# STATE OF NORTH CAROLINA

## FAYETTEVILLE TECHNICAL COMMUNITY COLLEGE

### FAYETTEVILLE, NORTH CAROLINA

## FINANCIAL STATEMENT AUDIT REPORT

### FOR THE YEAR ENDED JUNE 30, 2011


## OFFICE OF THE STATE AUDITOR

### BETH A. WOOD, CPA

### STATE AUDITOR


A Component Unit of the State of North Carolina

# FAYETTEVILLE TECHNICAL COMMUNITY COLLEGE

## FAYETTEVILLE, NORTH CAROLINA

# FINANCIAL STATEMENT AUDIT REPORT

### FOR THE YEAR ENDED JUNE 30, 2011

STATE OF NORTH CAROLINA
Office of the State Auditor

Beth A. Wood, CPA
State Auditor

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

## AUDITOR'S TRANSMITTAL

The Honorable Beverly Eaves Perdue, Governor
The General Assembly of North Carolina
Board of Trustees, Fayetteville Technical Community College

We have completed a financial statement audit of Fayetteville Technical Community College for the year ended June 30, 2011, 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.

The results of our tests disclosed no deficiencies in internal control over financial reporting that we consider to be material weaknesses in relation to our audit scope or any instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

*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.

Beth A. Wood

Beth A. Wood, CPA
State Auditor

# TABLE OF CONTENTS

STATE OF NORTH CAROLINA
Office of the State Auditor

**Beth A. Wood, CPA**
State Auditor

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

## INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Fayetteville Technical Community College
Fayetteville, North Carolina

We have audited the accompanying basic financial statements of Fayetteville Technical Community College, a component unit of the State of North Carolina, as of and for the year ended June 30, 2011, 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, based on our audit, the financial statements referred to above present fairly, in all material respects, the financial position of Fayetteville Technical Community College as of June 30, 2011, 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 February 9, 2012 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, 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 required supplementary information. However, we did not audit the information and express no opinion on it.

Beth A. Wood

Beth A. Wood, CPA
State Auditor

February 9, 2012

This section of Fayetteville Technical Community College's (FTCC's) financial statements presents management's discussion and analysis of the College's financial activity during the fiscal year ended June 30, 2011, with comparative data for fiscal year ended June 30, 2010. This management's discussion and analysis is designed to focus on current activities, resulting changes, and currently known facts. Please read it in conjunction with the College's basic financial statements and the notes to the financial statements.

## Using This Annual Report

The College's basic financial statements are designed to emulate corporate presentation models whereby all College activities are consolidated into one total. This annual report consists of a series of financial statements, prepared in accordance with standards issued by the Governmental Accounting Standards Board (GASB). The financial statements focus on the financial condition of the College, the results of operations, and cash flows of the College as a whole. The three financial statements presented include the Statement of Net Assets, the Statement of Revenues, Expenses, and Changes in Net Assets, and the Statement of Cash Flows.

The Statement of Net Assets presents the assets (current and noncurrent), liabilities (current and noncurrent), and net assets (assets minus liabilities) of the College as of the end of the fiscal year. It is a point-in-time financial statement.

The Statement of Revenues, Expenses, and Changes in Net Assets reports the College's results of operation for the fiscal year. It presents the revenues earned by the College and the expenses incurred by the College, both operating and nonoperating, and any other revenues, expenses, gains, and losses received or spent by the College. It is intended to summarize and simplify the user's analysis of the cost of various College services to students and the public.

The Statement of Cash Flows provides information relative to the College's sources and uses of cash for operating activities, noncapital financing activities, capital and related financing activities, and investing activities. The statement provides a reconciliation of beginning cash balances to ending cash balances and is representative of the activity reported on the Statement of Revenues, Expenses, and Changes in Net Assets as adjusted for changes in the beginning and ending balances of noncash accounts on the Statement of Net Assets.

## Financial Highlights

The College's net assets have increased from $91,385,717.22 at June 30, 2010, to $93,974,318.87 at June 30, 2011. This increase of $2,588,601.65 is due to a combination of accounts including an increase in invested in capital assets, an increase in unrestricted net assets, and a decrease in restricted net assets.

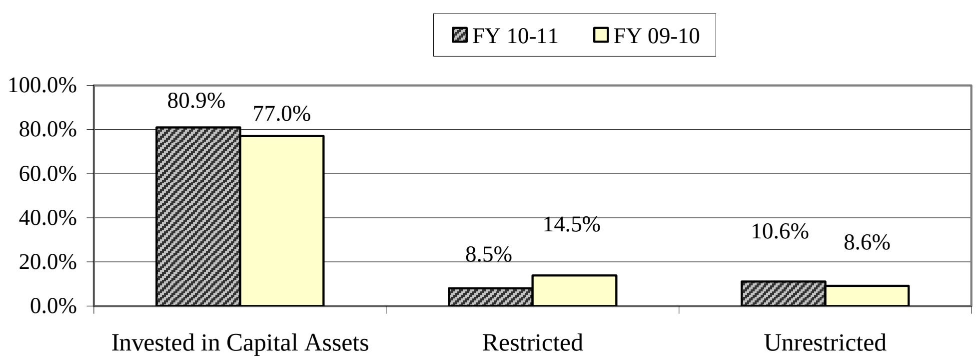
Invested in capital assets increased $5,660,680.42 or 8.0 percent. In fiscal year (FY) 2011, the College recorded additions to the capital asset accounts (construction in progress, buildings, machinery and equipment), while also recording current year depreciation expense and the disposal of equipment that had a combined remaining book value of $220,029.30. The College's $5,354,156.11 increase to construction in progress is due to construction expenditures incurred for the new General Classroom Building that is scheduled to open in the spring 2012 semester. This capital asset activity is discussed later in this discussion and analysis.

Restricted net assets decreased $5,214,301.91or 39.5 percent. The majority of this decrease occurred in the capital projects account. This decrease corresponds to the decrease in the amount due from primary government and the increase to construction in progress, which results from the new General Classroom Building construction discussed above.

Unrestricted net assets increased $2,142,223.14 or 27.3 percent. This is the result of a combination of factors. Student tuition and fees increased $2,360,564.62. Factors that caused the increase student tuition and fees revenue are discussed later in this discussion and analysis with operating revenues. County appropriations increased $267,905.00 and State aid increased $969,128.87. These increases in revenue were partly off-set by an increase in salaries and benefits expense of $2,475,033.42. While supplies and materials expense remained flat overall, there was an increase of approximately $1.8 million in non-capitalized equipment expenditures, mostly purchased with restricted funds. Therefore, unrestricted net assets increased approximately $1.6 million as a result of a decrease in the amount of supplies and materials purchased with unrestricted funds.

Total net assets as of June 30, 2011, consist of invested in capital assets (80.9 percent), restricted net assets (8.5 percent), and unrestricted net assets (10.6 percent). The following is a graphic illustration of net assets.

