STATE OF NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT OF

NORTH CAROLINA CENTER FOR APPLIED TEXTILE TECHNOLOGY

BELMONT, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2003

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR

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STATE OF NORTH CAROLINA
Office of the State Auditor

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, North Carolina Center for Applied Textile Technology

This report presents the results of our financial statement audit of North Carolina Center for Applied Textile Technology, 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 North Carolina Center for Applied Textile Technology. 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 North Carolina Center for Applied Textile Technology. 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 North Carolina Center for Applied Textile Technology.

   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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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying basic financial statements of North Carolina Center for Applied Textile Technology, 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 North Carolina Center for Applied Textile Technology 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 April 1, 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.

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.

Ralph Campbell, Jr.
State Auditor

April 1, 2004

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, 2003, with selected comparative information for the year ended June 30, 2002. This discussion has been prepared by management and should be read in conjunction with the transmittal letter, financial statements and accompanying notes which follow this section. Responsibility for the completeness and fairness of this information rests with the Center.

Basic Financial Statements

The Center's financial report includes three financial statements mandated by Governmental Accounting Standards Board (GASB) Statements 34 and 35:

- The Statement of Net Assets (Balance Sheet)
- The Statement of Revenues, Expenses, and Changes in Net Assets (Income Statement)
- The Statement of Cash Flows

These financial statements enable users to view the organization as a whole. Significant annual portions of the College's revenues, including State and institutional revenues, are considered nonoperating as defined by GASB Statements 34 and 35. Nonoperating revenues totaled $1,402,033.76[1] and $1,427,797.08[2] for the years ended June 30, 2003 and 2002, respectively. The decrease in nonoperating revenue is due to the declining balance of the capital grant for the Lab/Administration Building.

- 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 Statements 34 and 35, the accounting measurement focus now includes all economic resources and requires all capital assets to be depreciated. The College identified all capital assets and retroactively calculated depreciation in June 2002. Based on this change in accounting principle, the College recorded a depreciation of $251,387.20 for June 30, 2002, and $266,656.30 for June 30, 2003. The increase in depreciation of $15,269.10 stems from the purchase of a phone system and copier.

[1] Includes State aid ($1,400,968.51) and bank account interest earnings ($1,065.25).
[2] Includes State aid ($1,426,598.58) and bank account interest earnings ($1,198.50).

Financial Highlights

A summary of the Center's Revenues, Expenses, and Change in Net Assets:

Table 1 - Revenues, Expenses, and Changes in Net Assets

	2003	2002
Operating Revenues	$ 187,666.48	$ 220,621.05
Operating Expenses	(2,312,863.82)	(3,930,843.37)
Nonoperating Revenues	1,402,033.76	1,427,797.08
Due from Capital Grants	198,955.06	697,045.40
Decrease in Net Assets	(524,208.52)	(1,585,379.84)
Net Assets - Beginning of Year	843,078.11	2,428,457.95
Net Assets - End of Year	$ 318,869.59	$ 843,078.11

The net decrease in assets is a result of the on-going capital construction project. The State appropriation (block grant) is reflected in the nonoperating section above. In comparative terms, it would seem to the casual observer that the nonoperating expenses are unusually high for a small college. In fact, the capital construction expenses are grouped in this section. The reporting of capital construction through the expense section is due to the hybrid nature of the Center. The Center does not own (nor does the county) the buildings at the Center. The buildings are owned by the State, and as such, are reported by the Office of State Property.

Statement of Cash Flows

The Statement of Cash Flows provides additional information by reporting the major sources and uses of cash. A comparative summary of the Statement of Cash Flows for the years ended June 30, 2003 and 2002 follows:

Table 2 - Statement of Cash Flows

	2003	2002
Cash Received from Customers	$ 192,183.30	$ 226,582.14
Cash Expended from Operations:		
Employees and Fringe	(1,116,148.61)	(1,331,730.09)
Suppliers and Vendors	(1,177,114.18)	(2,559,049.75)
Net Cash Used by Operating Activities	(2,101,079.49)	(3,664,197.70)
Cash Received from Noncapital Activities (State Aid)	1,400,968.51	1,426,598.58
Net Cash Provided by Noncapital Activities	1,400,968.51	1,426,598.58
Cash Flows from Capital:		
State Capital Aid Received	498,090.34	1,528,343.13
Capital Grants Received	198,955.06	697,045.40
Cash Provided by Capital	697,045.40	2,225,388.53
Purchase of Capital Equipment	(42,091.55)	
Net Cash Provided by Capital	654,953.85	
Cash Flows from Investing Activities:		
Interest on Money Market	1,065.25	1,198.50
Net Cash Provided by Investing	1,065.25	1,198.50
Net Decrease in Cash and Cash Equivalents	(44,091.88)	(11,012.09)
Cash and Cash Equivalents (beginning balance)	124,074.39	135,086.48
Cash and Cash Equivalents (ending balance)	$ 79,982.51	$ 124,074.39

