STATE OF NORTH CAROLINA

FAYETTEVILLE TECHNICAL COMMUNITY COLLEGE

FAYETTEVILLE, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2007

OFFICE OF THE STATE AUDITOR

LESLIE W. MERRITT, JR., CPA, CFP

STATE AUDITOR

Fayetteville Technical Community College

Fayetteville, North Carolina

Financial Statement Audit Report

For the Year Ended June 30, 2007

STATE OF NORTH CAROLINA
Office of the State Auditor

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

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

AUDITOR'S TRANSMITTAL

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

We have completed a financial statement and compliance audit of Fayetteville Technical Community College for the year ended June 30, 2007, 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 disclosed certain deficiencies and/or instances of noncompliance that are detailed in the Audit Findings and Responses section of this report. The College's response is included following each finding.

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, 2008

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Fayetteville Technical Community College
Fayetteville, North Carolina

We have audited the accompanying basic financial statements of Fayetteville Technical Community College, a component unit of the State of North Carolina, as of and for the year ended June 30, 2007, as listed in the table of contents. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Fayetteville Technical Community College as of June 30, 2007, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 28, 2008, on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis, as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Leslie W. Merritt, Jr.

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

May 28, 2008

This section of Fayetteville Technical Community College's (FTCC's) Financial Statements presents management's discussion and analysis of the College's financial activity during the fiscal year June 30, 2007, with comparative data for fiscal year ending June 30, 2006. This management's discussion and analysis is designed to focus on current activities, resulting change and currently known facts. Please read it in conjunction with the College's basic financial statements and the notes to the financial statements.

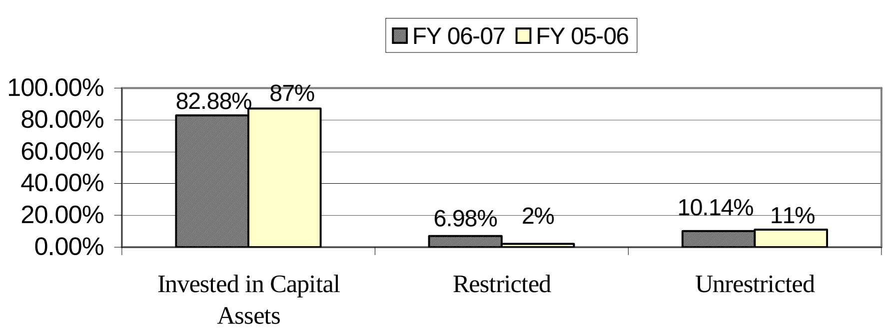
Using This Annual Report

The College's basic financial statements are designed to emulate corporate presentation models whereby all College activities are consolidated into one total. The focus of the Statement of Net Assets is designed to be similar to bottom line results for the College. This statement combines and consolidates current financial resources (short-term spendable resources) with capital assets. The Statement of Revenues, Expenses, and Changes in Net Assets focuses on both the gross and the net costs of College activities, which are supported mainly by State funds, county appropriations and other revenues. This approach is intended to summarize and simplify the user's analysis of the cost of various College services to students and the public.

Financial Highlights

As of June 30, 2007, the College's net assets have increased to $74,009,144.48 from $66,384,865.44 at June 30, 2006. This increase of $7,624,279.04 is due to an increase in investment in capital assets due to extending the useful lives of assets still in use and an increase in restricted net assets due to an increase in "restricted due from primary government" which consists of the 2000 state bond funds due from the North Carolina Community College System for construction projects. The tuition rate remained the same in FY 2006-2007 as in FY 2005-2006. The enrollment (total full-time equivalent (FTE)) increased approximately 2%. Total net assets as of June 30, 2007, consist of investments in capital assets (82.88%), restricted net assets (6.98%) and unrestricted net assets (10.14%). The following is a graphic illustration of net assets.

