STATE OF NORTH CAROLINA

FAYETTEVILLE TECHNICAL COMMUNITY COLLEGE

FAYETTEVILLE, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2013

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, 2013

STATE OF NORTH CAROLINA
Office of the State Auditor

Beth A. Wood, CPA
State Auditor

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AUDITOR'S TRANSMITTAL

The Honorable Pat McCrory, 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, 2013, 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, CPA
State Auditor

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Fayetteville Technical Community College
Fayetteville, North Carolina

Report on the Financial Statements

We have audited the accompanying 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, 2013, and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the College's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion the financial statements referred to above present fairly, in all material respects, the financial position of Fayetteville Technical Community College, as of June 30, 2013, and the changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters – Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 8, 2014, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control over financial reporting and compliance.

Beth A. Wood

Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

April 8, 2014

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, 2013, with comparative data for fiscal year ended June 30, 2012. 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 Position, the Statement of Revenues, Expenses, and Changes in Net Position, and the Statement of Cash Flows.

The Statement of Net Position presents the assets (current and noncurrent), liabilities (current and noncurrent), and net position (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 Position 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 Position as adjusted for changes in the beginning and ending balances of noncash accounts on the Statement of Net Position.

Financial Highlights

The College's net position has increased from $96,900,835.92 at June 30, 2012, to $101,022,465.56 at June 30, 2013. This increase of $4,121,629.64 is due to changes in a combination of accounts, including an increase in investment in capital assets, restricted net position, and unrestricted net position.

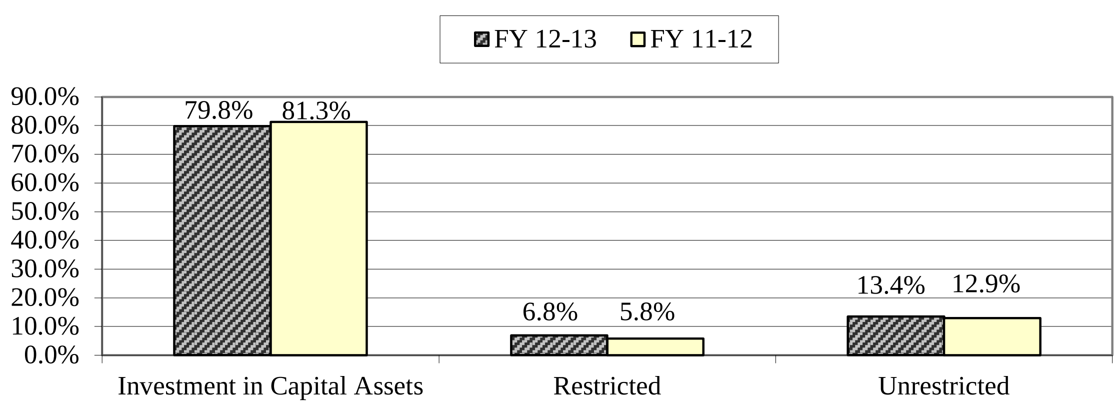
Investment in capital assets increased $1,853,156.51 or 2.4 percent. In fiscal year (FY) 2013, the College recorded additions to capital assets accounts (construction in progress and machinery and equipment), while also recording current year depreciation expense and the disposal of equipment that had a combined remaining book value of $295,238.00. The General Classroom Building, which opened in the fall 2012, was reclassified from construction in progress to buildings, which is the reason for the shift in capital assets from capital assets, nondepreciable to capital assets, depreciable. The College's $2,520,768.38 increase to construction in progress is due to construction expenditures incurred for the Tony Rand Student Center renovation and the Lafayette Hall mechanical system renovation. This capital asset activity is discussed later in this discussion and analysis.

Restricted net position increased $1,238,518.03 or 21.9 percent. The majority of this increase occurred in the capital projects account. Restricted capital projects net position increased $811,008.43 or 17.2 percent. This increase corresponds to the changes from FY 2012 to FY 2013 in the amounts due from the State of $971,329.07 and from the county of $522,411.41. These amounts due from the State and the county are for miscellaneous construction projects, which include roof repairs, elevator upgrades, campus improvements, the Lafayette Hall mechanical system renovation, and the Tony Rand Student Center renovation.

