STATE OF NORTH CAROLINA

WAKE TECHNICAL COMMUNITY COLLEGE

RALEIGH, 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

WAKE TECHNICAL COMMUNITY COLLEGE

RALEIGH, NORTH CAROLINA

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FOR THE YEAR ENDED JUNE 30, 2007

STATE OF NORTH CAROLINA
Office of the State Auditor

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

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AUDITOR'S TRANSMITTAL

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

We have completed a financial statement audit of Wake 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 disclosed a deficiency that is detailed in the Audit Findings and Responses section of this report. The College's response is included following the 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

May 27, 2008

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Wake Technical Community College
Raleigh, North Carolina

We have audited the accompanying basic financial statements of Wake Technical Community College, a component unit of the State of North Carolina, as of and for the year ended June 30, 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 Wake 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 19, 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.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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 19, 2008

Introduction

The following information provides a general overview of the financial statements and activities of Wake Technical Community College for the year ended June 30, 2007. The Management's Discussion & Analysis is required supplementary information (RSI) comparing data for the current and previous year. Significant capital asset activity and conditions expected to influence financial position and results of operations are also discussed. Contact the Division of Finance for additional information at 919-866-5901.

Overview of the Financial Statements

The College's financial report includes three financial statements:

- The Statement of Net Assets
- The Statement of Revenues, Expenses, and Changes in Net Assets
- The Statement of Cash Flows

The Notes to the Financial Statements provide additional information required for an understanding of the financial statements.

Important characteristics of the financial statements include the following:

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

These financial statements have been prepared in accordance with Governmental Accounting Standards Board (GASB) Statements.

Statement of Net Assets

The following condensed Statement of Net Assets compares current year information with the prior year and indicates the categorical as well as overall percentage of increase or decrease.

	2007	2006	% Change
Assets			
Current Assets	$ 9,464,596	$ 6,055,958	56 %
Noncurrent Assets	2,778,184	2,486,091	12 %
Capital Assets, Net	101,389,436	80,861,866	25 %
Total Assets	113,632,216	89,403,915	27 %
Liabilities			
Current Liabilities	6,476,818	5,884,078	10 %
Noncurrent Liabilities	1,643,874	1,872,249	(12) %
Total Liabilities	8,120,692	7,756,327	5 %
Net Assets			
Invested in Capital Assets	101,389,436	80,861,867	25 %
Restricted - Expendable	2,246,586	724,168	210 %
Unrestricted	1,875,502	61,553	2,947 %
Total Net Assets	$ 105,511,524	$ 81,647,588	29 %

Analysis of Statement of Net Assets Comparison

The Statement of Net Assets measures the value of all the College's assets after deducting liabilities and depreciation. Current assets consist of inventories, cash, prepaid items, and receivables expected to be collected within the next accounting cycle. Noncurrent assets consist of receivables estimated to be collected beyond the next fiscal year and also capital assets. Accounts payable, funds held for others, unearned revenue, and the current portion of accrued compensated absences comprise most of current liabilities. Noncurrent liabilities represent accrued compensated absences not expected to be used within the next twelve months. The amounts for compensated absences reflect a last-in, first-out estimate. Invested in capital assets consists primarily of buildings, infrastructure, and equipment with a unit purchase cost of $5,000 or greater. Other equipment is expensed in the year of purchase. Restricted net assets are separated from unrestricted because external sources exert control over their use. Current assets rose due to unreimbursed expenditures for construction projects. The increase in unearned revenue was primarily due to the receipt of cash payments for pre registered students prior to year end for the fall semester. Net asset changes were a combination of the result of construction activity and the net asset restatement made for the error in estimating useful lives (Note 15). The restricted portion was partially due to unexpended funds allotted for the Northern Wake Campus.

Statement of Revenues, Expenses, and Changes in Net Assets

The following condensed Statement of Revenues, Expenses, and Changes in Net Assets compares current year information with the prior year and indicates the categorical as well as overall percentage of increase or decrease.

