STATE OF NORTH CAROLINA

FINANCIAL STATEMENT REVIEW REPORT OF

NORTH CAROLINA CENTER FOR APPLIED TEXTILE TECHNOLOGY

BELMONT, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2002

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR

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FOR THE YEAR ENDED JUNE 30, 2002

STATE OF NORTH CAROLINA
Office of the State Auditor

Ralph Campbell, Jr.
State Auditor

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REVIEWER'S TRANSMITTAL

The Honorable Michael F. Easley, Governor
The General Assembly of North Carolina
Board of Trustees, North Carolina Center for Applied Textile Technology

This report presents the results of our financial statement review of North Carolina Center for Applied Textile Technology, a component unit of the State of North Carolina, for the year ended June 30, 2002. Our review was made by authority of Article 5A of Chapter 147 of the General Statutes.

The accounts and operations of the Center 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 work necessary for the CAFR and the *Single Audit Report*, the accounts and operations of the Center were subjected to review procedures as we considered necessary. In addition, we performed review procedures that we considered necessary for us to report on the accompanying financial statements that relate solely to North Carolina Center for Applied Textile Technology. The review 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 review of the accompanying financial statements that relate solely to North Carolina Center for Applied Textile Technology. Our reporting objectives and review results are:

1. **Objective** - To disclose any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

   Results - We are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America. These matters are more fully described in the Independent Accountant's Review Report on the financial statements.

2. **Objective –** To present significant deficiencies, if any, in internal control over financial reporting which could adversely affect the Center'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 that came to our attention during our review of the financial statements.

   Results - Our review disclosed no material weaknesses in internal control over financial reporting and no instances of noncompliance which require disclosure herein under *Government Auditing Standards*.

North Carolina General Statutes require the State Auditor to make reports available to the public. Copies of review 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.

Ralph Campbell, Jr.
State Auditor

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INDEPENDENT ACCOUNTANT'S REVIEW REPORT

Board of Trustees
North Carolina Center for Applied Textile Technology
Belmont, North Carolina

We have reviewed the accompanying Statement of Net Assets of North Carolina Center for Applied Textile Technology, a component unit of the State of North Carolina, as of June 30, 2002, and the related Statement of Revenues, Expenses, and Changes in Net Assets and Statement of Cash Flows for the year then ended, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the Center's management.

A review consists principally of inquiries of Center personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis (MD&A) on pages 3 to 11 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. Such information has been subjected to the inquiry and analytical procedures applied in the review of the basic financial statements, and we are not aware of any material modifications that should be made thereto.

Our review was conducted for the purpose of expressing limited assurance that there are no material modifications that should be made to the basic financial statements in order for them to be in conformity with generally accepted accounting principles. 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 inquiry and analytical procedures applied in the review of the basic financial statements, and we are not aware of any material modifications that should be made thereto.

Ralph Campbell, Jr.

Ralph Campbell, Jr.
State Auditor

May 1, 2003

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Governmental Accounting Standards Board (GASB) Statement No. 34, issued in June 1999, represents a significant change to traditional government financial reporting standards. For the first time, accrual accounting is required for all government activities, and all capital assets are generally required to be depreciated. Additional supplementary information, such as the Management's Discussion and Analysis (MD&A), is now required. Generally, GASB Statement No. 34 is cited as GASB 34/35. GASB Statement No. 35 expanded the institutions covered in GASB Statement No. 34 to include universities and colleges.

In the initial reporting year for MD&A (year ended June 30, 2002), institutions are not required to restate prior periods for purposes of providing the comparative data. Although the comparative data is not required, it has been used in some sections for clarity and evaluative purposes. Comparative data will be used in its entirety for the year ended June 30, 2003.

There are six sections included in the MD&A. These sections include:

- Introduction
- Basic financial statements
- Financial highlights
- Capital activities
- Analysis of overall financial position
- Economic factors that will affect the future

Introduction

The following discussion and analysis provides an overview of the financial position and activities of the North Carolina Center for Applied Textile Technology, hereafter called the Center, for the year ended June 30, 2002, with selected comparative information for the year ended June 30, 2001. This discussion has been prepared by management and should be read in conjunction with the accompanying financial statements and footnotes. Responsibility for the completeness and fairness of this information rests with the Center.

