STATE OF
NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT OF

FAYETTEVILLE TECHNICAL COMMUNITY COLLEGE

FAYETTEVILLE, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2005

OFFICE OF THE STATE AUDITOR

LESLIE W. MERRITT, JR., CPA, CFP

STATE AUDITOR

FINANCIAL STATEMENT AUDIT REPORT OF

FAYETTEVILLE TECHNICAL COMMUNITY COLLEGE

FAYETTEVILLE, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2005

STATE OF NORTH CAROLINA
Office of the State Auditor

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

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601
Telephone: (919) 807-7500
Fax: (919) 807-7647
Internet
http://www.ncauditor.net

AUDITOR'S TRANSMITTAL

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

We have completed a financial statement and compliance audit of Fayetteville Technical Community College for the year ended June 30, 2005, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

Our consideration of internal control over financial reporting and compliance and other matters based on an audit of the financial statements and our consideration of the College's administration of federal programs in accordance with applicable laws, regulations, contracts and grants resulted in no audit findings.

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.

Leslie W. Merritt, Jr.

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

June 21, 2006

TABLE OF CONTENTS

STATE OF NORTH CAROLINA
Office of the State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601
Telephone: (919) 807-7500
Fax: (919) 807-7647
Internet
http://www.ncauditor.net

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

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Fayetteville Technical Community College
Fayetteville, North Carolina

We have audited the accompanying basic financial statements of Fayetteville Technical Community College, a component unit of the State of North Carolina, as of and for the year ended June 30, 2005, 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Fayetteville Technical Community College as of June 30, 2005, 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.

As discussed in Note 16 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures,* during the year ended June 30, 2005.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 30, 2006, 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 grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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. 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.

Leslie W. Merritt, Jr.

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

May 30, 2006

FAYETTEVILLE TECHNICAL COMMUNITY COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS

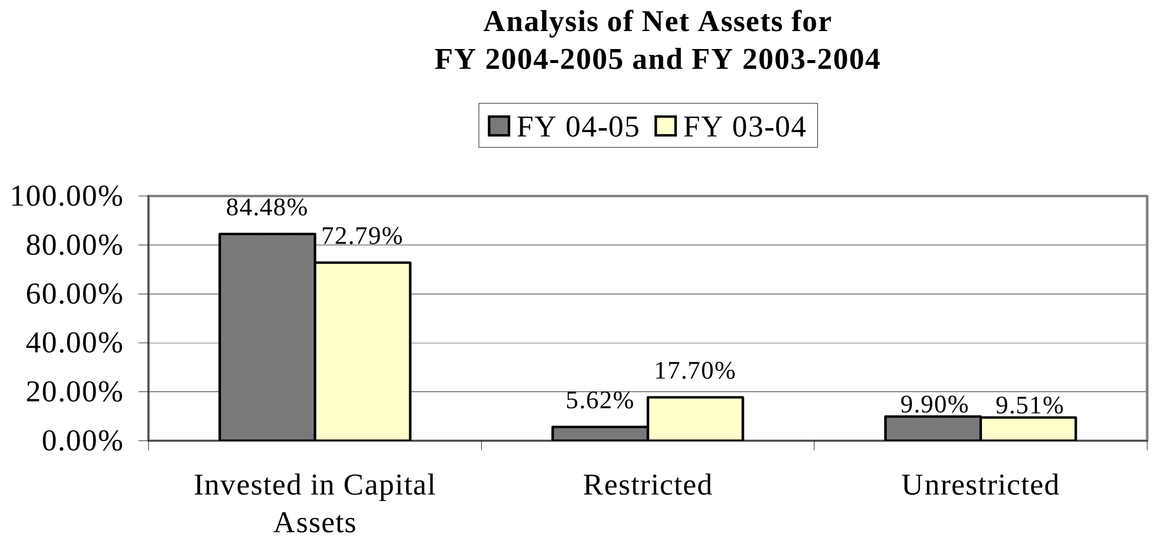
This section of Fayetteville Technical Community College's (FTCC's) Financial Statements presents management's discussion and analysis of the College's financial activity during the fiscal years June 30, 2005, and June 30, 2004. This management's discussion and analysis is designed to focus on current activities, resulting change, and currently known facts. Please read it in conjunction with the College's basic financial statements and the notes to the financial statements.

Using This Annual Report

The College's basic financial statements are designed to emulate corporate presentation models whereby all College activities are consolidated into one total. The focus of the Statement of Net Assets is designed to be similar to bottom line results for the College. This statement combines and consolidates current financial resources (short-term spendable resources) with capital assets. The Statement of Revenues, Expenses, and Changes in Net Assets focuses on both the gross and the net costs of College activities, which are supported mainly by State funds, county appropriations and other revenues. This approach is intended to summarize and simplify the user's analysis of the cost of various College services to students and the public. For the fiscal year ended June 30, 2005, the College implemented Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures*.

Financial Highlights

As of June 30, 2005, the College's net assets have increased to $59,843,871.69 from $53,688,675.77 at June 30, 2004. This increase of $6,155,195.92 is due primarily to an increase in tuition and investment in capital assets. The tuition rate increased in fiscal year (FY) 2004-2005 7.04% over FY 2003-2004; however, the enrollment (total full time equivalents (FTE)) was flat with an increase of .10%. Total net assets as of June 30, 2005, consist of investments in capital assets (84.48%), restricted net assets (5.62%), and unrestricted net assets (9.90%). The following is a graphic illustration of net assets.



