



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, 2004

OFFICE OF THE STATE AUDITOR

LESLIE W. MERRITT, JR., CPA, CFP

STATE AUDITOR

FINANCIAL STATEMENT REVIEW REPORT OF
NORTH CAROLINA CENTER FOR APPLIED TEXTILE TECHNOLOGY
BELMONT, NORTH CAROLINA
FOR THE YEAR ENDED JUNE 30, 2004

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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 the North Carolina Center for Applied Textile Technology, a component unit of the State of North Carolina, for the year ended June 30, 2004. Our review was made by authority of Article 5A of Chapter 147 of the *North Carolina General Statutes* and was conducted in accordance with *Statements on Standards for Accounting and Review Services* issued by the American Institute of Certified Public Accountants. The objective of a review is to achieve limited assurance that there are no material modifications that should be made to the financial statements in order for the statements to be in conformity with accounting principles generally accepted in the United States of America.

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 work necessary for the CAFR and the *Single Audit Report*, the accounts and operations of the College 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 the North Carolina Center for Applied Textile Technology. As a result of our review, we are not aware of any material modifications necessary for the accompanying financial statements 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.

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.

Leslie W. Merritt, Jr.

Leslie W. Merritt, Jr., CPA, CFP
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 financial statements of the North Carolina Center for Applied Textile Technology, a component unit of the State of North Carolina, and its discretely presented component units, as of and for the year ended June 30, 2004, which collectively comprise the North Carolina Center for Applied Textile Technology's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the College's management. We did not review the financial statements of the North Carolina Center for Applied Textile Technology Foundation, Inc., which represents 100% of the College's discretely presented component unit. Those financial statements were audited by other accountants whose report thereon has been furnished to us, and our report, insofar as it relates to the amounts included for those entities, is based on the report of the other accountants.

A review consists principally of inquiries of College 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 in order for them to be in conformity with accounting principles generally accepted in the United States of America.

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, 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. 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.

INDEPENDENT ACCOUNTANT'S REVIEW REPORT (CONCLUDED)

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.

Leslie W. Merritt, Jr.

Leslie W. Merritt, Jr., CPA, CFP
State Auditor

April 8, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

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 or College*, for the year ended June 30, 2004, with selected comparative information for the year ended June 30, 2003. This discussion has been prepared by management and should be read in conjunction with the transmittal letter, financial statements and accompanying notes to the financial statements which follow this section. Responsibility for the completeness and fairness of this information rests with the Center.

Governmental Accounting Standards Board GASB Statement No. 34, issued in June 1999, represents a significant change to traditional government financial reporting standards. Accrual accounting is required for all government activities, and all capital assets are generally required to be depreciated. GASB Statement No.35 expanded the institutions covered in GASB Statement No. 34 by adding universities and colleges.

As of June 30, 2003, all institutions are required to present the Management's Discussion and Analysis in comparative format. This will represent the second year of comparative reporting.

There are six sections included in this discussion and analysis. These sections include:

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

Basic Financial Statements

The Center's financial report includes three financial statements:

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

The financial statements enable the users to view the organization as a whole. Significant annual portions of the Center's revenues, including State Aid and institutional revenues, are considered nonoperating as defined by GASB Statements No. 34/35.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Nonoperating revenues, totaled \$1,402,033.76 and \$1,428,035.44 for the years ended June 30, 2003, and 2004, respectively, and remained fairly constant (less than 2% change).

- Assets and liabilities are classified as current and noncurrent, in accordance with generally accepted accounting principles (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 No. 34/35, 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; \$266,656.30 for June 30, 2003; and \$181,666.44 for June 30, 2004. The decrease in depreciation stems from the surplus of obsolete textile equipment.

