

# STATE OF NORTH CAROLINA

## FINANCIAL STATEMENT AUDIT REPORT OF WAKE TECHNICAL COMMUNITY COLLEGE

RALEIGH, 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**

**WAKE TECHNICAL COMMUNITY COLLEGE**

**RALEIGH, NORTH CAROLINA**

**FOR THE YEAR ENDED JUNE 30, 2005**

**STATE BOARD OF COMMUNITY COLLEGES**

**THE NORTH CAROLINA COMMUNITY COLLEGE SYSTEM**

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**BOARD OF TRUSTEES**

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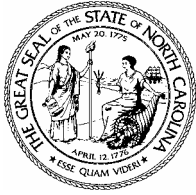
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STATE OF NORTH CAROLINA  
Office of the State Auditor

Leslie W. Merritt, Jr., CPA, CFP  
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**AUDITOR'S TRANSMITTAL**

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

We have completed a financial statement and compliance audit of Wake 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.*

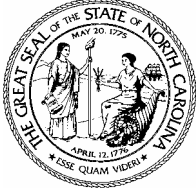
Leslie W. Merritt, Jr., CPA, CFP  
State Auditor

May 22, 2006

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**INDEPENDENT AUDITOR'S REPORT**

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Board of Trustees  
Wake Technical Community College  
Raleigh, North Carolina

We have audited the accompanying basic financial statements of Wake 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 Wake 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 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 May 1, 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

## INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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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 1, 2006

## **WAKE TECHNICAL COMMUNITY COLLEGE MANAGEMENT'S DISCUSSION AND ANALYSIS**

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### **Introduction**

The following information provides a general overview of the financial statements and activities of Wake Technical Community College for the year ended June 30, 2005. The Management's Discussion & Analysis is required supplementary information (RSI) comparing data for the current and previous year. Significant capital asset activity and conditions expected to influence financial position and results of operations are also discussed. Contact the Division of Business and Finance for additional information at (919) 662-3315.

### **Overview of the Financial Statements**

The basic financial statements include Statement of Net Assets; Statement of Revenues, Expenses and Changes in Net Assets; Statement of Cash Flows; and Notes to the Financial Statements. These financial statements have been prepared in accordance with Governmental Accounting Standards Board (GASB) Statements.

Important characteristics of the financial statements include the following:

- The Statement of Net Assets is separated by current and noncurrent assets. The designation is also used in reporting liabilities. The term current is used to cover a time period of one year or less while noncurrent is considered to be a period of greater than one year.
- Revenues and expenses are categorized as either operating or nonoperating.
- Purchases of capital assets are expensed over the asset's useful life by the recognition of depreciation expense on the capital assets.
- Scholarships and fellowships applied to student accounts are discounted from revenue to avoid overstatement of tuition and fees.

### **Condensed Financial Statements**

#### **Statement of Net Assets**

The Statement of Net Assets measures the value of all the College's assets after deducting liabilities and depreciation. Current assets consist of inventories, cash and receivables expected to be collected within the next accounting cycle. Noncurrent assets consist of receivables estimated to be collected beyond the next fiscal year and also capital assets. Accounts payable, funds held for others and the current portion of accrued compensated absences comprise most of current liabilities. Noncurrent liabilities represent accrued compensated absences not expected to be used within the next twelve months. The amounts for compensated absences reflect a last-in, first-out estimate. Invested in capital assets

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

consists primarily of buildings, infrastructure and equipment with a unit purchase cost of \$5,000 or greater. Other equipment is expensed in the year of purchase. Restricted net assets are separated from unrestricted because external sources exert control over their use. Once again, the significant increase in capital assets reflects ongoing and new construction projects. Summarized data from the Statement of Net Assets is as follows:

	<u>2005</u>	<u>2004</u>	<u>% Change</u>
<b>Assets</b>			
Current Assets	\$ 5,750,577	\$ 5,787,242	(1) %
Noncurrent Assets	11,586,392	1,230,773	841 %
Capital Assets, Net	<u>64,065,029</u>	<u>56,676,590</u>	<u>13 %</u>
Total Assets	<u>81,401,998</u>	<u>63,694,605</u>	<u>28 %</u>
<b>Liabilities</b>			
Current Liabilities	5,887,048	4,015,344	47 %
Noncurrent Liabilities	<u>1,031,180</u>	<u>981,790</u>	<u>5 %</u>
Total Liabilities	<u>6,918,228</u>	<u>4,997,134</u>	<u>38 %</u>
<b>Net Assets</b>			
Invested in Capital Assets	64,065,029	56,676,591	13 %
Restricted - Expendable	9,232,718	805,755	1,046 %
Unrestricted	<u>1,186,023</u>	<u>1,215,125</u>	<u>(2) %</u>
Total Net Assets	<u>\$ 74,483,770</u>	<u>\$ 58,697,471</u>	<u>27 %</u>

Two new State bond projects were started in fiscal year 2005. This resulted in an increase in Capital Assets and an increase in Current Liabilities. One of the projects in progress in 2005 is the North East Campus and the initial phase is funded by the State. The related receivable caused an increase in Noncurrent Assets. Restricted Expendable Net Assets increased by 1,046% as a result of construction allotment journal entries required by the North Carolina Community System Office for Comprehensive Annual Financial Reporting to the Office of the State Controller.

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

Transactions reflected in the Statement of Revenues, Expenses, and Changes in Net Assets have a direct correlation to changes in total net assets recorded on the Statement of Net Assets. Operating revenues and expenses are segregated into individual sections of the statement. Student tuition and fees, adjusted for scholarship discounts, accounted for the largest portion of operating revenues. Salary and fringe benefits expenses are the predominant operating expense. Service contracts and Pell grants form the major components of services and scholarships and fellowships. Nonoperating revenues consist mostly of State and county appropriations, as do revenues for capital expenditures. A condensed version of the Statement of Revenues, Expenses, and Changes in Net Assets is presented below:



## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

	<u>2005</u>	<u>2004</u>	<u>% Change</u>
<b>Operating Revenues</b>			
Student Tuition and Fees, Net	\$ 10,315,483	\$ 8,726,337	18 %
Federal Grants and Contracts	5,250,486	8,353,906	(37) %
Other Operating Revenues	1,179,253	1,027,695	15 %
Total Operating Revenues	<u>16,745,222</u>	<u>18,107,938</u>	<u>(8) %</u>
<b>Operating Expenses</b>			
Personal Services	46,165,587	41,077,979	12 %
Services	8,454,391	6,407,654	32 %
Scholarships and Fellowships	4,545,558	4,895,858	(7) %
Other Operating Expenses	7,657,584	5,144,049	49 %
Total Operating Expenses	<u>66,823,120</u>	<u>57,525,540</u>	<u>16 %</u>
Operating Loss	<u>(50,077,898)</u>	<u>(39,417,602)</u>	<u>27 %</u>
<b>Nonoperating Revenues</b>			
State Aid	31,938,912	27,930,691	14 %
County Appropriations	11,089,000	8,071,903	37 %
Other Nonoperating Revenues	3,404,226	110,777	2,973 %
Net Nonoperating Revenues	<u>46,432,138</u>	<u>36,113,371</u>	<u>29 %</u>
State Capital Aid	17,242,981	2,182,942	690 %
County Capital Appropriations	411,000	528,097	(22) %
Capital Grants	1,778,078	7,441,468	(76) %
Increase in Net Assets	<u>15,786,299</u>	<u>6,848,276</u>	<u>131 %</u>
<b>Net Assets</b>			
Net Assets - July 1	<u>58,697,471</u>	<u>51,849,195</u>	<u>13 %</u>
Net Assets - June 30	<u>\$ 74,483,770</u>	<u>\$ 58,697,471</u>	<u>27 %</u>