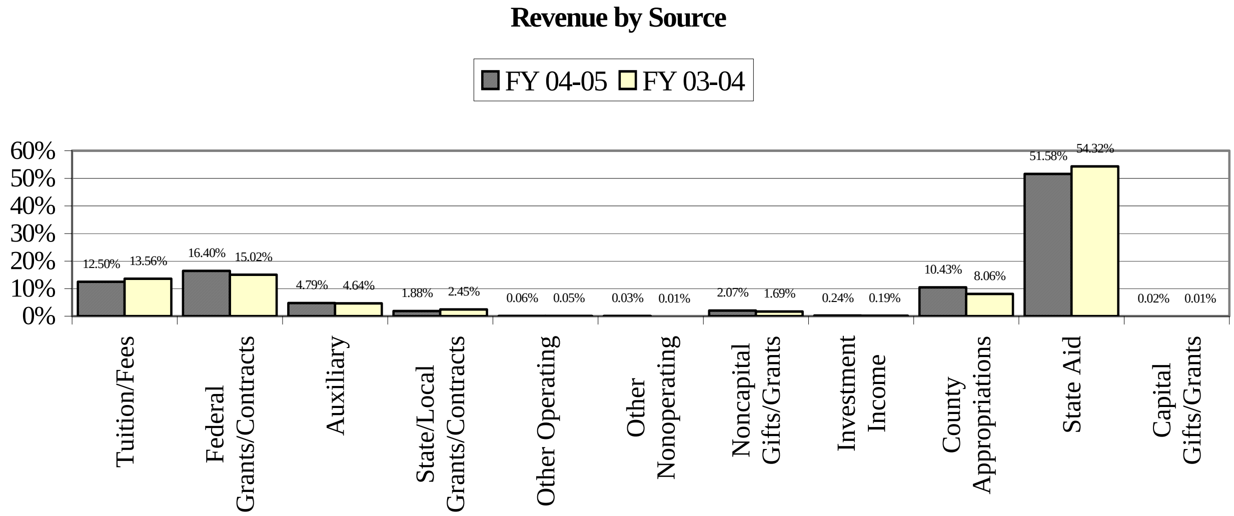
As of June 30, 2005, the College had recorded $70,641,880.35 in invested in capital assets, $20,083,837.79 in accumulated depreciation, and $50,558,042.56 in net capital assets.

In noncurrent liabilities, long-term liabilities consist of the long-term portion of compensated absences. Total compensated absences include the balance of regular earned annual leave plus the balance of bonus leave with benefits for all full-time employees. The balance of bonus leave with benefits is $1,496,258.89 at June 30, 2005, which is a decrease of 4.84% from the prior year. Current accounts payable and accrued liabilities increased primarily due to an increase in contracts payable for capital projects. Furthermore, prepaid items decreased due to a time shortage at the end of the fiscal year. Additionally, the time frame for recording payables was for a longer period as compared to the previous year due to preparing for the implementation of the Accounts Receivable/Cash Receipts module in the new Computer Information System.

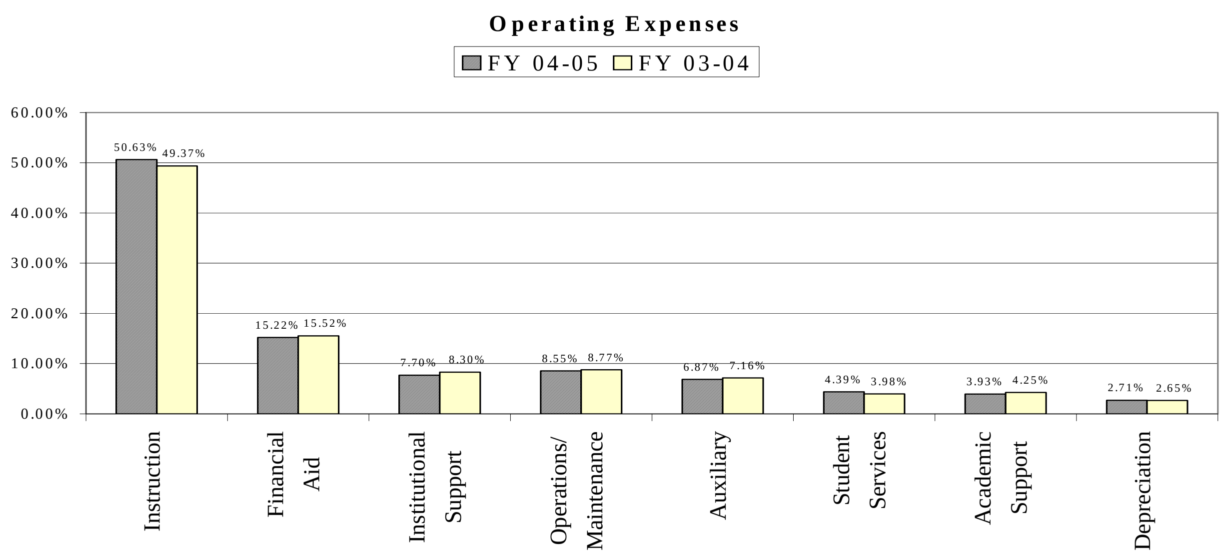
Condensed Statement of Net Assets

	2005	2004	Increase/ (Decrease)	Percent Change
ASSETS				
Current Assets	$ 10,016,156.20	$ 10,460,234.23	$ (444,078.03)	(4.25) %
Noncurrent Assets:				
Capital	50,558,042.56	39,080,992.63	11,477,049.93	29.37 %
Other	5,329,414.14	9,379,666.31	(4,050,252.17)	(43.18) %
Total Assets	65,903,612.90	58,920,893.17	6,982,719.73	11.85 %
LIABILITIES				
Current Liabilities	2,390,065.96	1,365,035.34	1,025,030.62	75.09 %
Noncurrent Liabilities	3,669,675.25	3,867,182.06	(197,506.81)	(5.11) %
Total Liabilities	6,059,741.21	5,232,217.40	827,523.81	15.82 %
NET ASSETS				
Invested in Capital Assets	50,558,042.56	39,080,992.63	11,477,049.93	29.37 %
Restricted	3,362,116.08	9,500,769.20	(6,138,653.12)	(64.61) %
Unrestricted	5,923,713.05	5,106,913.94	816,799.11	15.99 %
Total Net Assets	$ 59,843,871.69	$ 53,688,675.77	$ 6,155,195.92	11.46 %