**Analysis of Net Assets for**
**FY 2010-2011 and FY 2009-2010**




As of June 30, 2011, the College had recorded $99,215,417.70 in capital assets and $23,221,277.05 in accumulated depreciation, resulting in net capital assets of $75,994,140.65. The increase in accumulated depreciation for buildings is less in FY 2011 compared to FY 2010. Based on prior experience, the College decided to extend the useful lives of some of its buildings to 75 years during FY 2011.

Current assets increased $2,958,759.25 or 22.5 percent from FY 2010 to FY 2011. This increase was largely due to a $2,539,063.37 increase in current cash and cash equivalents. Unrestricted cash and cash equivalents increased due to multiple factors. Cash in the bookstore fund and food services fund increased $524,903.96 and $116,135.10, respectively, as a result of profits earned through these auxiliary operations. The College implemented a campus access, parking, and security (CAPS) fee in the amount of $15.00 per student in FY 2011, which resulted in $196,320.72 of additional unrestricted cash. The College offered additional self-supporting classes in FY 2011 compared to FY 2010. This resulted in an increase in unrestricted cash of $575,613.84. Restricted current cash increased $789,783.45. The majority of this increase results because a greater portion of cash that is recorded in the College's plant funds is considered current at the end of FY 2011 because there are more current contracts payable at the end of FY 2011 compared to FY 2010.

Noncurrent assets - capital increased $5,660,680.42 or 8.0 percent from FY 2010 to FY 2011. Additions to construction in progress in FY 2011 were significantly higher than the prior year. The majority of the increase is attributable to the on-going construction of the new General Classroom Building. Capital construction in progress increased $5,354,156.11 in FY 2011. The College did not expend any capital funds for infrastructure in FY 2011. Capital equipment purchases were $2,984,166.37 in FY 2011, a 157.6 percent increase from FY 2010. Additional equipment funds were available for expenditure during FY 2011 due to a health/sciences grant provided to the College. Additions to buildings were $319,244.19. The College recorded depreciation/amortization expense of $1,981,958.76. The increase in construction in progress plus increases to buildings and equipment, netted against current year depreciation expense, resulted in the overall increase in this account in FY 2011.

Other noncurrent assets decreased $5,313,337.39 or 42.5 percent from FY 2010 to FY 2011. The majority of the decrease results from a decrease of $4,693,683.50 that was due from the State for construction projects at FY 2011 compared to FY 2010. This decrease correlates to the increase in construction in progress that has been discussed previously in this discussion and analysis. Funds were received from the State during FY 2011 to reimburse the College for expenses incurred on the new General Classroom Building, which results in a decrease in the receivable at year end. In addition, noncurrent restricted cash decreased $619,656.17. As explained above, the majority of this decrease in cash results because a greater portion of cash that is recorded in the College's plant funds is considered current at the end of FY 2011 because there are more current contracts payable at the end of FY 2011 compared to FY 2010.

Current liabilities increased $812,906.71 or 37.5 percent from FY 2010 to FY 2011. The majority of the increase results from increased contracts payable and retainage payable related to construction on the new General Classroom Building.

Noncurrent liabilities consist of the long-term portion of compensated absences. Total compensated absences include the balance of regular earned annual leave plus the balance of bonus leave, including benefits, for all full-time employees. The balance of bonus leave with benefits is $1,308,849.26 at June 30, 2011, which is a decrease of 9.8 percent from the prior year.

**Condensed Statement of Net Assets**

| | 2011 | 2010 (As Restated) | Increase/ (Decrease) |
|---|---|---|---|
| **ASSETS** | | | |
| Current Assets | $ 16,079,654.23 | $ 13,120,894.98 | $ 2,958,759.25 |
| Noncurrent Assets: | | | |
| Capital | 75,994,140.65 | 70,333,460.23 | 5,660,680.42 |
| Other | 7,190,204.89 | 12,503,542.28 | (5,313,337.39) |
| **Total Assets** | 99,263,999.77 | 95,957,897.49 | 3,306,102.28 |
| **LIABILITIES** | | | |
| Current Liabilities | 2,982,846.20 | 2,169,939.49 | 812,906.71 |
| Noncurrent Liabilities | 2,306,834.70 | 2,402,240.78 | (95,406.08) |
| **Total Liabilities** | 5,289,680.90 | 4,572,180.27 | 717,500.63 |
| **NET ASSETS** | | | |
| Invested in Capital Assets | 75,994,140.65 | 70,333,460.23 | 5,660,680.42 |
| Restricted | 7,991,963.07 | 13,206,264.98 | (5,214,301.91) |
| Unrestricted | 9,988,215.15 | 7,845,992.01 | 2,142,223.14 |
| **Total Net Assets** | $ 93,974,318.87 | $ 91,385,717.22 | $ 2,588,601.65 |

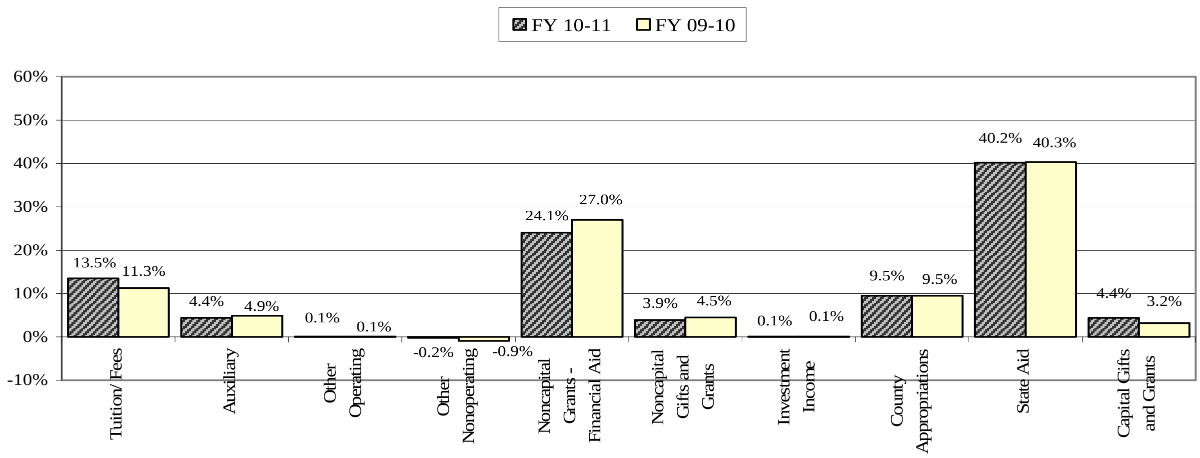
Total net revenues for FY 2011 were $93,338,641.55, an increase of 3.1 percent compared to FY 2010.

