



STATE OF NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT OF GUILFORD TECHNICAL COMMUNITY COLLEGE

JAMESTOWN, 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

GUILFORD TECHNICAL COMMUNITY COLLEGE

JAMESTOWN, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2005

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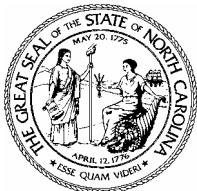
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Leslie W. Merritt, Jr., CPA, CFP
State Auditor

AUDITOR'S TRANSMITTAL

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

We have completed a financial statement and compliance audit of Guilford 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.

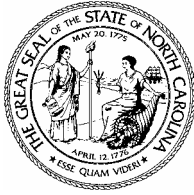
Leslie W. Merritt, Jr.

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

June 13, 2006

TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITOR’S REPORT	1
MANAGEMENT’S DISCUSSION AND ANALYSIS	3
FINANCIAL STATEMENTS	
College Exhibits	
A-1 Statement of Net Assets	8
A-2 Statement of Revenues, Expenses, and Changes in Net Assets	9
A-3 Statement of Cash Flows	10
Component Unit Exhibits	
B-1 Statement of Financial Position	12
B-2 Statement of Activities	13
Notes to the Financial Statements	15
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 <i>GOVERNMENT</i> <i>AUDITING STANDARDS</i>	31
ORDERING INFORMATION	33



STATE OF NORTH CAROLINA
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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Guilford Technical Community College
Jamestown, North Carolina

We have audited the accompanying financial statements of Guilford Technical Community College, a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 2005, which collectively comprise the College's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Guilford Technical Community College's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Guilford Technical Community College Foundation, Inc., which represents 100% of the College's discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for those entities, is based on the report of the other auditors.

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. The financial statements of Guilford Technical Community College Foundation, Inc., were not audited in accordance with *Government Auditing Standards*. 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 and the report of other auditors provides reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of Guilford Technical Community College and its discretely presented component unit as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

As discussed in Note 15 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 April 6, 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., CPA, CFP
State Auditor

April 6, 2006

GUILFORD TECHNICAL COMMUNITY COLLEGE MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Guilford Technical Community College's Annual Financial Report presents Management's Discussion and Analysis of the College's financial activity during the fiscal year ended June 30, 2005. College management has prepared this discussion, along with the financial statements and related note disclosures. It should be read in conjunction with and is qualified in its entirety by the financial statements and related notes. The financial statements, notes to the financial statements, and this discussion are the responsibility of College management.

Using the Annual Report/ Overview of Financial Statements

This annual report consists of a series of financial statements, prepared in accordance with the Governmental Accounting Standards Board Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*. The financial statements presented focus on the financial condition of the College, the results of operations, and cash flows of the College as a whole.

One of the most important questions asked about College finances is whether the College as a whole is better off or worse off as a result of the year's activities. The key to understanding this question is the Statement of Net Assets, the Statement of Revenues, Expenses, and Changes in Net Assets and the Statement of Cash Flows. These statements present financial information in a form similar to that used by corporations. The College's net assets are one indicator of the College's financial health. Over time, increases or decreases in net assets is one indicator of the improvement or erosion of the College's financial health when considered with non-financial facts such as enrollment levels and the condition of the facilities.

The Statement of Net Assets includes all assets and liabilities. It is prepared under the accrual basis of accounting, whereby revenues and assets are recognized when the service is provided and expenses and liabilities are recognized when others provide the service, regardless of when cash is exchanged.

The Statement of Revenues, Expenses, and Changes in Net Assets presents the revenues earned and the expenses incurred during the year. Activities are reported as either operating or nonoperating. The financial reporting model classifies State and county appropriations and gifts as nonoperating revenues. Public colleges' dependency on State and county aid and gifts usually results in an operating deficit under new governmental accounting standards. The utilization of long-lived assets, referred to as capital assets, is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Financial Highlights

- The assets of Guilford Technical Community College (GTCC) exceeded its liabilities at fiscal year end June 30, 2005, by \$100,631,019.06 (net assets). Net assets increased \$17,782,952.71 over the prior fiscal year of 2004;
- Operating revenues at June 30, 2005, increased \$1,787,676.42 from June 30, 2004;
- Nonoperating revenue and other revenue increased at June 30, 2005, by \$4,120,528.28 and \$3,089,834.85, respectively, over June 30, 2004;
- Operating expenses increased at June 30, 2005, by \$7,166,276.45 over the same period in fiscal year 2004;
- Capital assets of GTCC increased \$18,471,772.62 before depreciation increases of \$2,626,352.50;
- The College did not incur debt during the current fiscal year.