Unrestricted net position increased $1,029,955.10 or 8.2 percent from FY 2012 to FY 2013. This is the result of fluctuations in a combination of unrestricted accounts. An overall increase in unrestricted net position results when unrestricted revenues exceed expenses paid from unrestricted funds. Unrestricted revenues are generated from student tuition and fees, sales and services, other operating revenues, state aid, county appropriations, investment income, and unrestricted noncapital grants. Expenses paid from unrestricted funds include a portion of the College's salaries and benefits, supplies and materials, services, and utilities.

Total net position as of June 30, 2013, consists of investment in capital assets (79.8 percent), restricted net position (6.8 percent), and unrestricted net position (13.4 percent). The following is a graphic illustration of net position.

Analysis of Net Position for
FY 2012-2013 and FY 2011-2012



As of June 30, 2013, the College had recorded $106,805,451.92 in capital assets and $26,209,863.70 in accumulated depreciation, resulting in net capital assets of $80,595,588.22. Current assets increased $1,812,291.42 or 9.6 percent from FY 2012 to FY 2013. This increase was largely due to a $1,324,336.64 increase in current cash and cash equivalents. The increase in current cash and cash equivalents is due to multiple factors. Unrestricted current cash and cash equivalents increased due to an increase in cash in the bookstore fund of $659,468.49. This increase is the result of profits earned through this auxiliary operation. In addition, the College offered more curriculum self-supporting classes in FY 2013 compared to FY 2012. This resulted in an increase in unrestricted current cash of $636,078.68.

The overall increase in current unrestricted cash and cash equivalents was offset by a slight decrease in current restricted cash and cash equivalents. This decrease was mostly due to a decrease in the cash balance in Workforce Development grant funds. At the end of FY 2012, there was a scheduled shut down of the system used to draw down Workforce Development grant funds. Due to this shut down, grant recipients were instructed to draw down anticipated expenditures for July during June. This resulted in unusual cash balances in Workforce Development funds at the end of FY 2012 that do not normally exist.

The remainder of the increase in current assets results from $429,766.52 due from the county for miscellaneous construction projects that include roof repairs and the Lafayette Hall mechanical system renovation. This current portion of the total amount due from the county is recorded as a current receivable because these funds are expected to be used within the next year to satisfy payment of amounts recorded as current liabilities at June 30, 2013, for these construction projects.

Noncurrent capital assets increased $1,387,853.94 or 1.8 percent from FY 2012 to FY 2013. Additions of $2,520,768.38 to construction in progress in FY 2013 are the main reason for the increase, which result from the Tony Rand Student Center renovation and the Lafayette Hall mechanical renovation. Construction in progress decreased $10,117,728.69, offset by an increase in the buildings account of $10,216,383.54, as a result of the completion of the new General Classroom Building. The College did not expend any capital funds for infrastructure in FY 2013. Equipment purchases were $1,099,995.81 in FY 2013. The College recorded depreciation/amortization expense of $2,036,327.10 during FY 2013. The increase in construction in progress plus increases to equipment, netted against current year depreciation expense, resulted in the overall increase in this account in FY 2013.

Other noncurrent assets increased $902,093.65 or 20.3 percent from FY 2012 to FY 2013. The increase results from an increase of $971,329.07 due from the State for construction projects at FY 2013 compared to FY 2012. The amount due from the State is for miscellaneous construction projects, which include roof repairs, elevator upgrades, the Tony Rand Student Center renovation, the Western Campus project, and Horace Sisk renovations.

Current liabilities decreased $317,760.69 or 9.0 percent from FY 2012 to FY 2013. Multiple factors are responsible for this change. Current liabilities payable from county funds for utilities decreased $70,692.84. Workforce Development payables decreased 46,093.61. Bookstore payables to vendors decreased $75,982.61. These differences are the result of timing differences in when the College received bills for goods and services and when payment was made at year-end in FY 2013 compared to FY 2012. In addition, the College had $67,563.46 less Golden Leaf grant unearned revenue at year-end and $149,321.83 less Workforce Development grant unearned revenue at year-end. The Golden Leaf grant has less unearned revenue at year-end because the College was further into the grant period at the end of FY 2013 compared to FY 2012; therefore more of the expenses were incurred. The Workforce Development grant has less unearned revenue at year-end because of the timing of the drawdowns, as discussed previously.