Basic Financial Statements

The Center's financial report includes three new financial statements as mandated by new Governmental Accounting Standards Board Statement Nos. 34 and 35:

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

The reporting changes enable users of the financial statements to view the organization as a whole, rather than the previously reported fund groups.

Other significant changes to the financial statements are as follows:

- Revenues and expenses are now categorized as either operating or nonoperating. Previously, a measure of operations was not presented. Significant annual portions of the Center's revenues, including State and institutional revenues are considered nonoperating as defined by GASB Statement Nos. 34 and 35. Nonoperating revenues totaled $2,124,842.48 and $3,674,813.83 for the years ended June 30, 2002 and 2001, respectively. The reduction mainly resulted from a decrease in State aid.

- Assets and liabilities are now classified as current and noncurrent, in accordance with the generally accepted accounting practices (GAAP). The distinction between the two is a function of time. Current assets are expected to convert to cash within a one-year period, while noncurrent will not be converted to cash within the one-year period.

- Under GASB Statement Nos. 34 and 35, the accounting measurement focus now includes all economic resources and requires all capital assets to be depreciated. The Center has extensively identified all capital assets and retroactively calculated depreciation. Based on this change in the accounting principle, the Center's recorded accumulated depreciation at June 30, 2002 was $251,387.20.

Financial Highlights

A summary of the Center's Revenues, Expenses, and Change in Net Assets is reflected in Table 1 below.

Table 1 – Revenues, Expenses, and Change in Net Assets

	2002	2001
Operating Revenues	$ 220,621.05	$ 258,876.50
Operating Expenses	(3,930,843.37)	(1,946,397.29)
Nonoperating Revenues	2,124,842.48	3,674,813.83
Decrease in Net Assets	(1,585,379.84)	
Net Assets - Year End	$ 843,078.11	$ 2,428,457.95

The decrease of total operating revenues from 2001 to 2002 is the result of the declining construction balance of the new building. Hence, more capital construction funds were received in the year ended 2001 as compared with the year ended 2002.

Nonoperating revenues are comprised of State Aid, Capital Grants, and Investment Income, Net in the amount of $1,426,598.58, $697,045.40, and $1,198.50 respectively.

The decrease in net assets is a result of the on-going capital construction. In comparative terms, it would seem to the casual observer that the funding was substantially lower in 2002.

The funding in 2002 was slightly less due to budget reversions; however, the funding in 2001 was increased due to special one-time allotments for various grants and programs.

Statement of Cash Flows

The Statement of Cash Flows provides additional information about the Center's financial results, by reporting the major sources and uses of cash. Tuition receipts and State appropriations are the only sources of funding for the Center; therefore, efficiency is essential to the Center. A recap of the Statement of Cash Flows appears in Table 2.

The textile industry has experienced record levels of downsizing. The Center has made a concerted effort to offer the types of training that the evolving textile industry requests. For a detailed analysis of '*the evolving textile industry*', see the last section, Economic Factors That Will Affect the Future. It is this endeavor that has helped the tuition receipts to remain above the target of $116,000.

Table 2 - Statement of Cash Flows

Category		2002
Cash Received from Customers	$	226,582.14
Cash Expended for Operations:		
Salaries and Fringe Benefits		(1,331,730.09)
Suppliers and Vendors		(2,559,049.75)
Net Cash Used by Operating Activities		(3,664,197.70)
Cash Received from Noncapital State Aid		1,426,598.58
Cash Received from State Capital Aid		1,528,343.13
Cash Received from Capital Grants		697,045.40
Net Cash Provided by Capital Activities		2,225,388.53
Cash Received from Interest on Investments		1,198.50
Net Decrease in Cash and Cash Equivalents		(11,012.09)
Cash and Cash Equivalents, July 1, 2001		135,086.48
Cash and Cash Equivalents, June 30, 2002	$	124,074.39

Cash received from and expended for operations include the capital construction project. The Center's significant sources of cash provided by noncapital activity, as defined by GASB Statement No. 35, include State appropriations, Gaston County High School Trades Program, Central Piedmont Community College (CPCC) pass-through grant, and book sales. A detail line item report of Cash and Cash Equivalents is presented in Table 3.

