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 year June 30, 2009, with comparative data for fiscal year ending June 30, 2008. 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 notes to the financial statements.

Using This Annual Report

The College's basic financial statements are designed to emulate corporate presentation models whereby all College activities are consolidated into one total. This annual report consists of a series of financial statements, prepared in accordance with standards issued by the Governmental Accounting Standards Board. The financial statements focus on the financial condition of the College, the results of operations, and cash flows of the College as a whole. The three financial statements presented include the Statement of Net Assets, the Statement of Revenues, Expenses, and Changes in Net Assets, and the Statement of Cash Flows.

The Statement of Net Assets presents the assets, liabilities, and net assets of the College as of the end of the fiscal year. It is a point of time financial statement. The Statement of Net Assets presents end-of-year data concerning assets (current and noncurrent), liabilities (current and noncurrent), and net assets (assets minus liabilities).

The Statement of Revenues, Expenses, and Changes in Net Assets reports the College's results of operation for the fiscal year. It presents the revenues received by the College and the expense paid by the College, both operating and nonoperating, and any other revenues, expenses, gains, and losses received or spent by the College. It is intended to summarize and simplify the user's analysis of the cost of various College services to students and the public.

For the fiscal year ended June 30, 2009, the College implemented GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* and GASB Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*.

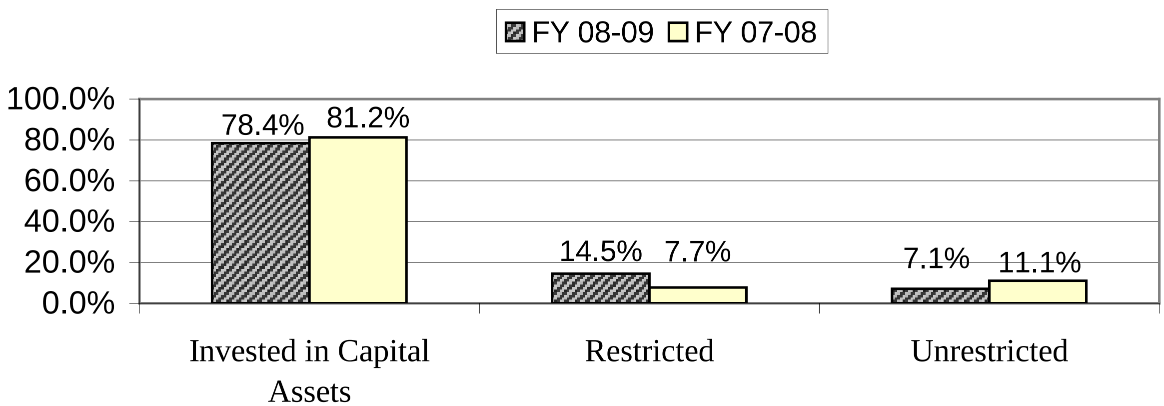
Financial Highlights

The College's net assets have increased from $78,980,205.32 at June 30, 2008, to $89,700,736.28 at June 30, 2009. This increase of $10,720,530.96 is due to a combination of factors. Investment in Capital Assets increased $6,190,205.88 due to the capitalization of construction project and equipment purchases. The College's construction projects are discussed below under "Significant Capital Asset Activities". Restricted Capital Projects increased $6,838,191.86 due to an increase in Restricted Due from Primary Government of $4,913,211.20. This account represents the 2000 State bond funds due from the North Carolina Community College System (NCCCS) for construction projects. Unrestricted Net Assets decreased $2,364,798.49 due to a decrease in State Aid of $724,726.79, a decrease in Investment Income of $165,936.53, an increase in Personal Services expense of $1,239,331.95, an increase in Services expense of $991,510.97, which includes an increase in contracted instruction expense paid from unrestricted funds, and an increase in Utilities expense of $56,007.90.

The tuition rate was unchanged in FY 2008-2009. FTE that generated the FY 2008-2009 funding decreased approximately 2.0 percent.

Total net assets as of June 30, 2009, consist of investments in capital assets (78.4 percent), restricted net assets (14.5 percent), and unrestricted net assets (7.1 percent). The following is a graphic illustration of net assets.