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 $1,149,290.04 at June 30, 2013, which is a decrease of 3.1 percent from the prior year.

Condensed Statement of Net Position

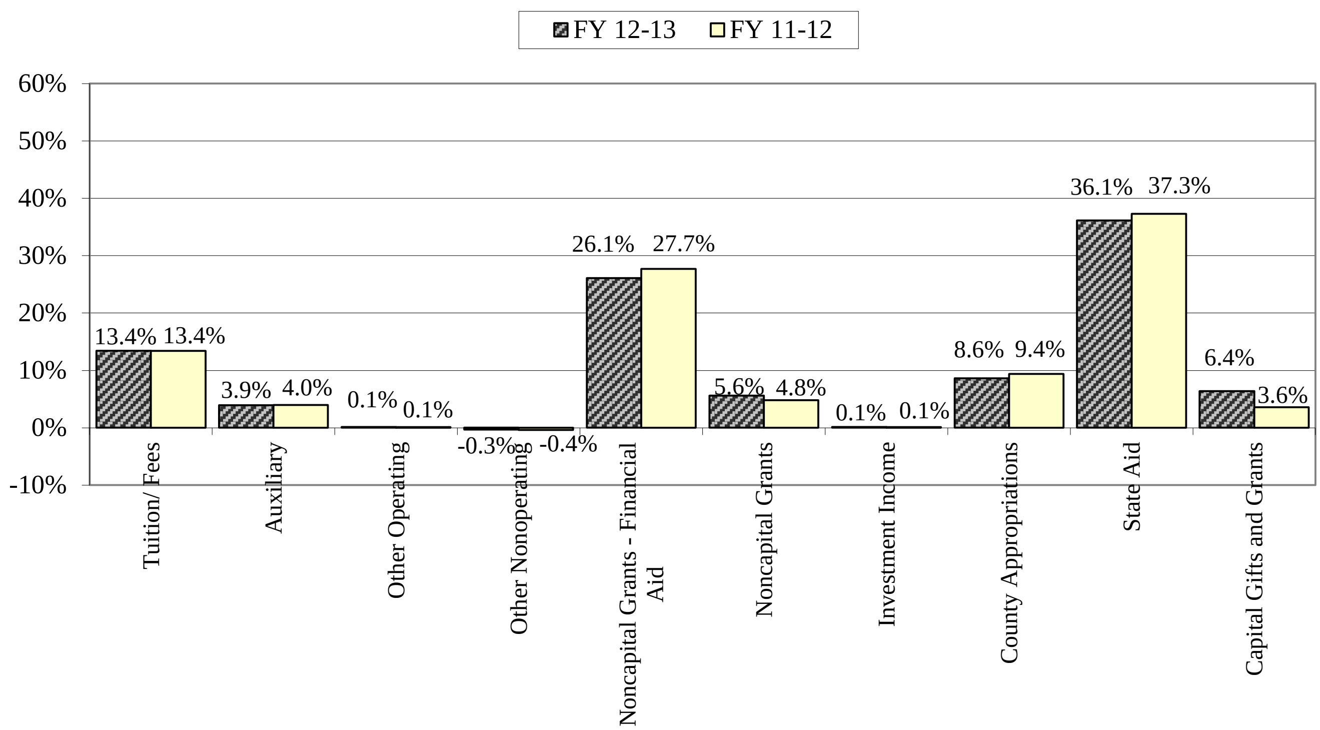
	2013	2012 (as Restated)	Increase/ (Decrease)
ASSETS			
Current Assets	$ 20,782,070.08	$ 18,969,778.66	$ 1,812,291.42
Noncurrent Assets:			
Capital	80,595,588.22	79,207,734.28	1,387,853.94
Other	5,332,403.01	4,430,309.36	902,093.65
Total Assets	106,710,061.31	102,607,822.30	4,102,239.01
LIABILITIES			
Current Liabilities	3,229,952.76	3,547,713.45	(317,760.69)
Noncurrent Liabilities	2,457,642.99	2,159,272.93	298,370.06
Total Liabilities	5,687,595.75	5,706,986.38	(19,390.63)
NET POSITION			
Investment in Capital Assets	80,595,588.22	78,742,431.71	1,853,156.51
Restricted	6,905,561.26	5,667,043.23	1,238,518.03
Unrestricted	13,521,316.08	12,491,360.98	1,029,955.10
Total Net Position	$ 101,022,465.56	$ 96,900,835.92	$ 4,121,629.64