Financial Analysis of the College's Funds

Net Assets

This schedule is prepared from the College's statement of net assets, which is presented on an accrual basis of accounting.

Net Assets as of June 30,

	2005	2004
Assets		
Current Assets	\$ 12,814,960.81	\$ 12,398,216.98
Noncurrent Assets:		
Capital Assets, Net of Depreciation	86,676,785.18	70,831,365.06
Other	5,795,741.92	4,037,352.16
Total Assets	105,287,487.91	87,266,934.20
Liabilities		
Current Liabilities	3,680,889.39	3,442,856.06
Noncurrent Liabilities	975,579.46	976,011.79
Total Liabilities	4,656,468.85	4,418,867.85
Net Assets		
Investment in Capital Assets	86,676,785.18	70,831,365.06
Restricted for:		
Expendable	8,239,040.89	6,408,094.22
Unrestricted	5,715,192.99	5,608,607.07
Total Net Assets	\$ 100,631,019.06	\$ 82,848,066.35

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Total net assets at June 30, 2005, increased \$17,782,952.71 over the prior fiscal year. The increase was primarily due to an increase in Capital Assets of \$15,845,420.12. The remainder of changes was a result of:

- An increase in noncurrent restricted cash and cash equivalents in the amount of \$2,880,747.85 primarily due to a change in county accounting procedures. We received \$2,713,613.19 of county capital appropriations at year end. These funds remained unexpended at June 30;
- A decrease in noncurrent restricted due from primary government in the amount of \$1,122,358.09. The decrease was the result of a decrease in State funded construction projects.

Operating Revenues and Expenses

This schedule is prepared from the College's Statement of Revenues, Expenses, and Changes in Net Assets, which is presented on an accrual basis of accounting.

Operating Results at June 30,

	2005	2004
Operating Revenue:		
Tuition and Fees, Net	\$ 5,911,079.29	\$ 5,975,436.73
Other	14,468,382.35	12,616,348.49
Total	20,379,461.64	18,591,785.22
Less Operating Expenses	58,477,274.34	51,310,997.89
Operating Loss	(38,097,812.70)	(32,719,212.67)
Nonoperating Revenue	33,931,562.14	29,811,033.86
Loss Before Other Revenue	(4,166,250.56)	(2,908,178.81)
Other Revenue	21,949,203.27	18,859,368.42
Increase in Net Assets	17,782,952.71	15,951,189.61
Net Assets, Beginning of Year	82,848,066.35	66,896,876.74
Net Assets, End of Year	\$ 100,631,019.06	\$ 82,848,066.35

The State and local appropriations are not classified as operating revenue per GASB Statement No. 35; therefore, the College will usually show a significant operating loss.

Operating revenue increased overall by \$1,787,676.42 but the component parts have varying balance changes. The largest component change was as follows:

- Federal grants and contracts had a \$1,422,705.29 increase that was directly related to the Pell Grant program.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Operating expenses for fiscal year 2005 increased by \$7,166,276.45 over fiscal year 2004. Personal services increased \$2,824,838.82 due to the effects of contractual increases for faculty and staff salaries, additional faculty needed due to enrollment growth, and additional staff required to support growth. Expenses for supplies and materials increased \$2,456,978.09 over fiscal year 2004, due to supplies and materials required to furnish three new buildings on the new Greensboro campus.

Total nonoperating revenue increased by \$4,120,528.28 in fiscal year 2005 over fiscal year 2004. State appropriations increased \$2,313,307.58 and noncapital grants increased by \$316,837.02. County appropriations increased \$409,375.52.

Other revenue increased by \$3,089,834.85 in fiscal year 2005 from fiscal year 2004. This was due to an increase in State capital aid/county capital appropriations by a net of \$4,104,894.38 over fiscal year 2004, and a decrease in capital grants and gifts by \$1,015,059.53 over fiscal year 2004.

GTCC's total revenue increased \$8,998,039.55 from \$67,262,187.50 in 2004 to \$76,260,227.05 in 2005. The increase is primarily related to the change in nonoperating revenue and other revenue as stated previously.

