

STATE OF NORTH CAROLINA

GUILFORD TECHNICAL COMMUNITY COLLEGE

JAMESTOWN, 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

GUILFORD TECHNICAL COMMUNITY COLLEGE

JAMESTOWN, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2007

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THE NORTH CAROLINA COMMUNITY COLLEGE SYSTEM

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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

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

We have completed a financial statement and compliance audit of Guilford Technical Community College for the year ended June 30, 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 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.

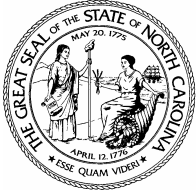
Leslie W. Merritt, Jr.

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

May 20, 2008

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Guilford Technical Community College
Jamestown, North Carolina

We have audited the accompanying financial statements of Guilford Technical Community College, a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 2007, which collectively comprise the College's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Guilford Technical Community College's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Guilford Technical Community College Foundation, Inc., the College's discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinions, insofar as they relate to the amounts included for the Foundation, are based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of Guilford Technical Community College Foundation, Inc., were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of Guilford Technical Community College and its discretely presented component unit as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

In accordance with *Government Auditing Standards*, we have also issued our report dated April 29, 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., CPA, CFP
State Auditor

April 29, 2008

GUILFORD TECHNICAL COMMUNITY COLLEGE MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Guilford Technical Community College's Annual Financial Report presents the Management's Discussion and Analysis of the College's financial activity during the fiscal year ended June 30, 2007. College management has prepared this discussion along with the financial statements and notes to the financial statements. It should be read in conjunction with, and is qualified in its entirety by, the financial statements and notes to the financial statements. The financial statements, notes to the financial statements, and this discussion are the responsibility of College management.

Using the Annual Report/ Overview of Financial Statements

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

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

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

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

Financial Highlights for Fiscal Year 2006-07

- GTCC's total assets exceeded total liabilities at June 30, 2007, by \$134,056,434.97 (total net assets). This is a \$30,499,206.56 increase in net assets over the prior fiscal year.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

- Capital assets before depreciation increased \$3,388,616.84 to \$122,347,032.74 on June 30, 2007.
- Total revenues for the fiscal year ended June 30, 2007, equaled \$92,354,042.98, up \$26,979,705.80 from the prior year. Operating revenues increased by \$1,223,431.99 to \$23,043,890.90 during the same period.
- Operating expenses at June 30, 2007, totaled \$69,442,140.47, up \$6,994,012.64 from the prior year.
- The College did not incur debt during the 2006-07 fiscal year.

Financial Analysis of the College's Funds

Net Assets

This Schedule of Net Assets is prepared from the College's Statement of Net Assets, which is presented on an accrual basis of accounting.

Total net assets at June 30, 2007, totaled \$134,056,434.97, an increase of \$30,499,206.56 over the prior fiscal year. This increase primarily was due to a \$20,032,000.40 increase in the accounts receivable Restricted Due from Primary Government for State funded construction projects. Net capital assets increased \$9,075,408.05 and student fees increased \$936,133.72.

Net Assets		2007	2006
As of June 30,		<u>2007</u>	<u>2006</u>
Current Assets	\$	11,979,967.69	\$ 10,292,100.53
Noncurrent Assets			
Capital Assets, Net of Depreciation		100,380,445.15	91,305,037.10
Other		<u>25,329,504.16</u>	<u>4,897,848.92</u>
Total Assets		<u>137,689,917.00</u>	<u>106,494,986.55</u>
Current Liabilities		2,383,842.54	1,758,244.25
Noncurrent Liabilities		<u>1,249,639.49</u>	<u>1,179,513.89</u>
Total Liabilities		<u>3,633,482.03</u>	<u>2,937,758.14</u>
Net Assets			
Investment in Capital Assets		100,380,445.15	91,305,037.10
Restricted for: Expendable		25,968,928.36	5,568,833.07
Unrestricted		<u>7,707,061.46</u>	<u>6,683,358.24</u>
Total Net Assets	\$	<u><u>134,056,434.97</u></u>	\$ <u><u>103,557,228.41</u></u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Capital Assets

GTCC's investment in capital assets as of June 30, 2007, amounted to \$100,380,445.15 net of accumulated depreciation. This investment in capital assets includes land, construction in progress, buildings, infrastructure, equipment and vehicles. The total increase in GTCC's investment in net capital assets was \$9,075,408.05.