Operating revenues increased $1,989,306.52 or 13.4 percent from FY 2010 to FY 2011. The change is largely due to increased student tuition and fees revenues. The College's student tuition and fees revenue increased $2,360,564.62. This is the result of a new campus access fee charged to all students, a State mandated increase in the tuition rate and elimination of certain tuition waiver categories, and an increase in revenue generated from self supporting classes (non-state supported classes) offered by the College. The in-State tuition rate increased $6.50 per credit hour and the out-of-State tuition rate increased $7.20 per credit hour, or 13.0 percent and 3.0 percent respectively.

Net nonoperating revenues remained flat during FY 2011, decreasing $423,944.51 or 0.6 percent from FY 2010 to FY 2011. The largest components of this change are state aid and noncapital student financial aid grants. State aid increased $969,128.87. The FTE's (headcount enrollment converted to student full-time equivalents) that generate the College's State budget increased in FY 2011 from FY 2010. Noncapital student financial aid grants decreased $1,855,150.43, mainly due to a decrease in the amount of federal Pell grants awarded to students. This decrease results from the College implementing a more strict satisfactory academic progress policy requiring assessment the end of each term and resulting in fewer students being eligible to receive Pell funds in their second term.

Capital contributions increased $1,207,747.05 or 41.4 percent. This is the result of greater State bond revenues allotted to the College for the General Classroom Building construction that occurred in FY 2011.

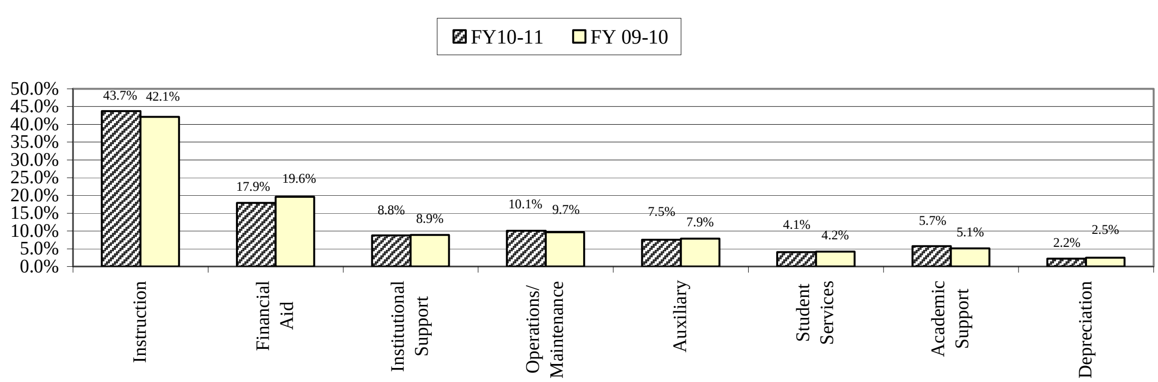
**Revenue (Expense) by Source**




Total operating expenses at June 30, 2011, were $90,750,039.90; at June 30, 2010, total operating expenses were $89,956,978.60, resulting in a 0.9 percent increase from FY 2010. The majority of the increase is reflected in the salaries and benefits and scholarships and fellowships accounts. Salaries and benefits increased $2,475,033.42, or 4.9 percent. Faculty received a 2.0 percent raise during FY 2011. Staff received a one-time 2.0 percent bonus in lieu of a pay increase. Scholarships and fellowships expense decreased $1,425,798.76 or 8.2 percent. The decrease in this account consists mainly of a decrease in Pell expense, as the result of some students losing Pell eligibility in FY 2011 due to the College implementing a stricter Satisfactory Academic Progress policy and due to less students being eligible to receive a second Pell disbursement.

There were no significant changes in any other expense captions on the financial statements.