Financial Highlights

A summary of the Center's Revenues, Expenses, and Changes in Net Assets is reflected below:

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

	<u>2003</u>	<u>2004</u>
Operating Revenues	\$ 187,666.48	\$ 186,417.83
Operating Expenses	(2,312,863.82)	(1,812,866.44)
Nonoperating Revenues	1,402,033.76	1,428,035.44
Due from Capital	<u>198,955.06</u>	
Net Assets, beginning	<u>843,078.11</u>	<u>318,869.59</u>
Net Assets, ending	<u>\$ 318,869.59</u>	<u>\$ 120,456.42</u>

The net decrease in assets is a result of the on-going capital construction project. 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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 2004 follows:

Condensed Statement of Cash Flows

	2003	2004
Cash Provided (Used) by:		
Operating Activities	\$ (2,101,079.49)	\$ (1,598,790.01)
Noncapital Financing Activities	1,400,968.51	1,427,652.80
Capital and Related Financing Activities	654,953.85	190,048.68
Investing Activities	1,065.25	382.64
Net Increase (Decrease) in Cash and Cash Equivalents	(44,091.88)	19,294.11
Cash and Cash Equivalents, July 1, 2003	124,074.39	79,982.51
Cash and Cash Equivalents, June 30, 2004	\$ 79,982.51	\$ 99,276.62

The Center's cash and cash equivalents increased due to the penalty money received from a vendor in the recent capital construction project. The money will be used for utility costs. The College's significant sources of cash provided by noncapital activity include State Aid, Gaston County High School Trades Program, and book sales.

Cash and cash equivalents for June 30, 2004, include the fund balances as illustrated below:

Breakdown of Cash & Cash Equivalents

Fund	2003	2004
Petty Cash	\$ 200.00	\$ 200.00
General Institution	382.54	16,500.78
High School Trades	63,525.38	67,809.97
Central Piedmont Community College Grant	2,598.76	
Text Book Sales	12,111.38	13,814.60
Video/Course Certificates	65.00	
Vending	1,089.23	951.27
Totals	\$ 79,982.51	\$ 99,276.62

The Cash and cash equivalents increased by \$19,294.11, resulting from the increase in General Institution, and High School Trades. The decrease in the Central Piedmont Community College grant signals the completion of the grant. All other categories remained stable.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Operating Expenses

The 2004 Operating Expenses by Source is illustrated below.

Operating Expenses by Source Comparison 2003 & 2004

<u>Operating Expenses</u>	<u>2003</u>	<u>2004</u>
Salaries and wages	\$ 1,030,120.18	\$ 1,096,747.26
Fringe Benefits	87,211.26	183,951.34
Contracted Services	136,199.74	73,301.01
Supplies & Materials	963,306.55	347,616.08
Utilities	75,719.92	85,853.41
Depreciation	<u>20,306.17</u>	<u>25,397.34</u>
Total	<u>\$ 2,312,863.82</u>	<u>\$ 1,812,866.44</u>

The unique hybrid nature of the Center creates an accounting distinction that other colleges do not have. The Center's building is owned by the State, not the county; therefore, the Center cannot report the building. Thus, the building is expensed on the Center's financial statements rather than capitalized.

Capital Activities

The Center has recently completed the first-ever addition to the North Carolina Center for Applied Textile Technology. The original building was built in 1943. The \$3.1 million facility houses the following:

- Five state-of-the-art training labs
- Auditorium with a 100-seat capacity
- Fabric-testing lab
- Administrative Offices

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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

Construction Phases as of 6/30/2004

Planning and Design	\$ 437,200	Complete	1997
Construction Funds	2,000,000	Complete	2002
Bond Funds	750,000	100% Complete	2004
Total Project	\$ 3,187,200		

Date construction began: July 2001

Actual complete date: Jan 2003

The Textile Center took occupancy of the building in January 2003; however, the construction fund balance of \$198,955.06 as of June 2003, was expended during the fiscal year 2004. There are no more capital funds due from state government.

Analysis of Overall Financial Position

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

	2003	2004
Assets		
Current Assets:		
Cash and Cash Equivalents	\$ 79,982.51	\$ 99,276.62
Receivables	5,937.09	334.00
Inventories	6,306.10	4,445.24
Total Current Assets	92,225.70	104,055.86
Noncurrent Assets		
Restricted Due from Primary Government	198,955.06	
Capital Assets, Net	116,458.68	99,967.72
Total Noncurrent Assets	315,413.74	99,967.72
Total Assets	407,639.44	204,023.58
Total Liabilities	87,769.85	83,567.16
Net Assets		
Invested in Capital Assets	116,458.68	99,967.72
Restricted for:		
Expendable:		
Capital projects	198,955.06	
Other	70.33	
Unrestricted	3,385.52	20,488.70
Total Net Assets	\$ 318,869.59	\$ 120,456.42

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

Cash increased by \$19,294.11 because of the penalty money received from a vendor due to the recent finalization of the construction project. The accounts receivable decreased for the fourth consecutive year as presented below. The decrease is due to the shift away from traditional classroom-based instruction and to a services-based mission.