Grants from the Department of Education and the National Science Foundation comprise the majority of federal revenue and are included in Other Nonoperating Revenues for fiscal year 2005. This is a change in presentation and resulted in a large decrease in Federal Grants and Contracts included in Operating Revenues and a large increase in Other Nonoperating Revenues from 2004 to 2005. The College started several major New Industry projects during the current fiscal year with the largest totaling \$5,000,000 over 3 years. As a result, the services category in operating expenses increased 32%. In addition, other operating expenses increased 49%. Computer replacements and new facility furnishings account for the majority of the increase. State capital aid increased 690% due to construction allotment revenue recognition as required by the North Carolina Community System Office. The construction activity during 2005 was primarily State-funded projects resulting in a decrease in capital grants of 76%.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

### Statement of Cash Flows

The Statement of Cash Flows divides cash activity into four categories. The category for operating activities produced negative cash flow due to employee compensation falling within that section. The most notable cash inflow under operating activities is student tuition and fees. State and county appropriations respectively account for the largest inflows of cash under noncapital financing activities. Construction and equipment purchases utilize the majority of cash generated from capital and related financing activities. During 2005, the College collected \$3 million in county construction receivables that were outstanding as of June 30, 2004, resulting in a large increase in cash provided by capital and related financing activities. Investing activities consist of interest earnings from idle cash. The following data compares cash flows for the past two years:

	<u>2005</u>	<u>2004</u>	<u>% Change</u>
<b>Cash Provided (Used) by:</b>			
Operating Activities	\$ (47,314,136)	\$ (38,280,892)	24 %
Noncapital Financing Activities	46,405,942	36,208,729	28 %
Capital and Related Financing Activities	3,396,549	(31,438)	10,904 %
Investing Activities	<u>5,631</u>	<u>4,610</u>	<u>22 %</u>
Net Increase in Cash	2,493,986	(2,098,991)	219 %
Cash - July 1	<u>1,359,615</u>	<u>3,458,606</u>	<u>(61) %</u>
Cash - June 30	<u>\$ 3,853,601</u>	<u>\$ 1,359,615</u>	<u>183 %</u>

### Capital Assets

The north campus has progressed from the planning phase to construction phase with two buildings targeted for completion by January of 2007. The College has provided Wake County with a ten-year capital improvement plan and a \$40 million bond referendum was passed in the November 2004 elections to finance the plan. The county appropriated \$470,000 for use in the current fiscal year with an additional \$6,800,000 scheduled for fiscal 2006. The College recognized almost \$1.8 million of depreciation expense in 2005. Capital asset balances net of depreciation as of June 30, 2004, and 2005 were:

	<u>2005</u>	<u>2004</u>	<u>% Change</u>
Land	\$ 7,511,041	\$ 5,780,592	30 %
Construction in Progress	9,758,290	10,006,415	(2) %
Buildings	43,340,179	38,540,621	12 %
General Infrastructure	2,004,601	948,690	111 %
Machinery and Equipment	<u>1,450,918</u>	<u>1,400,273</u>	<u>4 %</u>
Total Capital Assets, Net	<u>\$ 64,065,029</u>	<u>\$ 56,676,591</u>	<u>13 %</u>

## **MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)**

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### **Economic Outlook and Effects on Financial Position**

The State economy has continued to show improvement as evidenced by an increase of approximately 11% in Wake Tech's initial State budget for 2004-05. Budget reversions were once again required this year. There was an initial reversion of 3/4% in November followed by an additional 1% in February. The earlier notice allowed the College to efficiently reduce its spending plan to accommodate the reversions. An additional 7% tuition increase was required in 2004-05. Tuition is anticipated to rise by 4% more in the next fiscal year. Wake County provided operating funds of \$11.5 million for the year which is a significant increase over the flat funding received the past three years. The County has also committed to increase overall funds an additional 11% next year to keep pace with tremendous facility growth. Self-supporting classes continue to be the trend for summer term because additional funding from the State has been completely eliminated. These classes are needed to provide the opportunity for students to graduate on schedule and should comprise approximately 40% of the class offerings next summer to help offset the loss of summer term funding.