Analysis of Net Assets for
FY 2008-2009 and FY 2007-2008



As of June 30, 2009, the College had recorded $89,790,781.76 in Invested in Capital Assets and $19,460,382.91 in Accumulated Depreciation, resulting in net Capital Assets of $70,330,398.85. Current Assets increased 1.5 percent from FY 2007-2008 to FY 2008-2009. This increase was largely due to $345,186.31 of receivables due from the Golden Leaf grant. Noncurrent Assets – Capital increased 9.7 percent from FY 2007-2008 to FY 2008-2009 due to the increase in capital assets, as discussed below under "Significant Capital Asset Activities". Noncurrent Assets – Other increased 97.1 percent from FY 2007-2008 to FY 2008-2009. The increase was primarily due to the increase in Due from Primary Government of $4,913,211.20. Current Liabilities increased 23.4 percent from FY 2007-2008 to FY 2008-2009, primarily due to an increase in bookstore payables. Noncurrent Liabilities consist of the long-term portion of compensated absences. Total compensated absences include the balance of regular earned annual leave plus the balance of bonus leave, including benefits, for all full-time employees. The balance of bonus leave with benefits is $1,642,992.86 at June 30, 2009, which is a decrease of 4.8 percent from the prior year.

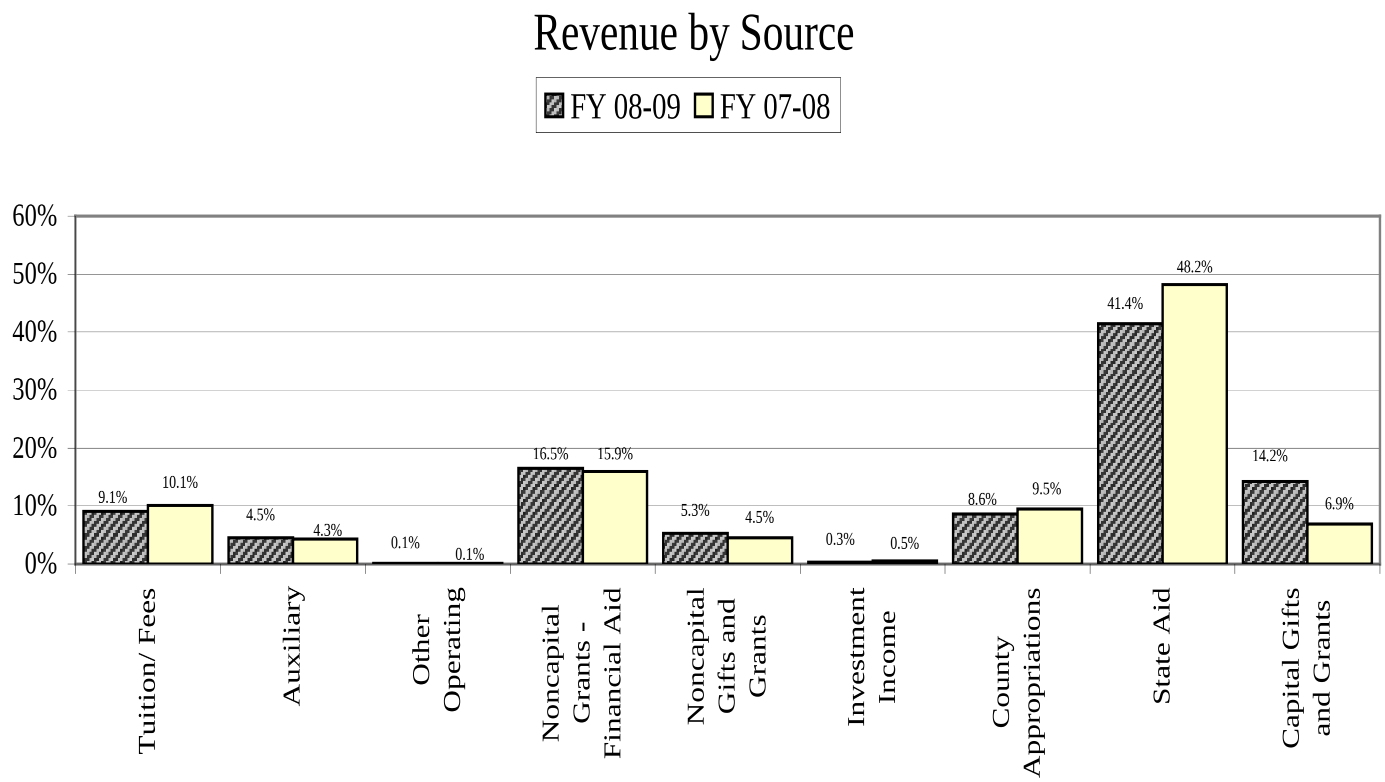
Condensed Statement of Net Assets