Operating revenues at June 30, 2005, included an increase in the federal Pell grant program servicing 4,460 students. The number of Pell students in FY 2004-2005 increased by 4.57% over the FY 2003-2004. The Pell award increased 9.52% over the previous year, going from $10,499,575.76 in FY 2003-2004 to $11,507,950.73 in FY 2004-2005. State and local grants and contracts decreased primarily as the result of the elimination of the Smart Start Education Training and Wage Enhancements Grant. Total revenues are $73,316,258.62. The following is a graphic illustration of revenues by source.



Operating expenses in FY 2004-2005 were greater than FY 2003-2004. This increase was caused primarily by an increase in salaries and benefits (13.84%). All full-time employees received the greater of 3.50% or $1,000.00, plus an additional 2.00% raise and a performance funding bonus of $750.00. Additionally, the employer contribution rate payable for members of the Teachers' and State Employees' Retirement System increased from 3.42% in FY 2003-2004 to 5.82% in FY 2004-2005. The following is a graphic illustration of operating expenses.

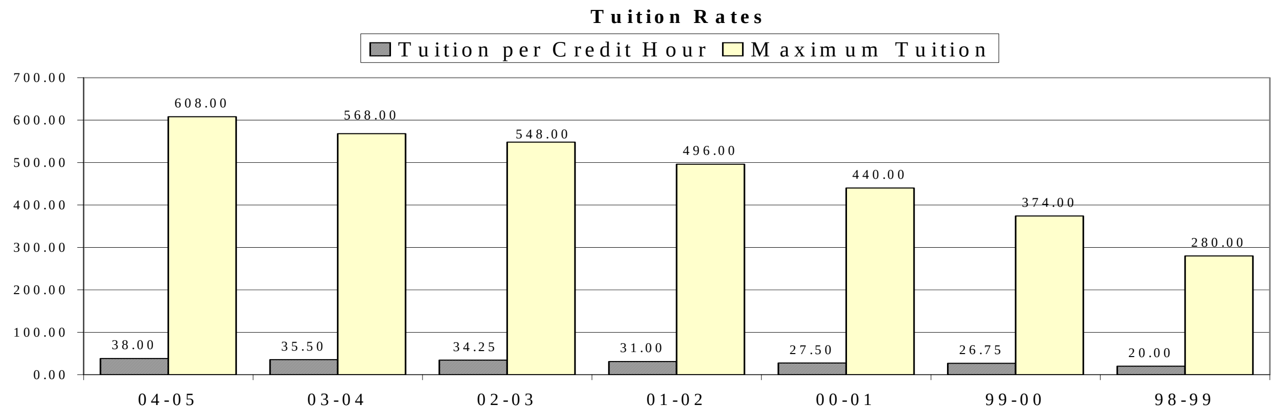


Total operating expenses at June 30, 2005, were $67,161,062.70; at June 30, 2004, they were $62,253,553.04, resulting in a 7.88% increase from the FY 2003-2004.

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

	2005	2004	Increase/ (Decrease)	Percent Change
OPERATING REVENUES				
Student Tuition and Fees, Net	$ 9,167,071.96	$ 9,903,067.89	$ (735,995.93)	(7.43) %
Grants and Contracts	13,403,443.06	12,759,765.52	643,677.54	5.04 %
Sales and Services, Net	3,512,718.54	3,387,485.39	125,233.15	3.70 %
Other Operating Revenues	41,019.67	36,159.45	4,860.22	13.44 %
Net Operating Revenues	26,124,253.23	26,086,478.25	37,774.98	0.14 %
OPERATING EXPENSES	67,161,062.70	62,253,553.04	4,907,509.66	7.88 %
Operating Loss	(41,036,809.47)	(36,167,074.79)	(4,869,734.68)	13.46 %
NONOPERATING REVENUES				
State Aid	30,490,157.80	26,016,323.73	4,473,834.07	17.20 %
County Appropriations	6,646,823.00	5,891,481.00	755,342.00	12.82 %
Noncapital Grants and Gifts	1,519,338.34	1,232,876.39	286,461.95	23.24 %
Investment Income	179,475.53	141,681.47	37,794.06	26.68 %
Other Nonoperating Revenues	18,348.66	8,674.49	9,674.17	111.52 %
Total Nonoperating Revenues	38,854,143.33	33,291,037.08	5,563,106.25	16.71 %
Loss Before Other Revenues	(2,182,666.14)	(2,876,037.71)	693,371.57	(24.11) %
Capital Contributions	8,336,742.81	13,678,751.38	(5,342,008.57)	(39.05) %
Additions to Endowments	1,119.25	1,284.25	(165.00)	(12.85) %
Total Other Revenues	8,337,862.06	13,680,035.63	(5,342,173.57)	(39.05) %
Total Increase in Net Assets	6,155,195.92	10,803,997.92	(4,648,802.00)	(43.03) %
NET ASSETS				
Beginning of Year	53,688,675.77	42,884,677.85	10,803,997.92	25.19 %
End of Year	$ 59,843,871.69	$ 53,688,675.77	$ 6,155,195.92	11.46 %

As the State's economy took a downturn and a search for increased revenues continued, the General Assembly increased the State tuition for in-State students for Fall 2004 from $35.50 per credit hour to $38.00 per credit hour, a 7.04% increase. The out-of-State tuition changed from $197.00 per credit hour to $211.00 per credit hour, a 7.11% increase. Over the last three years, the State tuition has increased approximately 22.58%. Over the last six years, tuition has increased approximately 90.00%.