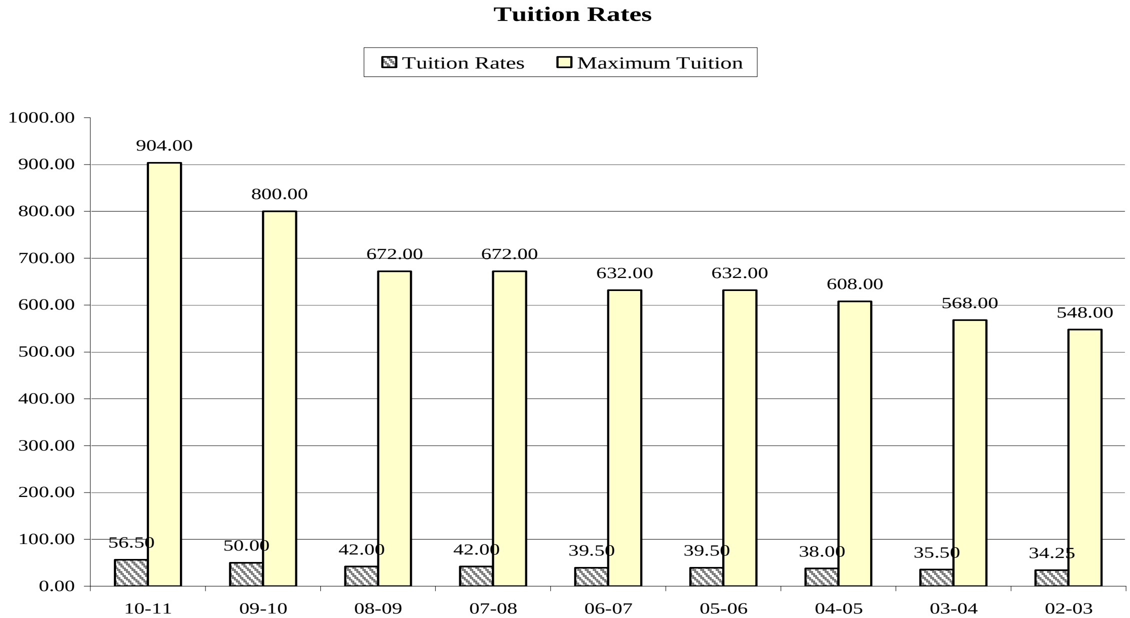
**Operating Expenses**



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

| | 2011 | 2010 | Increase (Decrease) |
|---|---|---|---|
| **OPERATING REVENUES** | | | |
| Student Tuition and Fees, Net | $ 12,628,276.22 | $ 10,267,711.60 | $ 2,360,564.62 |
| Grants and Contracts | 29,349.75 | 39,310.14 | (9,960.39) |
| Sales and Services, Net | 4,083,221.04 | 4,474,906.11 | (391,685.07) |
| Other Operating Revenues | 121,053.07 | 90,665.71 | 30,387.36 |
| **Net Operating Revenues** | 16,861,900.08 | 14,872,593.56 | 1,989,306.52 |
| **OPERATING EXPENSES** | | | |
| Salaries and Benefits | 53,199,525.67 | 50,724,492.25 | 2,475,033.42 |
| Supplies and Materials | 9,913,409.91 | 9,767,065.45 | 146,344.46 |
| Services | 8,273,875.01 | 8,237,203.89 | 36,671.12 |
| Scholarships and Fellowships | 15,931,055.78 | 17,356,854.54 | (1,425,798.76) |
| Utilities | 1,450,214.77 | 1,607,932.36 | (157,717.59) |
| Depreciation/Amortization | 1,981,958.76 | 2,263,430.11 | (281,471.35) |
| **Total Operating Expenses** | 90,750,039.90 | 89,956,978.60 | 793,061.30 |
| **Operating Loss** | (73,888,139.82) | (75,084,385.04) | 1,196,245.22 |
| **NONOPERATING REVENUES (EXPENSES)** | | | |
| State Aid | 37,484,085.91 | 36,514,957.04 | 969,128.87 |
| County Appropriations | 8,841,568.00 | 8,573,663.00 | 267,905.00 |
| Noncapital Grants - Federal Student Financial Aid | 22,480,277.31 | 24,335,427.74 | (1,855,150.43) |
| Noncapital Grants and Gifts | 3,666,874.15 | 4,020,467.59 | (353,593.44) |
| Investment Income | 106,458.54 | 128,924.79 | (22,466.25) |
| Other Nonoperating Expenses | (228,061.85) | (798,293.59) | 570,231.74 |
| **Net Nonoperating Revenues** | 72,351,202.06 | 72,775,146.57 | (423,944.51) |
| **Loss Before Other Revenues** | (1,536,937.76) | (2,309,238.47) | 772,300.71 |
| Capital Contributions | 4,125,539.41 | 2,917,792.36 | 1,207,747.05 |
| **Total Increase in Net Assets** | 2,588,601.65 | 608,553.89 | 1,980,047.76 |
| **NET ASSETS** | | | |
| Beginning of Year | 91,385,717.22 | 90,777,163.33 | 608,553.89 |
| End of Year | $ 93,974,318.87 | $ 91,385,717.22 | $ 2,588,601.65 |

In FY 2011, the State tuition rates for in-State and out-of-State students increased to $56.50 and $248.50 per credit hour, respectively. This is an increase of approximately 13.0 percent for in-State tuition and 3.0 percent for out-of-State tuition. Over the last eight years, in-State tuition has increased approximately 65.0 percent.




As mentioned previously, the College receives funding from county and State sources. County appropriations increased from $8,573,663.00 in FY 2010 to $8,841,568.00 in FY 2011, a 3.1 percent increase. In June 2006, County Commissioners approved a special financing agreement to borrow funds to allocate to the College in order for the College to meet its remaining State bond match requirement of $5,000,274.00. This match was allocated to the College as one lump sum and served as the county allocation to the College for five years or until FY 2012. County funds are disbursed to the College on a reimbursement basis. At June 30, 2011, the College had received all county matching funds except for $33,340.72.

The FTEs that generate the College's State budget (budget FTEs) increased in FY 2011 from FY 2010. The College is funded based on actual FTEs earned during the prior fiscal year, or a three year average, whichever is greater. In 2011 actual FTE earned in 2010 was used by the North Carolina Community College System Office (NCCCSO) to generate budgeted FTE in all three areas, as follows:

| | 2010-2011 | 2009-2010 | % Increase |
|---|---|---|---|
| Curriculum | 8,626 | 8,091 | 6.6% |
| Occupational Extension | 2,087 | 1,603 | 30.2% |
| Basic Skills | 1,187 | 1,125 | 5.5% |
| Total | 11,900 | 10,819 | 10.0% |

For FY 2011, the General Assembly again enacted a management flexibility reduction to the State aid budget. A management flexibility reduction is a budget cut that the General Assembly does not specifically prescribe how to implement; management has the flexibility to determine what budget line items to cut within certain parameters. This type of cut is also referred to as a negative reserve.

The College's portion of the management flexibility reduction that was reverted prior to preparation of the combined budget (DCC2-1) was $1,738,194.00. In the winter an additional 2.0 percent or $914,905.00 reversion was required. The State did not award any salary raises because of the status of the State economy.

There were no new curriculum programs added in FY 2011; however certificates and diplomas were added to various degree programs.

FTCC continues to promote the advancement of technology in the classroom to prepare students for the future. The distance learning program enables students to take online courses anytime and anywhere using the Internet. FTCC served a total of 32,493 curriculum students and 2,062 continuing education students in FY 2011. Individual students are included in these figures multiple times, depending on the number of on-line courses a student takes.

The state of the economy, reflected by unemployment rates in Cumberland and surrounding counties, had a direct relationship to enrollment. However, even with high unemployment rates, the actual overall FTE earned during FY 2011 decreased by 2.5 percent. This decrease was largely due to changes in administering financial aid and not related to a decrease in unemployment rates as the following table illustrates:

**Cumberland County Unemployment Rates:**

| | 2010-2011 | 2009-2010 | 2008-2009 | 2007-2008 | 2006-2007 | 2005-2006 |
|---|---|---|---|---|---|---|
| January | 9.7% | 9.9% | 8.9% | 5.6% | 5.6% | 5.3% |
| February | 9.4% | 9.9% | 9.6% | 5.7% | 5.5% | 5.7% |
| March | 9.1% | 9.2% | 9.2% | 5.5% | 5.1% | 5.0% |
| April | 9.1% | 8.7% | 8.5% | 5.3% | 5.0% | 4.6% |
| May | 9.4% | 8.8% | 9.3% | 6.1% | 5.2% | 5.3% |
| June | 10.3% | 9.1% | 9.5% | 6.6% | 5.8% | 5.6% |

## Significant Capital Asset Activities

The bids for the General Classroom Building (Service Merchandise Building renovation project) came in at $9,889,835.00 and the funding source is State bonds. During FY 2011, $300,000.00 of Institutional funds were transferred from the Tony Rand Student Center renovation project to the General Classroom Building, increasing the budget to $10,189,835.00. The General Classroom Building is expected to house the College bookstore and campus security. The building will also provide additional classrooms, labs, and faculty offices. The expected completion date is January 2012.

The Western Property purchase occurred in December 2008 and is funded by $2,505,136.00 of State bond funds and $407,553.00 of county funds. The Western Property consists of approximately 60 acres of land located in the western part of Cumberland County. The College received advanced planning funds of $90,000.00 from the State. In addition, $7,100.00 of unexpended Facility Master Plan funds were transferred to the planning of the Western Campus. Funds required to proceed after expending the planning funds will need to be identified in the future.

The Tony Rand Student Center renovation project budget was approved at $329,365.00 State bond funds and $2,700,000.00 Institutional funds for a total of $3,029,365.00. The renovation is expected to take two years after the design stage because the building will remain in use during the renovation work. The Tony Rand Student Center multi-purpose room will be used for temporary offices while work is being performed in various areas.