	2007	2006	% Change
Operating Revenues			
Student Tuition and Fees, Net	$ 12,204,230	$ 10,836,271	13 %
Federal Grants and Contracts	4,331,312	5,044,685	(14) %
Other Operating Revenues	1,481,616	1,302,723	14 %
Total Operating Revenues	18,017,158	17,183,679	5 %
Operating Expenses			
Salaries and Benefits	55,716,775	50,745,373	10 %
Services	10,877,928	10,226,030	6 %
Scholarships and Fellowships	4,125,092	4,583,425	(10) %
Other Operating Expenses	9,089,493	8,545,771	6 %
Total Operating Expenses	79,809,288	74,100,599	8 %
Operating Loss	(61,792,130)	(56,916,920)	9 %
Nonoperating Revenues			
State Aid	41,554,039	37,192,431	12 %
County Appropriations	14,093,000	11,860,500	19 %
Other Nonoperating Revenues	3,080,068	3,704,837	(17) %
Net Nonoperating Revenues	58,727,107	52,757,768	11 %
State Capital Aid	13,800,086	5,932,305	133 %
County Capital Aid	8,409,221	1,161,000	624 %
Capital Grants	5,490	4,229,665	(100) %
Increase in Net Assets	19,149,774	7,163,818	167 %
Net Assets			
Net Assets - July 1	81,647,588	74,483,770	10 %
Restatement	4,714,162		
Net Assets - June 30	$ 105,511,524	$ 81,647,588	29 %

Analysis of Statement of Revenues, Expenses and Changes in Net Assets Comparison

Transactions reflected in the Statement of Revenues, Expenses, and Changes in Net Assets have a direct correlation to changes in total net assets recorded on the Statement of Net Assets. Operating revenues and expenses are segregated into individual sections of the statement. Student tuition and fees, adjusted for scholarship discounts, accounted for the largest portion of operating revenues. Salary and fringe benefits expenses are the predominant operating expense and grew as the result of mandated salary increases and positions added to accommodate student enrollment. Service contracts and Pell grants form the major components of services and scholarships and fellowships. Pell Grant awards dropped in relation to more restrictive qualification requirements. Nonoperating revenues consist mostly of State and county aid, as do revenues for capital expenditures. Grants from the Department of Education and the National Science Foundation (NSF) comprise the majority of federal revenue and are included in other nonoperating revenues for fiscal year 2007. One NSF grant expired last year and impacted this revenue category accordingly. State capital aid reflects the completion of the first phase of the Northern Wake Campus. There was a change in presentation that contributed to the large decrease in Capital Grants and the large increase in county capital aid, both included in other nonoperating revenues.

Capital Assets

The following schedule compares capital assets for the fiscal years 2007 and 2006, net of accumulated depreciation.

	2007	2006	% Change
Land	$ 8,744,780	$ 8,744,780	0%
Construction in Progress	29,165,407	14,864,709	96%
Buildings	56,026,030	51,684,921	8%
General Infrastructure	4,860,839	3,670,440	32%
Machinery and Equipment	2,592,380	1,897,016	37%
Total Capital Assets, Net	$ 101,389,436	$ 80,861,866	25%

Analysis of Capital Assets Comparison

Construction in progress represents the Northern Wake Campus coming to near completion and renovation work started on the Public Safety Training Center. Buildings, general infrastructure and equipment were all affected by an extension of asset useful lives as required by the Office of the State Controller. These corrections were made due to errors occurring in the establishment of useful lives of capital assets when the new reporting model was implemented. The overall impact of this change was the addition of more than $4 million to capital asset balances as presented on the Statement of Net Assets. Capital assets should continue to increase at an accelerated pace if the Wake County Bond Referendum passes in October 2007.