**Wake Technical Community College**  
**Statement of Net Assets**  
**June 30, 2005**

**Exhibit A-1**

**ASSETS**

Current Assets:

Cash and Cash Equivalents	\$ 3,679,646.49
Restricted Cash and Cash Equivalents	173,954.24
Receivables (Note 3)	1,801,688.43
Inventories	82,747.19
Prepaid Items	12,541.00
	<hr/>
Total Current Assets	5,750,577.35

Noncurrent Assets:

Restricted Due from Primary Government	11,586,391.84
Capital Assets - Nondepreciable (Note 4)	17,269,331.26
Capital Assets - Depreciable, Net (Note 4)	46,795,697.56
	<hr/>
Total Noncurrent Assets	75,651,420.66

Total Assets	<hr/> <hr/> 81,401,998.01
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**LIABILITIES**

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 5)	4,790,965.52
Due to Primary Government	638.70
Deferred Revenue	588,997.11
Funds Held for Others	162,719.37
Long-Term Liabilities - Current Portion (Note 6)	343,726.75
	<hr/>
Total Current Liabilities	5,887,047.45

Noncurrent Liabilities:

Long-Term Liabilities (Note 6)	1,031,180.20
	<hr/>
Total Liabilities	6,918,227.65

**NET ASSETS**

Invested in Capital Assets	64,065,028.82
Restricted for:	
Expendable:	
Scholarships and Fellowships	16,628.00
Loans	11,886.67
Capital Projects	8,972,954.24
Other	231,249.11
Unrestricted	1,186,023.52
	<hr/>
Total Net Assets	\$ 74,483,770.36

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

**Wake 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)	\$ 10,315,483.49
Federal Grants and Contracts	5,250,486.05
State and Local Grants and Contracts	408,756.50
Sales and Services, Net (Note 8)	770,496.45
	<hr/>
Total Operating Revenues	16,745,222.49
	<hr/>

**EXPENSES**

Operating Expenses:	
Personal Services	46,165,586.79
Supplies and Materials	4,725,293.92
Services	8,454,391.05
Scholarships and Fellowships	4,545,557.96
Utilities	1,159,756.16
Depreciation	1,772,533.87
	<hr/>
Total Operating Expenses	66,823,119.75
	<hr/>
Operating (Loss)	(50,077,897.26)
	<hr/>

**NONOPERATING REVENUES**

State Aid	31,938,911.71
County Appropriations	11,089,000.00
Noncapital Grants	3,183,606.22
Noncapital Gifts	110,554.50
Investment Income	5,631.00
Other Nonoperating Revenues	104,434.25
	<hr/>
Total Nonoperating Revenues	46,432,137.68
	<hr/>
Loss Before Other Revenues	(3,645,759.58)
	<hr/>
State Capital Aid	17,242,980.87
County Capital Appropriations	411,000.00
Capital Grants	1,778,078.44
	<hr/>
Increase in Net Assets	15,786,299.73

**NET ASSETS**

Net Assets, July 1, 2004	58,697,470.63
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Net Assets, June 30, 2005	\$ 74,483,770.36
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The accompanying notes to the financial statements are an integral part of this statement.

**Wake 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	\$ 16,138,634.16
Payments to Employees and Fringe Benefits	(45,983,294.44)
Payments to Vendors and Suppliers	(13,291,201.22)
Payments for Scholarships and Fellowships	(4,591,169.26)
Other Receipts	412,894.92
	<hr/>
Net Cash Used by Operating Activities	(47,314,135.84)

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

State Aid Received	31,938,911.71
County Appropriations	11,089,000.00
Noncapital Grants Received	3,267,475.26
Noncapital Gifts Received	110,554.50
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Cash Provided by Noncapital Financing Activities	46,405,941.47

**CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES**

State Capital Aid Received	6,887,361.63
County Capital Appropriations	411,000.00
Capital Grants Received	4,633,986.57
Acquisition and Construction of Capital Assets	(8,535,799.07)
	<hr/>
Net Cash Provided by Capital and Related Financing Activities	3,396,549.13