Analysis of Net Assets for FY 2006-2007 and FY 2005-2006

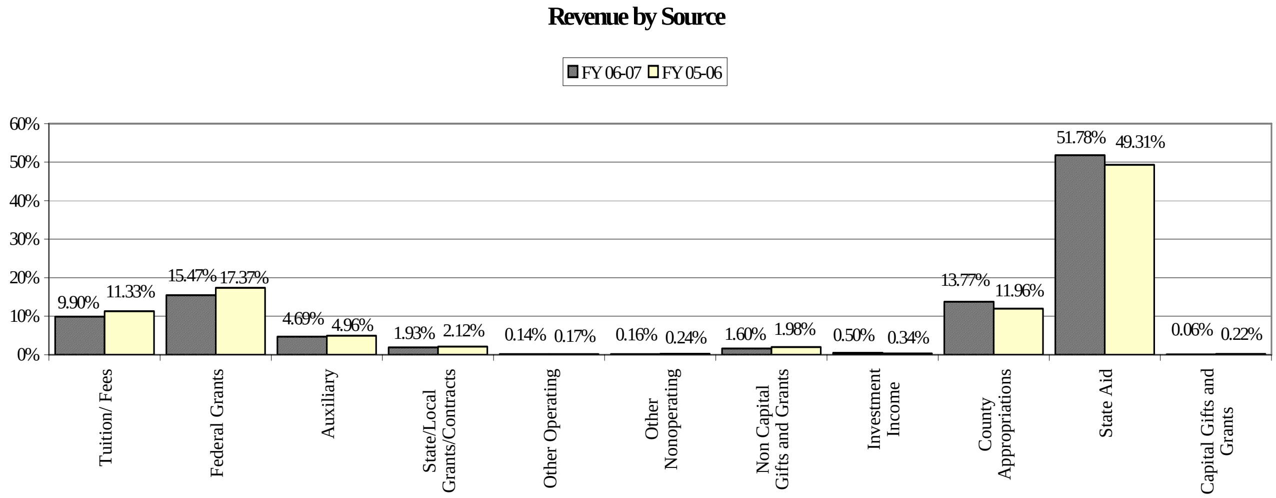


As of June 30, 2007, the College had recorded $78,627,529.50 in invested in capital assets, $17,288,390.36 in accumulated depreciation and $61,339,139.14 in net capital assets. "Noncurrent assets other" increased approximately 246% from 2006 to 2007. The increase was primarily due to the increase in "due from primary government" as previously explained. In noncurrent liabilities, long-term liabilities consist of the long-term portion of compensated absences. Total compensated absences include the balance of regular earned annual leave plus the balance of bonus leave with benefits for all full-time employees. The balance of bonus leave with benefits is $1,840,074.21 at June 30, 2007, which is a decrease of 3.85% from the prior year. Current liabilities decreased primarily due to a combination of a decrease in contracts payable for capital projects that were completed or were near completion at year end, a decrease in accrued payroll, and an increase in accounts payable.

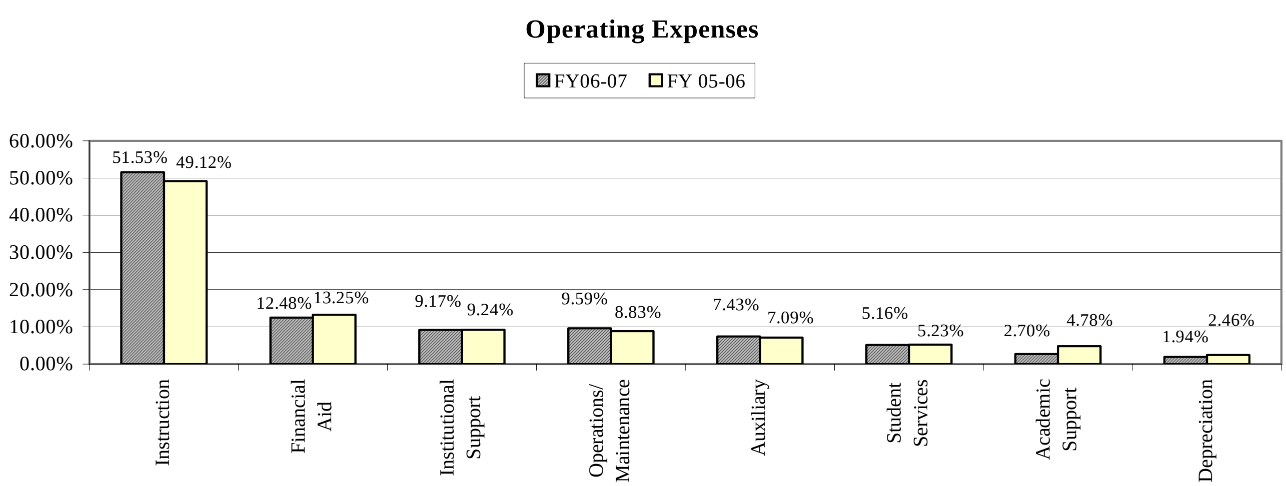
Condensed Statement of Net Assets

	2007	2006	Increase/ (Decrease)	Percent Change
ASSETS				
Current Assets	$ 12,812,497.38	$ 11,841,491.25	$ 971,006.13	8.20 %
Noncurrent Assets:				
Capital	61,339,139.14	57,777,966.07	3,561,173.07	6.16 %
Other	4,414,891.98	1,275,932.18	3,138,959.80	246.01 %
Total Assets	78,566,528.50	70,895,389.50	7,671,139.00	10.82 %
LIABILITIES				
Current Liabilities	1,729,628.09	1,739,754.87	(10,126.78)	(0.58) %
Noncurrent Liabilities	2,827,755.93	2,770,769.19	56,986.74	2.06 %
Total Liabilities	4,557,384.02	4,510,524.06	46,859.96	1.04 %
NET ASSETS				
Invested in Capital Assets	61,339,139.14	57,777,966.07	3,561,173.07	6.16 %
Restricted	5,165,708.13	1,284,201.37	3,881,506.76	302.25 %
Unrestricted	7,504,297.21	7,322,698.00	181,599.21	2.48 %
Total Net Assets	$ 74,009,144.48	$ 66,384,865.44	$ 7,624,279.04	11.48 %

Operating revenues at June 30, 2007, included a decrease in the federal Pell grant program servicing 4,598 students. The number of Pell students in 2006-2007 decreased by 3.50% over the FY 2005-2006. The Pell award decreased 2.03% over the previous year, going from $12,165,214.14 in FY 2005-2006 to $11,918,668.62 in FY 2006-2007. State aid increased approximately 7.95% from the previous year. This represents the increase in the State budget or State certifications in 2007 over fiscal year 2006. The increase in capital contributions of approximately 122% or $4,934,206.50 is comprised of two major components. One is an increase in the State capital aid which includes capital certifications and revenue from State sources for construction projects and the other is an increase in the county capital aid for construction projects. Total revenues are $81,396,634.99. The following is a graphic illustration of revenues by source.



Operating expenses in FY 2006-2007 were greater than FY 2005-2006. This increase was caused primarily by an increase in salaries and benefits (7.11%). All full-time employees received an 8% raise, plus an additional 2% bonus and a performance funding bonus of \$1,014.00. Additionally, the employer contribution rate payable for members of the Teachers' and State Employees' Retirement System increased from 6.82% in FY 2005-2006 to 7.14% in FY 2006-2007. The following is a graphic illustration of operating expenses.