The Center's significant sources of cash provided by noncapital activity, as defined by GASB Statement 35, include State appropriations, Gaston High School Trades Program (HS Trades), Central Piedmont Community College (CPCC) pass-through grant, and book sales. Cash and cash equivalents decreased $44,091.88 due to the HS Trades project. All other categories remained stable.

Cash and cash equivalents include the fund balances as illustrated in the table below:

Table 3 - Breakdown of Cash and Cash Equivalents

Fund	2003	2002
Self-Support	$ 0.00	$ 10.22
Petty Cash	200.00	200.00
General Institution	382.54	346.49
HS Trades	63,525.38	109,369.89
CPCC Grant	2,598.76	70.33
Text Book Sales	12,111.38	13,216.18
Video/Course Certificates	65.00	100.00
Vending	1,089.23	861.28
Total	$ 79,972.29	$ 124,174.39

Operating Expenses

The 2003 Operating Expenses by Source is illustrated in the table below:

Table 4 - Operating Expenses by Source Comparison 2003 and 2002

Operating Expenses	2003	2002
Salaries and Wages	$ 1,030,120.18	$ 1,139,065.29
Fringe Benefits	87,211.26	193,847.63
Contracted Services	136,199.74	125,919.93
Supplies and Materials	465,290.30	110,078.44
Utilities	75,719.92	51,326.28
Depreciation	20,306.17	36,742.62
Total	$ 1,814,847.57	$ 1,656,980.19

The unique hybrid nature of the Center creates an accounting distinction that the other colleges do not have. The Center is owned by the State, not the county, and therefore, cannot report the buildings, thus, the building is expensed on the Center's financial statements rather than capitalized. When the building expenses are separated from other expenses, as in Table 5 below, the actual budget for the Center is clearer. Also, as an added dimension presented in 2003 in the table below, if the non-cash expenditure of accumulated depreciation is eliminated, the reader can extract more meaningful numbers of actual cash expenditures.

Table 5 - Operating Expenses by Source Comparison Less Construction Expenses

Operating Expenses	2003	2002
Salaries and Wages	$ 1,030,120.18	$ 1,139,065.29
Fringe Benefits	87,211.26	193,847.63
Contracted Services	136,199.74	125,919.93
Supplies and Materials	465,290.30	110,078.44
Utilities	75,719.92	51,326.28
Depreciation		36,742.62
Total	$ 1,794,541.40	$ 1,656,980.19

Capital Activities

The Center has recently completed the first-ever addition to the North Carolina Center for Applied Textile Technology. The $3.1 million facility houses the following:

- Five state-of-the-art training labs
- Auditorium with a 100 seats
- Fabric-testing lab
- Administrative offices

The building was funded in three phases as illustrated in the table below:

Table 6 - Construction Phases as of 6/30/2003

Planning and design	$ 437,200	Complete	1997
Construction funds	2,000,000	Complete	2002
Bond funds	750,000	75% Complete	2002
Total Project	$ 3,187,200		

Date construction began: July 2001
Actual complete date: January 2003[3]

The Textile Center took occupancy of the building in January 2003; however, the construction fund balance of $198,955.06 as of 6/2003 is expected to be expended during the fiscal year 7/2003 – 6/2004. The balance of the construction project appears on the financial statements as due from primary government.

[3] The Center formally took possession of the building in January 2003.

Analysis of Overall Financial Position

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

Assets	2003	2002
Current Assets		
Cash and Equivalents	$ 79,982.51	$ 124,074.39
Receivables, Net	5,937.09	10,453.91
Inventories	6,306.10	3,827.02
Total Current Assets	$ 92,225.70	$ 138,355.32

Cash decreased by $44,091.88 because of the decreasing balance in the HS Industrial Trades project[4]. The receivable decreased for the third consecutive year as presented below. The decrease is due to the scheduling changes made in 2002 and an ongoing attention to collections.