Changes in types of capital assets are shown below:

- Land increased by \$115,084.48 for purchases related to the High Point Campus.
- There was a net increase to construction in progress of \$481,356.46. Expenditures of \$1,202,845.83 for the Health Technologies project on the Jamestown Campus and \$216,548.08 for a new classroom building on the Greensboro Campus were offset by \$938,000.00 transferred to infrastructure due to completion of site work and parking lots at the Greensboro Campus.
- Buildings increased by \$470,440.01. A large part of the increase was due to an industrial building valued at \$324,467.77, which was acquired in High Point as part of a land purchase. Medlin renovations continued this year resulting in \$140,865.77 in expenditures while Davis Hall renovations totaled \$120,470.48. Final expenditures amounted to \$81,857.30 on the Entertainment Technology Building, and \$71,720.51 on the Technical Education Center. Funding in the amount of \$70,224.20 completed a significant renovation of a Science Lab. In addition, there were a number of smaller projects, each totaling less than \$70,000.00 and one disposal amounting to less than \$5,000.00 that resulted in a net increase of \$156,367.98. The demolition of the High Point warehouse was recorded resulting in a decrease of \$495,534.00.
- Infrastructure increased \$1,380,656.01 primarily due to completion of Greensboro Campus site work valued at \$1,117,591.95. Additions to various parking lots at the Jamestown Campus totaled \$263,064.06.
- Equipment additions for items valued over \$5,000 totaled \$941,079.88.
- A prior period adjustment of \$7,587,304.05 was recorded to reflect application of the revised North Carolina Community College System depreciation policy. This policy was revised to reflect a longer useful life of capital assets based on actual use of the assets.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Capital Assets, Net As of June 30,

	2007	2006
Capital Assets		
Land	\$ 6,706,816.32	\$ 6,591,731.84
Construction in progress	2,224,988.76	1,743,632.30
Buildings	87,418,871.19	86,948,431.18
Infrastructure	13,045,902.03	11,665,246.02
Equipment	12,950,454.44	12,009,374.56
Total	122,347,032.74	118,958,415.90
Less Accumulated Depreciation	21,966,587.59	27,653,378.80
Net Capital Assets	\$ 100,380,445.15	\$ 91,305,037.10

Operating Revenues and Expenses

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

Operating Results At June 30,

	2007	2006
Operating Revenue		
Tuition and Fees	\$ 6,721,449.06	\$ 5,906,523.22
Other	16,322,441.84	15,913,935.69
Total Operating Revenue	* 23,043,890.90	21,820,458.91
Less Operating Expenses	69,442,140.47	62,448,127.83
Operating Loss	(46,398,249.57)	(40,627,668.92)
Nonoperating Revenue	* 42,538,710.62	37,738,819.54
Loss before other revenue	(3,859,538.95)	(2,888,849.38)
Capital Contributions	* 26,771,441.46	5,815,058.73
Increase in Net Assets	22,911,902.51	2,926,209.35
Prior Period Adjustment (Note 15)	7,587,304.05	
Net Assets, Beginning of Year	103,557,228.41	100,631,019.06
Net Assets, End of Year	\$ 134,056,434.97	\$ 103,557,228.41

* Total revenues equal \$92,354,042.98.

Operating revenue increased by \$1,223,431.99 to \$23,043,890.90 due to enrollment growth. Student tuition and fees increased \$814,925.84 and bookstore sales increased \$482,026.05.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

Nonoperating revenue increased \$4,799,891.08 to \$42,538,710.62 in fiscal year 2007. State appropriations increased \$3,334,237.26, county appropriations increased \$589,341.76, noncapital grants increased \$374,768.91, investment income increased \$282,444.06, and noncapital gifts increased \$33,051.31.