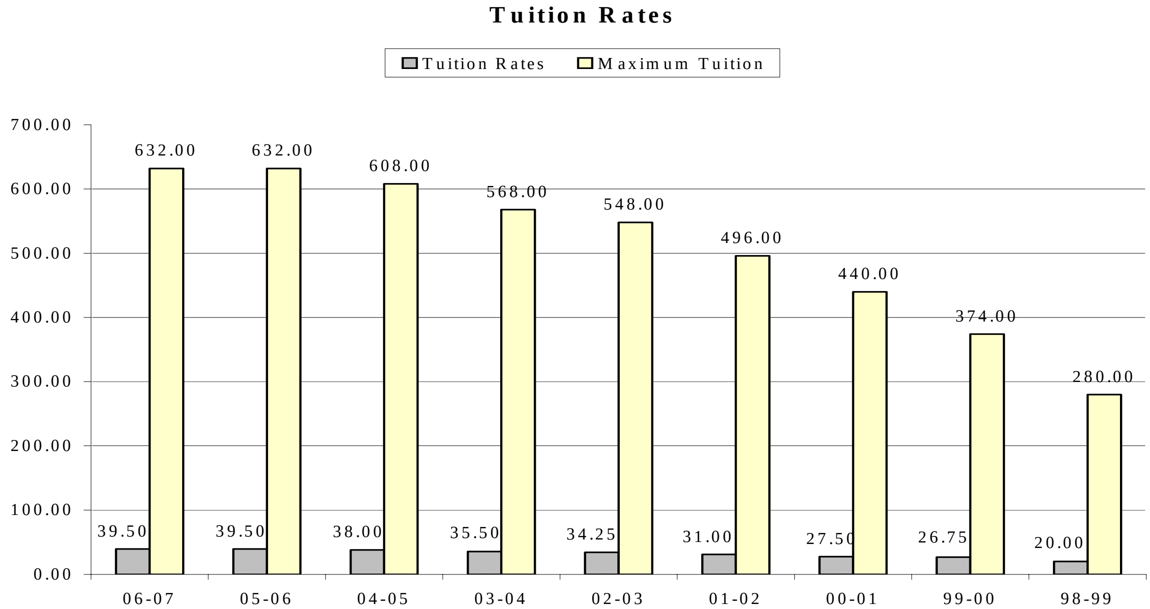


Total operating expenses at June 30, 2007, were \$73,772,355.95; at June 30, 2006, they were \$72,126,697.47, resulting in a 2.28% increase from the FY 2005-2006.

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

	2007	2006	Increase (Decrease)	Percent Change
OPERATING REVENUES				
Tuition and Fees, Net	$ 8,058,588.79	$ 8,366,356.44	$ (307,767.65)	(3.68) %
Grants and Contracts	14,169,182.70	14,396,150.32	(226,967.62)	(1.58) %
Sales and Services, Net	3,822,381.89	3,667,506.91	154,874.98	4.22 %
Other Operating Revenues	118,672.21	129,982.87	(11,310.66)	(8.70) %
Net Operating Revenues	26,168,825.59	26,559,996.54	(391,170.95)	(1.47) %
OPERATING EXPENSES	73,772,355.95	72,126,697.47	1,645,658.48	2.28 %
Operating Loss	(47,603,530.36)	(45,566,700.93)	(2,036,829.43)	4.47 %
NONOPERATING REVENUES				
State Aid	36,754,797.95	34,047,464.68	2,707,333.27	7.95 %
County Appropriations	7,690,263.00	7,316,823.00	373,440.00	5.10 %
Noncapital Grants and Gifts	1,304,875.97	1,464,412.41	(159,536.44)	(10.89) %
Investment Income	410,909.37	253,049.58	157,859.79	62.38 %
Other Nonoperating Revenues	83,923.58	145,155.09	(61,231.51)	(42.18) %
Total Nonoperating Revenues	46,244,769.87	43,226,904.76	3,017,865.11	6.98 %
Loss Before Other Revenues	(1,358,760.49)	(2,339,796.17)	981,035.68	(41.93) %
Capital Contributions	8,981,170.06	4,046,963.56	4,934,206.50	121.92 %
Additions to Endowments	1,869.47	1,373.14	496.33	36.15 %
Total Other Revenues	8,983,039.53	4,048,336.70	4,934,702.83	121.89 %
Total Increase in Net Assets	7,624,279.04	1,708,540.53	5,915,738.51	346.25 %
NET ASSETS				
Beginning of Year as Restated	66,384,865.44	64,676,324.91	1,708,540.53	2.64 %
End of Year	$ 74,009,144.48	$ 66,384,865.44	$ 7,624,279.04	11.48 %

The State tuition rates for in-State and out-of-State students remained unchanged in FY 2006-2007 at $39.50 and $219.50 per credit hour, respectively. Over the last three years, the State tuition has increased approximately 11.27%. Over the last eight years, tuition has increased approximately 97.50%.



As mentioned previously, the College receives funding from county and State sources. County appropriations increased from $7,316,823.00 in FY 2005-2006 to $7,690,263.00 in FY 2006-2007, a 5.10% increase. Revenue is recognized when the funds are expended. In June 2006, the County Commissioners approved a special financing agreement to borrow funds to allocate to the College in order for the College to meet the remaining State bond match requirement of $5,000,274.00. This match was allocated as one lump sum to the College to meet State bond match requirements and serves as the county allocation to the College for the next five years or until FY 2011-2012. The county funds are given to the College on a reimbursement basis. At June 30, 2007, the College had received all of the match funds from the county except for $959,960.43. During FY 2006-2007, the county match funds were used to purchase 5.87 acres of Spring Lake property for approximately $790,000.00 and 3.32 acres of land with a building (former Service Merchandise property) for $3,237,088.00.