In the FY 2012 budget, the County approved $2,500,000.00 for the Lafayette Hall Mechanical System renovation. The designer has been selected for the pre-design but no other work has been done. The project is expected to take approximately two years.

**Economic Forecast**

The College budget for FY 2012 has been greatly impacted by the poor economy. The College had to implement a management flexibility reduction of $3,442,217.00 that was reverted prior to the preparation of the combined budget. This management flexibility reduction was a 98.0 percent increase over the FY 2011 requirement and was 7.8 percent of the State allotment. Additionally, a 2.0 percent or $883,836.00 has been reserved for possible future reversions. We are told from the North Carolina Community College System Office that future reversions are likely.

During this economic slump, the College has been strategic in preparing its budget with limited resources and has been able to cover current needs so that instruction will not suffer. The current enrollment for FY 2012 appears to be flat or up slightly. For FY 2011, the enrollment did decrease overall by 2.5 percent so there was an extra push to not suffer an additional decrease. We continue to be cautious in incurring recurring expenditures such as adding faculty and staff due to the continued forecasted downturn in the economy.

Fortunately, in the Fayetteville and surrounding area, the housing market has not suffered as greatly as in many other areas. Housing for the military community as well as the anticipated housing needs because of BRAC (Base Realignment and Closure) at Ft. Bragg continues to play a major role in this. The College, as well as the community, is hopeful that the influx of the military associated with the BRAC initiative will stimulate its growth and economy.

***Fayetteville Technical Community College***
***Statement of Net Assets***
***June 30, 2011*** ***Exhibit A-1***

| | | |
|---|---|---|
| **ASSETS** | | |
| Current Assets: | | |
| Cash and Cash Equivalents | $ | 12,308,534.09 |
| Restricted Cash and Cash Equivalents | | 1,669,767.65 |
| Receivables, Net (Note 4) | | 1,013,615.39 |
| Inventories | | 632,845.33 |
| Prepaid Items | | 439,646.69 |
| Notes Receivable, Net (Note 4) | | 15,245.08 |
| Total Current Assets | | 16,079,654.23 |
| Noncurrent Assets: | | |
| Restricted Cash and Cash Equivalents | | 2,485,665.80 |
| Due From County | | 10,334.00 |
| Restricted Due from Primary Government | | 4,694,205.09 |
| Capital Assets - Nondepreciable (Note 5) | | 13,262,492.85 |
| Capital Assets - Depreciable, Net (Note 5) | | 62,731,647.80 |
| Total Noncurrent Assets | | 83,184,345.54 |
| Total Assets | | 99,263,999.77 |
| **LIABILITIES** | | |
| Current Liabilities: | | |
| Accounts Payable and Accrued Liabilities (Note 6) | | 1,693,845.84 |
| Unearned Revenue | | 844,977.47 |
| Funds Held for Others | | 60,572.14 |
| Long-Term Liabilities - Current Portion (Note 7) | | 383,450.75 |
| Total Current Liabilities | | 2,982,846.20 |
| Noncurrent Liabilities: | | |
| Long-Term Liabilities (Note 7) | | 2,306,834.70 |
| Total Noncurrent Liabilities | | 2,306,834.70 |
| Total Liabilities | | 5,289,680.90 |
| **NET ASSETS** | | |
| Invested in Capital Assets | | 75,994,140.65 |
| Restricted for: | | |
| Nonexpendable: | | |
| Endowment | | 39,050.00 |
| Expendable: | | |
| Scholarships and Fellowships | | 18,810.26 |
| Loans | | 246,945.44 |
| Capital Projects | | 7,101,666.13 |
| Departmental Uses | | 517,289.38 |
| Other | | 68,201.86 |
| Unrestricted | | 9,988,215.15 |
| Total Net Assets | $ | 93,974,318.87 |

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

***Fayetteville Technical Community College***
***Statement of Revenues, Expenses, and Changes in Net Assets***
***For the Fiscal Year Ended June 30, 2011*** ***Exhibit A-2***

| | |
|---|---|
| **REVENUES** | |
| Operating Revenues: | |
| Student Tuition and Fees, Net (Note 8) | $ 12,628,276.22 |
| State and Local Grants and Contracts | 29,349.75 |
| Sales and Services, Net (Note 8) | 4,083,221.04 |
| Other Operating Revenues | 121,053.07 |
| Total Operating Revenues | 16,861,900.08 |
| **EXPENSES** | |
| Operating Expenses: | |
| Salaries and Benefits | 53,199,525.67 |
| Supplies and Materials | 9,913,409.91 |
| Services | 8,273,875.01 |
| Scholarships and Fellowships | 15,931,055.78 |
| Utilities | 1,450,214.77 |
| Depreciation/Amortization | 1,981,958.76 |
| Total Operating Expenses | 90,750,039.90 |
| Operating Loss | (73,888,139.82) |
| **NONOPERATING REVENUES (EXPENSES)** | |
| State Aid | 37,484,085.91 |
| County Appropriations | 8,841,568.00 |
| Noncapital Grants - Federal Student Financial Aid | 22,480,277.31 |
| Noncapital Grants | 3,666,874.15 |
| Investment Income, Net | 106,458.54 |
| Other Nonoperating Expenses | (228,061.85) |
| Net Nonoperating Revenues | 72,351,202.06 |
| Income Before Other Revenues, Expenses, Gains, and Losses | (1,536,937.76) |
| State Capital Aid | 4,125,407.13 |
| County Capital Aid | 2.28 |
| Capital Grants | 130.00 |
| Increase in Net Assets | 2,588,601.65 |
| **NET ASSETS** | |
| Net Assets, July 1, 2010 | 91,385,717.22 |
| Net Assets, June 30, 2011 | $ 93,974,318.87 |

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

# *Fayetteville Technical Community College*
## *Statement of Cash Flows*
## *For the Fiscal Year Ended June 30, 2011*



| | |
|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | |
| Received from Customers | $ 16,574,907.23 |
| Payments to Employees and Fringe Benefits | (53,201,817.49) |
| Payments to Vendors and Suppliers | (19,790,020.52) |
| Payments for Scholarships and Fellowships | (15,949,038.41) |
| Loans Issued to Students | (76,219.19) |
| Collection of Loans to Students | 55,925.53 |
| Other Receipts | 12,584.64 |
| Net Cash Used by Operating Activities | (72,373,678.21) |
| **CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES** | |
| State Aid Received | 37,484,085.91 |
| County Appropriations | 8,841,568.00 |
| Noncapital Grants - Federal Student Financial Aid | 22,469,133.13 |
| Noncapital Grants Received | 3,784,480.55 |
| William D. Ford Direct Lending Receipts | 17,993,105.00 |
| William D. Ford Direct Lending Disbursements | (17,993,105.00) |
| Net Cash Provided by Noncapital Financing Activities | 72,579,267.59 |
| **CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES** | |
| State Capital Aid Received | 8,819,090.63 |
| Capital Gifts Received | 130.00 |
| Proceeds from Sale of Capital Assets | 4,647.36 |
| Acquisition and Construction of Capital Assets | (7,216,508.71) |
| Net Cash Provided by Capital and Related Financing Activities | 1,607,359.28 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | |
| Investment Income | 106,458.54 |
| Net Cash Provided by Investing Activities | 106,458.54 |
| Net Increase in Cash and Cash Equivalents | 1,919,407.20 |
| Cash and Cash Equivalents, July 1, 2010 | 14,544,560.34 |
| Cash and Cash Equivalents, June 30, 2011 | $ 16,463,967.54 |