Capital Contributions increased by \$20,956,382.73 to \$26,771,441.46. The accounts receivable for State capital aid increased \$22,890,473.29 while expenditures for State and county capital projects decreased \$1,873,826.40. Capital grants and gifts also decreased \$60,264.16.

Operating expenses for fiscal year 2007 increased \$6,994,012.64 to \$69,442,140.47. Personal services increased \$4,459,454.59 for faculty and staff salaries increases, increases in employee benefits, hiring of additional faculty for enrollment growth, and hiring of additional staff to support growth. Equipment purchases less than the capitalization threshold of \$5,000, software, upgrades and replacement of personal computers for instructional labs and staff, and audio-visual supplies increased \$2,521,398.03.

Economic and Other Factors Impacting Future Periods

The level of State support is one of the key factors influencing the College's financial condition and its ability to expand programs, undertake new initiatives, and meet its core mission and on-going operational needs. In addition, there is a direct relationship between the level of state support and tuition increases, as declines in State support have resulted in increased tuition rates and/or mandatory budget reversions.

Total State appropriations increased approximately 13% from the prior year due to enrollment growth. However, State appropriations constituted only about 32% of the College's total revenues for fiscal year 2006-07 compared to 41% the prior year. The College continues to experience a decline in the level of State support. This places the College in the position to be dependent on other revenue streams to support on-going operations. The placement of regulatory restrictions on line items within the State budget has a significant impact on the College's capacity to be flexible in responding to the community's needs.

The biggest challenges facing the College are:

- Meeting the demand for workforce development training due to a retooling of businesses and industries in Guilford County.
- Maintaining levels of federal, State and local support.
- Completing construction projects on schedule and within budget.
- Preparing to meet enrollment growth demands.

Requests for Information

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

Guilford Technical Community College
Statement of Net Assets
June 30, 2007

Exhibit A-1

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 8,154,227.53
Restricted Cash and Cash Equivalents	1,625,854.20
Receivables, Net (Note 3)	833,453.57
Inventories	847,457.23
Prepaid Items	518,905.30
Notes Receivable	69.86

Total Current Assets	11,979,967.69
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Noncurrent Assets:

Restricted Cash and Cash Equivalents	4,630,523.21
Notes Receivable	610,459.37
Restricted Due from Primary Government	20,088,521.58
Capital Assets - Nondepreciable (Note 4)	8,931,805.08
Capital Assets - Depreciable, Net (Note 4)	91,448,640.07

Total Noncurrent Assets	125,709,949.31
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Total Assets	137,689,917.00
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LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 5)	1,592,252.31
Unearned Revenue	390,337.08
Funds Held for Others	187,927.84
Long-Term Liabilities - Current Portion (Note 6)	213,325.31

Total Current Liabilities	2,383,842.54
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Noncurrent Liabilities:

Long-Term Liabilities (Note 6)	1,249,639.49
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Total Liabilities	3,633,482.03
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NET ASSETS

Invested in Capital Assets	100,380,445.15
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Restricted Expendable:

Scholarships and Fellowships	24,170.20
Loans	6,190.04
Capital Projects	25,223,173.58
Other	715,394.54

Unrestricted	7,707,061.46
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Total Net Assets	\$ 134,056,434.97
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The accompanying notes to the financial statements are an integral part of this statement.