Cash and cash equivalents for June 30, 2002 include the fund balances as illustrated in the Table 3 below:

Table 3 - Breakdown of Cash & Cash Equivalents

Fund	2002	2001
Self-Support	$ 10.22	$ 10.22
Video Deposit/Petty Cash	200.00	300.00
General Institution	346.49	0.86
HS Trades	109,369.89	61,916.60
Central Piedmont Community College Grant	70.33	66,900.00
Text Book Sales	13,216.18	5,943.19
Vending	861.28	15.61
Total Funds Received	$ 124,074.39	$ 135,086.48

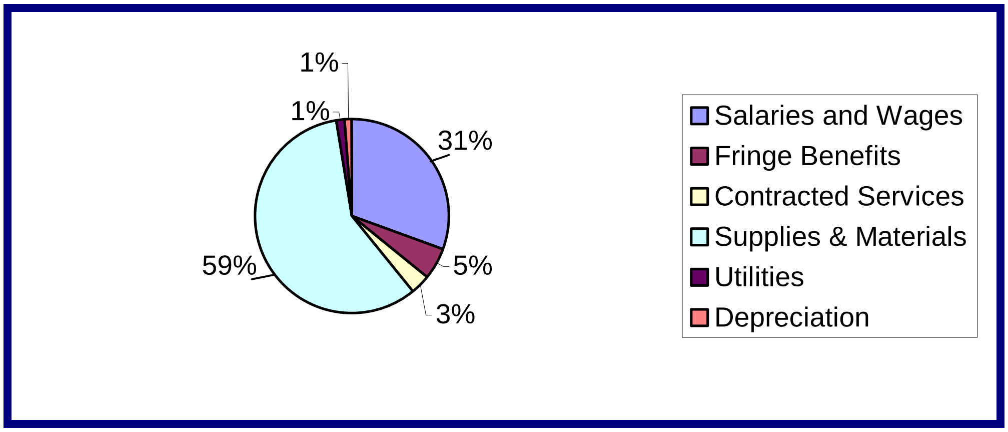
Although the totals for the year look relatively stable, two fund balances changed: (1) CPCC Grant was received in 2001 and expended in 2002; and (2) the HS Trades programs reflects an increase in 2002 due to funding requirements for the building projects that start in the fall each year

Operating Expenses

The Center continues to make cost containment an ongoing effort. The Center continues to face financial pressures, particularly in the areas of compensation and benefits, which represent 71% of total expenses (excluding capital construction). Although compensation continues to be the lion's share of the budget, the Center is continually facing more demands for increased salary and benefits in an effort to keep highly specialized textile faculty. This point will be addressed in depth in the Economic Outlook section of MD&A. The 2002 Operating Expenses by Object is illustrated in Table 4 below.

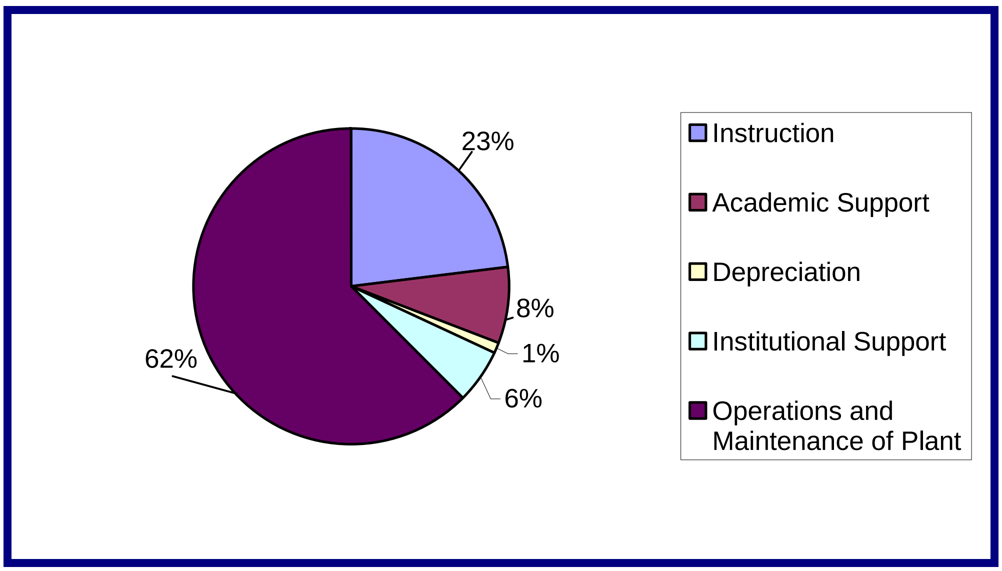
Table 4 - 2002 Operating Expenses by Object