Capital Asset and Debt Administration

Capital Assets

GTCC's investment in capital assets as of June 30, 2005, amounted to \$86,676,785.18, net of accumulated depreciation. This investment in capital assets includes land, construction in progress, buildings, infrastructure, equipment and vehicles. The total increase in GTCC's investment in capital assets was \$15,845,420.12.

Major capital asset events during the current fiscal year included the following:

- Land increased by \$427,384.46, of which \$345,313.14 was for purchases related to the High Point campus and \$82,071.32 for the new Greensboro campus;
- Buildings increased by \$9,478,372.08, of which \$7,445,612.69 was for the opening of the Adult Education Center and the completion of the Central Energy Plant at the new Greensboro campus. The other major item was the Public Safety Service Building for \$1,017,695.10. Also \$331,246.75 was spent on HVAC upgrades, \$228,452.80 on the Aviation Center fire suppression system and \$101,417.11 for Medlin Campus Center renovations;
- Infrastructure additions of \$4,918,305.91 were attributed mainly to the Greensboro Campus opening;
- There was a net increase to construction in progress of \$2,897,584.59. The increase included \$10,283,759.88 expended for the new Greensboro Campus and \$6,910,869.95 transferred to Buildings and Infrastructure for this campus. There was \$475,443.27 transferred from construction in progress to buildings for the Public Safety building;
- Equipment additions totaled \$931,201.01.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

Capital Assets, Net, As of June 30,

	2005	2004
Capital Assets		
Land	\$ 6,326,728.74	\$ 5,899,344.28
Construction in progress	14,937,299.92	12,039,715.33
Buildings	71,477,645.84	61,999,273.76
Infrastructure	8,964,713.32	4,046,407.41
Equipment	9,878,869.54	9,128,743.96
Total	111,585,257.36	93,113,484.74
Less Accumulated Depreciation	24,908,472.18	22,282,119.68
Net Capital Assets	<u>\$ 86,676,785.18</u>	<u>\$ 70,831,365.06</u>

Economic and Other Factors Impacting Future Periods

The level of State support is one of the key factors influencing the College's financial condition and its ability to expand programs, undertake new initiatives, and meet its core mission and ongoing operational needs. In addition, there is a direct relationship between the level of State support and tuition increases, as declines in State support have resulted in increased tuition rates and/or mandatory budget reversions. State appropriations constituted approximately 31 percent of the College's total revenues for fiscal year 2004-05. The use of restricted line items in the State budget has a significant impact on the College's capacity to be flexible in responding to the communities needs. The College expects State support for fiscal year 2005-06 to remain at current levels. At the same time, we are facing a phenomenal rise in construction costs and our government is faced with providing the funds to rebuild following several natural disasters.

The biggest challenges facing the College are:

- Maintaining levels of Federal, State and Local support;
- Completing construction projects on schedule and within budget;
- Expanding our understanding of the new administrative computing system to gather and analyze pertinent data;
- Preparing for a possible leveling or reduction in enrollment growth.

Requests for Information

This financial report is designed to provide a general overview of GTCC's finances for all those with an interest in the College's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Guilford Technical Community College, Vice President for Administrative Services, 601 High Point Road, Jamestown, North Carolina, 27282.

Guilford Technical Community College
Statement of Net Assets
June 30, 2005

Exhibit A-1

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 5,421,637.42
Restricted Cash and Cash Equivalents	3,307,561.97
Receivables, Net (Note 3)	2,503,768.86
Due from State of North Carolina Component Units	250,687.84
Inventories	721,233.65
Prepaid Items	610,071.07
Total Current Assets	<u>12,814,960.81</u>

Noncurrent Assets:

Restricted Cash and Cash Equivalents	2,880,747.85
Restricted Due from Primary Government	2,914,994.07
Capital Assets - Nondepreciable (Note 4)	21,264,028.66
Capital Assets - Depreciable, Net (Note 4)	65,412,756.52
Total Noncurrent Assets	<u>92,472,527.10</u>
Total Assets	<u>105,287,487.91</u>

LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 5)	3,133,912.91
Deferred Revenue	134,344.12
Funds Held for Others	289,596.46
Long-Term Liabilities - Current Portion (Note 6)	123,035.90
Total Current Liabilities	<u>3,680,889.39</u>