***Guilford Technical Community College
Statement of Revenues, Expenses, and
Changes in Net Assets
For the Fiscal Year Ended June 30, 2007***

Exhibit A-2

REVENUES

Operating Revenues:	
Student Tuition and Fees, Net (Note 8)	\$ 6,721,449.06
Federal Grants and Contracts	10,232,244.70
Sales and Services, Net (Note 8)	6,006,781.08
Other Operating Revenues	83,416.06
	<hr/>
Total Operating Revenues	23,043,890.90
	<hr/>

EXPENSES

Operating Expenses:	
Personal Services	43,525,275.06
Supplies and Materials	10,522,081.48
Services	5,942,038.95
Scholarships and Fellowships	5,285,033.18
Utilities	1,589,615.94
Depreciation	2,578,095.86
	<hr/>
Total Operating Expenses	69,442,140.47
	<hr/>
Operating Loss	(46,398,249.57)
	<hr/>

NONOPERATING REVENUES (EXPENSES)

State Aid	29,925,093.25
County Appropriations	9,546,354.50
Noncapital Grants	2,396,276.48
Noncapital Gifts	41,051.31
Investment Income	663,999.08
Other Nonoperating Expenses	(34,064.00)
	<hr/>
Net Nonoperating Revenues	42,538,710.62
	<hr/>
Loss Before Other Revenues	(3,859,538.95)
	<hr/>
State Capital Aid	23,803,502.66
County Capital Aid	2,895,055.92
Capital Grants	32,277.88
Capital Gifts	40,605.00
	<hr/>
Increase in Net Assets	22,911,902.51
	<hr/>

NET ASSETS

Net Assets, July 1, 2006 as Restated (Note 15)	111,144,532.46
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Net Assets, June 30, 2007	\$ 134,056,434.97
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The accompanying notes to the financial statements are an integral part of this statement.

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

Exhibit A-3

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 22,885,858.14
Payments to Employees and Fringe Benefits	(43,176,858.43)
Payments to Vendors and Suppliers	(17,961,851.82)
Payments for Scholarships and Fellowships	(5,285,033.18)
Loans Issued to Students	(69.86)
Other Payments	(70,653.25)
	<u>(43,608,608.40)</u>
Net Cash Used by Operating Activities	<u>(43,608,608.40)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Aid Received	29,925,093.25
County Appropriations	9,546,354.50
Noncapital Grants Received	2,396,503.37
Noncapital Gifts Received	41,051.31
	<u>41,909,002.43</u>
Cash Provided by Noncapital Financing Activities	<u>41,909,002.43</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

State Capital Aid Received	3,771,502.26
County Capital Aid	2,658,045.40
Capital Grants Received	32,077.88
Acquisition and Construction of Capital Assets	(3,779,086.70)
	<u>2,682,538.84</u>
Net Cash Provided by Capital and Related Financing Activities	<u>2,682,538.84</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Investment Income	<u>668,976.32</u>
Net Increase in Cash and Cash Equivalents	1,651,909.19
Cash and Cash Equivalents, July 1, 2006	<u>12,758,695.75</u>
Cash and Cash Equivalents, June 30, 2007	<u><u>\$ 14,410,604.94</u></u>

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

Exhibit A-3
Page 2

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

Operating Loss	\$ (46,398,249.57)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	2,578,095.86
Miscellaneous Nonoperating Income	13,695.50
Changes in Assets and Liabilities:	
Receivables, Net	(213,547.63)
Inventories	(28,608.83)
Prepaid Items	38,684.24
Notes Receivable	(69.86)
Accounts Payable and Accrued Liabilities	332,587.30
Unearned Revenue	(5,030.50)
Funds Held for Others	(23,803.38)
Compensated Absences	97,638.47
Net Cash Used by Operating Activities	<u><u>\$ (43,608,608.40)</u></u>

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	\$ 8,154,227.53
Restricted Cash and Cash Equivalents	1,625,854.20
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	<u>4,630,523.21</u>
Total Cash and Cash Equivalents - June 30, 2007	<u><u>\$ 14,410,604.94</u></u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through Assumption of a Liability	\$ 294,305.11
Assets Acquired through a Gift	40,605.00
Increase in Receivables Related to Nonoperating Income	20,269,010.92
Capital Asset Write-Offs	47,759.50

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

Guilford Technical Community College Foundation, Inc.
Statement of Financial Position
June 30, 2007