Operating Expenses	2002
Salaries and Wages	$ 1,139,065.29
Fringe Benefits	193,847.63
Contracted Services	125,939.93
Supplies and Materials	2,383,921.62
Utilities	51,326.28
Depreciation	36,742.62
Total Operating Expenses	$ 3,930,843.37



The Center is the smallest institution within the North Carolina Community College System. Perhaps a more insightful measure is a functional breakdown rather than object listing. The 2002 Breakdown of Functional Expenses is illustrated in Table 5 below:

Table 5 - 2002 Expenses by Function



Capital Activities

The Center has recently completed the first-ever addition to the North Carolina Center for Applied Textile Technology. The Center, unlike the other 58 constituents, is owned by the State of North Carolina, not the local board of trustees. Therefore, the buildings do no appear on the Center's financial statements. The $3.1 million facility houses the following:

- Five state-of-the-art training labs
- Auditorium with a seating capacity of 250

- Physical-testing lab
- Administrative offices
- Two large computer labs

The building was funded in three phases as illustrated in Table 6 below:

Table 6 - Construction Phases as of June 30, 2002

Planning and Design	$	437,200	Complete
Construction Funds		2,000,000	Complete
Bond Funds		750,000	15% Complete
Total Project	$	3,187,200	

Projected completion date: December 2002

During the fiscal year ended June 30, 2002, the Center was allotted $697,045.40 in capital construction funds. It should be emphasized that the State of North Carolina owns the building, not the Center. Hence, the building will not appear on the financial statements.

Analysis of Overall Financial Position

Statement of Net Assets

Condensed financial information relating to the Statement of Net Assets is presented below:

Assets		2002		2001
Current Assets				
Cash and Cash Equivalents	$	124,074.39	$	135,086.48
Receivables, Net		10,453.91		16,415.00
Inventories		3,827.02		4,837.83
Total Current Assets	$	138,355.32	$	156,339.31

Cash decreased by $11,012.09. This is due to a grant received in 2001. The receivables decrease was due to a change in class scheduling at the end of the year. The decrease in inventories reflects the budget cuts.

	2002	2001
Noncurrent Assets		
Restricted Due from Primary Government	$ 697,045.40	$ 2,225,388.53
Capital Assets, Net	94,673.30	131,415.92
Total Noncurrent Assets	$ 791,718.70	$ 2,356,804.45

The restricted due from primary government classification decreased by $1,528,343.13. The decrease is a result of the building reaching an 85% completion stage. The ongoing expenditures for the new Lab/Administration building will be expensed on the financial statements of the Center, and once the project is complete, the building will be shown as property of the State. Total assets are also affected by the transitioning of the capital project to the Office of State Property.

Table 7 - Summary of Capital Assets at June 30, 2002

	2002
Capital Assets	
Machinery and Equipment	$ 346,060.50
Less - Accumulated Depreciation	251,387.20
Capital Asset, Net	$ 94,673.30

Under GASB Statement No. 35, the accounting measurement focus now includes all economic resources and requires all capital assets to be depreciated. The Center has retroactively calculated depreciation. In addition, the Center disposed of obsolete equipment totaling $21,165.77.