As mentioned previously, the College receives funding from county and State sources. County Appropriations increased from $5,891,481.00 in FY 2003-2004 to $6,646,823.00 in FY 2004-2005, a 12.82% increase. The county capital outlay budget for FY 2003-2004 was $500,000.00. However, the amount awarded was not recognized as revenue at June 30, 2004, because a contract for the expense was not yet awarded. The contract was subsequently awarded and $500,000.00 was recognized as county revenue in FY 2004-2005. An additional capital outlay project was awarded in FY 2004-2005 and revenue of $500,000.00 was recognized.

The FTEs that generate the College's State budget (budget FTEs) increased overall from FY 2003-2004 to FY 2004-2005:

	2004-2005	**2003-2004**	**% Increase (Decrease)**
Curriculum	$ 7,502	$ 6,848	9.55 %
Occupational Extension	1,289	1,318	(2.20) %
Basic Skills	1,123	1,000	12.30 %
Total	$ 9,914	$ 9,166	8.16 %

Along with the increased budget FTEs, the headcount or enrollment for FY 2004-2005 also increased. The headcount for Fall 2003 per December count was 10,142 and in 2004 the headcount was 10,181, a very slight increase. At the June 2005 graduation, 1,072 students graduated, an increase of 79 over the previous year. To add to the difficult situation of funding education for more students with less budget, the State required the colleges to revert 1.75% of their individual college's budget. For FTCC this amount was $582,769.00. All colleges were requested to hold 2.00% for possible reversions.

New programs offered in the FY 2004-2005 year were Criminal Justice Technology, Emergency Preparedness Technology, and Fire Protection Technology. Additionally, the following programs are slated for termination for the FY 2005-2006: Electronic Servicing Technology, Industrial Systems Technology, Mechanical Drafting Technology, Cabinetmaking (Diploma), and Masonry (Diploma).

FTCC continues to promote the advancement of technology in the classroom to prepare students for the future. The distance learning program enables students to take online courses anytime and anywhere using the Internet. FTCC served a total of 17,231 students (duplicated) at a distance in FY 2004-2005, an increase of 4.49% over FY 2003-2004. Online occupational extension course participants included 17,146 curriculum students (duplicated) and 85 continuing education students (duplicated).

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

	2004-2005	2003-2004	2002-2003	2001-2002	2000-2001
January	5.8%	5.1%	5.9%	6.7%	5.1%
February	6.2%	5.1%	5.5%	6.5%	5.5%
March	5.5%	4.2%	5.3%	6.9%	5.0%
April	5.6%	4.1%	5.3%	6.3%	4.9%
May	5.5%	4.4%	5.1%	6.8%	5.0%
June	6.4%	4.9%	6.0%	6.8%	5.7%

As the College's enrollment grows, so do its facilities to accommodate our students. The Spring Lake Center provides services to students at Fort Bragg, Pope Air Force Base, and the northern part of Cumberland County. The 69,973 square foot two-story building houses classrooms, labs, shops, faculty, and administrative offices to accommodate both Curriculum and Continuing Education students. The project was completed in FY 2004-2005 with the dedication held Fall 2005. Classes began in this location in Fall 2004.

The Virtual College Center opened in Fall 2005 in response to the fast-paced changes in technology. The 48,000 square foot center will meet the economic growth needs of our region as well as reinforce the College's future growth in technology and education. The building was dedicated in October 2005.

The Horticulture Educational Center houses an on-site laboratory for FTCC's Horticulture Technology Program. The 22,536 square foot center provides for on-site student training needs while simultaneously maintaining the garden and serving the community. The groundbreaking was held on March 14, 2004, and the project was completed in Fall 2005. Classes began in Spring 2006.

Additionally, at the July 19, 2002, State Board of Community Colleges meeting, the Board approved Project #1131 – Horace Sisk and Lafayette Hall Classroom Building Renovations. The estimated cost of this project is $3,402,185.00 and the funding source will be State bond renovation monies. The completion of this project is scheduled for Fall 2006.

The State Board of Community Colleges also approved Project #1211 – Central Mechanical Replacement – Horace Sisk Building. This mechanical replacement project is taking place concurrently with Project #1131, discussed above. The estimated cost of this project is $1,581,100.00. This project is funded with $1,259,969.00 from county capital funds and $321,131.00 from State bond renovation funds. This project is scheduled for completion in Fall 2006.

Several future projects were approved by the State Board to be funded by general obligation bonds. These projects include the following: Criminal Justice Center Plumbing, Mechanical and Electrical, Student Center Roof Replacement, Cumberland Hall Roof Replacement, Bundled Repair and Renovation 2005, Furr Property along Fort Bragg Road, and Administration Building Renovations.

Economic Forecast

On the State level the economy is beginning to reflect a recovery. For the first three months of FY 2005-2006, State revenues are running $36.8 million ahead of the $3.9 billion target for the period. This represents a surplus of .94%. In terms of collections growth, baseline General Fund revenues are up 6.2% versus the budget forecast of 5.3%. If the trend continues, the revenue surplus for the year could be around $160 million. However, December and April are the major tax collection months with sales tax and income tax collections, respectively. Until these collections come in, the state of the economy is still unclear.