Noncurrent Liabilities:

Long-Term Liabilities (Note 6)	<u>975,579.46</u>
Total Liabilities	<u>4,656,468.85</u>

NET ASSETS

Invested in Capital Assets	86,676,785.18
Restricted for:	
Expendable:	
Scholarships and Fellowships	10,882.25
Loans	2,514.73
Capital Projects	7,741,828.83
Other	483,815.08
Unrestricted	<u>5,715,192.99</u>
Total Net Assets	<u>\$ 100,631,019.06</u>

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

***Guilford 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 8)	\$ 5,911,079.29
Federal Grants and Contracts	9,077,275.49
State and Local Grants and Contracts	4,518.50
Sales and Services, Net (Note 8)	5,306,069.72
Other Operating Revenues	80,518.64

Total Operating Revenues	<u>20,379,461.64</u>
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EXPENSES

Operating Expenses:

Personal Services	35,240,702.19
Supplies and Materials	8,873,681.25
Services	4,931,389.88
Scholarships and Fellowships	5,264,300.54
Utilities	1,388,855.84
Depreciation	2,778,344.64

Total Operating Expenses	<u>58,477,274.34</u>
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Operating Loss	<u>(38,097,812.70)</u>
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NONOPERATING REVENUES (EXPENSES)

State Aid	23,493,924.98
County Appropriations	8,093,253.90
Noncapital Grants	2,142,550.65
Noncapital Gifts	2,292.32
Investment Income	225,577.71
Other Nonoperating Expenses	(26,037.42)

Net Nonoperating Revenues	<u>33,931,562.14</u>
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Loss Before Other Revenues	(4,166,250.56)
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State Capital Aid	3,718,624.77
County Capital Appropriations	18,141,490.22
Capital Grants	69,503.28
Capital Gifts	19,585.00

Increase in Net Assets	17,782,952.71
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NET ASSETS

Net Assets, July 1, 2004	<u>82,848,066.35</u>
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Net Assets, June 30, 2005	<u><u>\$ 100,631,019.06</u></u>
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The accompanying notes to the financial statements are an integral part of this statement.

Guilford 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	\$ 20,568,776.36
Payments to Employees and Fringe Benefits	(35,221,128.73)
Payments to Vendors and Suppliers	(14,868,155.65)
Payments for Scholarships and Fellowships	(5,264,300.54)
Other Receipts	176,418.35
	<hr/>
Net Cash Used by Operating Activities	(34,608,390.21)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Aid Received	23,493,924.98
County Appropriations	8,093,253.90
Noncapital Grants Received	2,336,064.67
Noncapital Gifts and Endowments Received	2,292.32
	<hr/>
Cash Provided by Noncapital Financing Activities	33,925,535.87

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

State Capital Aid Received	4,840,982.86
County Capital Appropriations	18,141,490.22
Capital Grants Received	229,370.67
Acquisition and Construction of Capital Assets	(19,187,263.72)
	<hr/>
Net Cash Provided by Capital and Related Financing Activities	4,024,580.03

CASH FLOWS FROM INVESTING ACTIVITIES

Investment Income	225,577.71
	<hr/>
Cash Provided by Investing Activities	225,577.71

Net Increase in Cash and Cash Equivalents	3,567,303.40
Cash and Cash Equivalents, July 1, 2004	8,042,643.84
	<hr/>
Cash and Cash Equivalents, June 30, 2005	\$ 11,609,947.24

**RECONCILIATION OF OPERATING LOSS
TO NET CASH USED BY OPERATING ACTIVITIES**

Operating Loss	\$ (38,097,812.70)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	2,778,344.64
Provision for Uncollectible Loans and Write-Offs	1,936.22
Miscellaneous Nonoperating Income	3,045.87
Changes in Assets and Liabilities:	
Receivables, Net	4,554.99
Inventories	(59,935.32)
Prepaid Items	(85,923.72)
Accounts Payable and Accrued Liabilities	491,697.65
Deferred Revenue	134,153.28
Funds Held for Others	223,978.93
Compensated Absences	(2,430.05)
	<hr/>
Net Cash Used by Operating Activities	\$ (34,608,390.21)

Guilford Technical Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2005

Exhibit A-3
Page 2

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:

Cash and Cash Equivalents	\$ 5,421,637.42
Restricted Cash and Cash Equivalents	3,307,561.97

Noncurrent Assets:

Restricted Cash and Cash Equivalents	<u>2,880,747.85</u>
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Total Cash and Cash Equivalents - June 30, 2005	<u><u>\$ 11,609,947.24</u></u>
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NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through a Gift	\$ 19,585.00
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The accompanying notes to the financial statements are an integral part of this statement.