The \$1,860.86 decrease in inventory stems from less inventory in supplies, again the result of a shift away from classroom-based instruction to services-based mission. The restricted due from primary government classification decreased by \$198,955.06. The decrease is a result of the completion of the capital construction project. Capital assets include machinery and equipment, net of depreciation. The Center disposed of obsolete equipment totaling \$110,387.20 in 2004. 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. The reduction in the Invested in Capital Assets balance stems from the building project completion.

Economic Factors That Will Affect the Future

The biggest economic factor that will face the textile industry is the same, albeit more urgent, looming World Trade Organization (WTO) provision that will eliminate the trade barriers in 2005. Already suffering for an uneven playing field, the elimination of the barriers will tilt the economic advantage to China, yet again. 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.

The Textile Center has played a significant role in the evolving needs of the textile industry. The Center has shifted to a "research and development arena" to provide for the industry. Demand continues to be strong for specialized services such as yarn and fabric testing, market research, product analysis and development, sample processing, employee assessments, customized training, and technical assistance and services. Although the Center is administratively attached to the North Carolina Community College System, the Textile Center is no longer a traditional classroom based higher education institute. The Center is a specialized training center.

And finally, to the readers of this document – once again – 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."

Napoleon Bonaparte

North Carolina Center for Applied Textile Technology
Statement of Net Assets
June 30, 2004

Exhibit A-1

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 31,466.65
Restricted Cash and Cash Equivalents	67,809.97
Receivables	334.00
Inventories	4,445.24
	<hr/>
Total Current Assets	104,055.86

Noncurrent Assets:

Capital Assets - Depreciable, Net (Note 3)	99,967.72
	<hr/>
Total Assets	204,023.58

LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 4)	265.24
Long-Term Liabilities - Current Portion (Note 5)	12,495.29
	<hr/>
Total Current Liabilities	12,760.53

Noncurrent Liabilities:

Long-Term Liabilities	70,806.63
	<hr/>
Total Liabilities	83,567.16

NET ASSETS

Invested in Capital Assets	99,967.72
Unrestricted	20,488.70
	<hr/>
Total Net Assets	\$ 120,456.42

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, 2004***

Exhibit A-2

REVENUES

Operating Revenues:	
Student Tuition and Fees	\$ 102,606.91
Sales and Services	67,741.16
Other Operating Revenues	16,069.76
	<hr/>
Total Operating Revenues	186,417.83
	<hr/>

EXPENSES

Operating Expenses:	
Salaries and Benefits	1,280,698.60
Supplies and Materials	347,616.08
Services	73,301.01
Utilities	85,853.41
Depreciation	25,397.34
	<hr/>
Total Operating Expenses	1,812,866.44
	<hr/>
Operating Loss	(1,626,448.61)
	<hr/>

NONOPERATING REVENUES

State Aid	1,427,652.80
Investment Income, Net	382.64
	<hr/>
Net Nonoperating Revenues	1,428,035.44
	<hr/>
Decrease in Net Assets	(198,413.17)

NET ASSETS

Net Assets, July 1, 2003	318,869.59
	<hr/>
Net Assets, June 30, 2004	\$ 120,456.42
	<hr/> <hr/>

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

North Carolina Center For Applied Textile Technology Foundation, Inc.
Statement of Financial Position
June 30, 2004

Exhibit B-1

ASSETS

Cash and Cash Equivalents	\$	35,759.00
In-Kind Gifts		<u>52,431.00</u>
Total Assets		<u>88,190.00</u>

NET ASSETS

Unrestricted		<u>88,190.00</u>
Total Net Assets	\$	<u><u>88,190.00</u></u>

See Note 1 in the Notes to the Financial Statements

North Carolina Center For Applied Textile Technology Foundation, Inc.
Statement of Activities
For the Fiscal Year Ended June 30, 2004 ***Exhibit B-2***