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

| | | |
|---|---|---|
| Operating Loss | $ | (73,888,139.82) |
| Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities: | | |
| Depreciation/ Amortization Expense | | 1,981,958.76 |
| Provision for Uncollectible Loans and Write-Offs | | 20,982.16 |
| Miscellaneous Nonoperating Income | | (12,679.91) |
| Changes in Assets and Liabilities: | | |
| Receivables, Net | | (241,513.54) |
| Inventories | | (43,836.08) |
| Prepaid Items | | (76,316.90) |
| Notes Receivable, Net | | (20,293.66) |
| Accounts Payable and Accrued Liabilities | | 25,999.42 |
| Unearned Revenue | | (63,461.94) |
| Funds Held for Others | | 25,264.55 |
| Compensated Absences | | (81,641.25) |
| Net Cash Used by Operating Activities | $ | (72,373,678.21) |

## RECONCILIATION OF CASH AND CASH EQUIVALENTS

| | | |
|---|---|---|
| Current Assets: | | |
| Cash and Cash Equivalents | $ | 12,308,534.09 |
| Restricted Cash and Cash Equivalents | | 1,669,767.65 |
| Noncurrent Assets: | | |
| Restricted Cash and Cash Equivalents | | 2,485,665.80 |
| Total Cash and Cash Equivalents - June 30, 2011 | $ | 16,463,967.54 |

## NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

| | | |
|---|---|---|
| Assets Acquired through Assumption of a Liability | $ | 668,032.17 |
| Increase in Receivables Related to Nonoperating Income | | 58,720.14 |
| Capital Asset Write-Offs | | (69,156.70) |
| Loss on Disposal of Capital Assets | | (150,872.60) |

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

[ This Page Left Blank Intentionally ]

## 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 (GAAP), the financial reporting entity includes both the primary government and all of its component units. An organization other than a primary government serves as a nucleus for a reporting entity when it issues separate financial statements. Fayetteville Technical Community College is a component unit of the State of North Carolina and an integral part of the State's *Comprehensive Annual Financial Report*.

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

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

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

In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the College does not apply Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, 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, regardless of the timing of the cash flows.

Nonexchange transactions, in which the College receives (or gives) value without directly giving (or receiving) equal value in exchange includes State appropriations, certain grants, and donations. Revenues are recognized, net of estimated uncollectible amounts, as soon as all eligibility requirements imposed by the provider have been met, if probable of collection.

**D. Cash and Cash Equivalents** - This classification includes undeposited receipts, petty cash, cash on deposit with private bank accounts, and deposits held by the State Treasurer in the short-term investment fund. The short-term investment fund maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.

**E. Receivables** - Receivables consist of tuition and fees charged to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from the federal government, State and local governments, and private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants. Receivables are recorded net of estimated uncollectible amounts.

**F. Inventories** - Inventories, consisting of expendable supplies, are valued at cost using the first-in, first-out method with the exception of inventories located at the central supply store and print shop which are valued at cost using the last invoice cost method. Merchandise for resale is valued at the lower of cost or market using the first-in, first-out method.

**G. Capital Assets** - Capital assets are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. The value of assets constructed includes all material direct and indirect construction costs.

The College capitalizes assets that have a value or cost of $5,000 or greater at the date of acquisition and an estimated useful life of more than one year except for intangible assets which are capitalized when the value or cost is $100,000 or greater. 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 to 75 years for general infrastructure, 50 to 75 years for buildings, 5 to 45 years for equipment, and 10 years for computer software.

**H. Restricted Assets** - Certain resources are reported as restricted assets because restrictions on asset use change the nature or normal understanding of the availability of the asset. Resources that are not available for current operations and are reported as restricted include resources restricted for the acquisition or construction of capital assets and resources whose use is limited by external parties or statute.

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

**J. Compensated Absences** - The College's policy is to record the cost of vacation leave when earned. The policy provides for a maximum accumulation of unused vacation leave of 30 days which can be carried forward each July 1 or for which an employee can be paid upon termination of employment. When classifying compensated absences into current and noncurrent, leave is considered taken using a last-in, first-out (LIFO) method. Also, any accumulated vacation leave in excess of 30 days at year-end is converted to sick leave.

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

There is no liability for unpaid accumulated sick leave because the College has no obligation to pay sick leave upon termination or retirement. However, additional service credit for retirement pension benefits is given for accumulated sick leave upon retirement.

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

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

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

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

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

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

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

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

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

N. **Internal Sales Activities** - The College bookstore provides goods and services to College departments, as well as to its customers. All internal sales activities to College departments from bookstore operations have been eliminated in the accompanying financial statements. These eliminations are recorded by removing the revenue and expense in the sales and service unit and, if significant, allocating any residual balances to those departments receiving the goods and services during the year.

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

## 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 $3,640.00, and deposits in private financial institutions with a carrying value of $7,251,965.54 and a bank balance of $8,447,167.42.

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, 2011, the College's bank balance in excess of federal depository insurance coverage was covered under the pooling method.

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

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

At June 30, 2011, the amount shown on the Statement of Net Assets as cash and cash equivalents includes $9,208,362.00 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 1.9 years as of June 30, 2011. 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.osc.nc.gov/ and clicking on "Reports," or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

## NOTE 3 - DONOR RESTRICTED ENDOWMENTS

The College's endowment assets are pooled with State agencies and similar institutions in short-term investments with the State Treasurer's Cash and Investment Pool and are reported as restricted cash and cash equivalents - noncurrent on the accompanying financial statements. If a donor has not provided specific instructions, State law permits the Board of Trustees to authorize for expenditure the net appreciation, realized, and unrealized, of the assets of the endowment funds. Annual payouts from the College's endowment funds are based on an adopted spending policy, which limits spending to 100% of the interest earnings unless the donor has stipulated otherwise. At June 30, 2011, net appreciation of $402.27 was available to be spent, all of which was restricted to specific purposes.