Economic Outlook and Effects on Financial Position

The recent opening of facilities by Credit Suisse/First Boston and Fidelity Investments ensure robust economic growth in the Research Triangle Park region. Wake Tech is uniquely positioned to provide training opportunities for the workforce these major corporations will employ. The overall State economic forecast is not as optimistic due to the "cooling off" of the housing market and related construction activity. The General Assembly Fiscal Research Division predicts consumer spending to continue an upward trend, but at a pace slower than income growth. They also project employment growth to be moderate. Wake County has been very supportive of our expansion efforts and provided an additional $1.1 million to hire additional personnel for start-up of the Northern Wake Campus. The entire County budget increased by 14.4% this year to just under $15 million. The County Commissioners have already approved a budget of $17.5 million for fiscal year 2007-08. The North Carolina Community Colleges System has submitted a budget request that includes a six percent tuition increase along with an upward adjustment to formula budget unit values. Because of these factors coupled with a rise in student enrollment, we predict a significant increase in the State budget for next fiscal year although the exact amount is unknown at this time. The College has presented a ten-year facilities master plan to Wake County and a bond referendum to approve funding of $92 million is scheduled for early October of 2007. All of these combined factors are indicative of very positive financial results for Wake Technical Community College in the upcoming fiscal year.

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

ASSETS	
Current Assets:	
Cash and Cash Equivalents	$ 3,372,893.92
Restricted Cash and Cash Equivalents	1,176,046.61
Receivables (Note 3)	4,499,721.16
Inventories	69,657.30
Prepaid Items	346,276.52
Total Current Assets	9,464,595.51
Noncurrent Assets:	
Restricted Due from Primary Government	2,778,184.33
Capital Assets - Nondepreciable (Note 4)	37,910,186.35
Capital Assets - Depreciable, Net (Note 4)	63,479,249.90
Total Noncurrent Assets	104,167,620.58
Total Assets	113,632,216.09
LIABILITIES	
Current Liabilities:	
Accounts Payable and Accrued Liabilities (Note 5)	4,873,827.21
Due to Primary Government	1,096.56
Unearned Revenue	1,069,423.95
Funds Held for Others	217,909.18
Long-Term Liabilities - Current Portion (Note 6)	314,560.81
Total Current Liabilities	6,476,817.71
Noncurrent Liabilities:	
Long-Term Liabilities (Note 6)	1,643,874.49
Total Noncurrent Liabilities	1,643,874.49
Total Liabilities	8,120,692.20
NET ASSETS	
Invested in Capital Assets	101,389,436.25
Restricted for:	
Expendable:	
Scholarships and Fellowships	12,627.73
Loans	11,425.32
Capital Projects	1,930,820.24
Other	291,712.55
Unrestricted	1,875,501.80
Total Net Assets	$ 105,511,523.89

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

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

Exhibit A-2

REVENUES	
Operating Revenues:	
Student Tuition and Fees, Net (Note 8)	$ 12,204,229.90
Federal Grants and Contracts	4,331,311.64
State and Local Grants and Contracts	931,425.26
Sales and Services (Note 8)	539,401.10
Other Operating Revenues	10,790.00
Total Operating Revenues	18,017,157.90
EXPENSES	
Operating Expenses:	
Personal Services	55,716,774.55
Supplies and Materials	5,833,979.65
Services	10,877,928.23
Scholarships and Fellowships	4,125,092.35
Utilities	1,447,340.54
Depreciation	1,808,172.62
Total Operating Expenses	79,809,287.94
Operating Loss	(61,792,130.04)
NONOPERATING REVENUES	
State Aid	41,554,039.34
County Appropriations	14,092,999.92
Noncapital Grants	2,654,972.55
Noncapital Gifts	96,699.02
Investment Income	8,380.68
Other Nonoperating Revenues	320,015.49
Net Nonoperating Revenues	58,727,107.00
Income Before Other Revenues	(3,065,023.04)
State Capital Aid	13,800,085.70
County Capital Aid	8,409,221.35
Capital Grants	5,490.06
Increase in Net Assets	19,149,774.07
NET ASSETS	
Net Assets, July 1, 2006 as Restated (Note 15)	86,361,749.82
Net Assets, June 30, 2007	$ 105,511,523.89

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

Wake Technical Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2007 — *Exhibit A-3*