CHANGES IN UNRESTRICTED NET ASSETS

Revenues and Gains:	
Contributions	\$ 10,350.00
Dividend/Interest Income	19.00
Special Events	3,950.00
Other	<u>600.00</u>
Total Unrestricted Revenues and Gains	<u>14,919.00</u>
Expenses and Losses:	
Community programs	6,192.00
Depreciation expense	42,665.00
Educaitional reimbursements	453.00
Association dues	711.00
Luncheons	1,662.00
Office supplies	2,125.00
Bank charges/investment expenses	30.00
Telephone/internet	50.00
Professional fees	3,821.00
Travel expense	749.00
Training	2,464.00
Special events	1,639.00
Retirement account contributions	<u>35,476.00</u>
Total Expenses	<u>98,037.00</u>
Disposal of Donated Fixed Assets	<u>36,029.00</u>
Total Expenses and Losses	<u>134,066.00</u>
Decrease in Unrestricted Net Assets	(119,147.00)
Net Assets at Beginning of Year	<u>207,337.00</u>
Net Assets at End of Year	<u><u>\$ 88,190.00</u></u>

See Note 1 in the Notes to the Financial Statements

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NORTH CAROLINA CENTER FOR APPLIED TEXTILE TECHNOLOGY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004

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 College's Board of Trustees is financially accountable. The College's component unit is discretely presented in the financial statements. The discretely presented component unit's financial date is reported in separate financial statements because of its use of different GAAP reporting models and to emphasize its legal separateness.

Discretely Presented Component Unit - The North Carolina Center for Applied Textile Technology Foundation, Inc., is a legally separate not-for-profit corporation and is reported as discretely presented component unit based on the nature and significance of their relationship to the College.

The North Carolina Center for Applied Textile Technology Foundation, Inc. (Foundation), is a legally separate, tax-exempt component unit of the College. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the College in support of its programs. The Foundation board consists of 12 members. Although the College does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, that the Foundation holds and invests are restricted to the activities of the College by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of the College, the Foundation is considered a component unit of the College and is reported in separate financial statements because of the difference in its reporting model, as described below.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The North Carolina Center for Applied Textile Technology Foundation, Inc., is a private not-for-profit organization that reports its financial results under Financial Accounting Standards Board (FASB) Statements. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information in the College's financial reporting entity for these differences.

Financial statements for the College and its discretely presented component unit are presented as of and for the fiscal year ended June 30, 2004.

During the year ended June 30, 2004, the Foundation distributed \$72,490.00 to the College for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from Gwendolyn Perkins, Acting Director (704) 825-3737 or Bill Gray, Chairman (704) 972-4470.

- 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, State sales and service fees, charges to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from state government. There is no provision for doubtful accounts reported.
- 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 one or more years.

Depreciation is computed using the straight-line method over the estimated useful life lives of the assets, generally 15 to 17 years for equipment.

- H. Restricted Assets** - Unexpended capital contributions are classified as restricted assets because their use is limited by donor/grantor agreements. Certain other assets are classified as restricted because their use is limited by external parties or statute.
- I. Noncurrent Long-Term Liabilities** - Noncurrent long-term liabilities include compensated absences that will not be paid within the next fiscal year.
- J. Compensated Absences** - The College's policy is to record the cost of vacation leave when earned. The policy provides for a maximum accumulation of unused vacation leave of 240 hours, 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 240 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 bonuses awarded by the College to all full-time permanent employees as

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

of September 30, 2002. The unused portion of this leave remains available until used, notwithstanding the limitation on annual leave carried forward described above.

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

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

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

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.

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, (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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, petty cash on hand was \$200.00. The carrying amount of cash on deposit was \$99,076.62 and the bank balance was \$104,372.28. 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, 2004, \$100,000.00 of the bank balance was covered by federal depository insurance, \$4,372.28 was not collateralized; however, the excess stemmed from expenditures in transit.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 3 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2004, is presented as follows:

	Balance July 1, 2003	Increases	Decreases	Balance June 30, 2004
Capital Assets, Depreciable:				
Machinery and Equipment	\$ 383,114.98	\$ 8,906.38	\$ 110,387.20	\$ 281,634.16
Less Accumulated Depreciation:				
Machinery and Equipment	266,656.30	25,397.34	110,387.20	181,666.44
Total Capital Assets, Depreciable, Net	<u>116,458.68</u>	<u>(16,490.96)</u>		<u>99,967.72</u>
Capital Assets, Net	<u>\$ 116,458.68</u>	<u>\$ (16,490.96)</u>	<u>\$ 0.00</u>	<u>\$ 99,967.72</u>