Table 8 – Liabilities

	2002
Current Liabilities	
Accounts Payable	$ 1,227.27
Compensated Absences	85,768.64
Total Current Liabilitiest	$ 86,995.91

The largest liabilities segment stems from vacation accruals. The vacations accrual for year ended June 30, 2002 was $85,768.64, and the accrual for 2001 was $84,585.81. The Center will reclassify a portion of the vacation accrual in the next reporting year (June 30, 2003) as noncurrent long-term liabilities, with a percentage of the accrual listed as current in order to more accurately reflect the current and noncurrent portions of the long-term liabilities. For the current reporting year (June 30, 2002), there are no noncurrent long-term liabilities reported in the financial statements.

Net Assets

	2002	2001
Capital, Net	$ 94,673.30	$ 131,415.92
Expendable:		
Capital Projects	560,041.98	2,217,380.17
Other	66,900.00	128,816.60
Unrestricted	121,462.83	(49,154.74)
Total Net Assets	$ 843,078.11	$ 2,428,457.95

The reduction in net capital assets mainly stems from the recording of depreciation (see Table 7). The reduction in capital projects is the result of construction project expenditures. The reduction in "Other" is a reflection of expended grants.

Economic Factors That Will Affect the Future

The economic forecast for the Textile Center is closely aligned with the textile industry. The declining textile industry is a misconception. The textile industry, as we once understood it, is indeed in decline. The evolving textile industry is a knowledge-based industry that requires a well-educated workforce. The Center will be a major player in the North Carolina economy with respect to the training that will be required for the shift to a knowledge-based workforce, thus the relevance of this discussion in the MD&A.

"Textiles include space shuttle items, artificial limbs, seat belts, hot air balloons, swimming pools, artificial tissue for arteries, carpet, wallpaper, fiberglass Jacuzzis, tennis rackets, baseballs, clothes, towels - an endless list!" The textile industry is the second-largest industry in America, second only to the aerospace industry. In North Carolina, even with all the reported layoffs, it is still the largest industry in terms of dollars.

The Textile Center has played a significant role in the evolving needs of the textile industry. Although the traditional textile industry has experienced a significant number of layoffs, the emerging industry is strong. The Center has shifted to a "research and training arena" to provide for the industry.

Not only is the economic forecast bright for the Center in the North Carolina economy, the Center will play a major role in the national economy. The Textile Center was recently contacted to assist in homeland security in the area of illegally imported textiles. This will bring added revenue to the Center, and ultimately to the State.

As with any state, the outlook is not completely bright. One of the biggest problems that has continually plagued the Center, as well as the other 58 colleges, is the lack of funds to attract and retain highly qualified faculty. The North Carolina Community College System ranks 47th in the nation in faculty pay. More specifically, the Center has lost five instructors to local high schools. The beginning pay for local high school teachers exceeds the current pay for community college instructors. The State has formally recognized that this is, indeed, one of the pressing issues, and in all fairness, has begun to address the issue. It will take decades to completely address the issue and pull from the bottom, but with the efforts recently made in the past few years, it is a beginning. Why is this discussion important to MD&A? The reputation of a college stems largely from the quality of its employees, and more specifically, in higher education it is the quality of the faculty. If we want the very best, we must continue to address the national lag in salary. If an institution with less than thirty full time employees can lose five instructors within a two-year period to local high schools, the issue has need for redress.

North Carolina Center for Applied Textile Technology
Statement of Net Assets
June 30, 2002

		Exhibit A
ASSETS		
Current Assets:		
Cash and Cash Equivalents	$	14,634.17
Restricted Cash and Cash Equivalents		109,440.22
Receivables (Note 3)		10,453.91
Inventories		3,827.02
Total Current Assets		138,355.32
Noncurrent Assets:		
Restricted Due from Primary Government		697,045.40
Capital Assets, Net (Note 4)		94,673.30
Total Noncurrent Assets		791,718.70
Total Assets		930,074.02
LIABILITIES		
Current Liabilities:		
Accounts Payable		1,227.27
Long-Term Liabilities - Current Portion (Note 5)		85,768.64
Total Current Liabilities		86,995.91
Total Liabilities		86,995.91
NET ASSETS		
Invested in Capital Assets		94,673.30
Restricted For:		
Expendable:		
Capital Projects		560,041.98
Other		66,900.00
Unrestricted		121,462.83
Total Net Assets	$	843,078.11