**CASH FLOWS FROM INVESTING ACTIVITIES**

Investment Income	5,631.00
	<hr/>
Cash Provided by Investing Activities	5,631.00

Net Increase in Cash and Cash Equivalents	2,493,985.76
Cash and Cash Equivalents, July 1, 2004	1,359,614.97
	<hr/>
Cash and Cash Equivalents, June 30, 2005	\$ 3,853,600.73

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

Operating (Loss)	\$ (50,077,897.26)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	1,772,533.87
Miscellaneous Nonoperating Income	104,434.25
Changes in Assets and Liabilities:	
Receivables	(403,685.99)
Inventories	(9,436.20)
Prepaid Items	3,995.00
Accounts Payable and Accrued Liabilities	1,161,755.92
Due to Primary Government	124.84
Deferred Revenue	20,689.98
Funds Held for Others	39,257.05
Compensated Absences	74,092.70
	<hr/>
Net Cash Used by Operating Activities	\$ (47,314,135.84)

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

***Exhibit A-3  
Page 2***

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**RECONCILIATION OF CASH AND CASH EQUIVALENTS**

Current Assets:

Cash and Cash Equivalents	\$ 3,679,646.49
Restricted Cash and Cash Equivalents	<u>173,954.24</u>

Total Cash and Cash Equivalents - June 30, 2005	<u><u>\$ 3,853,600.73</u></u>
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**NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES**

Assets Acquired through Assumption of a Liability	\$ 625,172.91
Increase in Receivables Related to Nonoperating Income	10,355,619.24

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

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

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES**

- A. Financial Reporting Entity** - The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their constituents for their actions. As required by accounting principles generally accepted in the United States of America, the financial reporting entity includes both the primary government and all of its component units. An organization other than a primary government serves as a nucleus for a reporting entity when it issues separate financial statements. Wake 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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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- 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 money market accounts.
- E. Receivables** – Receivables consist of tuition and fees charged to students. 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
- F. Inventories** – Inventories, consisting of expendable supplies, are valued at cost 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 25 years for general infrastructure, 15 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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 December 31 plus the leave earned, less the leave taken between January 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 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 – 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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. 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.

### 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 \$2,000.00 and deposits in private financial institutions with a carrying value of \$3,851,600.73, and the bank balance was \$4,933,182.66.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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.

### NOTE 3 - RECEIVABLES

Receivables at June 30, 2005, were as follows:

	<u>Amount</u>
<b>Current Receivables:</b>	
Student Accounts	\$ 489,828.87
Intergovernmental	897,037.97
Other	<u>414,821.59</u>
<b>Total Current Receivables</b>	<u><u>\$ 1,801,688.43</u></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	Balance June 30, 2005
Capital Assets, Nondepreciable:				
Land	\$ 5,780,591.88	\$ 0.00	\$ 1,730,448.97	\$ 7,511,040.85
Construction in Progress	10,006,415.46	(5,959,812.90)	5,711,687.85	9,758,290.41
<b>Total Capital Assets, Nondepreciable</b>	<b>15,787,007.34</b>	<b>(5,959,812.90)</b>	<b>7,442,136.82</b>	<b>17,269,331.26</b>
Capital Assets, Depreciable:				
Buildings	50,603,782.11	5,959,812.90	181,607.11	56,745,202.12
Machinery and Equipment	4,111,391.68		346,367.41	4,457,759.09
General Infrastructure	2,336,334.20		1,190,860.64	3,527,194.84
<b>Total Capital Assets, Depreciable</b>	<b>57,051,507.99</b>	<b>5,959,812.90</b>	<b>1,718,835.16</b>	<b>64,730,156.05</b>
Less Accumulated Depreciation:				
Buildings	12,063,160.88		1,341,862.30	13,405,023.18
Machinery and Equipment	2,711,119.00		295,722.36	3,006,841.36
General Infrastructure	1,387,644.74		134,949.21	1,522,593.95
<b>Total Accumulated Depreciation</b>	<b>16,161,924.62</b>	<b>0.00</b>	<b>1,772,533.87</b>	<b>17,934,458.49</b>
<b>Total Capital Assets, Depreciable, Net</b>	<b>40,889,583.37</b>	<b>5,959,812.90</b>	<b>(53,698.71)</b>	<b>46,795,697.56</b>
<b>Capital Assets, Net</b>	<b>\$ 56,676,590.71</b>	<b>\$ 0.00</b>	<b>\$ 7,388,438.11</b>	<b>\$ 64,065,028.82</b>

### NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	Amount
Accounts Payable	\$ 1,762,689.69
Accrued Payroll	797,325.49
Accounts Payable - Capital Assets	2,230,950.34
<b>Total Accounts Payable and Accrued Liabilities</b>	<b>\$ 4,790,965.52</b>

### 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	\$ 1,300,814.25	\$ 1,273,556.87	\$ 1,199,464.17	\$ 1,374,906.95	\$ 343,726.75

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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### NOTE 7 - OPERATING LEASE OBLIGATIONS

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

<u>Fiscal Year</u>	<u>Amount</u>
2006	\$ 411,922.85
2007	524,516.04
2008	503,153.19
2009	515,732.00
2010	528,625.27
2011-2015	<u>1,425,879.48</u>
Total Minimum Lease Payments	<u>\$ 3,909,828.83</u>

Rental expense for all operating leases during the year was \$658,953.45.

### NOTE 8 - REVENUES

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

	<u>Gross Revenues</u>	<u>Less Scholarship Discounts</u>	<u>Net Revenues</u>
<b>Operating Revenues:</b>			
<b>Student Tuition and Fees</b>	\$ 11,603,608.70	\$ 1,288,125.21	\$ 10,315,483.49
<b>Sales and Services:</b>			
Sales and Services of Auxiliary Enterprises:			
Parking	32,569.55	15,249.55	17,320.00
Other	<u>832,599.70</u>	<u>79,423.25</u>	<u>753,176.45</u>
<b>Total Sales and Services</b>	<u>\$ 865,169.25</u>	<u>\$ 94,672.80</u>	<u>\$ 770,496.45</u>

## 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	\$ 30,018,009.77	\$ 3,644,841.59	\$ 2,511,871.99	\$ 0.00	\$ 0.00	\$ 0.00	\$ 36,174,723.35
Public Service	23,324.36		18,088.12				41,412.48
Academic Support	7,377,630.15	728,309.03	337,421.70				8,443,360.88
Student Services	3,822,738.51	59,635.32	157,500.89				4,039,874.72
Institutional Support	4,017,427.10	410,737.05	1,697,397.73				6,125,561.88
Operations and Maintenance of Plant	906,456.90	(118,987.56)	3,613,514.85		1,159,756.16		5,560,740.35
Student Financial Aid			18,926.40	4,545,557.96			4,564,484.36
Auxiliary Enterprises		758.49	99,669.37				100,427.86
Depreciation						1,772,533.87	1,772,533.87
Total Operating Expenses	<u>\$ 46,165,586.79</u>	<u>\$ 4,725,293.92</u>	<u>\$ 8,454,391.05</u>	<u>\$ 4,545,557.96</u>	<u>\$ 1,159,756.16</u>	<u>\$ 1,772,533.87</u>	<u>\$ 66,823,119.75</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 \$38,652,347.67, of which \$31,554,897.03 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were \$1,893,293.83 and \$684,741.27, respectively. The College made 100% of its annual required contributions for the years ended June 30, 2005, 2004, and 2003, which were \$684,741.27, \$61,414.76, 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



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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home page <http://www.osc.state.nc.us/> and clicking on “Financial Reports”, or by calling the State Controller’s Financial Reporting Section at (919) 981-5454.