Guilford Technical Community College Foundation, Inc.
Statement of Financial Position
June 30, 2005

Exhibit B-1

ASSETS

Cash and Cash Equivalents	\$	2,894
Investments		4,693,238
Accounts Receivable		4,108
Promises to Give Due in One Year		<u>227,170</u>

Total Current Assets		4,927,410
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Promises to Give Due After One Year, Less Discount of \$9,287		89,023
Other Assets - Beneficial Interest in Charitable Remainder Trust		<u>57,879</u>

Total Assets	\$	<u><u>5,074,312</u></u>
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NET ASSETS

Unrestricted	\$	793,948
Temporarily Restricted		1,479,077
Permanently Restricted		<u>2,801,287</u>

Total Net Assets	\$	<u><u>5,074,312</u></u>
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See Note 1 in the Notes to the Financial Statements

Guilford Technical Community College Foundation, Inc.
Statement of Activities
For the Fiscal Year Ended June 30, 2005

Exhibit B-2

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and Other Support:				
Contributions	\$ 161,864	\$ 273,663	\$ 71,868	\$ 507,395
Investment Income	151,028	168,956	18,821	338,805
Miscellaneous Income	3,797	2,502		6,299
Services Contributed by College	187,676			187,676
Contributed Materials and Equipment	330,278			330,278
	<u>834,643</u>	<u>445,121</u>	<u>90,689</u>	<u>1,370,453</u>
Net Assets Released from Restrictions	<u>437,590</u>	<u>(437,590)</u>		
Total Revenue and Other Support	<u>1,272,233</u>	<u>7,531</u>	<u>90,689</u>	<u>1,370,453</u>
Expenses:				
Student Aid	136,919			136,919
Grants and Projects	68,158			68,158
Materials and Equipment Contributed to the College	330,278			330,278
College Assistance	346,040			346,040
Administration	197,054			197,054
Total Expenses	<u>1,078,449</u>			<u>1,078,449</u>
Increase in Net Assets	<u>193,784</u>	<u>7,531</u>	<u>90,689</u>	<u>292,004</u>
Net Assets at the Beginning of the Year, as Previously Reported	698,144	1,413,566	2,670,598	4,782,308
Prior Period Adjustment	<u>(97,980)</u>	<u>57,980</u>	<u>40,000</u>	
Net Assets at the Beginning of Year, as Restated	600,164	1,471,546	2,710,598	4,782,308
Net Assets at End of Year	<u>\$ 793,948</u>	<u>\$ 1,479,077</u>	<u>\$ 2,801,287</u>	<u>\$ 5,074,312</u>

See Note 1 in the Notes to the Financial Statements

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GUILFORD TECHNICAL COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005

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. Guilford 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 of the College and the component unit 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 data is reported in separate financial statements because of its use of different GAAP reporting models and to emphasize their legal separateness.

Discretely Presented Component Unit – Guilford Technical Community College Foundation, Inc., (the Foundation) is a legally separate, tax-exempt not-for-profit corporation and is reported as a discretely presented component unit based on the nature and significance of its relationship to 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 27 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 Guilford Community College 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.

During the year ended June 30, 2005, the Foundation distributed \$881,395.00 to the College for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from Guilford Technical Community College Foundation, Inc., PO Box 309, Jamestown, NC 27282.

- 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 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 recorded net of estimated uncollectible amounts.
- F. Inventories** – Inventories, consisting of expendable supplies, postage, fuel and merchandise for resale, are valued at last invoice cost 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 25 years for general infrastructure, 10 to 40 years for buildings, and 5 to 15 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 January 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 January 1 and June 30.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, Net of Related Debt – This represents the College's total investment in capital assets.

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

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

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

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, the duplicating center, and postal services. 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.