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

See Independent Accountant's Review Report

North Carolina Center for Applied Textile Technology
Statement of Revenues, Expenses, and Changes in Net Assets
For the Fiscal Year Ended June 30, 2002

Exhibit B

REVENUES		
Operating Revenues:		
Student Tuition and Fees	$	198,792.02
Sales and Services		21,729.03
Other Operating Revenues		100.00
Total Operating Revenues		220,621.05
EXPENSES		
Operating Expenses:		
Personal Services		1,332,912.92
Supplies and Materials		2,383,921.62
Services		125,939.93
Utilities		51,326.28
Depreciation		36,742.62
Total Operating Expenses		3,930,843.37
Operating Loss		(3,710,222.32)
NONOPERATING REVENUES		
State Aid		1,426,598.58
Investment Income, Net		1,198.50
Net Nonoperating Revenues		1,427,797.08
Loss Before Other Revenues, Expenses, Gains, and Losses		(2,282,425.24)
Capital Grants		697,045.40
Decrease in Net Assets		(1,585,379.84)
NET ASSETS		
Net Assets, July 1, 2001 as Restated (Note 13)		2,428,457.95
Net Assets, June 30, 2002	$	843,078.11

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

See Independent Accountant's Review Report

North Carolina Center for Applied Textile Technology
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2002 — ***Exhibit C***

CASH FLOWS FROM OPERATING ACTIVITIES		
Received from Customers	$	226,582.14
Payments to Employees and Fringe Benefits		(1,331,730.09)
Payments to Vendors and Suppliers		(2,559,049.75)
Net Cash Used by Operating Activities		(3,664,197.70)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State Aid Received		1,426,598.58
Net Cash Provided by Noncapital Financing Activities		1,426,598.58
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
State Capital Aid Received		1,528,343.13
Capital Grants Received		697,045.40
Net Cash Provided by Capital and Related Financing Activities		2,225,388.53
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on Investments		1,198.50
Net Cash Provided by Investing Activities		1,198.50
Net Decrease in Cash and Cash Equivalents		(11,012.09)
Cash and Cash Equivalents, July 1, 2001		135,086.48
Cash and Cash Equivalents, June 30, 2002	$	124,074.39
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating Loss	$	(3,710,222.32)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense		36,742.62
Changes in Assets and Liabilities:		
Receivables, Net		5,961.09
Inventories		1,010.81
Accounts Payable and Accrued Liabilities		1,127.27
Compensated Absences		1,182.83
Net Cash Used by Operating Activities	$	(3,664,197.70)

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

See Independent Accountant's Review Report

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. North Carolina Center for Applied Textile Technology 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 Center's Board of Trustees is financially accountable. Related foundations and similar non-profit corporations for which the Center 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* effective for the Center's year ended June 30, 2002, the full scope of the Center'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.

C. Basis of Accounting - The financial statements of the Center 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.

In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Center 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.

D. **Cash and Cash Equivalents –** This classification appears on the Statement of Net Assets and the Statement of Cash Flows and includes petty cash, cash on deposit with private bank accounts, and money market accounts.

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 state and local governments. No provision for doubtful accounts is considered necessary.

F. **Inventories** – Inventories, consisting of expendable supplies and merchandise for resale, are stated at invoice cost.

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 Center capitalizes assets that have a value or cost in excess of $5,000 at the date of acquisition and an expected useful life of one or more years.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 3 to 15 years for equipment.

H. **Restricted Assets** – Restricted assets represent assets whose use is restricted by external parties or by law through constitutional provisions or enabling legislation.

I. **Compensated Absences** - The Center'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 January 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 December 31st plus the leave earned, less the leave taken between January 1st and June 30th.

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

J. Net Assets – The Center's net assets are classified as follows:

Invested in Capital Assets – This represents the Center's total investment in capital assets.