Total revenues for FY 2013 were $106,774,020.77, an increase of 9.0 percent compared to FY 2012.

Operating revenues increased $1,392,998.63 or 8.1 percent from FY 2012 to FY 2013. The change is mainly due to increased student tuition and fees revenues of $1,176,783.55. This is the result of enrollment growth, increased revenue from additional self-supporting curriculum courses, and a state mandated increase in the tuition rate. The in-state and out-of-state tuition rates increased $2.50 per credit hour, or 3.7 percent and 0.9 percent, respectively.

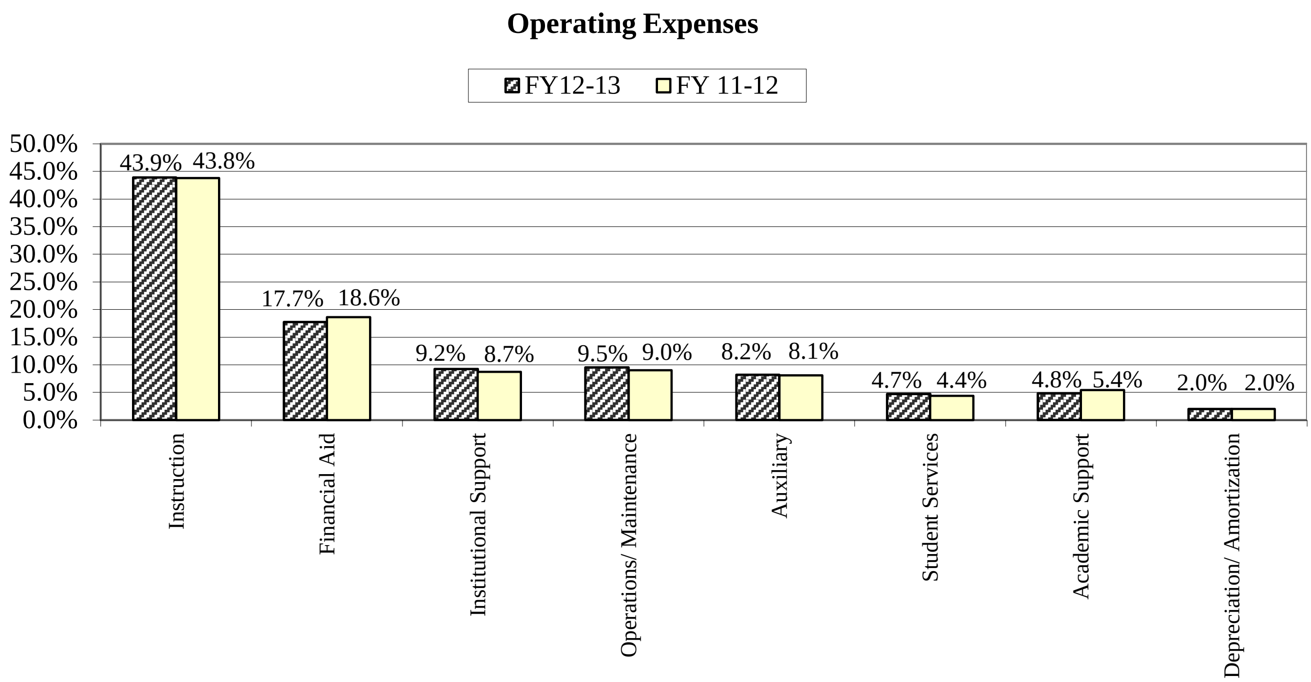
Nonoperating revenues, including capital contributions, increased $7,432,476.04 or 9.2 percent from FY 2012 to FY 2013, which was the result of several factors. State aid increased $1,966,144.73, due to the College's overall increase in student enrollment FTEs (full-time equivalents) used to calculate state formula funding. Noncapital grants for federal student financial aid increased $814,034.99 due to an increase in the amount of Pell grants, which happens anytime the College experiences enrollment growth. Noncapital grants increased $1,276,344.26, mainly due to an increase in Workforce Development and Department of Labor NC Advanced Manufacturing Alliance grant funds. The last major component causing the increase in nonoperating revenues is capital contributions, which increased $3,323,622.39. This change is the result of an increase in county capital aid for various construction projects including the Lafayette Hall mechanical renovation, roof repairs, and underground piping repairs.