Exhibit B-1

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 1,990
Investments	6,792,121
Accounts Receivable	1,847
Promises to Give Due in One Year	<u>564,287</u>

Total Current Assets 7,360,245

Promises to Give Due after One Year, less discount of \$315,038 1,415,602

Other Assets - Beneficial Interest in Charitable Remainder Trust 63,812

Total Assets \$ 8,839,659

LIABILITIES AND NET ASSETS

Liabilities:

Accounts Payable \$ 42,318

Net Assets:

Unrestricted 2,454,539

Temporarily Restricted 2,874,861

Permanently Restricted 3,467,941

Total Net Assets 8,797,341

Total Liabilities and Net Assets \$ 8,839,659

Guilford Technical Community College Foundation, Inc.
Statement of Activities
For the Fiscal Year Ended June 30, 2007

Exhibit B-2

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenue and Other Support:				
Contributions	\$ 237,693	\$ 1,496,361	\$ 794,043	\$ 2,528,097
Investment Income	788,490	66,377	41,814	896,681
Miscellaneous Income	9,264	195,101	39	204,404
Services Contributed by College	223,896			223,896
Contributed Materials and Equipment	638,393			638,393
	<u>1,897,736</u>	<u>1,757,839</u>	<u>835,896</u>	<u>4,491,471</u>
Net Assets Released from Restrictions	<u>236,066</u>	<u>(236,066)</u>		
Total Revenue and Other Support	<u>2,133,802</u>	<u>1,521,773</u>	<u>835,896</u>	<u>4,491,471</u>
Expenses:				
Departments and Program Support (Including \$166,242 from Temporarily Restricted Contributions)	227,130			227,130
Student Aid	76,052			76,052
Grants and Projects	57,478			57,478
Materials and Equipment Contributed to the College	638,393			638,393
Administration	233,924			233,924
Total Expenses	<u>1,232,977</u>			<u>1,232,977</u>
Excess of Revenues Over Expenses	<u>900,825</u>	<u>1,521,773</u>	<u>835,896</u>	<u>3,258,494</u>
Net Transfers:				
Title III Endowment Grant	578,783		(578,783)	
All Others	56,112	(83,368)	27,256	
Net Transfers Among Funds	<u>634,895</u>	<u>(83,368)</u>	<u>(551,527)</u>	
Increase in Net Assets	1,535,720	1,438,405	284,369	3,258,494
Net Assets at the Beginning of the Year	<u>918,819</u>	<u>1,436,456</u>	<u>3,183,572</u>	<u>5,538,847</u>
Net Assets at End of Year	<u>\$ 2,454,539</u>	<u>\$ 2,874,861</u>	<u>\$ 3,467,941</u>	<u>\$ 8,797,341</u>

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GUILFORD TECHNICAL COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

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

The accompanying financial statements present all funds of the College and component unit for which the College's Board of Trustees is financially accountable. The College's component unit is discretely presented in the financial statements. The discretely presented component unit's financial data are reported in separate financial statements because of its use of different GAAP reporting models and to emphasize its legal separateness.

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

The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the College in support of its programs. The Foundation board consists of 30 members. Although the College does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, that the Foundation holds and invests are restricted to the activities of the College by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the College, the Foundation is considered a component unit of the College and is reported in separate financial statements because of the difference in its reporting model, as described below.

The Guilford Technical Community College Foundation, Inc., is a private not-for-profit organization that reports its financial results under Financial

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Accounting Standards Board (FASB) Statements. As such, certain revenue recognition criteria and presentation features are different from Governmental Accounting Standards Board (GASB) revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information in the College's financial reporting entity for these differences.

During the year ended June 30, 2007, the Foundation distributed \$999,053.00 to the College for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from Guilford Technical Community College Foundation, Inc, P.O. Box 309, Jamestown, NC 27282.

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

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

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

- C. Basis of Accounting** - The financial statements of the College have been prepared using the economic resource measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.
- D. Cash and Cash Equivalents** - This classification includes petty cash, cash on deposit with private bank accounts, a money market account, 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.

