COLLEGE
FAYETTEVILLE, NORTH CAROLINA
FOR THE YEAR ENDED JUNE 30, 2003

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Ralph Campbell, Jr.
State Auditor

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AUDITOR'S TRANSMITTAL

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

This report presents the results of our financial statement audit of Fayetteville Technical Community College, a component unit of the State of North Carolina, for the year ended June 30, 2003. Our audit was made by authority of Article 5A of Chapter 147 of the *North Carolina General Statutes*.

The accounts and operations of the College are an integral part of the State's reporting entity represented in the State's *Comprehensive Annual Financial Report (CAFR)* and the State's *Single Audit Report*. In those reports, the State Auditor expresses an opinion on the State's financial statements. In the *Single Audit Report*, the State Auditor also presents the audit results on the State's internal controls and on the State's compliance with laws, regulations, contracts, and grants applicable to the State's financial statements and to its federal financial assistance programs.

As part of the audit work necessary for the CAFR and the *Single Audit Report*, the accounts and operations of the College were subjected to audit procedures as we considered necessary. In addition, we performed auditing procedures that we considered necessary for us to report on the accompanying financial statements that relate solely to Fayetteville Technical Community College. The audit procedures were conducted in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States.

The purpose of this report is to present the results of our audit on the accompanying financial statements that relate solely to Fayetteville Technical Community College. A summary of our reporting objectives and audit results is:

- 1. Objective** – To express an opinion on the accompanying financial statements that relate solely to Fayetteville Technical Community College.

Results - The accompanying financial statements present fairly, in all material respects, the amounts and disclosures made in accordance with accounting principles generally accepted in the United States of America. These matters are more fully described in the Independent Auditor's Report on the Financial Statements.

AUDITOR'S TRANSMITTAL (CONCLUDED)

2. **Objective** – To present significant deficiencies, if any, in internal control over financial reporting which could adversely affect the College's ability to record, process, summarize, and report financial data in the financial statements and present instances of noncompliance, if any, with laws, regulations, contracts, or grants.

Results - Our tests disclosed no material weaknesses in internal control over financial reporting and no instances of noncompliance which require disclosure herein under *Government Auditing Standards*. These matters are more fully described in the Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting.

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.



Ralph Campbell, Jr.
State Auditor

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Ralph Campbell, Jr.
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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Fayetteville Technical Community College
Fayetteville, North Carolina

We have audited the accompanying basic financial statements of Fayetteville Technical Community College, a component unit of the State of North Carolina, as of and for the year ended June 30, 2003, 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 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. 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 provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Fayetteville Technical Community College as of June 30, 2003, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 2, 2004 on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. 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.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

The Management's Discussion and Analysis (MD&A), as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. Schedule 1 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Ralph Campbell, Jr.
State Auditor

February 2, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Fayetteville Technical Community College's (FTCC's) Financial Statements presents management's discussion and analysis of the College's financial activity during the fiscal years June 30, 2003 and June 30, 2002. This management's discussion and analysis is designed to focus on current activities, resulting change and currently known facts. Please read it in conjunction with the College's basic financial statements and the footnotes.

Using This Annual Report

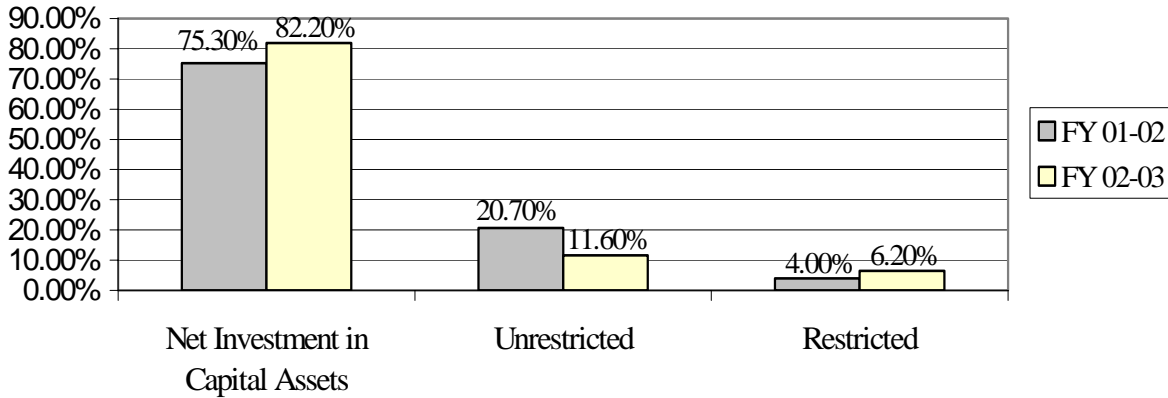
The new financial statement (implemented in the fiscal year ended June 30, 2002) focuses on the College as a whole. The College's basic financial statements are designed to emulate corporate presentation models whereby all College activities are consolidated into one total. The focus of the Statement of Net Assets is designed to be similar to bottom line results for the College. This statement combines and consolidates current financial resources (short-term spendable resources) with capital assets. The Statement of Revenues, Expenses, and Changes in Net Assets focuses on both the gross and the net costs of College activities, which are supported mainly by State funds, county appropriations and other revenues. This approach is intended to summarize and simplify the user's analysis of cost of various College services to students and the public.

Financial Highlights

As of June 30, 2003, the College's net assets have increased to \$42.9 million from \$40.5 million at June 30, 2002. This increase of \$2.4 million is due primarily to an increase in tuition and investment in capital assets. The tuition rate increased in 2002-2003 approximately 10% over 2001-2002 and the enrollment (FTE) increased approximately 6%. Capital assets increased with the purchase of the YMCA facility (\$1.7 million), the retention pond or storm basin (\$150,000), and land donated by the city at the Botanical Gardens (\$144,900), totaling \$1,994,900. Total net assets as of June 30, 2003 consist of investment in capital assets, net of related debt (82.2%), unrestricted (11.6%), and restricted (6.2%). The following is a graphic illustration of net assets.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

**Analysis of Net Assets for
FY 2001-2002 and FY 2002-2003**



Current assets decreased due to a decrease in cash and cash equivalents. This resulted largely from the decline in interest rates and an increase in receivables. The total assets recorded by the College as of June 30, 2003 were \$45,922,666.01.