Revenue (Expense) by Source



Total operating expenses at June 30, 2013, were $102,652,391.13; at June 30, 2012, total operating expenses were $95,026,029.05, resulting in a $7,626,362.08 or 8.0 percent increase from FY 2012. The majority of the increase is reflected in the salaries and benefits, supplies and materials, and services accounts. Salaries and benefits increased $3,644,688.71, or 6.6 percent. Faculty and staff received a 3.0 percent salary increase and a one-time bonus of 1.5 percent during FY 2013. In addition, salaries and benefits expense increased as a result of increased enrollment, which required additional personnel. Supplies and materials expense increased $2,183,176.37 or 20.5 percent. The increase in this account is the result of an approximate $1.2 million increase in non-capitalized repairs and equipment expenses, compared to FY 2012. The College incurred these expenses for three roof repairs, underground piping repairs, and miscellaneous equipment. In addition, supplies and materials expense increased approximately $0.5 million due to the increased needs of the College's significantly larger bookstore that opened in the new General Classroom Building. Finally, supplies and materials expense increased approximately $0.9 million for instruction as a result of expanding needs to support enrollment growth and additional self-supporting classes. Services expense increased $970,473.65 or 11.2 percent. This increase is due to greater instructional services needs and call center services needs to support enrollment growth.

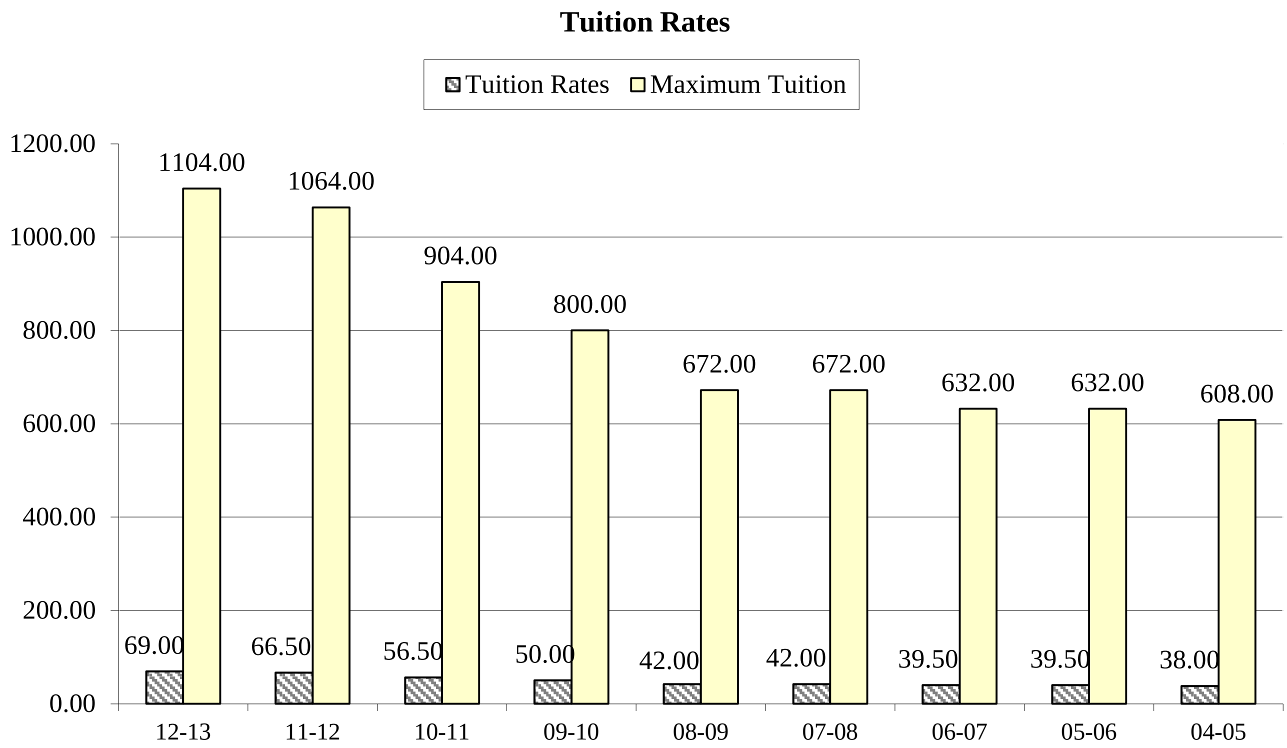
There were no significant changes in any other expense captions on the financial statements.