	2009	2008	Increase/ (Decrease)	Percent Change
ASSETS				
Current Assets	$ 14,473,798.26	$ 14,259,268.23	$ 214,530.03	1.5%
Noncurrent Assets:				
Capital	70,330,398.85	64,140,192.97	6,190,205.88	9.7%
Other	9,625,136.78	4,883,042.92	4,742,093.86	97.1%
Total Assets	94,429,333.89	83,282,504.12	11,146,829.77	13.4%
LIABILITIES				
Current Liabilities	2,018,272.29	1,635,137.70	383,134.59	23.4%
Noncurrent Liabilities	2,710,325.32	2,667,161.10	43,164.22	1.6%
Total Liabilities	4,728,597.61	4,302,298.80	426,298.81	9.9%
NET ASSETS				
Invested in Capital Assets	70,330,398.85	64,140,192.97	6,190,205.88	9.7%
Restricted	12,983,715.83	6,088,592.26	6,895,123.57	113.2%
Unrestricted	6,386,621.60	8,751,420.09	(2,364,798.49)	(27.0%)
Total Net Assets	$ 89,700,736.28	$ 78,980,205.32	$ 10,720,530.96	13.6%

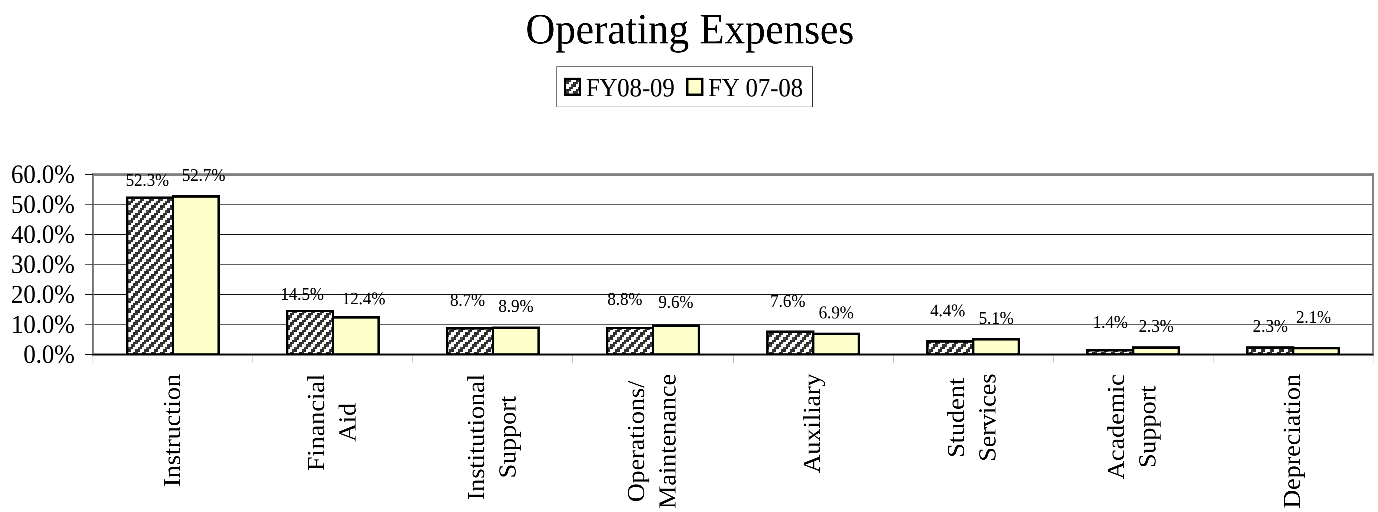
Total revenues for FY 2008-2009 were $95,951,023.17, an increase of 14.2 percent compared to FY 2007-2008. Operating revenues increased 8.0 percent from FY 2007-2008 to FY 2008-2009. The change is largely due to increased Student Tuition and Fees and Sales and Services revenues. The College's Student Tuition and Fees revenue increased 2.3 percent. This is the result of an increase in enrollment in FY 2008-2009, as tuition rates were unchanged. Sales and Services revenue increased 18.7 percent. This is the result of increased bookstore revenues.