2001	$ 16,415.00
2002	10,453.91
2003	5,937.09

The $2,479.08 increase in inventory stems from an increase in the balance of the Pitney Bowes postage from $792.41 in 2002 to $1,920.16 in 2003. The remaining increase is the result of a slight increase in book inventory. The Center does not have a bookstore, rather, a book inventory based on upcoming classes. The Center does not sell any other supplies to students.

Assets (con't)	2003	2002
Noncurrent Assets		
Restricted Due from Primary Government	$ 198,955.06	$ 697,045.40
Capital Assets, Net	116,458.68	94,673.30
Total Noncurrent Assets	$ 315,413.74	$ 791,718.70

The restricted due from primary government classification decreased by $498,090.34. The decrease is a result of the declining balance of the capital construction project as it reaches the final stages. 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.

[4] See Footnote 5.

Table 7 - Summary of Capital Assets

Capital Assets	2003	2002
Machinery and Equipment	$ 383,114.98	$ 346,060.50
Less: Accumulated Depreciation	266,656.30	251,387.20
Capital Assets, Net	$ 116,458.68	$ 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 retroactively calculated depreciation in June 2002. In addition, the Center disposed of obsolete equipment totaling $5,037.07.

Table 8 – Liabilities

Current Liabilities	2003	2002
Accounts Payable	$ 1,818.38[5]	$ 1,222.27
Compensated Absences	86,951.47[6]	85,768.64
Total Liabilities	$ 88,769.85	$ 86,995.91

The largest liability segment stems from vacation accruals. The vacation accruals have remained relatively constant for the preceding three years, with less than a one percent increase each year. The Center has no long-term liabilities other than compensated absences.

[5] Payables consist of: $698.41 for vendors, $65.00 for tuition certificate, $1,054.97 for part-time employee.
[6] The current portion of the compensated absences is: 2003 - $13,042.72. A 15% ratio was used in the computation.

Net Assets

Net Assets	2003	2002
Invested in Capital Assets	$ 116,458.68	$ 94,673.30
Expendable:		
Capital Projects		560,041.98
Other		66,900.00
Unrestricted	202,410.91	121,462.83
Total Net Assets	$ 318,869.59	$ 843,078.11

The reduction in Net Assets stems from the building project nearing completion. As construction in progress is moved to the expense category, the result is a drop in net assets.

Economic Factors That Will Affect the Future

The MD&A report last year began with an appeal to recognize that the textile industry is not declining. That same message is given again. The *declining textile industry* is a misconception. The textile industry, as we once understood it, is indeed in decline, but there are over 175,000 workers in North Carolina working in the textile arena. 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.

The Textile Center has played a significant role in the evolving needs of the textile industry. The Center has shifted to a "research and training arena" to provide for the industry. In fact, selected members of the faculty have recently been asked to join a research project involving textiles in the medical arena, specifically, the cardiology field. Demand continues to be strong for specialized training to help Customs agents identify illegally trans-shipped goods, thus protecting the American markets from floods of illegal imports. U.S. Representatives Elizabeth Dole and Sue Myrick have expressed their thanks to the Center for our role, as well as Janet Labuda, U.S. Customs.

The elimination of trade barriers will take place in 2005. The North American markets have been hurt by the goods made with cheap labor from Asian markets. As the pressure continues for cheap goods, the textile manufacturers will have to find more specialized market niches, such as highly specialized textiles needed by the medical field and defense fields. The Textile Center's flexibility has enabled the focus to shift to meet the demand for such specialized products.

And finally, to the readers of this document, we extend to you an invitation to visit the Center. We are a state-of-the-art facility in a rapidly changing market. It is an exciting time to be in the technology arena, and we would love to have the opportunity to show you, first hand, how the Center is playing a pivotal role in the changing textile markets.

"The true wealth of a state consists in the number of its inhabitants, in their toil and industry."

North Carolina Center for Applied Textile Technology
Statement of Net Assets
June 30, 2003 — ***Exhibit A***

ASSETS		
Current Assets:		
Cash and Cash Equivalents	$	13,858.37
Restricted Cash and Cash Equivalents		66,124.14
Receivables		5,937.09
Inventories		6,306.10
Total Current Assets		92,225.70
Noncurrent Assets:		
Restricted Due from Primary Government		198,955.06
Capital Assets - Depreciable, Net (Note 3)		116,458.68
Total Noncurrent Assets		315,413.74
Total Assets		407,639.44
LIABILITIES		
Current Liabilities:		
Accounts Payable and Accrued Liabilities (Note 4)		1,818.38
Long-Term Liabilities - Current Portion (Note 5)		13,042.72
Total Current Liabilities		14,861.10
Noncurrent Liabilities:		
Long-Term Liabilities		73,908.75
Total Noncurrent Liabilities		73,908.75
Total Liabilities		88,769.85
NET ASSETS		
Invested in Capital Assets		116,458.68
Restricted for:		
Expendable:		
Capital Projects		198,955.06
Other		70.33
Unrestricted		3,385.52
Total Net Assets	$	318,869.59