## NOTE 4 - RECEIVABLES

Receivables at June 30, 2011, were as follows:

| | Gross Receivables | Less Allowance for Doubtful Accounts | Net Receivables |
|---|---|---|---|
| **Current Receivables:** | | | |
| Students | $ 717,858.22 | $ 559,889.03 | $ 157,969.19 |
| Accounts | 751,681.06 | | 751,681.06 |
| Intergovernmental | 30,251.01 | | 30,251.01 |
| Other | 73,714.13 | | 73,714.13 |
| **Total Current Receivables** | $ 1,573,504.42 | $ 559,889.03 | $ 1,013,615.39 |
| **Notes Receivable - Current:** | | | |
| Institutional Student Loan Programs | $ 69,802.26 | $ 54,557.18 | $ 15,245.08 |

## NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2011, is presented as follows:

| | Balance July 1, 2010 | Increases | Decreases | Balance June 30, 2011 |
|---|---|---|---|---|
| Capital Assets, Nondepreciable: | | | | |
| Land | $ 6,951,692.05 | $ 0.00 | $ 0.00 | $ 6,951,692.05 |
| Construction in Progress | 1,751,542.88 | 5,354,156.11 | 794,898.19 | 6,310,800.80 |
| **Total Capital Assets, Nondepreciable** | 8,703,234.93 | 5,354,156.11 | 794,898.19 | 13,262,492.85 |
| Capital Assets, Depreciable: | | | | |
| Buildings | 67,648,669.34 | 319,244.19 | | 67,967,913.53 |
| Machinery and Equipment | 12,700,487.50 | 2,984,166.37 | 526,451.05 | 15,158,202.82 |
| General Infrastructure | 1,619,600.50 | | | 1,619,600.50 |
| Computer Software | 1,207,208.00 | | | 1,207,208.00 |
| Total Capital Assets, Depreciable | 83,175,965.34 | 3,303,410.56 | 526,451.05 | 85,952,924.85 |
| Less Accumulated Depreciation/Amortization for: | | | | |
| Buildings | 16,047,445.31 | 997,028.88 | | 17,044,474.19 |
| Machinery and Equipment | 4,776,556.58 | 843,313.56 | 306,421.75 | 5,313,448.39 |
| General Infrastructure | 470,236.40 | 20,895.48 | | 491,131.88 |
| Computer Software | 251,501.75 | 120,720.84 | | 372,222.59 |
| Total Accumulated Depreciation/Amortization | 21,545,740.04 | 1,981,958.76 | 306,421.75 | 23,221,277.05 |
| **Total Capital Assets, Depreciable, Net** | 61,630,225.30 | 1,321,451.80 | 220,029.30 | 62,731,647.80 |
| **Capital Assets, Net** | $ 70,333,460.23 | $ 6,675,607.91 | $ 1,014,927.49 | $ 75,994,140.65 |

## NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2011, were as follows:

| | Amount |
|---|---|
| Accounts Payable | $ 902,462.15 |
| Accrued Payroll | 438,338.63 |
| Contract Retainage | 247,964.44 |
| Intergovernmental Payables | 22,872.42 |
| Other | 82,208.20 |
| **Total Accounts Payable and Accrued Liabilities** | $ 1,693,845.84 |

## NOTE 7 - LONG-TERM LIABILITIES

**Changes in Long-Term Liabilities** - A summary of changes in the long-term liabilities for the year ended June 30, 2011, is presented as follows:

| | Balance July 1, 2010 | Additions | Reductions | Balance June 30, 2011 | Current Portion |
|---|---|---|---|---|---|
| **Compensated Absences** | $ 2,771,926.70 | $ 1,359,589.99 | $ 1,441,231.24 | $ 2,690,285.45 | $ 383,450.75 |

## NOTE 8 - REVENUES

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

| | Gross Revenues | Internal Sales Eliminations | Less Scholarship Discounts | Less Allowance for Uncollectibles | Net Revenues |
|---|---|---|---|---|---|
| **Operating Revenues:** | | | | | |
| **Student Tuition and Fees** | $ 18,948,452.07 | $ 0.00 | $ 6,092,501.94 | $ 227,673.91 | $ 12,628,276.22 |
| **Sales and Services:** | | | | | |
| Sales and Services of Auxiliary Enterprises: | | | | | |
| Bookstore | $ 6,649,509.82 | $ 13,375.92 | $ 3,432,439.69 | $ 332,215.12 | $ 2,871,479.09 |
| Vending/Cafeteria | 180,211.05 | | | | 180,211.05 |
| Early Childhood Ed. Center | 958,005.97 | | | | 958,005.97 |
| Other | 2,845.00 | | | | 2,845.00 |
| Sales and Services of Education and Related Activities | 70,679.93 | | | | 70,679.93 |
| **Total Sales and Services** | $ 7,861,251.77 | $ 13,375.92 | $ 3,432,439.69 | $ 332,215.12 | $ 4,083,221.04 |

## NOTE 9 - OPERATING EXPENSES BY FUNCTION

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

| | Salaries and Benefits | Supplies and Materials | Services | Scholarships and Fellowships | Utilities | Depreciation/ Amortization | Total |
|---|---|---|---|---|---|---|---|
| Instruction | $ 34,897,864.72 | $ 1,838,527.89 | $ 2,912,619.28 | $ 0.00 | $ 0.00 | $ 0.00 | $ 39,649,011.89 |
| Academic Support | 4,066,230.33 | 442,482.01 | 709,514.12 | | | | 5,218,226.46 |
| Student Services | 3,455,924.23 | 148,822.98 | 130,752.24 | | | | 3,735,499.45 |
| Institutional Support | 5,701,029.12 | 506,591.53 | 1,751,702.42 | | | | 7,959,323.07 |
| Operations and Maintenance of Plant | 3,408,214.30 | 1,777,425.92 | 2,516,091.45 | | 1,450,214.77 | | 9,151,946.44 |
| Student Financial Aid | 289,249.12 | | | 15,931,055.78 | | | 16,220,304.90 |
| Auxiliary Enterprises | 1,381,013.85 | 5,199,559.58 | 253,195.50 | | | | 6,833,768.93 |
| Depreciation/Amortization | | | | | | 1,981,958.76 | 1,981,958.76 |
| Total Operating Expenses | $ 53,199,525.67 | $ 9,913,409.91 | $ 8,273,875.01 | $ 15,931,055.78 | $ 1,450,214.77 | $ 1,981,958.76 | $ 90,750,039.90 |

## 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 is a cost-sharing multiple-employer defined benefit pension plan established by the State to provide pension benefits for employees of the State, its component units and local boards of education. The plan is 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, 2011, these rates were set at 4.93% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the College had a total payroll of $46,286,775.09, of which $35,413,865.92 was covered under the Teachers' and State Employees' Retirement System. Total employer and employee contributions for pension benefits for the year were $1,745,903.59 and $2,124,831.96, respectively.

Required employer contribution rates for the years ended June 30, 2010, and 2009, were 3.57% and 3.36%, respectively, while employee contributions were 6% each year. The College made 100% of its annual required contributions for the years ended June 30, 2011, 2010, and 2009, which were $1,745,903.59, $1,244,272.02, and $1,198,596.48, 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.nc.gov/ and clicking on "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 $34,122.00 for the year ended June 30, 2011.