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

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

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

K. Revenue and Expense Recognition – The Center presents its revenues and expenses as operating or nonoperating based on recognition definitions from GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*. Operating activities are those activities that are necessary and essential to the mission of the Center. Operating revenues include all charges to customers. Revenues from nonexchange transactions and State appropriations that represent subsidies or gifts to the Center, as well as investment income, are considered nonoperating since these are either capital or noncapital financing or investing activities. Operating expenses are all expense transactions incurred other than those related to capital or noncapital financing or investing activities. Revenues received for capital financing activities, as well as related expenses, are considered neither operating nor nonoperating activities and are presented after nonoperating activities on the accompanying Statement of Revenues, Expenses, and Changes in Net Assets.

NOTE 2 - DEPOSITS

All funds of the Center 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 Cash and Investment Pool. Also, the Center may establish time deposit accounts, money market accounts, and certificates of deposit. At year-end, cash on hand was $200.00. The carrying amount of cash on deposit was $123,874.39 and the bank balance was $130,314.97. All of the cash was on deposit with private financial institutions.

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.

The financial statements and disclosures for the State Treasurer's Cash and 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, 2002, $100,000.00 of the bank balance was covered by federal depository insurance, $30,314.97 was covered by collateral held by an authorized escrow agent in the name of the State Treasurer (pooling method).

NOTE 3 - RECEIVABLES

Receivables at June 30, 2002 were as follows:

	Amount
Current Receivables:	
Students	$ 10,453.91

NOTE 4 - CAPITAL ASSETS

A summary of changes in the capital assets is presented as follows:

	Balance July 1, 2001	Increases	Decreases	Balance June 30, 2002
Capital Assets, Depreciable:				
Machinery and Equipment	$ 367,225.77	$ 0.00	$ 21,165.27	$ 346,060.50
Total Capital Assets, Depreciable	367,225.77		21,165.27	346,060.50
Less Accumulated Depreciation:				
Machinery and Equipment	235,809.85	16,635.60	1,058.25	251,387.20
Total Accumulated Depreciation	235,809.85	16,635.60	1,058.25	251,387.20
Total Capital Assets, Depreciable, Net	131,415.92	(16,635.60)	20,107.02	94,673.30
Capital Assets, Net	$ 131,415.92	$ (16,635.60)	$ 20,107.02	$ 94,673.30

NOTE 5 - LONG-TERM LIABILITIES

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

	Balance July 1, 2001	Additions	Reductions	Balance June 30, 2002	Current Portion
Compensated Absences	$ 84,585.81	$ 87,293.86	$ 86,111.03	$ 85,768.64	$ 85,768.64

NOTE 6 - OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Materials	Services	Utilities	Depreciation	Total
Instruction	$ 728,226.99	$ 105,308.31	$ 69,122.71	$ 0.00	$ 0.00	$ 902,658.01
Academic Support	254,514.47	22,100.15	35,944.69			312,559.31
Institutional Support	206,896.63	9,443.82	10,843.57			227,184.02
Operations and Maintenance of Plant	143,274.83	2,247,069.34	10,028.96	51,326.28		2,451,699.41
Depreciation					36,742.62	36,742.62
Total Operating Expenses	$ 1,332,912.92	$ 2,383,921.62	$ 125,939.93	$ 51,326.28	$ 36,742.62	$ 3,930,843.37

NOTE 7 - 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 multiple-employer cost sharing defined benefit pension plan administered by the North Carolina State Treasurer.

After five years of creditable service, members of the Teachers' and State Employees' Retirement System qualify for a vested deferred benefit. Employees who retire on or after age 65 and complete 5 years of membership service (age 55 and 5 years of creditable service for law enforcement officers), reach age 60 with 25 years of membership service, or complete 30 years of creditable service receive a retirement allowance of 1.81% of an average final compensation (based on the 4 consecutive years that produce the highest average) multiplied by the number of years of creditable service. Employees may retire with reduced benefits if they reach age 50 with 20 years of creditable service or reach age 60 with 5 years of creditable service (age 50 with 15 years creditable service for law enforcement officers).

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, 2002, these rates were set at 1.97% of covered payroll for employers and 6% of covered payroll for members.

For the year ended June 30, 2002, the Center had a total payroll of $1,136,774.32, of which $1,023,717.01 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were $61,423.02 and $20,167.24, respectively. The Center made one hundred percent of its annual required contributions for the years ended June 30, 2002, 2001, and 2000, which were $20,167.24, $54,052.76, and $80,403.75, respectively.