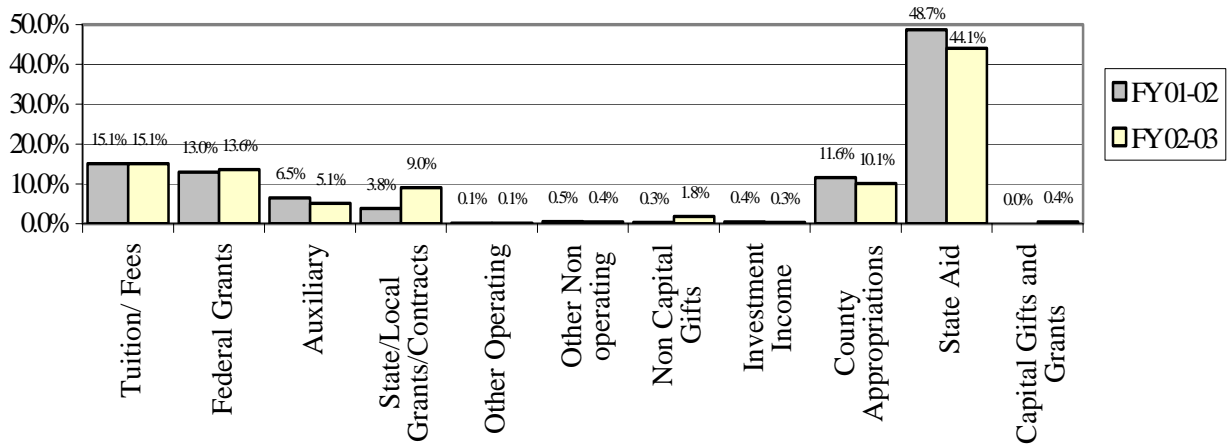
As of June 30, 2003, the College had recorded \$52.7 million invested in capital assets, \$17.5 million in accumulated depreciation and \$35.3 million in net capital assets. Library books that had previously been capitalized were expensed at June 30, 2003.

In noncurrent liabilities, long-term liabilities consist of the long-term portion of compensated absences. Additionally in this balance, all full-time employees were granted ten days of bonus leave which with benefits is computed to be \$855,993.38. Current accounts payable and accrued liabilities increased due to an increase in contracts payable for capital projects. Also, prepaid items increased due to technology equipment purchased during the prior year that included the warranty for the first year. These warranties had to be paid for separately for 2002-2003. The total liabilities recorded by the College at June 30, 2003 were \$3,037,988.16.

Operating revenues at June 30, 2003 included an increase in the federal Pell grant program servicing 3400 students. The number of Pell students in 2002-2003 increased by 24% over the 2001-2002 fiscal year. The Pell award increased 28% over the previous year, going from \$6.1 million in 2001-2002 to \$7.8 million in 2002-2003. State and local grants and contracts increased primarily due to the construction projects. Tuition and fees revenues are net of scholarship allowances in compliance with the implementation of GASB Statements No. 34 & 35 and increased from \$31.00 to \$34.25 per credit hour for in-State students and from \$173.25 to \$190.75 for out-of-State students. The following is a graphic illustration of revenues by source, and includes operating revenues as well as nonoperating revenues.

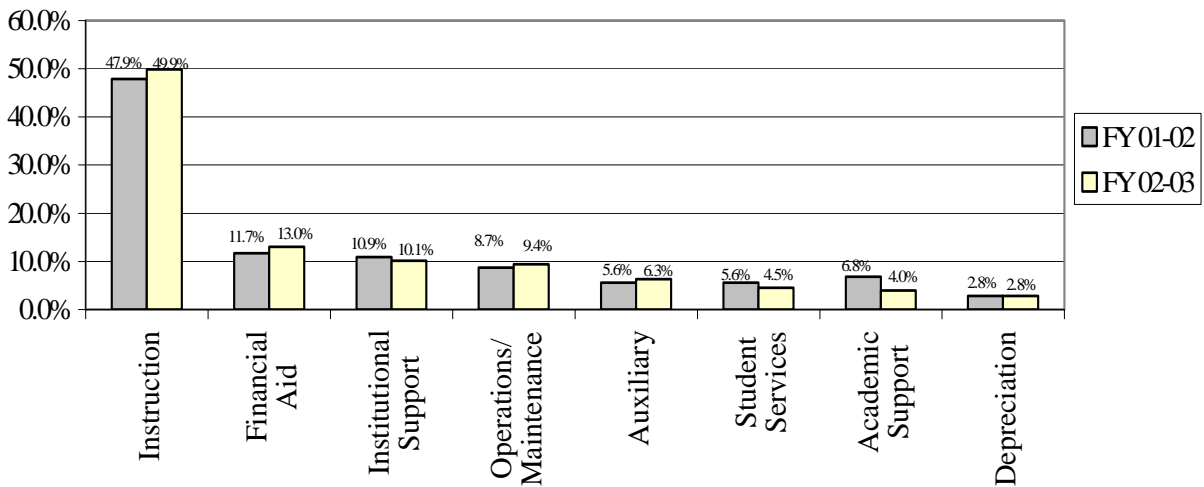
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Revenue by Source



Operating expenses at June 30, 2003 increased over the same period in fiscal year 2002. This increase was caused primarily by an increase in personal services, supplies and materials, services and depreciation. These increases were due to an increase in enrollment and higher faculty/staff salaries. Recording depreciation was a result of implementing GASB Statements No. 34 & 35. All full-time faculty received a 1.84% permanent raise and a bonus that equaled to an approximate 2% overall increase. The following is a graphic illustration of operating expenses.

Operating Expenses

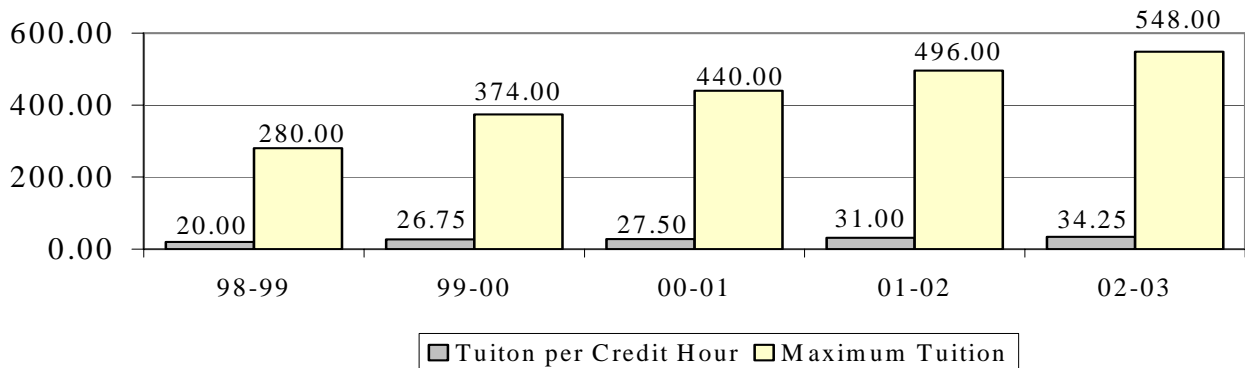


MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Total operating expenses at June 30, 2003 were \$58,568,205.60. At June 2002 they were \$56,678,525.70, resulting in a 3.33% increase from the 2002 to 2003 fiscal year.