NOTE 4 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2004, were as follows:

	Amount
Accounts Payable	<u>\$ 265.24</u>

NOTE 5 - LONG-TERM LIABILITIES

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

	Balance July 1, 2003	Additions	Reductions	Balance June 30, 2004	Current Portion
Compensated Absences	\$ 86,951.47	\$ 76,740.22	\$ 80,389.77	\$ 83,301.92	\$ 12,495.29

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	\$ 798,740.82	\$ 129,006.98	\$ 49,355.02	\$ 0.00	\$ 0.00	\$ 977,102.82
Academic Support	175,951.86	11,431.06	5,140.39			192,523.31
Institutional Support	256,005.92	2,723.09	5,000.00			263,729.01
Operations and Maint. of Plant	50,000.00	204,454.95	13,805.60	85,853.41		354,113.96
Depreciation					25,397.34	25,397.34
Total Operating Expenses	<u>\$ 1,280,698.60</u>	<u>\$ 347,616.08</u>	<u>\$ 73,301.01</u>	<u>\$ 85,853.41</u>	<u>\$ 25,397.34</u>	<u>\$ 1,812,866.44</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 2004, these rates were set at .22% of covered payroll for employers and 6% of covered payroll for members.

For the year ended June 30, 2004, the College had a total payroll of \$1,096,747.26, of which \$1,031,538.76 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were \$61,892.32 and \$2,269.39, respectively. The College made one hundred percent of its annual required contributions for the years ended June 30, 2004, 2003, and 2002, which were \$2,639.29, \$0.00, and \$20,167.24, 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*

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 \$4,848.00 for the year ended June 30, 2004.

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 \$47,359.00 for the year ended June 30, 2004.

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 3.2% of the covered payroll under the Teachers' and State Employees' Retirement System for these health care benefits. For the fiscal year ended June 30, 2004, the College's total contribution to the Plan was \$33,009.24. 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. Employer contributions are established in the

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Appropriations Bill by the General Assembly. The College was not required to contribute to the DIPNC for the fiscal year ended June 30, 2004. 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. 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. Liability insurance for other College-owned vehicles is covered by contracts with private insurance companies.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Plan is funded by employer and employee contributions and is administered by a third-party contractor.

The State Board of Community Colleges makes the necessary arrangements to carry out the provisions of the Workers' Compensation Act which are applicable to employees whose wages are paid in whole or in part from State funds. The College has no county or institutional employees; therefore, there is no additional workers' 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

The 1999-2000 Session of the General Assembly of North Carolina authorized the issuance of \$600 million 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 College records the allotments as revenue on the accompanying financial statements. The College's total authorization has been allotted as of June 30, 2004 (see Schedule 1).

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

NOTE 11 - CHANGE IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2004, the College implemented Governmental Accounting Standards Board Statement No. 39, *Determining Whether Certain Organizations are Component Units*. This Statement amends GASB Statement No. 14, *The Financial Reporting Entity*, to provide additional guidance to determine whether certain organizations for which the College is not financially accountable should be reported as component units based on the nature and significance of their relationship to the College.

NOTE 12 SUBSEQUENT EVENTS

The North Carolina Center for Applied Textile Technology will be transferred from the Community Colleges System Office to Gaston College. This transfer becomes effective July 1, 2005, according to Senate Bill 988 of the General Assembly of North Carolina.

***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, 2004***

Schedule 1

Capital Improvement Projects	Original Projected Start Date	Revised/ Actual Start Date	General Obligation Bonds Authorized	Other Sources	Total Project Budget	Amount Expended	Percent Completed	Original Expected Completion Date	Revised/ Actual Completion Date
<i>Projects Approved by the State Board</i>									
Capital Construction Project #905	Feb 2002		<u>\$ 750,000.00</u>	<u>\$ 2,437,200.00</u>	<u>\$ 3,187,200.00</u>	<u>\$ 3,187,200.00</u>	100.00%		Jul 2003

Note: The 1999-2000 Session of the General Assembly of North Carolina authorized the issuance of \$600 million 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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June 29, 2005

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