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

	2013	2012 (as Restated)	Increase (Decrease)
OPERATING REVENUES			
Student Tuition and Fees, Net	$ 14,314,035.11	$ 13,137,251.56	$ 1,176,783.55
Grants and Contracts	22,838.12	45,451.35	(22,613.23)
Sales and Services, Net	4,150,048.34	3,922,667.12	227,381.22
Other Operating Revenues	119,887.64	108,440.55	11,447.09
Net Operating Revenues	18,606,809.21	17,213,810.58	1,392,998.63
OPERATING EXPENSES			
Salaries and Benefits	58,493,725.99	54,849,037.28	3,644,688.71
Supplies and Materials	12,830,571.10	10,647,394.73	2,183,176.37
Services	9,648,427.07	8,677,953.42	970,473.65
Scholarships and Fellowships	17,883,880.31	17,345,511.86	538,368.45
Utilities	1,759,459.56	1,612,801.68	146,657.88
Depreciation/Amortization	2,036,327.10	1,893,330.08	142,997.02
Total Operating Expenses	102,652,391.13	95,026,029.05	7,626,362.08
Operating Loss	(84,045,581.92)	(77,812,218.47)	(6,233,363.45)
NONOPERATING REVENUES (EXPENSES)			
State Aid	38,535,081.20	36,568,936.47	1,966,144.73
County Appropriations	9,163,305.00	9,163,305.00	0.00
Noncapital Grants - Federal Student Financial Aid	27,898,766.79	27,084,731.80	814,034.99
Noncapital Grants	5,946,854.92	4,670,510.66	1,276,344.26
Investment Income	59,011.23	77,937.98	(18,926.75)
Other Nonoperating Expenses, Net	(272,677.04)	(343,933.46)	71,256.42
Net Nonoperating Revenues	81,330,342.10	77,221,488.45	4,108,853.65
Loss Before Other Revenues	(2,715,239.82)	(590,730.02)	(2,124,509.80)
Capital Contributions	6,836,869.46	3,513,247.07	3,323,622.39
Increase in Net Position	4,121,629.64	2,922,517.05	1,199,112.59
NET POSITION			
Beginning of Year - Restated	96,900,835.92	93,978,318.87	2,922,517.05
End of Year	$ 101,022,465.56	$ 96,900,835.92	$ 4,121,629.64

In FY 2013, the tuition rates for in-state and out-of-state students increased to $69.00 and $261.00 per credit hour, respectively. This is an increase of 3.7 percent for in-state tuition and 0.9 percent for out-of-state tuition. Over the last eight years, in-state tuition has increased 81.6 percent.



As mentioned previously, the College receives funding from county and state sources. Noncapital county appropriations remained the same in FY 2013 compared to FY 2012. 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, 2013, the College had received all county matching funds except for $10,334.00.