- E. Investments** - The College does not hold any investments. Note 2B includes investments held by the Guilford Technical Community College Foundation, Inc., because of its significance to the reporting entity.
- F. 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.
- G. Inventories** - Inventories, consisting of expendable supplies, postage, fuel and merchandise for resale, are valued at last invoice cost.
- H. 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.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 College to all full-time permanent employees as of September 30, 2002, as of July 1, 2003, and as of September 1, 2005. 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.

L. 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.

M. 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

- N. 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.

- O. Internal Sales Activities** - Certain institutional auxiliary operations provide goods and services to College departments, as well as to its customers. These institutional auxiliary operations include activities such as central stores, the duplicating center and postal services. In addition, the College has other miscellaneous sales and service units that operated either on a reimbursement or charge basis. All internal sales activities to College departments from auxiliary operations and sales and service units have been eliminated in the accompanying financial statements. These eliminations are recorded by removing the revenue and expense in the auxiliary operations and sales and service units and, if significant, allocating any residual balances to those departments receiving the goods and services during the year.
- P. County Appropriations** - County appropriations are provided to the College primarily to fund its plant operation and maintenance function and to fund construction projects, motor vehicle purchases, and maintenance of equipment. Unexpended county current appropriation and county capital appropriation do not revert and are available for future use as approved by the county commissioners.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 2 - DEPOSITS AND INVESTMENTS

- A. **Deposits** - All funds of the College are deposited in board-designated official depositories and are required to be collateralized in accordance with *North Carolina General Statute 115D-58.7*. Official depositories may be established with any bank or savings and loan association whose principal office is located in North Carolina. Also, the College may establish time deposit accounts, money market accounts, and certificates of deposit. The amount shown on the Statement of Net Assets as cash and cash equivalents includes cash on hand totaling \$4,745.00, and deposits in private financial institutions with a carrying value of \$14,380,257.11, and a bank balance of \$15,532,444.46.

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 (STIF), 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 \$25,602.83, which represents the College's equity position in the State Treasurer's Short-Term Investment Fund. The Short-Term Investment Fund (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission and does not have a credit rating) had a weighted average maturity of 1.6 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.

- B. Component Unit Investments** - Investments of the College's component unit, Guilford Technical Community College Foundation, Inc., are subject to and restricted by G.S. 36B "Uniform Management of Institutional Funds Act" (UMIFA) and any requirements placed on them by contract or donor agreements. Investments are carried at fair value on the statement of financial position. Fair value of investments is based on quoted market price. The fair value of the Foundation's investments at June 30, 2007, was \$6,792,121.00.

NOTE 3 - RECEIVABLES

Receivables at June 30, 2007, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	\$ 661,628.57	\$ 110,280.15	\$ 551,348.42
Accounts	132,619.60		132,619.60
Investment Earnings	4,142.73		4,142.73
Other	148,180.89	2,838.07	145,342.82
Total Current Receivables	\$ 946,571.79	\$ 113,118.22	\$ 833,453.57

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 4 - 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	\$ 6,591,731.84	\$ 115,084.48	\$ 0.00	\$ 6,706,816.32
Construction in Progress	1,743,632.30	1,419,393.91	938,037.45	2,224,988.76
Total Capital Assets, Nondepreciable	8,335,364.14	1,534,478.39	938,037.45	8,931,805.08
Capital Assets, Depreciable:				
Buildings	86,948,431.18	970,451.43	500,011.42	87,418,871.19
Machinery and Equipment	12,009,374.56	1,165,630.98	224,551.10	12,950,454.44
General Infrastructure	11,665,246.02	1,381,436.01	780.00	13,045,902.03
Total Capital Assets, Depreciable	110,623,051.76	3,517,518.42	725,342.52	113,415,227.66
Less Accumulated Depreciation:				
Buildings	16,148,624.54	1,736,509.80	499,581.70	17,385,552.64
Machinery and Equipment	3,159,695.54	607,613.56	177,221.32	3,590,087.78
General Infrastructure	757,754.67	233,972.50	780.00	990,947.17
Total Accumulated Depreciation	20,066,074.75	2,578,095.86	677,583.02	21,966,587.59
Total Capital Assets, Depreciable, Net	90,556,977.01	939,422.56	47,759.50	91,448,640.07
Capital Assets, Net	\$ 98,892,341.15	\$ 2,473,900.95	\$ 985,796.95	\$ 100,380,445.15

NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	Amount
Accounts Payable	\$ 982,105.94
Accrued Payroll	547,509.37
Contract Retainage	33,133.89
Intergovernmental Payables	4,816.02
Other	24,687.09
Total Accounts Payable and Accrued Liabilities	\$ 1,592,252.31

NOTE 6 - CHANGES IN 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	\$ 1,365,326.33	\$ 1,130,489.70	\$ 1,032,851.23	\$ 1,462,964.80	\$ 213,325.31

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 7 - OPERATING LEASE OBLIGATIONS

Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2007:

<u>Fiscal Year</u>	<u>Amount</u>
2008	\$ 171,848.37
2009	107,792.49
2010	61,038.76
2011	<u>4,666.84</u>
Total Minimum Lease Payments	<u>\$ 345,346.46</u>

Rental expense for all operating leases during the year was \$254,294.06.

NOTE 8 - REVENUES

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

	<u>Gross Revenues</u>	<u>Internal Sales Eliminations</u>	<u>Less Scholarship Discounts</u>	<u>Net Revenues</u>
Operating Revenues:				
Student Tuition and Fees	<u>\$ 11,963,129.74</u>	<u>\$ 0.00</u>	<u>\$ 5,241,680.68</u>	<u>\$ 6,721,449.06</u>
Sales and Services:				
Sales and Services of Auxiliary Enterprises:				
Dining	\$ 306,090.57	\$ 0.00	\$ 0.00	\$ 306,090.57
Student Union Services	1,854.25			1,854.25
Bookstore	5,938,274.05		1,007,327.84	4,930,946.21
Other	719,066.53	483,881.53		235,185.00
Sales and Services of Education and Related Activities	<u>532,705.05</u>			<u>532,705.05</u>
Total Sales and Services	<u>\$ 7,497,990.45</u>	<u>\$ 483,881.53</u>	<u>\$ 1,007,327.84</u>	<u>\$ 6,006,781.08</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	\$ 26,866,473.63	\$ 3,946,299.32	\$ 1,375,524.62	\$ 0.00	\$ 0.00	\$ 0.00	\$ 32,188,297.57
Academic Support	3,452,562.90	355,704.30	212,587.97				4,020,855.17
Student Services	2,794,825.97	271,323.30	173,746.04				3,239,895.31
Institutional Support	5,213,188.10	371,939.64	2,511,983.31				8,097,111.05
Operations and Maintenance of Plant	4,129,173.16	587,327.25	1,433,530.90		1,589,615.94		7,739,647.25
Student Financial Aid				5,285,033.18			5,285,033.18
Auxiliary Enterprises	1,069,051.30	4,989,487.67	234,666.11				6,293,205.08
Depreciation						2,578,095.86	2,578,095.86
Total Operating Expenses	\$ 43,525,275.06	\$ 10,522,081.48	\$ 5,942,038.95	\$ 5,285,033.18	\$ 1,589,615.94	\$ 2,578,095.86	\$ 69,442,140.47

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 \$36,044,552.13, of which \$28,647,965.22 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were \$1,718,878.69 and \$762,035.87, respectively. The College made 100% of its annual required contributions for the years ended June 30, 2007, 2006, and 2005, which were \$762,035.87, \$603,454.19, and \$513,188.59, 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.state.nc.us/> and clicking on "Financial Reports," or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

- B. Deferred Compensation and Supplemental Retirement Income Plans** - IRC Section 457 Plan - The State of North Carolina offers its permanent employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 through the North Carolina Public Employee Deferred Compensation Plan (the Plan). The Plan permits each participating employee to defer a portion of his or her salary until future years. The GTCC 457 Plan is distinct from the North Carolina Public Employee Deferred Compensation Plan. This Plan was frozen effective January 1, 2000. No new participants are permitted to enroll in the Plan, and no current deferrals are allowed. The previously existing Deferral Accounts are maintained as provided in the GTCC 457 Plan.