As the State's economy takes a downturn and a search for increased revenues continues, the General Assembly increased the State tuition for in-State students for Fall 2002 from \$31.00 per credit to \$34.25 per credit hour, a 10.48% increase. The out-of-State tuition changed from \$173.25 to \$190.75, a 10.10% increase. Over the last three years, the State tuition has increased approximately 24.55%. Over the last five years tuition has increased approximately 96%.

Tuition Rates



As was mentioned previously, the College receives funding from county and State sources. County appropriations decreased from \$6,683,932 in 2001-2002 to \$5,775,962 in 2002-2003, a 13.6% decrease. The capital outlay budget for 2001-2002 was \$500,000 and \$504,440 was awarded in 2002-2003.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

The FTEs that generate the College's State budget (budget FTEs) increased overall from 2001-2002 to 2002-2003:

| | <u>2001-2002</u> | <u>2002-2003</u> | <u>% Increase(Decrease)</u> |
|------------------------|------------------|------------------|-----------------------------|
| Curriculum | 5871 | 6426 | 9.45% |
| Occupational Extension | 1310 | 1280 | (2.29%) |
| Basic Skills | <u>877</u> | <u>911</u> | <u>3.88%</u> |
| Total | 8058 | 8617 | 6.94% |

Along with the increased budget FTEs, the headcount or enrollment for 2002-2003 also increased. The headcount for Fall 2001 per December count was 8761 and in 2002 the headcount was 9462, an 8% increase. At the May 2003 graduation, 943 students graduated, an increase of 54 over the previous year. To add to the difficult situation of funding education for more students with less budget, the State required the Colleges to revert 2.18% of their individual college's budget. For FTCC this amount was \$653,874. All colleges were requested to hold 6% for possible reversions. Even though the remaining 3.82% was not formally reverted, monthly cash certifications were reduced. Combining the reduction in cash certifications with the formal reversion equaled approximately 5% reversion of funds.

During the past year, FTCC served over 13,901 curriculum students (unduplicated). New programs offered in the 2002-2003 year were Electrical/Electronics Technology, Surgical Technology, Industrial Systems Technology, Criminal Justice/Latent Evidence, Early Childhood Associate/Special Education, Early Childhood Associate/Teacher Associate and Community Spanish Interpreter.

FTCC continues to promote the advancement of technology in the classroom to prepare students for the future. The distance learning program enables students to take online courses anytime and anywhere using the Internet. FTCC served a total of 12,639 students (duplicated) at a distance in 2002-2003, an increase of 62.64% over 2001-2002.

11,153 students (duplicated) took online courses and 12,107 curriculum students (duplicated) took distance learning courses. The FTCC Continuing Education Program hosted 269 online occupational extension courses, serving 625 students. 123 students participated in web-enhanced Internet/Classroom courses. 560 students were taught using college-by-cassette. The North Carolina Information Highway classes served 375 students.

The grand opening of eArmyU was held at Fort Bragg in November 2002. The eArmyU Retention Program provides our soldiers a means to complete their education via distance learning regardless of their duty location, from anywhere around the world. This year over 400 soldiers chose FTCC as their host for eArmyU.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

Furthermore, the state of the economy reflected by unemployment rates in Cumberland and surrounding counties has a direct relationship to the increased enrollment. The information below reflects the unemployment rates in Cumberland County.

| 2000 - 2001 | | 2001 - 2002 | | 2002 - 2003 | |
|---------------|-------|---------------|------|---------------|------|
| January 2001 | 5.1 % | January 2002 | 6.7% | January 2003 | 5.9% |
| February 2001 | 5.5% | February 2002 | 6.5% | February 2003 | 5.5% |
| March 2001 | 5.0% | March 2002 | 6.9% | March 2003 | 5.3% |
| April 2001 | 4.9% | April 2002 | 6.3% | April 2003 | 5.3% |
| May 2001 | 5.0% | May 2002 | 6.8% | May 2003 | 5.1% |
| June 2001 | 5.7% | June 2002 | 6.8% | June 2003 | 6.0% |

As the College enrollment grows, so do its facilities to accommodate our students. The Spring Lake Center will be the newest addition to Fayetteville Technical Community College and will provide services to students at Fort Bragg, Pope Air Force Base and the northern part of Cumberland County. The 69,973 square foot two-story building will house classrooms, labs, shops, faculty and administrative offices to accommodate both Curriculum and Continuing Education students. The groundbreaking took place on September 8, 2002. This multi-use education facility will replace the current leased properties in Spring Lake and surrounding areas. The facility will be funded from \$7 million of State Bond Funds, \$509,286 of County Capital Funds (HUD Funding) and \$598,729 of Institutional Funds. The project should be completed in the 2003-2004 fiscal year with the dedication scheduled for spring 2004.

The Virtual College Center will be built in response to the fast-paced changes in technology. The 48,000 square foot center will meet the economic growth needs of our region as well as reinforce the College's future growth in technology and education. This project is scheduled for completion in the summer of 2005.

The Cape Fear Botanical Gardens will house an on-site laboratory for FTCC's Horticulture Technology Program. The 22,536 square foot center will provide for on-site student training needs while simultaneously maintaining the garden and serving the community. This project is scheduled for completion in the fall of 2004.

FTCC purchased the Fayetteville YMCA facilities in March 2003 for \$1.7 million. This 47,505 square foot facility on 5.97 acres will be used for instructional classrooms and faculty offices.