In FY 2013 compared to FY 2012, the FTEs that generate the College's state budget (budget FTEs) increased in the area of Curriculum, but decreased in the areas of Occupational Extension and College and Career Readiness. Historically, the College's funding has been based on actual FTEs earned during the prior fiscal year or a three year average, whichever is greater. In FY 2013 actual FTE earned in FY 2012 was used by the North Carolina Community College System Office (NCCCSO) to generate FY 2013 budget in the area of Curriculum, but in the areas of Occupational Extension and College and Career Readiness a three year average was used for funding. It is interesting to note that beginning with the FY 2014 funding cycle, the General Assembly changed the funding method to the actual FTE earned during the prior fiscal year or a two year average (instead of a three year average), whichever is greater.

	2012-2013	2011-2012	% Increase/ (Decrease)
Curriculum	8,866	8,351	6.2%
Occupational Extension	1,963	1,999	(1.8%)
College and Career Readiness	1,186	1,266	(6.3%)
Total FTEs	12,015	11,616	3.4%

For FY 2013, 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. This method of reducing the state budget was originally implemented for FY 2010.

The College's portion of the management flexibility reduction that was reverted prior to preparation of the combined budget (DCC2-1) was $3,829,847. No additional budget reversions were required during the year. The State allocated a 1.2% salary increase to faculty and staff and the College contributed an additional 1.8% to total a 3.0% salary increase.

In the area of Occupational Extension, a new location off Cliffdale Road referred to as Cliffdale Plaza, was opened in January 2013. Additional classes in CNA I, CNA II, RMA, and EMS were held in this location, increasing the Occupational Extension enrollment. In the area of Curriculum, the mammography program was approved for the spring 2013 semester.

The state of the economy, reflected by unemployment rates in Cumberland and surrounding counties, had a direct relationship to enrollment. The actual overall FTE earned during FY 2013 increased by 3.4 percent. This increase is reflected in the FY 2013 unemployment rates, as rates remain high in Cumberland County.

Cumberland County Unemployment Rates

	2012-2013	2011-2012	2010-2011	2009-2010	2008-2009	2007-2008
January	11.0%	10.3%	9.7%	9.9%	8.9%	5.6%
February	10.2%	10.1%	9.4%	9.9%	9.6%	5.7%
March	9.7%	9.7%	9.1%	9.2%	9.2%	5.5%
April	9.4%	9.5%	9.1%	8.7%	8.5%	5.3%
May	10.0%	9.9%	9.4%	8.8%	9.3%	6.1%
June	10.6%	10.4%	10.3%	9.1%	9.5%	6.6%

Significant Capital Asset Activities

The Western Property purchase occurred in December 2008 and is funded by $2,505,136 of state bond funds and $407,553 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 from the State. In addition, $7,100 of unexpended Facility Master Plan funds was transferred to the planning of the Western Campus. Funds required to proceed with the building out of the campus have yet to be identified.

The Tony Rand Student Center renovation project budget was increased from $3,862,970 as of FY 2012 to a current budget of $3,931,360. The project funding consists of $2,801,450 institutional funds, $400,000 county funds, $700,000 state equipment funds, and $29,910 state bond funds. The project designer has been selected and the project is currently in the design phase. The construction is expected to begin in March 2014 with an estimated completion date of March 2015.

The Lafayette Hall mechanical system renovation project budget was increased from $2,500,000 to $2,870,308 and is funded by county sources. The project was completed in August 2013 with an expected final cost of $2,759,130.63.

Roof replacement projects for the Neil Currie building, Paul. H. Thompson Library and YMCA building were approved for $1,000,000 county funds. The work has been completed and the final cost is expected to be $821,476.79.

Economic Forecast

The College budget for FY 2014 continues to be greatly impacted by the poor economy. The College had to implement a management flexibility reduction of $3,518,842.00 that was reverted prior to the preparation of the combined budget. This management flexibility reduction was an 8.1 percent decrease from the FY 2013 requirement and was 5.6 percent of the state formula allotment. It was suggested that colleges hold back an additional 1.0 percent for possible future reversions during the year.

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 fall 2013 appears to be up slightly. We continue to be cautious in incurring recurring expenditures such as adding faculty and staff due to the continued forecasted downturn in the economy.