Nonoperating revenues increased 4.7 percent from FY 2007-2008 to FY 2008-2009. The change is largely due to increased Noncapital Grants and County Appropriations revenues. Noncapital Grants – Federal Student Financial Aid revenue increased 17.9 percent. The College awarded $2,639,053.24 more in Pell grants in FY 2008-2009 compared to FY 2007-2008. Noncapital Grants and Gifts increased 34.4 percent. This is the result of $314,701.11 in Golden Leaf grant revenue and $208,258.28 in I3D Legislative grant revenue earned in FY 2008-2009 that the College did not earn in FY 2007-2008. In addition, the College recorded greater scholarships revenue in FY 2008-2009. The largest increases in scholarships revenue were from the NCCC Grant scholarship and the EARN scholarship, which increased $165,958.00 and $473,148.00, respectively. County Appropriations revenue increased $306,878.00 in FY 2008-2009 compared to FY 2007-2008.

Other Revenues increased 137.2 percent from FY 2007-2008 to FY 2008-2009. The change is due to an increase in State Capital Aid of $8,360,310.60. The College recorded more in State Capital Aid as a result of State funded construction projects.



Operating expenses increased 6.9 percent from FY 2007-2008 to FY 2008-2009. This increase was the result of a number of factors. Personal Services expense increased 2.5 percent. All full-time employees of the College received a raise of either 3.0 percent or $1,100.00, whichever was greater, in FY 2008-2009. On April 28, 2009, Governor Perdue issued Executive Order #11, which mandated that all employees paid in whole or in part from funds appropriated by the 2008 Appropriations Act participate in a flexible furlough program. As a result, employee compensation supported by funds that flow through State accounts was reduced by an annualized amount equivalent to .5 percent. Supplies and Materials expense increased 5.2 percent. Services expense increased 13.9 percent. The College incurred increased cost for contracted instruction in FY 2008-2009. Scholarships and Fellowships expense increased 25.1 percent. As indicated above, the College awarded $2,639,053.24 more in Pell grants in FY 2008-2009 compared to FY 2007-2008. The College also incurred an increase in Utilities expense of 3.8 percent in FY 2008-2009.