Over the past several years the State has written up receipts collections in order to make the desired budget. Because the receipts have not been realized, it has led to a deficit in receipts collections for the Community College System. The end result has been budget reversions for the individual colleges. We are told to expect a 2.00% reversion in FY 2005-2006. This limits the College in hiring additional faculty and staff and limits the salary increases available to current employees.

The improving economic outlook has a direct impact on the improvement in the unemployment rates in Cumberland County. As of June 2005 the unemployment rate was 6.4% and in September 2004 the rate was 5.8%, an improvement of .6%.

The College will update its 10-year Facilities Master Plan in FY 2005-2006. The updated plan will position the College to continue its drive for excellence and will insure readiness for any additional bond referendum in the near future.

Management believes that the College's financial condition is strong and that the College is well positioned to serve the needs of the local students, the county and the State.

Fayetteville Technical Community College
Statement of Net Assets
June 30, 2005 — *Exhibit A-1*

ASSETS		
Current Assets:		
Cash and Cash Equivalents	$	8,698,841.18
Restricted Cash and Cash Equivalents		120,717.75
Receivables (Note 4)		691,726.97
Inventories		451,729.21
Prepaid Items		23,373.64
Notes Receivable, Net (Note 4)		29,767.45
Total Current Assets		10,016,156.20
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		1,612,619.37
Receivables (Note 4)		367,715.89
Restricted Due from Primary Government		3,349,078.88
Capital Assets - Nondepreciable (Note 5)		14,919,576.17
Capital Assets - Depreciable, Net (Note 5)		35,638,466.39
Total Noncurrent Assets		55,887,456.70
Total Assets		65,903,612.90
LIABILITIES		
Current Liabilities:		
Accounts Payable and Accrued Liabilities (Note 6)		1,819,316.55
Deferred Revenue		17,275.97
Funds Held for Others		98,748.34
Long-Term Liabilities - Current Portion (Note 7)		454,725.10
Total Current Liabilities		2,390,065.96
Noncurrent Liabilities:		
Funds Held for Others		1,465,189.22
Long-Term Liabilities (Note 7)		2,204,486.03
Total Noncurrent Liabilities		3,669,675.25
Total Liabilities		6,059,741.21
NET ASSETS		
Invested in Capital Assets		50,558,042.56
Restricted for:		
Nonexpendable Other		39,050.00
Expendable:		
Scholarships and Fellowships		11,006.33
Loans		207,441.92
Capital Projects		3,083,422.44
Other		21,195.39
Unrestricted		5,923,713.05
Total Net Assets	$	59,843,871.69

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

Fayetteville Technical Community College
Statement of Revenues, Expenses, and Changes in Net Assets
For the Fiscal Year Ended June 30, 2005

Exhibit A-2

REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net (Note 9)	$	9,167,071.96
Federal Grants and Contracts		12,023,075.04
State and Local Grants and Contracts		1,380,368.02
Sales and Services, Net (Note 9)		3,512,718.54
Other Operating Revenues		41,019.67
Net Operating Revenues		26,124,253.23
EXPENSES		
Operating Expenses:		
Salaries and Benefits		41,284,720.10
Supplies and Materials		7,845,007.72
Services		5,086,757.28
Scholarships and Fellowships		10,090,818.20
Utilities		1,036,906.48
Depreciation		1,816,852.92
Total Operating Expenses		67,161,062.70
Operating Loss		(41,036,809.47)
NONOPERATING REVENUES		
State Aid		30,490,157.80
County Appropriations		6,646,823.00
Noncapital Grants		1,225,150.54
Noncapital Gifts		294,187.80
Investment Income, Net		179,475.53
Other Nonoperating Revenues		18,348.66
Net Nonoperating Revenues		38,854,143.33
Loss Before Other Revenues		(2,182,666.14)
State Capital Aid		7,323,589.71
County Capital Appropriations		1,000,000.00
Capital Grants		13,153.10
Additions to Endowments		1,119.25
Increase in Net Assets		6,155,195.92
NET ASSETS		
Net Assets, July 1, 2004		53,688,675.77
Net Assets, June 30, 2005	$	59,843,871.69

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

Fayetteville Technical Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2005 — *Exhibit A-3*

CASH FLOWS FROM OPERATING ACTIVITIES	
Received from Customers	$ 26,154,126.32
Payments to Employees and Fringe Benefits	(41,196,063.56)
Payments to Vendors and Suppliers	(13,871,760.98)
Payments for Scholarships and Fellowships	(10,090,818.20)
Loans Issued to Students	(282,185.00)
Collection of Loans to Students	260,655.61
Other Receipts	143,861.12
Net Cash Used by Operating Activities	(38,882,184.69)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Aid Received	30,490,157.80
County Appropriations	6,646,823.00
Noncapital Grants Received	1,191,361.45
Noncapital Gifts and Endowments Received	205,154.83
Cash Provided by Noncapital Financing Activities	38,533,497.08
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
State Capital Aid Received	11,879,106.52
County Capital Appropriations	1,000,000.00
Capital Grants Received	853,363.47
Proceeds from Sale of Capital Assets	31,372.07
Acquisition and Construction of Capital Assets	(12,620,204.26)
Net Cash Provided by Capital and Related Financing Activities	1,143,637.80
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment Income	186,102.96
Cash Provided by Investing Activities	186,102.96
Net Increase in Cash and Cash Equivalents	981,053.15
Cash and Cash Equivalents, July 1, 2004	9,451,125.15
Cash and Cash Equivalents, June 30, 2005	$ 10,432,178.30
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES	
Operating Loss	$ (41,036,809.47)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities	
Depreciation Expense	1,816,852.92
Provision for Uncollectible Loans and Write-Offs	13,242.02
Miscellaneous Nonoperating Income	18,348.66
Changes in Assets and Liabilities:	
Receivables	29,873.09
Inventories	15,707.32
Prepaid Items	69,524.79
Notes Receivable, Net	(21,529.39)
Accounts Payable and Accrued Liabilities	100,635.81
Funds Held for Others	125,512.46
Compensated Absences	(13,542.90)
Net Cash Used by Operating Activities	$ (38,882,184.69)