Additionally, at the July 19, 2002 State Board of Community Colleges Board meeting, the Board approved Project #1131 – Horace Sisk and Lafayette Hall Classroom Building Renovations. The estimated cost of this project is \$3,513,973 and the funding source will be State Bond Renovation monies. The completion of this project is scheduled for the summer of 2005.

| | |
|---|------------------|
| Fayetteville Technical Community College | |
| Statement of Net Assets | |
| June 30, 2003 | Exhibit A |

ASSETS

| | |
|--|-----------------|
| Current Assets: | |
| Cash and Cash Equivalents | \$ 7,448,344.38 |
| Restricted Cash and Cash Equivalents | 162,943.70 |
| Receivables, Net (Note 4) | 1,943,428.01 |
| Due from Primary Government | 391,693.91 |
| Inventories | 427,897.10 |
| Prepaid Items | 177,982.08 |
| Notes Receivable, Net (Note 4) | 35,253.55 |
| Total Current Assets | 10,587,542.73 |
| Noncurrent Assets: | |
| Restricted Cash and Cash Equivalents | 66,503.60 |
| Capital Assets - Nondepreciable (Note 5) | 6,232,331.69 |
| Capital Assets - Depreciable, Net (Note 5) | 29,036,287.99 |
| Total Noncurrent Assets | 35,335,123.28 |
| Total Assets | 45,922,666.01 |

LIABILITIES

| | |
|---|--------------|
| Current Liabilities: | |
| Accounts Payable and Accrued Liabilities (Note 6) | 932,578.34 |
| Deferred Revenue | 9,530.37 |
| Funds Held for Others | 27,904.27 |
| Long-Term Liabilities - Current Portion (Note 7) | 7,223.41 |
| Total Current Liabilities | 977,236.39 |
| Noncurrent Liabilities: | |
| Long-Term Liabilities (Note 7) | 2,060,751.77 |
| Total Liabilities | 3,037,988.16 |

NET ASSETS

| | |
|------------------------------|------------------|
| Invested in Capital Assets | 35,268,619.68 |
| Restricted For: | |
| Nonexpendable: | |
| Other | 39,050.00 |
| Expendable: | |
| Scholarships and Fellowships | 10,904.01 |
| Loans | 229,699.10 |
| Capital Projects | 2,339,100.77 |
| Other | 22,415.26 |
| Unrestricted | 4,974,889.03 |
| Total Net Assets | \$ 42,884,677.85 |

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

| Fayetteville Technical Community College | | |
|--|----|------------------|
| Statement of Revenues, Expenses, and Changes in Net Assets | | |
| For the Fiscal Year Ended June 30, 2003 | | Exhibit B |
| REVENUES | | |
| Operating Revenues: | | |
| Student Tuition and Fees, Net (Note 9) | \$ | 9,211,979.15 |
| Federal Grants and Contracts | | 8,347,533.04 |
| State and Local Grants and Contracts | | 5,515,069.30 |
| Sales and Services, Net (Note 9) | | 3,103,562.81 |
| Other Operating Revenues | | 39,206.05 |
| Total Operating Revenues | | 26,217,350.35 |
| EXPENSES | | |
| Operating Expenses: | | |
| Personal Services | | 35,419,684.33 |
| Supplies and Materials | | 7,041,849.97 |
| Services | | 4,188,065.24 |
| Scholarships and Fellowships | | 9,339,188.26 |
| Utilities | | 929,208.48 |
| Depreciation | | 1,650,209.32 |
| Total Operating Expenses | | 58,568,205.60 |
| Operating Loss | | (32,350,855.25) |
| NONOPERATING REVENUES (EXPENSES) | | |
| State Aid | | 25,778,636.24 |
| County Appropriations | | 5,775,962.00 |
| Noncapital Grants | | 1,103,897.94 |
| Noncapital Gifts | | 156,250.79 |
| Investment Income, Net | | 218,407.37 |
| Other Nonoperating Expenses | | (268,652.17) |
| Net Nonoperating Revenues | | 32,764,502.17 |
| Income Before Other Revenues, Expenses, Gains, and Losses | | 413,646.92 |
| State Capital Aid | | 1,212,246.97 |
| County Capital Appropriations | | 504,440.17 |
| Capital Gifts | | 295,841.00 |
| Additions to Endowments | | 2,183.70 |
| Increase in Net Assets | | 2,428,358.76 |
| NET ASSETS | | |
| Net Assets, July 1, 2002 | | 40,456,319.09 |
| Net Assets, June 30, 2003 | \$ | 42,884,677.85 |
| The accompanying notes to the financial statements are an integral part of this statement. | | |

| Fayetteville Technical Community College | | |
|---|---|------------------|
| Statement of Cash Flows | | |
| For the Fiscal Year Ended June 30, 2003 | | Exhibit C |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Received from Customers | | \$ 26,177,254.50 |
| Payments to Employees and Fringe Benefits | | (34,369,549.89) |
| Payments to Vendors and Suppliers | | (12,007,344.10) |
| Payments for Scholarships and Fellowships | | (9,339,188.26) |
| Loans Issued to Students | | (256,584.42) |
| Collection of Loans to Students | | 234,714.72 |
| Other Payments | | (112,493.69) |
| | Net Cash Used by Operating Activities | (29,673,191.14) |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | |
| State Aid Received | | 25,778,636.24 |
| County Appropriations | | 5,775,962.00 |
| Noncapital Grants Received | | 1,101,370.59 |
| Noncapital Gifts and Endowments Received | | 165,491.59 |
| | Net Cash Provided by Noncapital Financing Activities | 32,821,460.42 |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| State Capital Aid Received | | 1,163,299.78 |
| County Capital Appropriations | | 504,440.17 |
| Capital Grants Received | | (27,100.79) |
| Capital Gifts Received | | 941.00 |
| Acquisition and Construction of Capital Assets | | (5,839,236.17) |
| | Net Cash Used by Capital and Related Financing Activities | (4,197,656.01) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Investment Income | | 224,511.87 |
| | Net Cash Provided by Investing Activities | 224,511.87 |
| | Net Decrease in Cash and Cash Equivalents | (824,874.86) |
| | Cash and Cash Equivalents, July 1, 2002 | 8,502,666.54 |
| | Cash and Cash Equivalents, June 30, 2003 | \$ 7,677,791.68 |