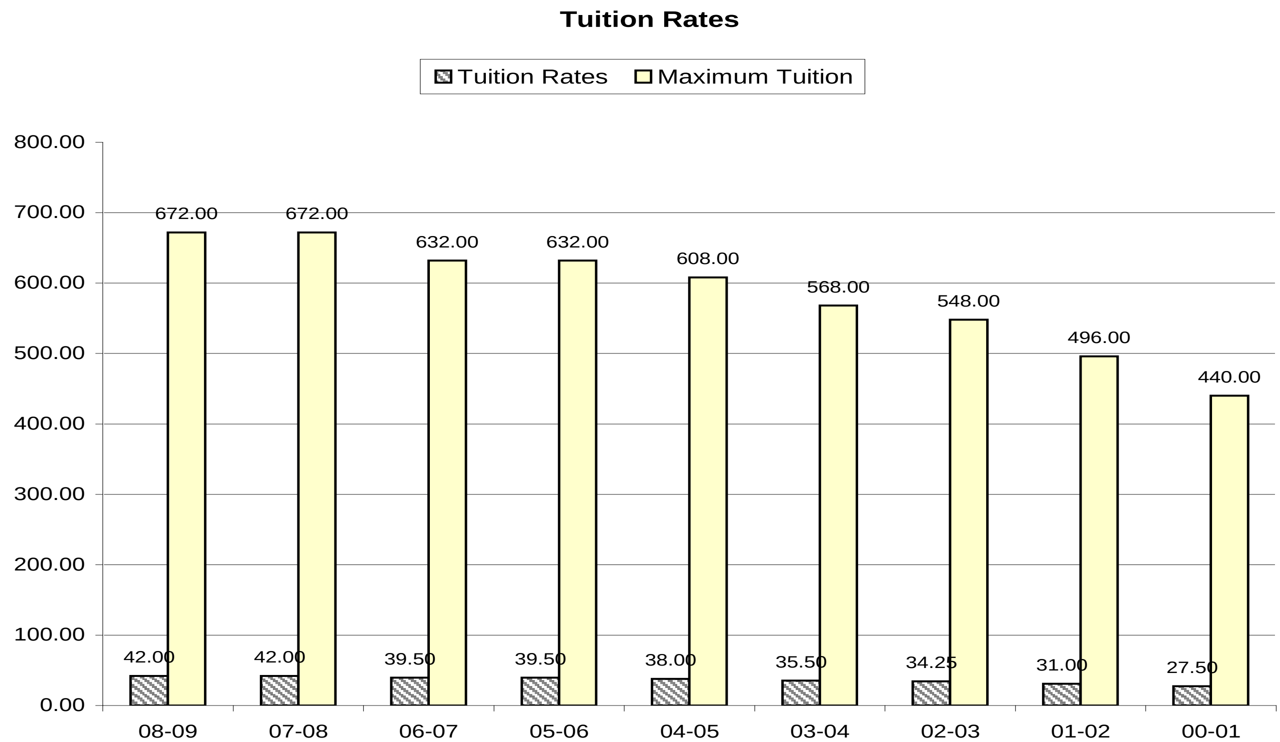


Total operating expenses at June 30, 2009, were $85,230,492.21; at June 30, 2008, total operating expenses were $79,706,048.70, resulting in a 6.9 percent increase from FY 2007-2008.

Condensed Statement of Revenues, Expenses, and Changes in Net Assets

	2009	2008	Increase (Decrease)	Percent Change
OPERATING REVENUES				
Tuition and Fees, Net	$ 8,726,729.51	$ 8,529,525.11	$ 197,204.40	2.3%
Grants and Contracts	31,048.10		31,048.10	100.0%
Sales and Services, Net	4,281,756.89	3,607,678.85	674,078.04	18.7%
Other Operating Revenues	113,548.85	43,542.47	70,006.38	160.8%
Net Operating Revenues	13,153,083.35	12,180,746.43	972,336.92	8.0%
OPERATING EXPENSES	85,230,492.21	79,706,048.70	5,524,443.51	6.9%
Operating Loss	(72,077,408.86)	(67,525,302.27)	(4,552,106.59)	6.7%
NONOPERATING REVENUES				
State Aid	39,750,043.28	40,474,770.07	(724,726.79)	(1.8%)
County Appropriations	8,283,893.00	7,977,015.00	306,878.00	3.8%
Noncapital Grants - Federal Student Financial Aid	15,782,318.00	13,384,441.18	2,397,876.82	17.9%
Noncapital Grants and Gifts	5,036,201.60	3,747,789.58	1,288,412.02	34.4%
Investment Income, Net	260,625.28	426,561.81	(165,936.53)	(38.9%)
Other Nonoperating Revenues	18,301.82	30,410.69	(12,108.87)	(39.8%)
Net Nonoperating Revenues	69,131,382.98	66,040,988.33	3,090,394.65	4.7%
Loss Before Other Revenues	(2,946,025.88)	(1,484,313.94)	(1,461,711.94)	98.5%
Capital Contributions	13,665,114.00	5,759,912.07	7,905,201.93	137.2%
Additions to Endowments	1,442.84	2,071.50	(628.66)	(30.3%)
Total Other Revenues	13,666,556.84	5,761,983.57	7,904,573.27	137.2%
Total Increase in Net Assets	10,720,530.96	4,277,669.63	6,442,861.33	150.6%
NET ASSETS				
Beginning of Year, as Restated	78,980,205.32	74,702,535.69	4,277,669.63	5.7%
End of Year	$ 89,700,736.28	$ 78,980,205.32	$ 10,720,530.96	13.6%

The State tuition rates for in-State and out-of-State students were unchanged in FY 2008-2009. Over the last eight years, tuition has increased 52.7 percent.