CASH FLOWS FROM OPERATING ACTIVITIES	
Received from Customers	$ 17,497,277.13
Payments to Employees and Fringe Benefits	(55,547,885.52)
Payments to Vendors and Suppliers	(18,465,366.22)
Payments for Scholarships and Fellowships	(4,125,092.35)
Other Receipts	442,389.85
Net Cash Used by Operating Activities	(60,198,677.11)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Aid Received	41,554,039.34
County Appropriations	14,092,999.92
Noncapital Grants Received	2,528,208.60
Noncapital Gifts Received	96,699.02
Cash Provided by Noncapital Financing Activities	58,271,946.88
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
State Capital Aid Received	13,507,992.14
County Capital Aid	6,761,979.82
Capital Grants Received	5,490.06
Acquisition and Construction of Capital Assets	(17,608,036.08)
Net Cash Provided by Capital and Related Financing Activities	2,667,425.94
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment Income	8,380.68
Cash Provided by Investing Activities	8,380.68
Net Increase in Cash and Cash Equivalents	749,076.39
Cash and Cash Equivalents, July 1, 2006	3,799,864.14
Cash and Cash Equivalents, June 30, 2007	$ 4,548,940.53

Wake Technical Community College
Statement of Cash Flows *Exhibit A-3*
For the Fiscal Year Ended June 30, 2007 *Page 2*

RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES

Operating Loss	$	(61,792,130.04)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense		1,808,172.62
Miscellaneous Nonoperating Income		320,015.49
Changes in Assets and Liabilities:		
Receivables, Net		(661,258.56)
Inventories		27,706.45
Prepaid Items		(252,003.91)
Accounts Payable and Accrued Liabilities		118,647.70
Due to Primary Government		(1,049.92)
Unearned Revenue		413,805.44
Funds Held for Others		(150,053.29)
Compensated Absences		(30,529.09)
Net Cash Used by Operating Activities	$	(60,198,677.11)

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:		
Cash and Cash Equivalents	$	3,372,893.92
Restricted Cash and Cash Equivalents		1,176,046.61
Total Cash and Cash Equivalents - June 30, 2007	$	4,548,940.53

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through Assumption of a Liability	$	2,303,609.00
Increase in Receivables Related to Nonoperating Income		2,066,099.04

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

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NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

D. **Cash and Cash Equivalents** - This classification includes undeposited receipts, petty cash, cash on deposit with private bank accounts and money market accounts.

E. **Receivables** - Receivables consist of tuition and fees charged to students. Receivables also include amounts due from the federal government, State and local governments, and private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants. The direct write-off method is used to record worthless receivables because historically these amounts have been minimal.

F. **Inventories** - Inventories, consisting of expendable supplies, are valued at cost using the first-in, first-out method.

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

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 50 years for general infrastructure, 50 years for buildings, and 5 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 January 1 or for which an employee can be paid upon termination of employment. Also, any accumulated vacation leave in excess of 30 days at year end is converted to sick leave. Under this policy, the accumulated vacation leave for each employee at June 30 equals the leave carried forward at the previous December 31 plus the leave earned, less the leave taken between January 1 and June 30.

In addition to the vacation leave described above, compensated absences include the accumulated unused portion of the special annual leave bonuses awarded by the North Carolina General Assembly. The bonus leave balance on December 31 is retained by employees and transferred into the next calendar 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 - 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. 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 by the College.

NOTE 2 - DEPOSITS

All funds of the College are deposited in board-designated official depositories and are required to be collateralized in accordance with *North Carolina General Statute* 115D-58.7. Official depositories may be established with any bank or savings and loan association whose principal office is located in North Carolina. Also, the College may establish time deposit accounts, money market accounts, and certificates of deposit. The amount shown on the Statement of Net Assets as cash and cash equivalents includes cash on hand totaling $3,000.00, and deposits in private financial institutions with a carrying value of $4,545,940.53 and a bank balance of $6,951,179.35.

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.