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 $683,245.00 for the year ended June 30, 2011.

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 $95,740.90 for the year ended June 30, 2011.

## NOTE 11 - OTHER POSTEMPLOYMENT BENEFITS

**A. Health Benefits** - The College participates in the Comprehensive Major Medical Plan (the Plan), a cost-sharing, multiple-employer defined benefit health care plan that provides 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. Coverage eligibility varies depending on years of contributory membership service in their retirement system prior to disability or retirement.

The Plan's benefit and contribution provisions are established by *North Carolina General Statute* 135-7 and Chapter 135, Article 3A, of the General Statutes and may be amended only by the North Carolina General Assembly. The Plan does not provide for automatic post-retirement benefit increases.

By General Statute, a Retiree Health Benefit Fund (the Fund) has been established as a fund in which accumulated contributions from employers and any earnings on those contributions shall be used to provide health benefits to retired and disabled employees and applicable beneficiaries. By statute, the Fund is administered by the Board of Trustees of the Teachers' and State Employees' Retirement System and contributions to the fund are irrevocable. Also by law, Fund assets are dedicated to providing benefits to retired and disabled employees and applicable beneficiaries and are not subject to the claims of creditors of the employers making contributions to the Fund. Contribution rates to the Fund, which are intended to finance benefits and administrative expenses on a pay-as-you-go basis, are determined by the General Assembly.

For the current fiscal year the College contributed 4.9% of the covered payroll under the Teachers' and State Employees' Retirement System to the Fund. Required contribution rates for the years ended June 30, 2010, and 2009, were 4.5% and 4.1%, respectively. The College made 100% of its annual required contributions to the Plan for the years ended June 30, 2011, 2010, and 2009, which were $1,735,279.43, $1,568,410.10, and $1,462,573.09, respectively. 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*. 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.nc.gov/ and clicking on "Reports," or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

**B. Disability Income** - The College participates in the Disability Income Plan of North Carolina (DIPNC), a cost-sharing, multiple-employer defined benefit plan, to provide short-term and long-term disability benefits to eligible members of the Teachers' and State Employees' Retirement System. Benefit and contribution provisions are established by Chapter 135, Article 6, of the General Statutes, and may be amended only by the North Carolina General Assembly. The plan does not provide for automatic post-retirement benefit increases.

Disability income benefits are funded by actuarially determined employer contributions that are established by the General Assembly. For the fiscal year ended June 30, 2011, the College made a statutory contribution of .52% of covered payroll under the Teachers' and State Employees' Retirement System to the DIPNC. Required contribution rates for the years ended June 30, 2010, and 2009, were .52% and .52%, respectively. The College made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2011, 2010, and 2009, which were $184,152.10, $181,238.50, and $185,497.07, respectively. 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, including 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.

The risk of tort claims of up to $1,000,000 per claimant is retained under the authority of the State Tort Claims Act. In addition, the State provides excess public officers' and employees' liability insurance up to $10,000,000 via contract with a private insurance company. The North Carolina Community

College System Office pays the premium, based on a composite rate, 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 are covered by liability insurance through a private insurance company and handled by the North Carolina Department of Insurance. The liability limits for losses are $1,000,000 per claim and $10,000,000 per occurrence. The community college pays premiums to the North Carolina Department of Insurance for the coverage. 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. This coverage is with a private insurance company and is handled by the North Carolina Department of Insurance. North Carolina Community College System Office is charged a premium by the private insurance company. Coverage limit is $5,000,000 per occurrence. The private insurance company pays 90% of each loss less a $75,000 deductible. The College is protected for losses from employee dishonesty and computer fraud for employees paid directly from county or institutional funds by contract with private insurance companies.

College employees and retirees are provided comprehensive major medical care benefits. Coverage is funded by contributions to the State Health Plan (Plan), a discretely presented component unit of the State of North Carolina. The Plan is funded by employer and employee contributions. The Plan has contracted with third parties to process claims.

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 (death benefits) of $25,000 to $50,000 is provided to eligible workers. This Death Benefit Plan 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 $3,814,610.33 at June 30, 2011.

**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

The Fayetteville Technical Community College Foundation, Inc. is a separately incorporated nonprofit foundation associated with the College. This organization serves as the primary fundraising arm of the College through which individuals, corporations, and other organizations support College programs by providing scholarships, fellowships, faculty salary supplements, and unrestricted funds to specific departments and the College's overall academic environment. The College's financial statements do not include the assets, liabilities, net assets, or operational transactions of the Foundation, except for support from the Foundation. This support approximated $91,318.00 for the year ended June 30, 2011.

Formed as a corporation on April 23, 2010, the FTCC Innovation Center is a separately incorporated nonprofit corporation associated with the College. This corporation is organized to support Fayetteville Technical Community College and thereby advance education and science. There were no transactions between the FTCC Innovation Center and the College for the year ended June 30, 2011.

## NOTE 15 - LEASE OPERATING REVENUE

Future minimum lease revenue under noncancelable operating leases related to wireless broadband services are recorded when earned. These minimum future lease revenues consist of the following at June 30, 2011:

| Fiscal Year | Amount |
|---|---|
| 2012 | $ 20,957.00 |
| 2013 | 20,957.00 |
| 2014 | 20,957.00 |
| 2015 | 20,957.00 |
| 2016 | 20,957.00 |
| 2017-2021 | 104,785.00 |
| 2022-2026 | 104,785.00 |
| 2027-2031 | 104,785.00 |
| 2032-2036 | 104,785.00 |
| Total Minimum Lease Revenues | $ 523,925.00 |

Rental revenue for all operating leases during the year was $20,957.00.

[ This Page Left Blank Intentionally ]

STATE OF NORTH CAROLINA
Office of the State Auditor

**Beth A. Wood, CPA**
State Auditor

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

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

Board of Trustees
Fayetteville Technical Community College
Fayetteville, North Carolina

We have audited the financial statements of Fayetteville Technical Community College, a component unit of the State of North Carolina, as of and for the year ended June 30, 2011, and have issued our report thereon dated February 9, 2012.

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.

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the College's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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.

**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)**

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, others within the entity, the State Board of Community Colleges, the Governor, the General Assembly, and the State Controller, and is not intended to be and should not be used by anyone other than these specified parties.

Beth A. Wood

Beth A. Wood, CPA
State Auditor

February 9, 2012

## ORDERING INFORMATION

Audit reports issued by the Office of the State Auditor can be obtained from the web site at www.ncauditor.net. Also, parties may register on the web site to receive automatic email notification whenever reports of interest are issued. Otherwise, copies of audit reports may be obtained by contacting the:


Office of the State Auditor
State of North Carolina
2 South Salisbury Street
20601 Mail Service Center
Raleigh, North Carolina 27699-0601

Telephone: 919/807-7500

Facsimile: 919/807-7647