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:		
Cash and Cash Equivalents	$	8,698,841.18
Restricted Cash and Cash Equivalents		120,717.75
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		1,612,619.37
Total Cash and Cash Equivalents - June 30, 2005	$	10,432,178.30

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through Assumption of a Liability	$	705,070.66

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

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity - The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their constituents for their actions. As required by accounting principles generally accepted in the United States of America, the financial reporting entity includes both the primary government and all of its component units. An organization other than a primary government serves as a nucleus for a reporting entity when it issues separate financial statements. Fayetteville Technical Community College is a component unit of the State of North Carolina and an integral part of the State's *Comprehensive Annual Financial Report*.

The accompanying financial statements present all funds for which the College's Board of Trustees is financially accountable. Related foundations and similar nonprofit corporations for which the College is not financially accountable or for which the nature of their relationship is not considered significant to the College are not part of the accompanying financial statements.

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 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 undeposited receipts, petty cash, cash on deposit with private bank accounts, and deposits held by the State Treasurer in the short-term investment portfolio. The short-term investment portfolio maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.

E. **Receivables –** Receivables consist of tuition and fees charged to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from the federal government, State and local governments, and private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants. Receivables are shown at book value with no provision for doubtful accounts considered necessary. Notes receivables are recorded net of estimated uncollectible amounts.

F. **Inventories –** Inventories, consisting of expendable supplies and merchandise for resale, are stated at the lower of cost or market value using the first-in, first-out method.

G. **Capital Assets –** Capital assets are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. The College capitalizes assets that have a value or cost in excess of $5,000 at the date of acquisition and an expected useful life of more than one year. Library books are generally not considered to have a useful life of more than one year unless part of a collection and are expensed in the year of acquisition.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 10 to 75 years for general infrastructure, 10 to 50 years for buildings, and 2 to 25 years for equipment.

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

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

J. **Compensated Absences** - The College's policy is to record the cost of vacation leave when earned. The policy provides for a maximum accumulation of unused vacation leave of 30 days which can be carried forward each July 1 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 30 equals the leave carried forward at the previous June 30 plus the leave earned, less the leave taken between July 1 and June 30.

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 of September 30, 2002, and as of July 1, 2003. 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.

Restricted Net Assets – Nonexpendable – Nonexpendable restricted net assets include endowments and similar type assets whose use is limited by donors or other outside sources, and, as a condition of the gift, the principal is to be maintained in perpetuity.

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

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

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

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

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

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

N. **Internal Sales Activities –** Certain institutional auxiliary operations provide goods and services to College departments, as well as to its customers. These institutional auxiliary operations include activities such as central stores. In addition, the College has other miscellaneous sales and service units that operated either on a reimbursement or charge basis. All internal sales activities to College departments from auxiliary operations and sales and service units have been eliminated in the accompanying financial statements. These eliminations are recorded by removing the revenue and expense in the auxiliary operations and sales and service units and, if significant, allocating any residual balances to those departments receiving the goods and services during the year.

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

NOTE 2 - DEPOSITS

All funds of the College are deposited in board-designated official depositories and are required to be collateralized in accordance with *North Carolina 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. Also, the College may establish time deposit accounts, money market accounts, and certificates of deposit. The amount shown on the Statement of Net Assets as cash and cash equivalents includes cash on hand totaling $5,210.00, and deposits in private financial institutions with a carrying value of $5,078,492.47 and a bank balance of $5,625,512.33.

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.

Custodial credit risk is the risk that in the event of a bank failure, the College's deposits may not be returned to it. As of June 30, 2005, the College's bank balance in excess of federal depository insurance coverage was covered under the pooling method.

The College is authorized to invest idle funds as provided by G.S. 115D-58.6. In accordance with this statute, the College and the Board of Trustees manage investments to ensure they can be converted into cash when needed.

Generally, funds belonging to the College may be invested in the form of investments pursuant to G.S. 159-30(c), as follows: a commingled investment pool established and administered by the State Treasurer pursuant to G.S. 147-69.3, obligations of or fully guaranteed by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain nonguaranteed federal agencies; prime quality commercial paper bearing specified ratings and banker's acceptances; The North Carolina Capital Management Trust, an SEC registered mutual fund; repurchase agreements; and evidences of ownership of, or fractional undivided interests in, future interest and principal payments on either direct obligations of or fully guaranteed by the United States government, which are held by a specified bank or trust company or any state in the capacity.