The FTEs that generate the College's State budget (budget FTEs) remained flat in FY 2006-2007 from FY 2005-2006:

	2006-2007	2005-2006	% Increase (Decrease)
Curriculum	$ 7,698	$ 7,538	2.12%
Occupational Extension	1,373	1,313	4.57%
Basic Skills	1,130	1,059	6.70%
Total	$ 10,201	$ 9,910	2.94%

Along with the increased budget FTEs, the headcount or enrollment for FY 2006-2007 also increased. The headcount for Fall 2005 per DCC7-3C Verification Report was 10,486 and in Fall 2006 the headcount was 11,032, a very slight increase. To add to the difficult situation of funding education for more students with less budget, the State required the colleges to revert 1.00% of their individual college's budget. For FTCC this amount was $361,843.00.

New programs offered in the FY 2006-2007 were Associate in Fine Arts, Early Childhood Associate: Infant/Toddlers Care Certificate and Lateral Entry Teacher Certificate, and Automotive Systems Technology: Medium/Heavy Truck Maintenance Certificate.

FTCC continues to promote the advancement of technology in the classroom to prepare students for the future. The distance learning program enables students to take online courses anytime and anywhere using the Internet. FTCC served a total of 18,501 curriculum students (duplicated) and 586 continuing education students (duplicated) in FY 2006-2007.

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

	2006-2007	2005-2006	2004-2005	2003-2004	2002-2003	2001-2002	2000-2001
January	5.6%	5.3%	5.8%	5.1%	5.9%	6.7%	5.1%
February	5.5%	5.7%	6.2%	5.1%	5.5%	6.5%	5.5%
March	5.1%	5.0%	5.5%	4.2%	5.3%	6.9%	5.0%
April	5.0%	4.6%	5.6%	4.1%	5.3%	6.3%	4.9%
May	5.2%	5.3%	5.5%	4.4%	5.1%	6.8%	5.0%
June	5.8%	5.6%	6.4%	4.9%	6.0%	6.8%	5.7%

Significant Capital Asset Activities

Project #1446 – Bundled R & R includes the Paul H. Thompson Library renovations and the Thomas R. McLean Administration Building boiler chiller project, which were completed during FY 2006-2007. The library renovations were completed on December 15, 2006, and the boiler chiller project was completed on July 17, 2007, at a cost of $338,919.00 and $137,434.00, respectively.

The State Board of Community Colleges Board (State Board) approved several new projects at its January 22, 2007, meeting. Project #1585, the Service Merchandise Building renovations project, was approved with an estimated cost of $10,500,000.00. The funding source is State bond renovation funds. Completion of this project is scheduled for the Summer 2010.

The State Board also approved Project #1602, ADA & Life Safety Improvements project. A State grant in the amount of $400,000.00 and a matching grant of $400,000.00 from institutional funds will fund this project. The estimated completion date is October 2008.

Additional funding for Project #1460, Criminal Justice Center PM & E project, in the amount of $509,944.00 was also approved at the January 22, 2007, State Board meeting. This funding helps meet the estimated total cost of $1,289,944.00 for this project. The scheduled completion date is Spring 2008.

Project #1557, the Bulla Property Paving project, was approved at the April 23, 2007, State Board meeting. The estimated cost of this project is $575,000.00 of which $214,782.00 and $360,218.00 will be funded by State bond renovation funds and county funds, respectively. The completion date of this project is scheduled for Summer 2008.

Other State bond funded projects in progress include Project #1520, addition to the Thomas R. McLean Administration building, which has a project completion date of Spring 2008 with an estimated cost of $1,708,000.00. Private grant funds of $500,000.00, along with State bond funds of $1,208,000.00 comprise this total cost. An additional $272,800.00 was approved in FY 2006-2007. Project #1131, Horace Sisk and Lafayette Hall renovations project, is expected to be complete Fall 2007 at a cost of $4,282,185.00. Additionally, county funds are the source of funds for the Tony Rand Student Center and Cumberland Hall roof replacements with an estimated cost of $751,747.00.

Economic Forecast

On the State level the revenue surplus for FY 2006-2007 was approximately $1.35 billion or 7% of the revenue base. However, the $300 million was one-time in nature due to the settlement payments from disputes between the Department of Revenue and corporate taxpayers. Therefore the government leaders have to continue to exercise caution.

The opinion of many is that the residential real estate recession will continue through all of 2008 and maybe part of 2009. North Carolina has been hit hard because its markets were not as inflated during the good years; additionally, the Northeastern coastal areas of the State have experienced an approximate 45% drop in real estate tax receipts.

There has also been recent substantial growth in the quarterly estimated tax payments reflecting the high prices in the stock market. However, the recession word is already being discussed and at some point the market will head south and crash. At that point we may find ourselves in a budget reversion situation not unlike the past.

The .25% State sales tax was repealed but the county government now has the opportunity to share in these funds. The county is interested in implementing this tax and is going to put it to the vote of the people. In the meantime they are trying to educate the public on why the funds are needed and how they will be used.

The College is involved in preparing a Long Range Plan and Facilities Master Plan by the North Carolina Community College guideline requirements. All 58 colleges are involved in this endeavor. This is a necessary task so that the colleges can qualify for advanced planning funds and be ready for the next State bond issue.

The enrollment for Fall 2007 is relatively flat. The troop deployments are having a negative impact on enrollment since deployments affect not only the soldier but also the dependents and family members. Management is hopeful that the troops will soon come home for their well-being as well as for increased enrollment.