| | | |
|--|--|---------------------------|
| Fayetteville Technical Community College | | |
| Statement of Cash Flows | | Exhibit C |
| For the Fiscal Year Ended June 30, 2003 | | Page 2 |
| RECONCILIATION OF NONOPERATING LOSS TO NET | | |
| CASH USED BY OPERATING ACTIVITIES | | |
| Operating Loss | | \$ (32,350,855.25) |
| Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities: | | |
| Depreciation Expense | | 1,650,209.32 |
| Provision for Uncollectible Loans and Write-offs | | 13,965.93 |
| Miscellaneous Nonoperating Income | | (87,910.70) |
| Changes in Assets and Liabilities: | | |
| Receivables, Net | | (40,095.85) |
| Inventories | | (40,746.95) |
| Prepaid Items | | (49,410.20) |
| Notes Receivable, Net | | (21,869.70) |
| Accounts Payable and Accrued Liabilities | | 162,273.73 |
| Funds Held for Others | | (24,582.99) |
| Compensated Absences | | 1,115,831.52 |
| Net Cash Used by Operating Activities | | <u>\$ (29,673,191.14)</u> |
| RECONCILIATION OF CASH AND CASH EQUIVALENTS | | |
| Current Assets: | | |
| Cash and Cash Equivalents | | \$ 7,448,344.38 |
| Restricted Cash and Cash Equivalents | | 162,943.70 |
| Noncurrent Assets: | | |
| Restricted Cash and Cash Equivalents | | 66,503.60 |
| Total Cash and Cash Equivalents - June 30, 2003 | | <u>\$ 7,677,791.68</u> |
| NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES | | |
| Assets Acquired through Assumption of a Liability | | \$ 518,573.30 |
| Assets Acquired through a Gift | | 294,900.00 |
| Capital Asset Write-Offs | | 764,270.55 |
| Increase in Receivables Related to Nonoperating Income | | 78,575.33 |
| The accompanying notes to the financial statements are an integral part of this statement. | | |

FAYETTEVILLE TECHNICAL COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

- A. Financial Reporting Entity** - The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their constituents for their actions. As required by accounting principles generally accepted in the United States of America, the financial reporting entity includes both the primary government and all of its component units. An organization other than a primary government serves as a nucleus for a reporting entity when it issues separate financial statements. Fayetteville Technical 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 for which the College's Board of Trustees is financially accountable. Related foundations and similar nonprofit corporations for which the College is not financially accountable are not part of the accompanying financial statements. These entities are not included because they are separately incorporated and there are neither common directors nor other evidence of common control.

- 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 (BTA) and accordingly, is reported within a single column in the basic financial statements.

In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the College does not apply Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, for proprietary activities, unless the GASB amends its pronouncements to specifically adopt FASB pronouncements issued after that date.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- C. Basis of Accounting** - The financial statements of the College have been prepared using the economic resource measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.
- D. Cash and Cash Equivalents** – This classification includes undeposited receipts, petty cash, cash on deposit with private bank accounts, and deposits held by the State Treasurer in the short-term investment portfolio. The short-term investment portfolio maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.
- E. Receivables** – Receivables consist of tuition and fees charges to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from the federal government, State and local governments, and private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants. Receivables are recorded net of estimated uncollectible amounts.
- F. Inventories** – Inventories, consisting of expendable supplies and merchandise for resale, are stated at the lower of cost or market value using the first-in, first-out method.
- G. Capital Assets** – Capital assets are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. The College capitalizes assets that have a value or cost in excess of \$5,000 at the date of acquisition and an expected useful life of more than one year. Library books are generally not considered to have a useful life of more than one year unless part of a collection and are expensed in the year of acquisition.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 10 to 75 years for general infrastructure, 10 to 50 years for buildings, and 3 to 25 years for equipment.

- H. Restricted Assets** – Unexpended capital contributions are classified as restricted assets because their use is limited by donor/grantor agreements. Certain other assets are classified as restricted because their use is limited by external parties or statute.

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 30 days which can be carried forward each July 1st or for which an employee can be paid upon termination of employment. Also, any accumulated vacation leave in excess of 30 days at year-end is converted to sick leave. Under this policy, the accumulated vacation leave for each employee at June 30th equals the leave carried forward at the previous June 30th plus the leave earned, less the leave taken between July 1st and June 30th.

In addition to the vacation leave described above, compensated absences includes the accumulated unused portion of the special annual leave bonus awarded by the College to all full-time permanent employees as of September 30, 2002. The unused portion of this leave remains available until used, notwithstanding the limitation on annual leave carried forward described above.

When classifying compensated absences into current and noncurrent, leave is considered taken using a last-in, first-out method.

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

Invested in Capital Assets – This represents the College's total investment in capital assets, net of outstanding debt obligations related to those 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Fund authorities provide rules for the fund activity and are separately established for restricted and unrestricted activities. When both restricted and unrestricted funds are available for expenditure, the decision for funding is transactional based within the departmental management system in place at the College.

L. Scholarship Discounts – Student tuition and fees revenues and certain other revenues from College charges are reported net of scholarship discounts in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. The scholarship discount is the difference between the actual charge for goods and services provided by the College and the amount that is paid by students or by third parties on the students' behalf. Student financial assistance grants, such as Pell grants, and other federal, State, or nongovernmental programs, are recorded as either operating or nonoperating revenues in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. To the extent that revenues from these programs are used to satisfy tuition, fees, and other charges, the College has recorded a scholarship discount.

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

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

N. Internal Sales Activities – Certain institutional auxiliary operations provide goods and services to College departments, as well as to its customers. These institutional auxiliary operations include activities such as central stores. In addition, the College has other miscellaneous sales and service units that operated either on a reimbursement or charge basis.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

All internal sales activities to College departments from auxiliary operations and sales and service units have been eliminated in the accompanying financial statements. These eliminations are recorded by removing the revenue and expense in the auxiliary operations and sales and service units and, if significant, allocating any residual balances to those departments receiving the goods and services during the year.

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

NOTE 2 - DEPOSITS

All funds of the College are deposited in board-designated official depositories and are required to be collateralized in accordance with General Statute 115D-58.7. Official depositories may be established with any bank or savings and loan association whose principal office is located in North Carolina or with the State Treasurer's Investment Pool. Also, the College may establish time deposit accounts, money market accounts, and certificates of deposit. At year-end, cash on hand was \$3,420.00. The carrying amount of cash on deposit was \$7,674,371.68 and the bank balance was \$8,359,506.22.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Cash on deposit at year end consisted of the following:

| | Book Balance | Bank Balance |
|--|-----------------|-----------------|
| Cash on Deposit with State Treasurer | \$ 3,830,290.35 | \$ 3,830,290.35 |
| Cash on Deposit with Private Financial Institutions | 3,844,081.33 | 4,529,215.87 |
| | \$ 7,674,371.68 | \$ 8,359,506.22 |

The cash on deposit with the State Treasurer is pooled with State agencies and similar institutions in short-term investments with the State Treasurer’s Investment Pool. These moneys are invested in accordance with General Statutes 147-69.1(c) and 147-69.2, and as required by law are “readily convertible into cash.” All investments of the fund are held either by the Department of State Treasurer or agent in the State’s name. The fund’s uninvested cash is either covered by federal depository insurance or, pursuant to 20 NCAC 7, is collateralized under either the dedicated or pooling method.