As mentioned previously, the College receives funding from county and State sources. County appropriations increased from $7,977,015.00 in FY 2007-2008 to $8,283,893.00 in FY 2008-2009, a 3.8 percent increase. Revenue is recognized when the funds are expended. In June 2006, County Commissioners approved a special financing agreement to borrow funds to allocate to the College in order for the College to meet the remaining State bond match requirement of $5,000,274.00. This match was allocated to the College as one lump sum and serves as the county allocation to the College for the next five years or until FY 2011-2012. County funds are disbursed to the College on a reimbursement basis. At June 30, 2009, the College had received all county matching funds except for $23,009.00. During FY 2008-2009, the College purchased approximately 60 acres of land in the western part of Cumberland County. The project was funded by $407,553.00 of county matching funds and $2,505,136.00 of State bond funds. This property was purchased to meet future growth and expansion needs. Development of the property will begin as funds become available.

The FTEs that generate the College's State budget (budget FTEs) declined in FY 2008-2009 from FY 2007-2008. The College is funded based on actual FTEs earned during the prior fiscal year, or a three year average, whichever is greater. In 2008-2009 a three year average was used by the NCCCS to generate budgeted FTE in all three areas, as follows:

	2008-2009	2007-2008	% Increase (Decrease)
Curriculum	7,676 *	7,779	(1.3%)
Occupational Extension	1,441 *	1,542	(6.5%)
Basic Skills	1,076 *	1,085 *	(0.8%)
Total	10,193	10,406	(2.0%)

* Numbers are based on a three year average performed by NCCCS.

In FY 2008-2009, the College was required to revert 4.0 percent of its operating budget or $1,683,338.00. Additional spending restrictions placed on the College by the NCCCS equated to approximately 5.0 percent, creating a total 9.0 percent negative impact on the College's budget and thus, College operations. To add to the economic suffering, those full time employees paid from State funds endured salary cuts totaling .5 percent of their annual salary, deducted from their pay checks in May and June 2009.

There were no new curriculum programs added in FY 2008-2009; however certificates and diplomas were added to various degree programs to include Advertising and Graphic Design, Business Administration, Web Technologies, and Medical Office Administration. Effective January 2009, the Cosmetology Program is no longer outsourced to a third party, but is operated by the College. The facility previously known as the Criminal Justice Center houses this program and has been renamed the Salon and Spa Services Educational Center. The Continuing Education Division added an online Medical Coding and Medical Records Terminology program that is a very popular and fast growing program.

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 26,000 curriculum students (duplicated) and 500 continuing education students (duplicated) in FY 2008-2009.

The state of the economy, reflected by unemployment rates in Cumberland and surrounding counties, had a direct relationship to enrollment. The overall increase in actual FTE earned during FY 2008-2009, was 8.0 percent, which will be reflected in the FY 2009-2010 budget. The following information reflects the unemployment rates in Cumberland County as compared to prior years.

	2008-2009	2007-2008	2006-2007	2005-2006	2004-2005
January	8.9%	5.6%	5.6%	5.3%	5.8%
February	9.6%	5.7%	5.5%	5.7%	6.2%
March	9.2%	5.5%	5.1%	5.0%	5.5%
April	8.5%	5.3%	5.0%	4.6%	5.6%
May	9.3%	6.1%	5.2%	5.3%	5.5%
June	9.5%	6.6%	5.8%	5.6%	6.4%

Significant Capital Asset Activities

The McKethan Drug Property purchase project (# 1686) is funded by $529,398 of county funds. The purchase, which included land and a building, was complete in March 2008. The purchase also included a one year lease between the seller and the College. The lease ended April 1, 2009. The building is to be demolished during FY 2009-2010. After the demolition is complete, current plans are to construct a parking lot.

The Service Merchandise renovations project (# 1585) is funded by $10,189,000 in State bond funds and $3,000,000 in bookstore revenues. The renovated Service Merchandise Building is expected to house the College bookstore and campus security. The building will also provide additional classrooms, labs, and faculty offices. The expected completion date is August 2011.