Fayetteville Technical Community College
Statement of Net Assets
June 30, 2007 ***Exhibit A-1***

ASSETS	
Current Assets:	
Cash and Cash Equivalents	$ 10,425,423.96
Restricted Cash and Cash Equivalents	589,661.91
Receivables, Net (Note 4)	942,323.37
Inventories	608,172.41
Prepaid Items	218,337.27
Notes Receivable, Net (Note 4)	28,578.46
Total Current Assets	12,812,497.38
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	124,584.71
Restricted Receivables (Note 4)	1,059,425.50
Restricted Due from Primary Government	3,230,881.77
Capital Assets - Nondepreciable (Note 5)	11,671,034.86
Capital Assets - Depreciable, Net (Note 5)	49,668,104.28
Total Noncurrent Assets	65,754,031.12
Total Assets	78,566,528.50
LIABILITIES	
Current Liabilities:	
Accounts Payable and Accrued Liabilities (Note 6)	1,018,652.62
Unearned Revenue	308,046.06
Funds Held for Others	8,266.96
Long-Term Liabilities - Current Portion (Note 7)	394,662.45
Total Current Liabilities	1,729,628.09
Noncurrent Liabilities:	
Long-Term Liabilities (Note 7)	2,827,755.93
Total Liabilities	4,557,384.02
NET ASSETS	
Invested in Capital Assets	61,339,139.14
Restricted for:	
Nonexpendable:	
Endowment	39,050.00
Expendable:	
Scholarships and Fellowships	14,398.94
Loans	249,165.43
Capital Projects	4,830,667.38
Other	32,426.38
Unrestricted	7,504,297.21
Total Net Assets	$ 74,009,144.48

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

Fayetteville Technical Community College
Statement of Revenues, Expenses, and Changes in Net Assets
For the Fiscal Year Ended June 30, 2007 ***Exhibit A-2***

REVENUES	
Operating Revenues:	
Student Tuition and Fees, Net (Note 8)	$ 8,058,588.79
Federal Grants and Contracts	12,594,018.75
State and Local Grants and Contracts	1,575,163.95
Sales and Services, Net (Note 8)	3,822,381.89
Other Operating Revenues	118,672.21
Total Operating Revenues	26,168,825.59
EXPENSES	
Operating Expenses:	
Personal Services	47,541,451.52
Supplies and Materials	7,741,309.04
Services	6,639,888.41
Scholarships and Fellowships	9,053,599.50
Utilities	1,366,139.70
Depreciation	1,429,967.78
Total Operating Expenses	73,772,355.95
Operating Loss	(47,603,530.36)
NONOPERATING REVENUES	
State Aid	36,754,797.95
County Appropriations	7,690,263.00
Noncapital Grants	1,151,857.34
Noncapital Gifts	153,018.63
Investment Income, Net	410,909.37
Other Nonoperating Revenues	83,923.58
Net Nonoperating Revenues	46,244,769.87
Loss Before Other Revenues	(1,358,760.49)
State Capital Aid	5,398,816.50
County Capital Aid	3,526,192.72
Capital Grants	55,369.84
Capital Gifts	791.00
Additions to Endowments	1,869.47
Increase in Net Assets	7,624,279.04
NET ASSETS	
Net Assets, July 1, 2006 as Restated (Note 15)	66,384,865.44
Net Assets, June 30, 2007	$ 74,009,144.48

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

Fayetteville Technical Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2007

Exhibit A-3

CASH FLOWS FROM OPERATING ACTIVITIES	
Received from Customers	$ 26,722,789.02
Payments to Employees and Fringe Benefits	(47,507,817.40)
Payments to Vendors and Suppliers	(15,591,381.72)
Payments for Scholarships and Fellowships	(9,053,599.50)
Loans Issued to Students	(100,573.29)
Collection of Loans to Students	82,940.45
Other Payments	(40,714.55)
Net Cash Used by Operating Activities	(45,488,356.99)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Aid Received	36,754,797.95
County Appropriations	7,690,263.00
Noncapital Grants Received	1,141,596.30
Noncapital Gifts and Endowments Received	164,046.00
William D. Ford Direct Lending Receipts	10,888,320.00
William D. Ford Direct Lending Disbursements	(10,888,320.00)
Net Cash Provided by Noncapital Financing Activities	45,750,703.25
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
State Capital Aid Received	2,372,503.87
County Capital Aid	3,332,995.90
Capital Grants Received	55,252.84
Capital Gifts Received	791.00
Proceeds from Sale of Capital Assets	2,574.96
Acquisition and Construction of Capital Assets	(5,203,696.12)
Net Cash Provided by Capital and Related Financing Activities	560,422.45
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment Income	404,212.94
Cash Provided by Investing Activities	404,212.94
Net Increase in Cash and Cash Equivalents	1,226,981.65
Cash and Cash Equivalents, July 1, 2006	9,912,688.93
Cash and Cash Equivalents, June 30, 2007	$ 11,139,670.58

RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES

Operating Loss	$	(47,603,530.36)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense		1,429,967.78
Miscellaneous Nonoperating Income		102,526.89
Changes in Assets and Liabilities:		
Receivables, Net		530,974.63
Inventories		(29,931.72)
Prepaid Items		(129,954.77)
Notes Receivable, Net		(17,488.50)
Accounts Payable and Accrued Liabilities		301,431.15
Unearned Revenue		22,988.80
Funds Held for Others		(143,241.44)
Compensated Absences		47,900.55
Net Cash Used by Operating Activities	$	(45,488,356.99)

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:		
Cash and Cash Equivalents	$	10,425,423.96
Restricted Cash and Cash Equivalents		589,661.91
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		124,584.71
Total Cash and Cash Equivalents - June 30, 2007	$	11,139,670.58

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Increase in Receivables Related to Nonoperating Income	$	3,236,583.92
Loss on Disposal of Capital Assets		(18,603.31)

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

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

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

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

B. Basis of Presentation – The accompanying financial statements are presented in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

Pursuant to the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as amended by GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*, the full scope of the College's activities is considered to be a single business-type activity and accordingly, is reported within a single column in the basic financial statements.

In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the College does not apply Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, for proprietary activities, unless the GASB amends its pronouncements to specifically adopt FASB pronouncements issued after that date.