The financial statements and disclosures for the State Treasurer’s Investment Pool are included in the State of North Carolina’s *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller’s Internet home page <http://www.osc.state.nc.us/> and clicking on “Financial Reports”, or by calling the State Controller’s Financial Reporting Section at (919) 981-5454.

Of the cash on deposit with private financial institutions at June 30, 2003, \$200,000.00 of the bank balance was covered by federal depository insurance, and \$4,329,215.87 was covered by collateral held by an authorized escrow agent in the name of the State Treasurer (pooling method).

NOTE 3 - DONOR RESTRICTED ENDOWMENTS

The College’s endowment assets are pooled with State agencies and similar institutions in short-term investments with the State Treasurer’s Cash and Investment Pool and are reported as restricted cash and cash equivalents – noncurrent on the accompanying financial statements. 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 assets of the endowment funds.

Annual payments are based on interest earned during the year. All of the interest earned is used for scholarships. At June 30, 2003, net appreciation of

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

\$1,573.24 was available to be spent, of which \$1,573.24 was restricted to specific purposes.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2003 were as follows:

| | <u>Gross Receivables</u> | <u>Less Allowance for Doubtful Accounts</u> | <u>Net Receivables</u> |
|---|------------------------------|---|----------------------------|
| Current Receivables: | | | |
| Students | \$ 330,929.65 | \$ 0.00 | \$ 330,929.65 |
| Accounts | 230,364.15 | | 230,364.15 |
| Intergovernmental | 1,341,281.71 | | 1,341,281.71 |
| Investment Earnings | 11,778.89 | | 11,778.89 |
| Other | <u>29,073.61</u> | | <u>29,073.61</u> |
| Total Current Receivables | <u>\$ 1,943,428.01</u> | <u>\$ 0.00</u> | <u>\$ 1,943,428.01</u> |
| Notes Receivable: | | | |
| Notes Receivable - Current: | | | |
| Federal Loan Programs | \$ 891.15 | \$ 891.15 | \$ 0.00 |
| Institutional Student Loan Programs | <u>69,502.71</u> | <u>34,249.16</u> | <u>35,253.55</u> |
| Total Notes Receivable - Current | <u>\$ 70,393.86</u> | <u>\$ 35,140.31</u> | <u>\$ 35,253.55</u> |

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2003, is presented as follows:

| | Balance July 1, 2002 | Increases | Decreases | Balance June 30, 2003 |
|---|-------------------------|------------------------|----------------------|--------------------------|
| Capital Assets, Nondepreciable: | | | | |
| Land | \$ 2,064,400.73 | \$ 144,900.00 | \$ 163,808.00 | \$ 2,045,492.73 |
| Construction in Progress | 35,005.50 | 4,151,833.46 | — | 4,186,838.96 |
| Total Capital Assets, Nondepreciable | <u>2,099,406.23</u> | <u>4,296,733.46</u> | <u>163,808.00</u> | <u>6,232,331.69</u> |
| Capital Assets, Depreciable: | | | | |
| Buildings | 35,133,797.90 | 1,875,173.00 | 69,606.91 | 36,939,363.99 |
| Machinery and Equipment | 8,753,388.11 | 330,803.01 | 530,855.64 | 8,553,335.48 |
| General Infrastructure | 853,021.12 | 150,000.00 | — | 1,003,021.12 |
| Total Capital Assets, Depreciable | <u>44,740,207.13</u> | <u>2,355,976.01</u> | <u>600,462.55</u> | <u>46,495,720.59</u> |
| Less Accumulated Depreciation: | | | | |
| Buildings | 10,284,662.04 | 878,207.32 | 69,606.91 | 11,093,262.45 |
| Machinery and Equipment | 5,370,850.04 | 732,655.60 | 513,922.17 | 5,589,583.47 |
| General Infrastructure | 737,240.28 | 39,346.40 | — | 776,586.68 |
| Total Accumulated Depreciation | <u>16,392,752.36</u> | <u>1,650,209.32</u> | <u>583,529.08</u> | <u>17,459,432.60</u> |
| Total Capital Assets, Depreciable, Net | <u>28,347,454.77</u> | <u>705,766.69</u> | <u>16,933.47</u> | <u>29,036,287.99</u> |
| Capital Assets, Net | <u>\$ 30,446,861.00</u> | <u>\$ 5,002,500.15</u> | <u>\$ 180,741.47</u> | <u>\$ 35,268,619.68</u> |

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2003 were as follows:

| | Amount |
|---|----------------------|
| Accounts Payable | \$ 762,624.46 |
| Accrued Payroll | 143,273.62 |
| Other | 26,680.26 |
| Total Accounts Payable and Accrued Liabilities | <u>\$ 932,578.34</u> |

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 7 - LONG-TERM LIABILITIES

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

| | Balance July 1, 2002 | Additions | Reductions | Balance June 30, 2003 | Current Portion |
|----------------------|-------------------------|-----------------|---------------|--------------------------|--------------------|
| Compensated Absences | \$ 952,143.66 | \$ 1,487,570.55 | \$ 371,739.03 | \$ 2,067,975.18 | \$ 7,223.41 |

NOTE 8 - OPERATING LEASE OBLIGATIONS

Rental expense for all operating leases during the year was \$64,620.00.