At June 30, 2005, the amount shown on the Statement of Net Assets as cash and cash equivalents includes $5,348,475.83, which represents the College's equity position in the State Treasurer's Short-Term Investment Fund. The Short-Term Investment Fund (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission and does not have a credit rating) had a weighted average maturity of 1.41 years as of June 30, 2005. Assets and shares of the Short-Term Investment Fund are valued at amortized cost, which approximates fair value. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's Short-Term Investment Fund) 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.ncosc.net/ and clicking on "Financial Reports," or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

NOTE 3 - DONOR RESTRICTED ENDOWMENTS

The College's endowment assets are pooled with State agencies and similar institutions in short-term investments with the State Treasurer's Cash and Investment Pool and are reported as restricted cash and cash equivalents – noncurrent on the accompanying financial statements. If a donor has not provided specific instructions, State law permits the Board of Trustees to authorize for expenditure the net appreciation, realized and unrealized, of the assets of the endowment funds. Annual payouts from the College's endowment funds are based on an adopted spending policy, which limits spending to 100% of the interest earnings unless the donor has stipulated otherwise. At June 30, 2005, net appreciation of $1,119.25 was available to be spent, all of which was restricted to specific purposes.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2005, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	$ 439,784.04	$ 0.00	$ 439,784.04
Accounts	220,219.55		220,219.55
Intergovernmental	7,376.41		7,376.41
Investment Earnings	5,520.06		5,520.06
Other	18,826.91		18,826.91
Total Current Receivables	$ 691,726.97	$ 0.00	$ 691,726.97
Noncurrent Receivables:			
Intergovernmental	$ 367,715.89	$ 0.00	$ 367,715.89
Notes Receivable:			
Notes Receivable - Current:			
Federal Loan Programs	$ 891.15	$ 891.15	$ 0.00
Institutional Student Loan Programs	63,378.65	33,611.20	29,767.45
Total Notes Receivable - Current	$ 64,269.80	$ 34,502.35	$ 29,767.45

NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2005, is presented as follows:

	Balance July 1, 2004	Adjustments	Increases	Decreases	Balance June 30, 2005
Capital Assets, Nondepreciable:					
Land	$ 2,045,492.73	0.00	$ 123,750.00	$ 0.00	$ 2,169,242.73
Construction in Progress	9,044,222.85	(7,834,688.81)	11,540,799.40		12,750,333.44
Total Capital Assets, Nondepreciable	11,089,715.58	(7,834,688.81)	11,664,549.40		14,919,576.17
Capital Assets, Depreciable:					
Buildings	36,939,363.99	7,834,688.81	570,173.99		45,344,226.79
Machinery and Equipment	8,816,044.54		1,090,551.53	531,539.80	9,375,056.27
General Infrastructure	1,003,021.12				1,003,021.12
Total Capital Assets, Depreciable	46,758,429.65	7,834,688.81	1,660,725.52	531,539.80	55,722,304.18
Less Accumulated Depreciation:					
Buildings	11,967,385.52		1,036,023.71		13,003,409.23
Machinery and Equipment	5,934,273.72		673,056.01	500,167.73	6,107,162.00
General Infrastructure	865,493.36		107,773.20		973,266.56
Total Accumulated Depreciation	18,767,152.60		1,816,852.92	500,167.73	20,083,837.79
Total Capital Assets, Depreciable, Net	27,991,277.05	7,834,688.81	(156,127.40)	31,372.07	35,638,466.39
Capital Assets, Net	$ 39,080,992.63	0.00	$ 11,508,422.00	$ 31,372.07	$ 50,558,042.56

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2005, were as follows:

	Amount
Accounts Payable	$ 958,042.98
Accrued Payroll	322,901.93
Contract Retainage	531,147.89
Other	7,223.75
Total Accounts Payable and Accrued Liabilities	$ 1,819,316.55

NOTE 7 - LONG-TERM LIABILITIES

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

	Balance July 1, 2004	Additions	Reductions	Balance June 30, 2005	Current Portion
Compensated Absences	$ 2,672,754.03	$ 1,198,608.23	$ 1,212,151.13	$ 2,659,211.13	$ 454,725.10

NOTE 8 - OPERATING LEASE OBLIGATIONS

Rental expense for all operating leases during the year was $5,385.00.

NOTE 9 - REVENUES

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

	Gross Revenues	Internal Sales Eliminations	Less Scholarship Discounts	Net Revenues
Operating Revenues:				
Student Tuition and Fees	$ 11,812,745.22	$ 0.00	$ 2,645,673.26	$ 9,167,071.96
Sales and Services:				
Sales and Services of Auxiliary Enterprises:				
Dining	$ 351,872.27	$ 0.00	$ 0.00	$ 351,872.27
Bookstore	3,975,468.93	9,619.76	1,572,996.59	2,392,852.58
Other	746,458.18			746,458.18
Sales and Services of Education and Related Activities	21,535.51			21,535.51
Total Sales and Services	$ 5,095,334.89	$ 9,619.76	$ 1,572,996.59	$ 3,512,718.54

NOTE 10 - OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	$ 30,072,731.93	$ 2,113,201.98	$ 1,819,373.69	$ 0.00	$ 0.00	$ 0.00	$ 34,005,307.60
Academic Support	1,013,787.31	1,471,473.35	151,617.67				2,636,878.33
Student Services	2,645,811.59	181,663.75	121,385.17				2,948,860.51
Institutional Support	3,617,440.89	345,590.56	1,210,970.84				5,174,002.29
Operations and Maintenance of Plant	2,878,126.80	279,481.83	1,544,608.99		1,036,906.48		5,739,124.10
Student Financial Aid	119,883.40		13,092.02	10,090,818.20			10,223,793.62
Auxiliary Enterprises	936,938.18	3,453,596.25	225,708.90				4,616,243.33
Depreciation						1,816,852.92	1,816,852.92
Total Operating Expenses	$ 41,284,720.10	$ 7,845,007.72	$ 5,086,757.28	$ 10,090,818.20	$ 1,036,906.48	$ 1,816,852.92	$ 67,161,062.70

NOTE 11 - PENSION PLANS

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

Benefit and contribution provisions for the Teachers' and State Employees' Retirement System are established by *North Carolina General Statutes* 135-5 and 135-8 and may be amended only by the North Carolina General Assembly. Employer and member contribution rates are set each year by the North Carolina General Assembly based on annual actuarial valuations. For the year ended June 30, 2005, these rates were set at 2.17% of covered payroll for employers and 6% of covered payroll for members.