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 *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 \$4,260.00, and deposits in private financial institutions with a carrying value of \$3,099,991.88 and a bank balance of \$4,324,984.49.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

At June 30, 2005, the amount shown on the Statement of Net Assets as cash and cash equivalents includes \$8,505,695.36 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 - RECEIVABLES

Receivables at June 30, 2005, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	\$ 614,728.11	\$ 189,479.59	\$ 425,248.52
Accounts	56,195.27		56,195.27
Intergovernmental	1,917,217.62		1,917,217.62
Other	108,097.77	2,990.32	105,107.45
Total Current Receivables	<u>\$ 2,696,238.77</u>	<u>\$ 192,469.91</u>	<u>\$ 2,503,768.86</u>
Current Notes Receivable:			
Institutional Student Loan Programs	<u>\$ 1,536.22</u>	<u>\$ 1,536.22</u>	<u>\$ 0.00</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 4 - 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	\$ 5,899,344.28	\$	\$ 427,384.46	\$ 0.00	\$ 6,326,728.74
Construction in Progress	12,039,715.33	(7,386,313.22)	10,283,897.81		14,937,299.92
Total Capital Assets, Nondepreciable	<u>17,939,059.61</u>	<u>(7,386,313.22)</u>	<u>10,711,282.27</u>		<u>21,264,028.66</u>
Capital Assets, Depreciable:					
Buildings	61,999,273.76	2,763,583.66	6,714,788.42		71,477,645.84
Machinery and Equipment	9,128,743.96		931,201.01	181,075.43	9,878,869.54
General Infrastructure	4,046,407.41	4,622,729.56	295,576.35		8,964,713.32
Total Capital Assets, Depreciable	<u>75,174,425.13</u>	<u>7,386,313.22</u>	<u>7,941,565.78</u>	<u>181,075.43</u>	<u>90,321,228.70</u>
Less Accumulated Depreciation:					
Buildings	16,848,310.32		1,780,576.02		18,628,886.34
Machinery and Equipment	4,132,668.19		684,776.45	151,992.14	4,665,452.50
General Infrastructure	1,301,141.17		312,992.17		1,614,133.34
Total Accumulated Depreciation	<u>22,282,119.68</u>		<u>2,778,344.64</u>	<u>151,992.14</u>	<u>24,908,472.18</u>
Total Capital Assets, Depreciable, Net	<u>52,892,305.45</u>	<u>7,386,313.22</u>	<u>5,163,221.14</u>	<u>29,083.29</u>	<u>65,412,756.52</u>
Capital Assets, Net	<u><u>\$ 70,831,365.06</u></u>	<u><u>\$ 0.00</u></u>	<u><u>\$ 15,874,503.41</u></u>	<u><u>\$ 29,083.29</u></u>	<u><u>\$ 86,676,785.18</u></u>

NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	Amount
Accounts Payable	\$ 2,042,366.16
Accrued Payroll	277,274.13
Contract Retainage	801,912.58
Intergovernmental Payables	9,499.59
Other	2,860.45
Total Accounts Payable and Accrued Liabilities	<u><u>\$ 3,133,912.91</u></u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 6 - 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	\$ 1,101,045.41	\$ 869,158.73	\$ 871,588.78	\$ 1,098,615.36	\$ 123,035.90

NOTE 7 - OPERATING LEASE OBLIGATIONS

Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2005:

Fiscal Year	Amount
2006	\$ 70,228.36
2007	24,563.20
2008	23,334.24
2009	23,334.24
2010	23,334.24
2011-2015	3,889.04
Total Minimum Lease Payments	\$ 168,683.32

Rental expense for all operating leases during the year was \$236,633.81.

NOTE 8 - 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	\$ 9,748,758.05	\$ 0.00	\$ 3,837,678.76	\$ 5,911,079.29
Sales and Services:				
Sales and Services of Auxiliary Enterprises:				
Dining	\$ 351,920.09	\$ 0.00	\$ 0.00	\$ 351,920.09
Student Union Services	3,469.75			3,469.75
Bookstore	5,004,697.00		650,964.83	4,353,732.17
Other	598,421.23	488,592.92		109,828.31
and Related Activities	487,119.40			487,119.40
Total Sales and Services	\$ 6,445,627.47	\$ 488,592.92	\$ 650,964.83	\$ 5,306,069.72

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 9 - OPERATING EXPENSES BY FUNCTION