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

North Carolina Center for Applied Textile Technology
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	$	96,276.09
Sales and Services		91,240.39
Other Operating Revenues		150.00
Total Operating Revenues		187,666.48
EXPENSES		
Operating Expenses:		
Personal Services		1,117,331.44
Supplies and Materials		963,306.55
Services		136,199.74
Utilities		75,719.92
Depreciation		20,306.17
Total Operating Expenses		2,312,863.82
Operating Loss		(2,125,197.34)
NONOPERATING REVENUES		
State Aid		1,400,968.51
Investment Income, Net		1,065.25
Net Nonoperating Revenues		1,402,033.76
Loss Before Other Revenues, Expenses, Gains, and Losses		(723,163.58)
Capital Grants		198,955.06
Decrease in Net Assets		(524,208.52)
NET ASSETS		
Net Assets, July 1, 2002		843,078.11
Net Assets, June 30, 2003	$	318,869.59

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

North Carolina Center for Applied Textile Technology
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2003 — ***Exhibit C***

CASH FLOWS FROM OPERATING ACTIVITIES		
Received from Customers	$	192,183.30
Payments to Employees and Fringe Benefits		(1,116,148.61)
Payments to Vendors and Suppliers		(1,177,114.18)
Net Cash Used by Operating Activities		(2,101,079.49)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State Aid Received		1,400,968.51
Net Cash Provided by Noncapital Financing Activities		1,400,968.51
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
State Capital Aid Received		498,090.34
Capital Grants Received		198,955.06
Acquisition and Construction of Capital Assets		(42,091.55)
Net Cash Provided by Capital and Related Financing Activities		654,953.85
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment Income		1,065.25
Net Cash Provided by Investing Activities		1,065.25
Net Decrease in Cash and Cash Equivalents		(44,091.88)
Cash and Cash Equivalents, July 1, 2002		124,074.39
Cash and Cash Equivalents, June 30, 2003	$	79,982.51
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating Loss	$	(2,125,197.34)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense		20,306.17
Receivables, Net		4,516.82
Inventories		(2,479.08)
Accounts Payable and Accrued Liabilities		591.11
Compensated Absences		1,182.83
Net Cash Used by Operating Activities	$	(2,101,079.49)
RECONCILIATION OF CASH AND CASH EQUIVALENTS		
Current Assets:		
Cash and Cash Equivalents	$	13,858.37
Restricted Cash and Cash Equivalents		66,124.14
Total Cash and Cash Equivalents - June 30, 2003	$	79,982.51

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

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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 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.

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 petty cash, cash on deposit with private bank accounts, savings 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 the State and local governments. No provisions 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 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.

Depreciation is computed using the straight-line and/or units of output method over the estimated useful lives of the assets, generally 15 to 17 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 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 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.

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.

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

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

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

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

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

K. **Noncurrent Long-Term Liabilities –** Noncurrent long-term liabilities include compensated absences that will not be paid within the next fiscal year.

L. **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, and (2) sales and services of auxiliary enterprises. 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.

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 $200.00. The carrying amount of cash on deposit was $79,782.51 and the bank balance was $100,236.10. 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 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, $100,000.00 of the bank balance was covered by federal depository insurance, and $236.10 was not collateralized.

NOTE 3 - 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, Depreciable:				
Machinery and Equipment	$ 346,060.50	$ 42,091.55	$ 5,037.07	$ 383,114.98
Total Capital Assets, Depreciable	346,060.50	42,091.55	5,037.07	383,114.98
Less Accumulated Depreciation:				
Machinery and Equipment	251,387.20	20,306.17	5,037.07	266,656.30
Total Accumulated Depreciation	251,387.20	20,306.17	5,037.07	266,656.30
Total Capital Assets, Depreciable, Net	94,673.30	21,785.38		116,458.68
Capital Assets, Net	$ 94,673.30	$ 21,785.38	$ 0.00	$ 116,458.68

NOTE 4 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	Amount
Accounts Payable	$ 698.41
Accrued Payroll	1,054.97
Other	65.00
Total Accounts Payable and Accrued Liabilities	$ 1,818.38