IRC Section 401(k) Plan - All members of the Teachers' and State Employees' Retirement System are eligible to enroll in the Supplemental Retirement Income Plan, a defined contribution plan, created under Internal Revenue Code Section 401(k). All costs of administering the Plan are the responsibility of the Plan participants. No costs are incurred by the College except for a 5% employer contribution for the College's law enforcement officers, which is mandated under G.S. 143-166.30(e). Total employer contributions on behalf of College law enforcement officers for the year ended June 30, 2007, were \$34,402.47. The voluntary contributions by employees amounted to \$357,033.65 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 \$162,690.76 for the year ended June 30, 2007.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 11 - OTHER POSTEMPLOYMENT BENEFITS

- A. Health Care for Long-Term Disability Beneficiaries and Retirees -** The College participates in State-administered programs which provide postemployment health insurance to eligible former employees. Eligible former employees include long-term disability beneficiaries of the Disability Income Plan of North Carolina and retirees of the Teachers' and State Employees' Retirement System. These benefits were established by Chapter 135, Article 3, Part 3, of the General Statutes and may be amended only by the North Carolina General Assembly. Funding for the health care benefit for long-term disability beneficiaries and retirees is financed on a pay-as-you-go basis. The College contributed 3.8% 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 \$1,088,622.68. 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 \$148,969.42. 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)

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 also provides honesty coverage of \$250,000 with a \$250 deductible for employee dishonesty on all employees, including county and institutional fund employees. Coverage for theft of money and securities by other than employee dishonesty is also provided up to \$300,000 with a \$250 deductible. The College also has a \$2,000,000 school leader's error and omissions policy purchased from a private insurance company.

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

The State Board of Community Colleges makes the necessary arrangements to carry out the provisions of the Workers' Compensation Act which are applicable to employees whose wages are paid in whole or in part from State funds. The College self-funds workers' compensation insurance for employees whose salaries or wages are paid by the Board entirely from county or institutional funds. This account is funded by employer contributions and administered by a third party contractor. Additionally, the College purchases

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

excess workers' compensation insurance for employees whose salary or wages are paid entirely by 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 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 \$15,266,689.21 at June 30, 2007.

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

NOTE 14 - RELATED PARTIES

Non-Profit Corporation - The GHG Construction Corporation is a separate corporation established to foster, promote, manage and develop the College's carpentry program. The records of the corporation are maintained separately by the College. GHG contracts with an independent accounting firm to audit its financial records and prepare an Independent Auditor's Report. This report is provided to the College and to GHG Board members by an independent auditor.

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

NOTE 15 - NET ASSET RESTATEMENT

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

	<u>Amount</u>
July 1, 2006 Net Assets as Previously Reported	\$ 103,557,228.41
Error in Estimated Useful Lives of Depreciable Assets	<u>7,587,304.05</u>
July 1, 2006 Net Assets as Restated	<u><u>\$ 111,144,532.46</u></u>

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

Board of Trustees
Guilford Technical Community College
Jamestown, North Carolina

We have audited the financial statements of Guilford Technical Community College, a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 2007, which collectively comprise the College's basic financial statements, and have issued our report thereon dated April 29, 2008. Our report was modified to include a reference to other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of Guilford Technical Community College Foundation, Inc., the discretely presented component unit, as described in our report on the College's financial statements. The financial statements of the discretely presented component unit were not audited in accordance with *Government Auditing Standards*.

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.

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

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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 be prevented or detected by the College's internal control.

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 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 internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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 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., CPA, CFP
State Auditor

April 29, 2008

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