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

	Personal Services	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	\$ 21,981,807.93	\$ 2,892,107.77	\$ 1,259,404.48	\$ 0.00	\$ 0.00	\$ 0.00	\$ 26,133,320.18
Academic Support	2,863,937.30	192,745.62	152,243.34				3,208,926.26
Student Services	2,331,191.28	112,277.41	101,795.68				2,545,264.37
Institutional Support	4,133,022.79	617,387.66	2,200,859.43				6,951,269.88
Operations and Maintenance of Plant	3,006,053.47	871,398.62	1,024,314.48		1,388,855.84		6,290,622.41
Student Financial Aid				5,264,300.54			5,264,300.54
Auxiliary Enterprises	924,689.42	4,187,764.17	192,772.47				5,305,226.06
Depreciation						2,778,344.64	2,778,344.64
Total Operating Expenses	<u>\$ 35,240,702.19</u>	<u>\$ 8,873,681.25</u>	<u>\$ 4,931,389.88</u>	<u>\$ 5,264,300.54</u>	<u>\$ 1,388,855.84</u>	<u>\$ 2,778,344.64</u>	<u>\$ 58,477,274.34</u>

NOTE 10 - 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 \$29,939,250.49, of which \$23,649,243.89 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were \$1,418,955.62 and \$513,188.59, respectively. The College made 100% of its annual required contributions for the years ended June 30, 2005, 2004, and 2003, which were \$513,188.59, \$48,333.88, and \$0, respectively.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 GTCC 457 Plan is distinct from the North Carolina Public Employee Deferred Compensation Plan. This Plan was frozen effective January 1, 2000. No new participants are permitted to enroll in the Plan, and no current deferrals are allowed. The previously existing Deferral Accounts are maintained as provided in the GTCC 457 Plan.

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 G.S. 143-166.30(e). Total employer contributions on behalf of College law enforcement officers for the year ended June 30, 2005, were \$26,940.78. The voluntary contributions by employees amounted to \$346,463.00 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 \$186,682.94 for the year ended June 30, 2005.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 11 - 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 \$756,775.80. 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 \$105,239.14. 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 12 - 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 also provides honesty coverage of \$100,000 with a \$250 deductible for employee dishonesty on all employees, including county and institutional fund employees. Loss of money and securities by other than employee dishonesty is also provided up to \$25,000 with a \$250 deductible for normal operations and up to \$50,000 with a \$250 deductible during registration periods. The College also has a \$2,000,000 school leader's error & omissions policy purchased from a private insurance company.

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 self-funds workers' compensation insurance for employees whose salaries or wages are paid by the Board entirely from county or institutional funds. This account is funded by employer contributions and administered by a third party contractor. Additionally, the College purchases excess worker's compensation insurance for employees whose salary or wages are paid entirely by county or institutional funds.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 13 - 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 \$2,165,742.61.
- B. **Pending Litigation and Claims** – The College is a party to litigation and claims in the ordinary course of its operations. Since it is not possible to predict the ultimate outcome of these matters, no provision for any liability has been made in the financial statements. College management is of the opinion that the liability, if any, for any of these matters will not have a material adverse effect on the financial position of the College.
- C. **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

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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 \$18,432,996.00 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.

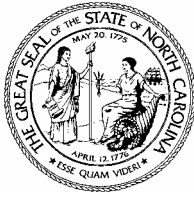
NOTE 14 - RELATED PARTIES

Non-Profit Corporation – The GHG Construction Corporation is a separate corporation established to foster, promote, manage and develop the College's carpentry program. The records of the Corporation are maintained separately by the College. Because the Corporation is a separate entity, a separate report is prepared and provided to the directors of the Corporation by the Office of State Auditor.

NOTE 15 - 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.

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STATE OF NORTH CAROLINA
Office of the State Auditor

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State Auditor

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**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
Guilford Technical Community College
Jamestown, North Carolina

We have audited the financial statements of Guilford Technical Community College, a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 2005, which collectively comprise the College's basic financial statements, and have issued our report thereon dated April 6, 2006. We did not audit the financial statements of Guilford Technical Community College Foundation, Inc., which represent 100% of the College's discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for Guilford Technical Community College Foundation, Inc., is based on the report of the other auditors.

As discussed in Note 15 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. The financial statements of the discretely presented component unit, were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not extend to the discretely presented component unit.

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

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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.

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., CPA, CFP
State Auditor

April 6, 2006

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