C. Basis of Accounting – The financial statements of the College have been prepared using the economic resource measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

D. Cash and Cash Equivalents – This classification includes undeposited receipts, petty cash, cash on deposit with private bank accounts, and deposits held by the State Treasurer in the short-term investment fund. The short-term investment fund 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 and merchandise for resale, are valued at the lower of cost or market using the first-in, first-out method.

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

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

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

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

J. Compensated Absences – The College's policy is to record the cost of vacation leave when earned. The policy provides for a maximum accumulation of unused vacation leave of 30 days which can be carried forward each July 1 or for which an employee can be paid upon termination of employment. Also, any accumulated vacation leave in excess of 30 days at year end is converted to sick leave. Under this policy, the accumulated vacation leave for each employee at June 30 equals the leave carried forward at the previous June 30 plus the leave earned, less the leave taken between July 1 and June 30.

In addition to the vacation leave described above, compensated absences include the accumulated unused portion of the special annual leave bonuses awarded by the North Carolina General Assembly. The bonus leave balance on June 30 is retained by employees and transferred into the next fiscal year. It is not subject to the limitation on annual leave carried forward described above and is not subject to conversion to sick leave.

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

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

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

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

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

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

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

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

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

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

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

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

NOTE 2 - DEPOSITS AND INVESTMENTS

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 $3,510.00, and deposits in private financial institutions with a carrying value of $6,951,458.46 and a bank balance of $7,872,081.07.

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, 2007, the College's bank balance in excess of federal depository insurance coverage was covered under the pooling method.

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

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

At June 30, 2007, the amount shown on the Statement of Net Assets as cash and cash equivalents includes $4,184,702.12 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 1.6 years as of June 30, 2007. Assets and shares of the Short-Term Investment Fund are valued at amortized cost, which approximates fair value. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's Short-Term Investment Fund) are included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page http://www.ncosc.net/ and clicking on "Financial Reports", or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

NOTE 3 - DONOR RESTRICTED ENDOWMENTS

The College's endowment assets are pooled with State agencies and similar institutions in short-term investments with the State Treasurer's Cash and Investment Pool and are reported as restricted cash and cash equivalents – noncurrent on the accompanying financial statements. If a donor has not provided specific instructions, State law permits the Board of Trustees to authorize for expenditure the net appreciation, realized and unrealized, of the assets of the endowment funds. Annual payouts from the College's endowment funds are based on an adopted spending policy, which limits spending to 100% of the interest earnings unless the donor has stipulated otherwise. At June 30, 2007, net appreciation of $1,869.47 was available to be spent, all of which was restricted to specific purposes.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2007, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	$ 428,719.14	$ 101,360.60	$ 327,358.54
Accounts	281,200.36	53,933.71	227,266.65
Intergovernmental	92,905.59		92,905.59
Investment Earnings	17,079.81		17,079.81
Other	277,712.78		277,712.78
Total Current Receivables	$ 1,097,617.68	$ 155,294.31	$ 942,323.37
Noncurrent Restricted Receivables:			
Intergovernmental	$ 1,059,425.50	$ 0.00	$ 1,059,425.50
Notes Receivable:			
Notes Receivable - Current:			
Federal Loan Programs	$ 891.15	$ 891.15	$ 0.00
Institutional Student Loan Programs	52,577.47	23,999.01	28,578.46
Total Notes Receivable - Current	$ 53,468.62	$ 24,890.16	$ 28,578.46

NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2007, is presented as follows:

	Balance July 1, 2006 (as restated)	Increases	Decreases	Balance June 30, 2007
Capital Assets, Nondepreciable:				
Land	$ 2,653,752.73	$ 1,222,617.49	$ 0.00	$ 3,876,370.22
Construction in Progress	15,860,459.77	325,461.35	8,391,256.48	7,794,664.64
Total Capital Assets, Nondepreciable	18,514,212.50	1,548,078.84	8,391,256.48	11,671,034.86
Capital Assets, Depreciable:				
Buildings	45,344,226.79	11,211,100.69		56,555,327.48
Machinery and Equipment	9,486,550.02	644,396.07	732,800.05	9,398,146.04
General Infrastructure	1,003,021.12			1,003,021.12
Total Capital Assets, Depreciable	55,833,797.93	11,855,496.76	732,800.05	66,956,494.64
Less Accumulated Depreciation:				
Buildings	11,537,633.73	1,019,926.24		12,557,559.97
Machinery and Equipment	4,660,844.95	389,189.58	711,621.78	4,338,412.75
General Infrastructure	371,565.68	20,851.96		392,417.64
Total Accumulated Depreciation	16,570,044.36	1,429,967.78	711,621.78	17,288,390.36
Total Capital Assets, Depreciable, Net	39,263,753.57	10,425,528.98	21,178.27	49,668,104.28
Capital Assets, Net	$ 57,777,966.07	$ 11,973,607.82	$ 8,412,434.75	$ 61,339,139.14

The capital assets schedule above includes land and buildings valued at a cost of $3,008,130.45, for which the College does not currently hold the title. In 2006, the Cumberland County Commissioners approved a special financing agreement to provide funds to the College in order for the College to meet the remaining State bond match requirement. In order for the county to obtain the private financing needed to provide the resources to the College, the College transferred title of the land and buildings to the county for use as collateral until the debt has been paid off, at which time the title reverts back to the College. Until that time, the College is leasing the property from the County for $100 per year.