NOTE 9 - REVENUES

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

| | Gross Revenues | Internal Sales Eliminations | Less Scholarship Discounts | Net Revenues |
|---|-------------------|-----------------------------------|----------------------------------|-----------------|
| Operating Revenues: | | | | |
| Student Tuition and Fees | \$ 11,415,795.67 | \$ 0.00 | \$ 2,203,816.52 | \$ 9,211,979.15 |
| Sales and Services: | | | | |
| Sales and Services of Auxiliary Enterprises: | | | | |
| Dining | \$ 325,315.34 | \$ 0.00 | \$ 0.00 | \$ 325,315.34 |
| Bookstore | 3,283,001.03 | 12,958.08 | 1,067,424.87 | 2,202,618.08 |
| Other | 550,456.33 | | | 550,456.33 |
| Sales and Services of Educational and Related Activities | 25,173.06 | | | 25,173.06 |
| Total Sales and Services | \$ 4,183,945.76 | \$ 12,958.08 | \$ 1,067,424.87 | \$ 3,103,562.81 |

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 | \$ 25,017,450.99 | \$ 1,288,344.17 | \$ 1,150,367.21 | \$ 1,742,478.18 | \$ 0.00 | \$ 0.00 | \$ 29,198,640.55 |
| Academic Support | 956,054.68 | 1,298,472.85 | 110,290.45 | | | | 2,364,817.98 |
| Student Services | 2,340,006.36 | 112,212.20 | 74,722.73 | 108,199.93 | | | 2,635,141.22 |
| Institutional Support | 3,552,681.85 | 1,235,196.06 | 1,120,641.36 | | | | 5,908,519.27 |
| Operations and Maintenance of Plant | 2,680,335.78 | 324,101.41 | 1,553,126.91 | | 929,208.48 | | 5,486,772.58 |
| Student Financial Aid | 131,021.51 | | 18,624.22 | 7,488,510.15 | | | 7,638,155.88 |
| Auxiliary Enterprises | 742,133.16 | 2,783,523.28 | 160,292.36 | | | | 3,685,948.80 |
| Depreciation | | | | | | 1,650,209.32 | 1,650,209.32 |
| Total Operating Expenses | <u>\$ 35,419,684.33</u> | <u>\$ 7,041,849.97</u> | <u>\$ 4,188,065.24</u> | <u>\$ 9,339,188.26</u> | <u>\$ 929,208.48</u> | <u>\$ 1,650,209.32</u> | <u>\$ 58,568,205.60</u> |

NOTE 11 - PENSION PLANS

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

Benefit and contribution provisions for the Teachers' and State Employees' Retirement System are established by *North Carolina General Statutes* 135-5 and 135-8 and may be amended only by the North Carolina General Assembly. Employer and member contribution rates are set each year by the North Carolina General Assembly based on annual actuarial valuations. For the year ended June 30, 2003, the General Assembly required no contribution by employers and 6% of covered payroll for members.

For the year ended June 30, 2003, the College had a total payroll of \$30,570,103.88, of which \$25,248,266.67 was covered under the Teachers' and State Employees' Retirement System. Total employee contributions for pension benefits for the year were \$1,514,896.00. No employer contributions were required. The College made one hundred percent of its annual required contributions for the years ended June 30, 2003, 2002, and 2001, which were \$0.00, \$495,919.62, and \$1,260,638.44, 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.state.nc.us/> and clicking on "Financial Reports", or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

- B. Supplemental Retirement Income Plans - IRC Section 401(k) Plan -** All members of the Teachers' and State Employees' Retirement System are eligible to enroll in the Supplemental Retirement Income Plan, a defined contribution plan, created under Internal Revenue Code Section 401(k). All costs of administering the Plan are the responsibility of the Plan participants. The voluntary contributions by employees amounted to \$557,704.00 for the year ended June 30, 2003.

IRC Section 403(b) and 403(b)(7) Plans - Eligible College employees can participate in tax sheltered annuity plans created under Internal Revenue Code Sections 403(b) and 403(b)(7). The employee's eligible contributions, made through salary reduction agreements, are exempt from federal and State income taxes until the annuity is received or the contributions are withdrawn. These plans are exclusively for employees of colleges and certain charitable and other nonprofit institutions. All costs of administering and funding these plans are the responsibility of the Plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to \$223,521.57 for the year ended June 30, 2003.

NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS

- A. Health Care for Long-Term Disability Beneficiaries and Retirees -** The College participates in State-administered programs which provide postemployment health insurance to eligible former employees. Eligible former employees include long-term disability beneficiaries of the Disability Income Plan of North Carolina and retirees of the Teachers' and State Employees' Retirement System. These benefits were established by Chapter 135, Article 3, Part 3, of the General Statutes and may be amended only by the North Carolina General Assembly. Funding for the health care benefit for long-term disability beneficiaries and retirees is financed on a pay-as-you-go basis. The College contributed 2.35% of the covered payroll under the Teachers' and State Employees' Retirement System for these health care benefits. For the fiscal year ended June 30, 2003, the College's total contribution to the Plan was \$593,334.27. The College assumes no liability for retiree health care benefits provided by the programs other than its required contribution.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Additional detailed information about these programs can be located in the State of North Carolina's *Comprehensive Annual Financial Report*.

- B. Long-Term Disability** - The College participates in the Disability Income Plan of North Carolina (DIPNC). Established by Chapter 135, Article 6, of the General Statutes, DIPNC provides short-term and long-term disability benefits to eligible members of the Teachers' and State Employees' Retirement System. Long-term disability income benefits are advance funded on an actuarially determined basis using the one-year term cost method. The College contributes .52% of covered payroll under the Teachers' and State Employees' Retirement System to the DIPNC. For the fiscal year ended June 30, 2003, the College's total contribution to the DIPNC was \$131,290.99. 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 \$500,000 are self-insured under the authority of the State Tort Claims Act. In addition, the State provides excess public officers' and employees' liability insurance up to \$11,000,000 via contract with a private insurance company. The premium, based on a composite rate, is paid by the North Carolina Community College System Office directly to the private insurer.

Fire and other property losses are covered by contracts with private insurance companies. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The College is protected for losses from employee dishonesty and computer fraud for employees paid in whole or in part from State funds. The blanket honesty bond is with a private insurance company and is handled by the North Carolina Department of Insurance with coverage of \$5,000,000 per occurrence and a \$50,000 deductible. The College is protected for losses from employee dishonesty and computer fraud for employees paid entirely from county or institutional funds by contracts with private insurance companies.

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

The State Board of Community Colleges makes the necessary arrangements to carry out the provisions of the Workers' Compensation Act which are applicable to employees whose wages are paid in whole or in part from State funds. The College purchases workers' compensation insurance for employees whose salaries or wages are paid by the Board entirely from county or institutional funds.

Term life insurance of \$25,000 to \$50,000 is provided to eligible workers. This self-insured death benefit program is administered by the State Treasurer and funded via employer contributions.