NOTE 3 - RECEIVABLES

Receivables at June 30, 2007, were as follows:

	Amount
Current Receivables:	
Students	$ 722,844.47
Intergovernmental	3,241,374.70
Other	535,501.99
Total Current Receivables	$ 4,499,721.16

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	$ 8,744,779.71	$ 0.00	$ 0.00	$ 8,744,779.71
Construction in Progress	14,864,709.27	16,137,223.04	1,836,525.67	29,165,406.64
Total Capital Assets, Nondepreciable	23,609,488.98	16,137,223.04	1,836,525.67	37,910,186.35
Capital Assets, Depreciable:				
Buildings	66,632,160.80	2,711,418.45		69,343,579.25
Machinery and Equipment	5,133,737.62	380,142.89		5,513,880.51
General Infrastructure	5,428,478.75	229,321.52		5,657,800.27
Total Capital Assets, Depreciable	77,194,377.17	3,320,882.86		80,515,260.03
Less Accumulated Depreciation:				
Buildings	11,957,792.20	1,359,757.36		13,317,549.56
Machinery and Equipment	2,583,947.20	337,552.43		2,921,499.63
General Infrastructure	686,098.11	110,862.83		796,960.94
Total Accumulated Depreciation	15,227,837.51	1,808,172.62		17,036,010.13
Total Capital Assets, Depreciable, Net	61,966,539.66	1,512,710.24		63,479,249.90
Capital Assets, Net	$ 85,576,028.64	$ 17,649,933.28	$ 1,836,525.67	$ 101,389,436.25

NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	Amount
Accounts Payable	$ 1,337,800.59
Accrued Payroll	1,232,417.62
Accounts Payable - Capital Assets	2,303,609.00
Total Accounts Payable and Accrued Liabilities	$ 4,873,827.21

NOTE 6 - 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	$ 1,988,964.39	$ 1,493,795.81	$ 1,524,324.90	$ 1,958,435.30	$ 314,560.81

NOTE 7 - OPERATING LEASE OBLIGATIONS

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

Fiscal Year	Amount
2008	$ 581,881.15
2009	593,915.54
2010	535,164.97
2011	502,739.01
2012	562,257.75
2013-2017	281,701.44
Total Minimum Lease Payments	$ 3,057,659.86

Rental expense for all operating leases during the year was $851,917.86.

NOTE 8 - REVENUES

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

	Gross Revenues	Less Scholarship Discounts	Net Revenues
Operating Revenues:			
Student Tuition and Fees	$ 13,423,967.47	$ 1,219,737.57	$ 12,204,229.90
Sales and Services:			
Sales and Services of Auxiliary Enterprises:			
Bookstore	$ 339,035.37	$ 0.00	$ 339,035.37
Vending	155,828.81		155,828.81
Other	44,536.92		44,536.92
Total Sales and Services	$ 539,401.10	$ 0.00	$ 539,401.10

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	$ 35,687,271.45	$ 4,134,629.24	$ 4,320,517.67	$ 0.00	$ 0.00	$ 0.00	$ 44,142,418.36
Academic Support	8,420,753.70	605,817.02	398,533.38				9,425,104.10
Student Services	5,086,163.25	129,368.74	219,197.76				5,434,729.75
Institutional Support	5,563,879.90	312,609.42	1,723,258.72				7,599,748.04
Operations and Maint of Plant	958,706.25	642,398.54	4,158,534.93		1,447,340.54		7,206,980.26
Student Financial Aid			7,580.00	4,125,092.35			4,132,672.35
Auxiliary Enterprises		9,156.69	50,305.77				59,462.46
Depreciation						1,808,172.62	1,808,172.62
Total Operating Expenses	$ 55,716,774.55	$ 5,833,979.65	$ 10,877,928.23	$ 4,125,092.35	$ 1,447,340.54	$ 1,808,172.62	$ 79,809,287.94

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 $46,047,393.78, of which $38,678,108.83 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were $2,320,686.53 and $1,028,837.69, respectively. The College made 100% of its annual required contributions for the years ended June 30, 2007, 2006, and 2005, which were $1,028,837.69, $804,156.42, and $684,741.27, respectively.

The Teachers' and State Employees' Retirement System's financial information is included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page http://www.osc.state.nc.us/ and clicking on "Financial Reports," or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

B. **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 $170,198.29 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. No costs are incurred by the College. The voluntary contributions by employees amounted to $723,925.00 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 $565,338.07 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 $1,469,768.14. 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 $201,126.17. 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 honesty bond for other employees is covered by contracts with private insurance companies.