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2007, were as follows:

	Amount
Accounts Payable	$ 377,435.88
Accrued Payroll	319,213.64
Contract Retainage	131,647.35
Other	190,355.75
Total Accounts Payable and Accrued Liabilities	$ 1,018,652.62

NOTE 7 - LONG-TERM LIABILITIES

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

	Balance July 1, 2006	Additions	Reductions	Balance June 30, 2007	Current Portion
Compensated Absences	$ 3,174,517.83	$ 1,471,795.30	$ 1,423,894.75	$ 3,222,418.38	$ 394,662.45

NOTE 8 - REVENUES

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

	Gross Revenues	Internal Sales Eliminations	Less Scholarship Discounts	Less Allowance for Uncollectibles	Net Revenues
Operating Revenues:					
Student Tuition and Fees	$ 11,603,198.29	$ 0.00	$ 3,443,248.90	$ 101,360.60	$ 8,058,588.79
Sales and Services:					
Sales and Services of Auxiliary Enterprises:					
Dining	$ 230,585.65	$ 0.00	$ 0.00	$ 0.00	$ 230,585.65
Bookstore	4,899,572.04	13,221.43	2,055,803.90	53,933.71	2,776,613.00
Other	800,673.14				800,673.14
Sales and Services of Education and Related Activities	14,510.10				14,510.10
Total Sales and Services	$ 5,945,340.93	$ 13,221.43	$ 2,055,803.90	$ 53,933.71	$ 3,822,381.89

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	$ 33,713,823.38	$ 1,786,834.57	$ 2,512,419.23	$ 0.00	$ 0.00	$ 0.00	$ 38,013,077.18
Academic Support	1,169,102.21	673,493.97	148,296.65				1,990,892.83
Student Services	3,322,821.00	173,633.73	309,710.55				3,806,165.28
Institutional Support	4,777,329.14	532,779.45	1,455,432.68				6,765,541.27
Operations and Maintenance of Plant	3,153,858.92	492,375.00	2,066,143.68		1,366,139.70		7,078,517.30
Student Financial Aid	154,957.19			9,053,599.50			9,208,556.69
Auxiliary Enterprises	1,249,559.68	4,082,192.32	147,885.62				5,479,637.62
Depreciation						1,429,967.78	1,429,967.78
Total Operating Expenses	$ 47,541,451.52	$ 7,741,309.04	$ 6,639,888.41	$ 9,053,599.50	$ 1,366,139.70	$ 1,429,967.78	$ 73,772,355.95

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, 2007, these rates were set at 2.66% of covered payroll for employers and 6% of covered payroll for members.

For the year ended June 30, 2007, the College had a total payroll of $42,575,982.88, of which $33,204,078.07 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were $1,992,252.56 and $883,228.48, respectively. The College made 100% of its annual required contributions for the years ended June 30, 2007, 2006, and 2005, which were $883,228.48, $714,371.82, and $633,597.61, respectively.

The Teachers' and State Employees' Retirement System's financial information is included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page http://www.ncosc.net 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 $4,765.00 for the year ended June 30, 2007.

IRC Section 401(k) Plan – All members of the Teachers' and State Employees' Retirement System are eligible to enroll in the Supplemental Retirement Income Plan, a defined contribution plan, created under Internal Revenue Code Section 401(k). All costs of administering the

Plan are the responsibility of the Plan participants. The voluntary contributions by employees amounted to $656,044.44 for the year ended June 30, 2007.

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 $181,075.92 for the year ended June 30, 2007.

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 3.8% of the covered payroll under the Teachers' and State Employees' Retirement System for these health care benefits. For the fiscal year ended June 30, 2007, the College's total contribution to the Plan was $1,261,754.97. 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. Disability Income – The College participates in the Disability Income Plan of North Carolina (DIPNC). Established by Chapter 135, Article 6, of the General Statutes, DIPNC provides short-term and long-term disability benefits to eligible members of the Teachers' and State Employees' Retirement System. Long-term disability income benefits are advance funded on an actuarially determined basis using the one-year term cost method. The College contributes .52% of covered payroll under the Teachers' and State Employees' Retirement System to the DIPNC. For the year ended June 30, 2007, the College's total contribution to the DIPNC was $172,661.21. 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 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 $75,000 deductible. The College is protected for losses from employee dishonesty and computer fraud for employees paid directly from county or institutional funds by contract with private insurance companies.

Employees and retirees are provided health care coverage by the Comprehensive Major Medical Plan (Plan), a component unit of the State. The

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

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

Term life insurance of $25,000 to $50,000 is provided to eligible workers. This self-insured death benefit program is administered by the State Treasurer and funded via employer contributions. The employer contribution rate was .16% 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

The College has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were $409,827.90 at June 30, 2007.

NOTE 14 - RELATED PARTIES

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

The distributions received and/or benefits provided approximated $113,565.00 for the year ended June 30, 2007.

NOTE 15 - NET ASSETS RESTATEMENTS

As of July 1, 2006, net assets as previously reported was restated as follows:

	Amount
July 1, 2006, Net Assets as Previously Reported	$ 62,467,442.12
Restatements:	
Correction of an Error Related to the Estimated Useful Lives of Capital Assets	4,832,453.22
Correction of an Error Related to the Overstatement of Student Accounts Receivable and Tuition and Fees	(915,029.90)
July 1, 2006, Net Assets as Restated	$ 66,384,865.44

STATE OF NORTH CAROLINA
Office of the State Auditor

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

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

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

Board of Trustees
Fayetteville Technical Community College
Fayetteville, North Carolina

We have audited the financial statements of Fayetteville Technical Community College, a component unit of the State of North Carolina, as of and for the year ended June 30, 2007, and have issued our report thereon dated May 28, 2008. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the College's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the College's financial statements that is more than inconsequential will not

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)

be prevented or detected by the College's internal control. We consider the deficiencies described in findings 1 and 2 in the Audit Findings and Responses section of this report to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the College's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider Finding 1 to be a material weakness.

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*.

The College's responses to the findings identified in our audit are described in the Audit Findings and Responses section of this report. We did not audit the College's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management of the College, the Board of Trustees, the State Board of Community Colleges, the Governor, the State Controller, and the General Assembly, 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 28, 2008

Matters Related to Financial Reporting or Federal Compliance Objectives

The following findings were identified during the current audit and describe conditions that represent significant deficiencies in internal control or noncompliance with laws, regulations, contracts, grant agreements or other matters.