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

NOTE 14 - COMMITMENTS AND CONTINGENCIES

- A. **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 \$5,022,326.13 at June 30, 2003.
- B. **Community College General Obligation Bonds** - The 1999-2000 Session of the General Assembly of North Carolina authorized the issuance of six hundred million dollars of general obligation bonds of the State, as subsequently approved by a vote of qualified voters of the State, to provide funds for capital improvements for the North Carolina Community College System. The funds authorized are to be used solely to construct new buildings and to renovate and modernize existing buildings on the North Carolina Community College System campuses.

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

The bond legislation specifies the amount of bond funding for each College campus as well as the intended amount for new construction and repair and replacement. The legislation further provides that the State Board of Community Colleges shall be responsible for the approval of projects in accordance with provisions of the legislation. The bonds were authorized for issuance over a six-year period beginning in 2001 at a level not to exceed amounts provided in the legislation. Using a cash flow financing approach, The Community College System's Office (CCSO) establishes annual amounts not to exceed for each approved project. The amounts not to exceed are subject to change due to actual cash availability and needs during the year. Subsequent to the bond sales and the availability of bond proceeds, CCSO notifies the Office of State Budget and Management (OSBM) of the amount not to exceed for the total of the approved projects. Within this amount, based on an official request of cash needs from the State Board of Community Colleges, OSBM authorizes allotments. These allotments are then recorded to specific community college allotment accounts by the CCSO. The College records the allotments as revenue on the accompanying financial statements. The College's remaining authorization of \$34,608,173.00 is contingent on future bond sales and CCSO allotment approval. Because of uncertainty and time restrictions the remaining authorization is not recorded as an asset or revenue on the accompanying financial statements.

NOTE 15 - FAYETTEVILLE TECHNICAL COMMUNITY COLLEGE FOUNDATION, INC.

The Fayetteville Technical Community College Foundation, Inc. is a separately incorporated nonprofit foundation associated with the College. This organization serves as the primary fundraising arm of the College through which individuals, corporations, and other organizations support College programs by providing scholarships, fellowships, faculty salary supplements, and unrestricted funds to specific departments and the College's overall academic environment. The College's financial statements do not include the assets, liabilities, net assets, or operational transactions of the Foundation, except for the distributions made and benefits provided by the Foundation. The distributions received and/or benefits provided approximated \$308,588.75 for the year ended June 30, 2003.

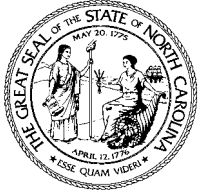
Fayetteville Technical Community College
Schedule of General Obligation Bond Project Authorizations,
Budgets, and Expenditures
For Project-to-Date as of June 30, 2003

Schedule 1

| Capital Improvement Projects | Projected Start Date | General Obligation Bonds Authorized | Other Sources | Total Project Budget | Amount Expended | Percent Completed | Expected Completion Date |
|--|-----------------------------|--|------------------------|-----------------------------|------------------------|--------------------------|---------------------------------|
| <i>Projects Approved by the State Board</i> | | | | | | | |
| Spring Lake - Multi-Use Educational Building | Nov 2000 | \$ 7,000,000.00 | \$ 1,108,015.00 | \$ 8,108,015.00 | \$ 3,433,812.80 | 42.35% | Apr 2004 |
| Horticulture Complex at Cape Fear Botanical Garden | Nov 2001 | 2,000,000.00 | 800,000.00 | 2,800,000.00 | 41,600.00 | 1.49% | Oct 2004 |
| Purchase Land Along Fort Bragg Road | Mar 2003 | 600,000.00 | 1,100,000.00 | 1,700,000.00 | 1,700,000.00 | 100.00% | Mar 2003 |
| Renovate Horace Sisk / LaFayette Hall | Apr 2002 | 3,513,973.00 | | 3,513,973.00 | 213,004.40 | 6.06% | Nov 2004 |
| Virtual College Center | Nov 2002 | 6,000,000.00 | | 6,000,000.00 | 282,667.00 | 4.71% | May 2005 |
| <i>Projects Pending Approval by the State Board</i> | | | | | | | |
| General Classroom Building | Jan 2005 | 10,500,000.00 | | 10,500,000.00 | | | |
| Purchase Land Along Fort Bragg Road | Jan 2006 | 1,377,201.00 | | 1,377,201.00 | | | |
| Renovate Three Classroom Buildings | Jan 2006 | 7,500,000.00 | | 7,500,000.00 | | | |
| Total All Projects | | \$ 38,491,174.00 | \$ 3,008,015.00 | \$ 41,499,189.00 | \$ 5,671,084.20 | | |

Note: The 1999-2000 Session of the General Assembly of North Carolina authorized the issuance of six hundred million dollars of general obligation bonds of the State, as subsequently approved by a vote of qualified voters of the State, to provide funds for capital improvements for the North Carolina Community College System. The projects listed on this schedule are those funded or to be funded by bond proceeds from the general obligation bonds authorized by Senate Bill 912.

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Ralph Campbell, Jr.
State Auditor

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Office of the State Auditor

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

Board of Trustees
Fayetteville Technical Community College
Fayetteville, North Carolina

We have audited the financial statements of Fayetteville Technical Community College, a component unit of the State of North Carolina, as of and for the year ended June 30, 2003, and have issued our report thereon dated February 2, 2004.

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.

Compliance

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 grants, 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 that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the College's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being

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audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Board of Trustees and the State Board of Community Colleges, management and staff of the College, the Governor, the State Controller, the General Assembly, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.



Ralph Campbell, Jr.
State Auditor

February 2, 2004

DISTRIBUTION OF AUDIT REPORT

In accordance with General Statutes 147-64.5 and 147-64.6(c)(14), copies of this report have been distributed to the public officials listed below. Additional copies are provided to other legislators, state officials, the press, and the general public upon request.

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| The Honorable Roy A. Cooper, III | Attorney General |
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| Mr. Robert L. Powell | State Controller |
| Mr. H. Martin Lancaster | President, North Carolina Community College System |
| Dr. Larry B. Norris | President, Fayetteville Technical Community College |
| Ms. Betty Jo M. Smith | Vice President for Financial Services |
| | Fayetteville Technical Community College |
| Mr. Harry F. Shaw | Chairman, Board of Trustees |
| | Fayetteville Technical Community College |

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| Mr. James D. Johnson | Director, Fiscal Research Division |
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