NOTE 5 - 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	$ 85,768.64	$ 87,293.86	$ 86,111.03	$ 86,951.47	$ 13,042.72
Total Long-Term Liabilities	$ 85,768.64	$ 87,293.86	$ 86,111.03	$ 86,951.47	$ 13,042.72

NOTE 6 - OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Materials	Services	Utilities	Depreciation	Total
Instruction	$ 699,902.10	$ 162,414.89	$ 65,097.27	$ 0.00	$ 0.00	$ 927,414.26
Academic Support	151,518.55	28,661.45	29,547.08			209,727.08
Institutional Support	219,975.94	15,007.50	3,776.98			238,760.42
Operations and Maintenance of Plant	45,934.85	757,222.71	37,778.41	75,719.92		916,655.89
Depreciation					20,306.17	20,306.17
Total Operating Expenses	$ 1,117,331.44	$ 963,306.55	$ 136,199.74	$ 75,719.92	$ 20,306.17	$ 2,312,863.82

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 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 $1,032,537.32, of which $979,687.32 was covered under the Teachers' and State Employees' Retirement System. Total employee contributions for pension benefits for the year were $58,781.24. 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, $20,164.24, and $54,052.76, respectively.

The Teachers' and State Employees' Retirement System's financial information is included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page http://www.osc.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 College. The voluntary contributions by employees amounted to $14,796.00 for the year ended June 30, 2003.

IRC Section 401(k) Plan - All members of the Teachers' and State Employees' Retirement System are eligible to enroll in the Supplemental Retirement Income Plan, a defined contribution plan, created under Internal Revenue Code Section 401(k). All costs of administering the Plan are the responsibility of the Plan participants. No costs are incurred by the College except for a 5% employer contribution for the College's law enforcement officers, which is mandated under General Statute 143-166.30(e). The voluntary contributions by employees amounted to $51,652.00 for the year ended June 30, 2003.

NOTE 8 - 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 $23,022.66. The College assumes no liability for retiree health care benefits provided by the programs other than its required contribution. Additional detailed information about these programs can be located in the State of North Carolina's *Comprehensive Annual Financial Report.*

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 $5,094.35. 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 9 - 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 the Public School Insurance Fund, a State-administered public entity risk pool. This fund is financed by premiums and interest and incurs a $10 million self-insured deductible per occurrence, subject to a $20 million annual aggregate. Reinsurance is purchased by the fund to cover catastrophic events in excess of the $10 million deductible. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

State-owned vehicles used for instructional purposes are covered by liability insurance handled by the State Department of Insurance.

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 Center has no county or institutional employees.

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 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 - COMMITMENTS AND CONTINGENCIES

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 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 Center records the allotments as revenue on the accompanying financial statements. The Center's total authorization has been allotted as of June 30, 2003.

NOTE 11 - THE 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 by providing funds to support the Institution. Such uses are faculty salary supplements (401K match), unrestricted funds to specific departments and the Center's overall environment. 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 $51,972.00 for the year ended June 30, 2003.

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, 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
Projects Approved by the State Board							
Capital Construction Project # 905	Feb 2002	$ 750,000.00	$ 2,437,200.00	$ 3,187,200.00	$ 3,080,556.03	96.65%	Jul 2003
Total All Projects		$ 750,000.00	$ 2,437,200.00	$ 3,187,200.00	$ 3,080,556.03		

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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STATE OF NORTH CAROLINA
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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
North Carolina Center for Applied Textile Technology
Belmont, North Carolina

We have audited the financial statements of North Carolina Center for Applied Textile Technology, 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 April 1, 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

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* (CONCLUDED)

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.

Ralph Campbell, Jr.
State Auditor

April 1, 2004

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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 Beverly M. Perdue	Lieutenant Governor of North Carolina
The Honorable Richard H. Moore	State Treasurer
The Honorable Roy A. Cooper, III	Attorney General
Mr. David T. McCoy	State Budget Officer
Mr. Robert L. Powell	State Controller
Mr. H. Martin Lancaster	President, North Carolina Community College System
Dr. James L. Lemons	President, North Carolina Center for Applied Textile Technology
Dr. Deborah C. Hudson	Dean of Financial and Administrative Services North Carolina Center for Applied Textile Technology
Mr. Max M. Huntley	Chairman, Board of Trustees North Carolina Center for Applied Textile Technology

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Mr. James D. Johnson	Director, Fiscal Research Division

June 3, 2004

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