The Teachers' and State Employees' Retirement System's financial information is included in the State of North Carolina *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.

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 Center. The voluntary contributions by employees amounted to $7,275.00 for the year ended June 30, 2002.

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 Center except for a 5% employer contribution for the Center's law enforcement officers, which is mandated under General Statute 143-166.30(e). The voluntary contributions by employees amounted to $59,998.00 for the year ended June 30, 2002.

NOTE 8 - OTHER POSTEMPLOYMENT BENEFITS

A. **Health Care for Long-Term Disability Beneficiaries and Retirees -** The Center 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 Center 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, 2002, the Center's total contribution to the Plan was $24,057.36. The Center 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.*

B. Long-Term Disability - The Center 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 Center contributes .52% of covered payroll under the Teachers' and State Employees' Retirement System and the Optional Retirement Program to the DIPNC. For the fiscal year ended June 30, 2002, the Center's total contribution to the DIPNC was $5,323.34. The Center 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 9 - RISK MANAGEMENT

The Center 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 the Public School Insurance Fund, a State-administered public entity risk pool. This fund is financed by premiums and interest and reinsures losses greater than $10,000,000 per occurrence. The excess insurer provides property coverage up to $30,000,000 per location annually. 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.

The Center 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

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. Effective for the October 1, 2001 through September 30, 2002 year, the Plan no longer offers health coverage through HMO plans.

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 Center has no county or institutional employees; therefore, there is no additional worker's compensation insurance needed.

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 10 - 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. 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 are authorized to be issued 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 Center records the allotments as revenue on the accompanying financial statements. The Center's total authorization has been allotted as of June 30, 2002.

NOTE 11 - NORTH CAROLINA CENTER FOR APPLIED TEXTILE TECHNOLOGY FOUNDATION

The North Carolina Center for Applied Textile Technology Foundation is a separately incorporated nonprofit foundation associated with the Center. This organization serves as the primary fundraising arm of the Center through which individuals, corporations and other organizations support Center programs. The Center'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 $72,490.00 for the year ended June 30, 2002.

NOTE 12 - ACCOUNTING CHANGES

Effective July 1, 2001, the Center implemented 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 financial statement presentation required by these Statements is a single-column enterprise activity rather than the fund-group perspective previously reported. Significant accounting changes in order to comply with the new requirements include adopting depreciation on capital assets, reporting revenues net of discounts and allowances, eliminating inter-fund activities, classifying activities as operating or nonoperating, classifying assets and liabilities as current or noncurrent, and prorating summer school activities to periods earned.

In addition, the Center implemented GASB Statement No. 38, *Certain Financial Statement Note Disclosures.* New disclosures include the major components of receivable and payable balances.

NOTE 13 - NET ASSET RESTATEMENT

As referred to in Note 12, the Center implemented 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*.

July 1, 2001 Fund Equity as previously reported	$	2,664,267.80
Implementation of GASB 34/35		(235,809.85)
July 1, 2001 Net Assets as Restated	$	2,428,457.95

North Carolina Center for Applied Textile Technology
Schedule of General Obligation Bond Project Authorizations, Budgets, and Expenditures
For Project-to-Date as of June 30, 2002

Schedule 1

Capital Improvement Projects	Projected Start Date	General Obligation Bonds Authorized	Other Sources	Total Project Budget	Amount Expended	Percent Completed	Expected Completion Date
Projects Approved by the State Board							
Lab/Administration Building, Project No. 905	Feb 2002	$ 750,000.00	$ 2,437,200.00	$ 3,187,200.00	$ 2,605,340.24	81.74%	Dec 2002
Repair and Renovation, Project No. 1175	Nov 2000	29,447.00		29,447.00	29,372.91	99.75%	Oct 2002
Total All Projects		$ 779,447.00	$ 2,437,200.00	$ 3,216,647.00	$ 2,634,713.15		

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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Dr. Deborah C. Hudson	Dean of Administrative & Financial Services North Carolina Center for Applied Textile Technology
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July 25, 2003

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