For the year ended June 30, 2005, the College had a total payroll of $37,708,969.61, of which $29,198,046.57 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were $1,751,887.21 and $633,597.61, respectively. The College made 100% of its annual required contributions for the years ended June 30, 2005, 2004, and 2003, which were $633,597.61, $58,009.66, and $0.00, 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. Supplemental Retirement Income Plans - IRC Section 401(k) Plan - All members of the Teachers' and State Employees' Retirement System are eligible to enroll in the Supplemental Retirement Income Plan, a defined contribution plan, created under Internal Revenue Code Section 401(k). All costs of administering the Plan are the responsibility of the Plan participants. The voluntary contributions by employees amounted to $608,899.00 for the year ended June 30, 2005.

IRC Section 403(b) and 403(b)(7) Plans - Eligible College employees can participate in tax sheltered annuity plans created under Internal Revenue Code Sections 403(b) and 403(b)(7). The employee's eligible contributions, made through salary reduction agreements, are exempt from federal and State income taxes until the annuity is received or the contributions are withdrawn. These plans are exclusively for employees of colleges and certain charitable and other nonprofit institutions. All costs of administering and funding these plans are the responsibility of the Plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to $167,475.92 for the year ended June 30, 2005.

NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS

A. Health Care for Long-Term Disability Beneficiaries and Retirees - The College participates in State-administered programs which provide postemployment health insurance to eligible former employees. Eligible former employees include long-term disability beneficiaries of the Disability Income Plan of North Carolina and retirees of the Teachers' and State Employees' Retirement System. These benefits were established by Chapter 135, Article 3, Part 3, of the General Statutes and may be amended only by the North Carolina General Assembly. Funding for the health care benefit for long-term disability beneficiaries and retirees is financed on a pay-as-you-go basis. The College contributed 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, 2005, the College's total contribution to the Plan was $934,337.49. 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 .445% of covered payroll under the Teachers' and State Employees' Retirement System to the DIPNC. For the year ended June 30, 2005, the College's total contribution to the DIPNC was $129,931.31. The College assumes no liability for long-term disability benefits under the Plan other than its contribution. Additional detailed information about the DIPNC is disclosed in the State of North Carolina's *Comprehensive Annual Financial Report*.

NOTE 13 - RISK MANAGEMENT

The College is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These exposures to loss are handled via a combination of methods, and can include 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 $5,000,000 via contract with a private insurance company. The premium, based on a composite rate, is paid by the North Carolina Community College System Office directly to the private insurer.

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

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

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

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

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

Term life insurance of $25,000 to $50,000 is provided to eligible workers. This self-insured death benefit program is administered by the State Treasurer and funded via employer contributions. There were no employer contributions required for the current fiscal year.

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

NOTE 14 - COMMITMENTS AND CONTINGENCIES

A. **Commitments** - The College has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were $1,920,554.21 at June 30, 2005.

B. **Community College General Obligation Bonds** – 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 remaining authorization of $17,328,604.00 is contingent on future bond sales and CCSO allotment approval. Because of uncertainty and time restrictions the remaining authorization is not recorded as an asset or revenue on the accompanying financial statements.

NOTE 15 - FAYETTEVILLE TECHNICAL COMMUNITY COLLEGE FOUNDATION, INC.

The Fayetteville Technical Community College Foundation, Inc. is a separately incorporated nonprofit foundation associated with the College. This organization serves as the primary fundraising arm of the College through which individuals, corporations, and other organizations support College programs by providing scholarships, fellowships, faculty salary supplements, and unrestricted funds to specific departments and the College's overall academic environment. The College's financial statements do not include the assets, liabilities, net assets, or operational transactions of the Foundation, except for the distributions made and benefits provided by the Foundation. The distributions received and/or benefits provided approximated $183,896.38 for the year ended June 30, 2005.

NOTE 16 - CHANGE IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2005, the College implemented Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures*. This Statement establishes and modifies disclosure requirements related to investment risks: credit risk, interest rate risk, and foreign currency risk. This statement also establishes and modifies disclosure requirements for deposit risks: custodial credit risk and foreign currency risk.

[This Page Left Blank Intentionally]

STATE OF NORTH CAROLINA
Office of the State Auditor

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

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601
Telephone: (919) 807-7500
Fax: (919) 807-7647
Internet
http://www.ncauditor.net

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

Board of Trustees
Fayetteville Technical Community College
Fayetteville, North Carolina

We have audited the financial statements of Fayetteville Technical Community College, a component unit of the State of North Carolina, and have issued our report thereon dated May 30, 2006.

As discussed in Note 16 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures*, during the year ended June 30, 2005.

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.

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 an opinion 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 reportable 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 caused by error or fraud in amounts that would be material in relation to the financial statements being 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.

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

Compliance and Other Matters

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 grant agreements, 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 or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Trustees, the State Board of Community Colleges, management 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.

Leslie W. Merritt, Jr.

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

May 30, 2006

ORDERING INFORMATION

Audit reports issued by the Office of the State Auditor can be obtained from the web site at www.ncauditor.net. Also, parties may register on the web site to receive automatic email notification whenever reports of interest are issued. Otherwise, copies of audit reports may be obtained by contacting the:

Office of the State Auditor
State of North Carolina
2 South Salisbury Street
20601 Mail Service Center
Raleigh, North Carolina 27699-0601

Telephone: 919/807-7500

Facsimile: 919/807-7647