The Criminal Justice Center project (# 1460) is funded by $2,209,944 of State bond funds. Project completion was initially scheduled for spring 2008. The completion date was extended to include the installation of mechanical uplifts used by cosmetology, aesthetic, and therapeutic programs. The project was complete in December 2008 and the name was changed to the Salon and Spa Services Educational Center.

The ADA & Life Safety Improvements project (# 1602) is funded by $400,000 of State grant funds and $400,000 of bookstore revenue. The estimated completion date is September 2009.

The Bulla Property Parking Lot project (# 1557) is funded by $261,182 of State bond funds and $355,398 of county funds. The project was completed during August 2008.

The addition to the Thomas R. McLean Administration Building project (# 1520) is funded by $500,000 of donated funds and $1,208,000 of State bond funds. The estimated completion date is late summer 2009.

The Student Center and Cumberland Hall roof replacement project (# 1448) is funded by $746,235 of county funds. The replacements were completed during October 2008. This project was reclassified as repairs during 2008-2009 to better agree with Office of State Controller guidelines concerning repairs versus capital construction.

The Western Property purchase (project # 1729) occurred in December 2008 and is funded by $2,505,136 of State bond funds and $407,553 of county funds. The Western Property consists of approximately 60 acres of land located in the western part of Cumberland County. To meet expected growth and expansion needs, future plans are to develop the Western Campus. This will be done as funds become available.

Economic Forecast

According to Fiscal Research Division, a staff agency of the North Carolina General Assembly, the first two months of FY 2009-2010 continued the trend established in the last quarter of FY 2008-2009, with negative growth in economy-based taxes. Fiscal year 2008-2009 General Fund revenues were $3.22 billion below the $20.85 billion budgeted amount. The fall in revenues represents an unprecedented 10.8 percent decline over the previous year. However, the latest expectations are that the recession is over, but it will continue to feel like we are still in a recession as current economic conditions show little sign of recovery. These conditions are expected to persist through this fall and well into 2010.

The first months of the fiscal year are the least important indicators of revenue trends for the fiscal year. With this in mind, the two months met budget targets. These targets were set low and net collections were down 2.5 percent from last year. Collections for the first quarter were expected to be the worst of the period, knowing that we have to slowly work our way out of the recession.

Based on various surveys of national forecasters, indications are that a national economic recovery is unlikely until the last quarter of 2009. The forecast assumes that an employment recovery will not be underway until the second half of 2010, though monthly losses should begin to improve by the third quarter of 2009. Because employment is closely tied to personal income, little growth is forecasted in withholding collections and overall personal income collections are expected to decline another 1.5 percent in FY 2009-2010.

The biggest risk we face is the possibility of a double-dip or W-shaped recovery, where the economy could have a brief period of recovery and then slip back into a recession. The W-shaped recovery is a possibility due to the fact that the national housing and financial market upheavals still have a way to go before they stabilize. Of course, we are hopeful that this will not be the case.

In the Fayetteville and surrounding area, the housing market has not suffered as greatly as in many other areas. Housing for the military community as well as the anticipated housing needs because of BRAC (Base Realignment and Closure) at Ft. Bragg has played a major role in this. The College is hopeful that the influx of the military associated with the BRAC initiative will add growth to its enrollment in the future.

The College budget for FY 2009-2010 has been greatly impacted by the poor economy. The College had to implement a management flexibility reduction of $1,313,038 and a 5.0 percent reversion of $2,166,004 or a total reduction to its budget of $3,479,042 during the first quarter of the fiscal year. Additionally, a 1.0 percent or $433,201 has been suggested to be held in case other reversions are required.

The College has been strategic in preparing its budget with limited resources and has been able to cover current needs so that instruction will not suffer. The current enrollment for fall 2009 reflects an increase of approximately 3.9 percent and the final enrollment data is continent on the second-eight week session. Increased enrollment without increased funds adds to heavy work loads for staff and faculty during a time of no raises and no bonuses. However, the future is looking brighter as we grow and look forward to moving out of the recession and into a time of economic recovery.