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

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

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

Term life insurance of $25,000 to $50,000 is provided to eligible workers. This self-insured death benefit program is administered by the State Treasurer 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 $27,335,080.23 and on other purchases were $1,460,087.88 at June 30, 2007.

NOTE 14 - RELATED PARTIES

A. Foundation - The Wake Technical Community College Foundation, Inc. is a separately incorporated nonprofit foundation associated with the College. This organization serves as the primary fundraising arm of the College through which individuals, corporations, and other organizations support College programs by providing scholarships, fellowships, faculty salary supplements, and unrestricted funds to specific departments and the College's overall academic environment. The College's financial statements do not include the assets, liabilities, net assets, or operational transactions of the Foundation, except for the distributions made and benefits provided by the Foundation. The distributions received and/or benefits provided approximated $96,697.85 for the year ended June 30, 2007.

B. Contracted Services - The College has contracted with Waste Industries for trash removal since 1986. Mr. Jim W. Perry, CEO of Waste Industries, was appointed to the Wake Technical Community College Board of Trustees by the Wake County Board of Education in Novermber 2002. Payments to Waste Industries for the fiscal year ended June 30, 2007, amounted to $50,780.08.

NOTE 15 - NET ASSET RESTATEMENT

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

		Amount
July 1, 2006 Net Assets as Previously Reported	$	81,647,587.68
Error in Establishing Useful Lives of Capital Assets When New Reporting Model Implemented		4,714,162.14
July 1, 2006 Net Assets as Restated	$	86,361,749.82

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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
Wake Technical Community College
Raleigh, North Carolina

We have audited the financial statements of Wake Technical Community College, a component unit of the State of North Carolina, as of and for the year ended June 30, 2007, and have issued our report thereon dated May 19, 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 deficiency described in the finding in the Audit Findings and Responses section of this report to be a significant deficiency 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, we do not believe the significant deficiency described above is 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 response to the finding identified in our audit is 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 19, 2008

Matters Related to Financial Reporting

The following finding was identified during the current audit and describes conditions that represent a significant deficiency in internal control.

DEFICIENCIES IN INTERNAL CONTROLS OVER MACHINERY AND EQUIPMENT

The College's procedures to ensure that the machinery and equipment physical inventory process was accurate and complete were inadequate. Also, the College did not have procedures in place to ensure that the fixed asset system was reconciled to the general ledger. These conditions increase the risk that an error or misappropriation could occur and not be detected in a timely manner. During our audit, we noted the following:

- The financial statement balance for machinery and equipment was $566,336.78 greater than the fixed asset system balances at June 30, 2007. This variance existed because there are no periodic reconciliations of the fixed asset system to the general ledger to ensure the financial statements are complete and accurate.

- The physical inventory of machinery and equipment conducted at June 30, 2007, was not complete. The College delegated responsibility for the inventory to the departments but failed to establish procedures to ensure the inventory was properly conducted and that the accounting records were properly adjusted.

Recommendation: The College should implement adequate procedures to ensure the safeguarding of assets and complete and accurate financial reporting.

College's Response: The primary reason for the $566,336.78 discrepancy between the inventory database and the financial statements is Local Fund property records entered into the database with an acquisition date of 07/01/07. Transfer of these records from the IIPS database to the Colleague database should have reflected actual purchase dates which ranged from March, 1975 through May, 2006. A reconciliation of the live file to the inventory used for financial statement presentation has revealed a difference of only $467.70 once adjustments were made to correct acquisition dates and a copy of the reconciliation was provided to the audit team prior to completion of field work. Database queries that were designed to reconcile equipment inventory records to the general ledger are being modified to make them more "user friendly."

The equipment inventory was not complete because a sampling technique was used to conduct the physical inventory in an effort to achieve greater efficiency. Since the audit, a new full-time position has been created that is dedicated exclusively to tracking equipment purchases, record keeping and inventory verification.

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