1. DEFICIENCIES IN FINANCIAL REPORTING

The financial statements prepared by Fayetteville Technical Community College contained misstatements that were corrected as a result of our audit. Without these corrections, the financial statements could have been misleading to readers.

Misstatements noted in our audit included:

a. The College incorrectly recorded student accounts receivable and student tuition and fees revenues. As a result, student accounts receivable and unrestricted net assets were overstated by $707,718; student tuition and fees revenues were understated by $207,312; and beginning net assets were overstated by $915,030.

b. The College completed the construction of several building projects totaling $8.4 million. The reclassification of these assets from construction in progress to buildings were included in error in the proceeds from the sale of capital assets and the acquisition and construction of capital assets costs in the statement of cash flows.

c. Various other misstatements were made in the financial statements and notes to the financial statements.

Recommendation: The College should place greater emphasis on the year-end financial reporting process and implement effective internal controls to ensure the completeness and accuracy of the financial statements.

College's Response:

a. The misstatement of student accounts receivable and student tuition and fees revenue was due to the College not having a clear understanding of the accounting transactions occurring in "Fund 55" in the newly implemented Datatel software. The College did seek guidance in closing out this fund at year-end and thought the year-end process had been properly handled. However, after analyzing the accounts for the Auditors, the College realized that the process used had overstated the accounts mentioned above. The College now has a better understanding of the Datatel "Fund 55" and the proper closing procedures.

b. The College recognizes that the reclassification of construction in progress to buildings should not be reflected on the supplementary statement of cash flows and will not reflect similar reclassifications on future statements of cash flows.

c. The College does place great emphasis on the year-end financial reporting process as evidenced by nineteen years of no audit findings.

All areas of concern that have been brought to the College's attention will be addressed to ensure proper handling of the year-end financial statement reporting process.

2. INSUFFICIENT FINANCIAL AID POLICIES AND PROCEDURES

Policies and procedures for the College's financial aid department were not adequately documented, including the College's eligibility verification policy, which is specifically required by federal regulations to be in writing. A department that operates without written policies and procedures faces an increased risk of inconsistency, error or noncompliance. The financial aid department was in the process of documenting its policies and procedures during the 2006-2007 academic year; however the policies were not complete at the time of our audit. Sound internal controls include operating policies and procedures that are clearly communicated. The Code of Federal Regulations, Title 34, Part 668.53, Policies and Procedures, requires the College to establish written eligibility verification policies and procedures that incorporate the provisions of the federal regulation.

Recommendation: The College should have written policies and procedures for all of the financial aid department's operations.

College's Response: The College will ensure that complete written policies and procedures will be available for all of the financial aid department's operations. Our goal is to compile the documents into a single source electronic format using the National Association of Student Financial Aid Administrators (NASFAA) template.

3. INAPPROPRIATE SYSTEM ACCESS RIGHTS AND LACK OF REVIEW

Financial aid department employees had information system access rights that were inappropriate, and management could not produce documentation to indicate that reviews were performed of the work processed by the employees to compensate for the inappropriate access. Inappropriate system access rights in the absence of management review could result in errors or fraud in the processing of financial aid awards.

The College's financial aid awards were calculated in the College's information system based on the rules that the department's Director programs into the system. No one reviewed the programmed rules after they were set in the system. Employees in clerical and technician positions, neither of which are management level positions, were granted the system access rights to change the Director's program rules and to override financial aid awards and student eligibility factors calculated in the system. The College did not have a review process in place to monitor overrides.

Recommendation: The College should limit system access rights to ensure that employees are assigned the least amount of system access necessary to perform their jobs and that adequate segregation of duties is maintained in employees' access to the system. Management should have documented procedures for reviewing work performed by financial aid department employees and documentation of these reviews should be maintained.

College's Response: All Financial Aid job descriptions will be reviewed to identify the responsibilities in the financial aid office as they relate to the level of system access rights needed and the segregation of duties within the system. The system access assignments and segregation of duties will be documented for each position and reviewed annually by the Associate Vice President of Student Services.

A process will be developed for the review, monitoring and documentation of all financial aid award overrides.

4. FINANCIAL AID AWARDED TO STUDENTS WHO MAY NOT MEET ACADEMIC STANDARDS

Students who may not meet the College's financial aid academic standards received federal awards. As a result, students may have received federal awards for which they were not eligible.

According to College policy, when a student becomes academically ineligible for financial aid, the student is placed on probation for one year and cannot receive federal loans. If the student does not meet the College's financial aid academic standards for two consecutive years, the student cannot receive any federal grants or loans.

In the 2006-2007 academic year, students were flagged in the College's system as academically ineligible for financial aid; however it was not clear when the financial aid academic ineligibility became effective. Management did not want to refuse aid to students that may be eligible, and therefore, they decided to leave some students on continuing probation for the 2006-2007 academic year. This may have allowed some students who were in their second year of academic ineligibility to receive federal grants for an additional year. Likely questioned costs are estimated to exceed $10,000.

The Code of Federal Regulations, Title 34, Part 668.16(e), Standards of Administrative Capability, states that students must maintain satisfactory academic progress in their courses of study according to the College's published standards of satisfactory academic progress.

Recommendation: The College should ensure that federal financial aid is only awarded to eligible students.

College's Response: With the exception of the students placed on "continuing probation," the new financial aid SAP policy was set up in Datatel in the proper module for the SAP calculation and was used in May 2006. Upon further review and investigation of all the students in question, it was determined that the majority were approved or placed on a conditional probationary status for the fall 2006 semester.

Documentation concerning these accounts is available for review. A satisfactory academics progress policy is currently in place and is being followed to ensure that federal financial aid is only awarded to eligible students.

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