- B. Deferred Compensation and Supplemental Retirement Income Plans** - IRC Section 457 Plan - The State of North Carolina offers its permanent employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 through the North Carolina Public Employee Deferred Compensation Plan (the Plan). The Plan permits each participating employee to defer a portion of his or her salary until future years. The deferred compensation is available to employees upon separation from service, death, disability, retirement, or financial hardships if approved by the Board of Trustees of the Plan. The Board, a part of the North Carolina Department of Administration, maintains a separate fund for the exclusive benefit of the participating employees and their beneficiaries, *the North Carolina Public Employee Deferred Compensation Trust Fund*. The Board also contracts with an external third party to perform certain administrative requirements and to manage the trust fund’s assets. All costs of administering and funding the Plan are the responsibility of the Plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to \$17,720.00 for the year ended June 30, 2005.

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. The voluntary contributions by employees amounted to \$548,818.00 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 \$601,541.70 for the year ended June 30, 2005.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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### 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 \$1,009,756.70. 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 \$140,419.29. 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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 honesty bond for other employees is covered by contracts with private insurance companies.

The College purchased public officers' and employees' liability insurance coverage of \$11,000,000 from a private insurance company through the North Carolina Department of Insurance.

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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 \$22,638,667.01 and on other purchases were \$662,285.86 at June 30, 2005.

**B. Pending Litigation and Claims** - The College is involved in condemnation proceedings related to a 44-acre parcel of land adjacent to the eastern perimeter of main campus. At trial in February 2005, a jury set the value of the property at \$2,895,900.00. The defendant has filed a notice of appeal and further litigation may be pending.

The College is also involved in a separate property condemnation related to a 3.96-acre parcel of land adjacent to the southern perimeter of the main campus. A deposit of \$180,000.00 was placed with the Wake County Clerk of Court as required by law on October 3, 2003. Mediation hearings reached an impasse and the case then went to jury trial. The jury determined the value of the property to be \$652,904.23 and a check for the balance of \$472,904.23 was hand delivered to the defendant's attorney on March 6, 2006 in compliance with the court order. Payment of related interest and legal fees completely satisfies this action.

**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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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 \$15,513,529.00 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.

- D. Wake County Construction Bonds** – In November of 2004, the voters of Wake County approved the sale of \$40,000,000 in capital improvement bonds for the College. A capital improvement plan has been submitted to the Wake County Construction Office detailing proposed use of the funds. The Wake County Commissioners approved the plan at their meeting on March 21, 2005, and appropriated \$470,000 for the current fiscal year. The funds are provided on a reimbursement basis and the College recognizes revenue only for expenses that have been paid or accrued. The College has recorded \$108,490.44 of expenses and revenues related to the bonds as of June 30, 2005.

### NOTE 14 - RELATED PARTIES

- A. Foundation** – The Wake 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 \$109,816.00 for the year ended June 30, 2005.

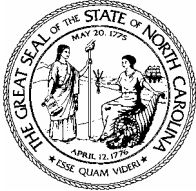
## NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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- B. Property Lease** – The College is engaged in a building lease agreement with Montague Properties. A member of the College Board of Trustees is related to one of the principal owners. The lease payments are comparable to market rates. The lease term ended on August 15, 2005. The lease payments for 2004-2005 amounted to \$76,392.00.
- C. Contracted Services** – The College has contracted with Waste Industries for trash removal since 1986. Mr. Jim W. Perry, CEO of Waste Industries, was appointed to the Wake Technical Community College Board of Trustees by the Wake County Board of Education in November 2002. Payments to Waste Industries for the fiscal year ended June 30, 2005, amounted to \$41,288.14.

### 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.



Leslie W. Merritt, Jr., CPA, CFP  
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**

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Board of Trustees  
Wake Technical Community College  
Raleigh, North Carolina

We have audited the financial statements of Wake Technical Community College, a component unit of the State of North Carolina, as of and for the year ended June 30, 2005, and have issued our report thereon dated May 1, 2006.

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.

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)**

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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 1, 2006



## ORDERING INFORMATION

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Audit reports issued by the Office of the State Auditor can be obtained from the web site at [www.ncauditor.net](http://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:

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