Fayetteville Technical Community College
Statement of Net Position — *Exhibit A-1*
June 30, 2013 — *Page 1 of 2*

ASSETS	
Current Assets:	
Cash and Cash Equivalents	$ 15,888,873.25
Restricted Cash and Cash Equivalents	1,480,357.95
Receivables, Net (Note 4)	1,246,454.44
Due from Primary Government	248,080.40
Due from State of North Carolina Component Units	479,188.50
Inventories	797,834.05
Prepaid Items	631,870.37
Notes Receivable, Net (Note 4)	9,411.12
Total Current Assets	20,782,070.08
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	2,964,816.12
Restricted Due from County	283,743.89
Restricted Due from Primary Government	2,083,843.00
Capital Assets - Nondepreciable (Note 5)	9,658,618.43
Capital Assets - Depreciable, Net (Note 5)	70,936,969.79
Total Noncurrent Assets	85,927,991.23
Total Assets	106,710,061.31
DEFERRED OUTFLOWS OF RESOURCES	
Deferred Outflows of Resources	0.00
LIABILITIES	
Current Liabilities:	
Accounts Payable and Accrued Liabilities (Note 6)	1,460,953.06
Unearned Revenue	1,411,867.35
Funds Held for Others	87,126.56
Long-Term Liabilities - Current Portion (Note 7)	270,005.79
Total Current Liabilities	3,229,952.76
Noncurrent Liabilities:	
Long-Term Liabilities (Note 7)	2,457,642.99
Total Noncurrent Liabilities	2,457,642.99
Total Liabilities	5,687,595.75
DEFERRED INFLOWS OF RESOURCES	
Deferred Inflows of Resources	0.00

NET POSITION	
Investment in Capital Assets	80,595,588.22
Restricted for:	
Nonexpendable:	
Endowment	39,050.00
Expendable:	
Scholarships and Fellowships	10,260.93
Loans	238,379.36
Capital Projects	5,517,356.52
Departmental Uses	568,668.60
Other	531,845.85
Unrestricted	13,521,316.08
Total Net Position	$ 101,022,465.56

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 Position
For the Fiscal Year Ended June 30, 2013 — ***Exhibit A-2***

REVENUES	
Operating Revenues:	
Student Tuition and Fees, Net (Note 9)	$ 14,314,035.11
State and Local Grants and Contracts	22,838.12
Sales and Services, Net (Note 9)	4,150,048.34
Other Operating Revenues	119,887.64
Total Operating Revenues	18,606,809.21
EXPENSES	
Operating Expenses:	
Salaries and Benefits	58,493,725.99
Supplies and Materials	12,830,571.10
Services	9,648,427.07
Scholarships and Fellowships	17,883,880.31
Utilities	1,759,459.56
Depreciation/ Amortization	2,036,327.10
Total Operating Expenses	102,652,391.13
Operating Loss	(84,045,581.92)
NONOPERATING REVENUES (EXPENSES)	
State Aid	38,535,081.20
County Appropriations	9,163,305.00
Noncapital Grants - Federal Student Financial Aid	27,898,766.79
Noncapital Grants	5,946,854.92
Investment Income	59,011.23
Other Nonoperating Expenses	(272,677.04)
Net Nonoperating Revenues	81,330,342.10
Loss Before Other Revenues	(2,715,239.82)
State Capital Aid	3,183,888.69
County Capital Aid	3,652,980.77
Increase in Net Position	4,121,629.64
NET POSITION	
Net Position, July 1, 2012 as Restated (Note 17)	96,900,835.92
Net Position, June 30, 2013	$ 101,022,465.56

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

Fayetteville Technical Community College
Statement of Cash Flows — *Exhibit A-3*
For the Fiscal Year Ended June 30, 2013 — *Page 1 of 2*

CASH FLOWS FROM OPERATING ACTIVITIES	
Received from Customers	$ 18,853,443.62
Payments to Employees and Fringe Benefits	(58,212,220.90)
Payments to Vendors and Suppliers	(24,433,419.52)
Payments for Scholarships and Fellowships	(17,852,401.34)
Loans Issued to Students	(53,830.05)
Collection of Loans to Students	37,446.39
Other Receipts	39,631.65
Net Cash Used by Operating Activities	(81,621,350.15)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Aid Received	38,535,081.20
County Appropriations	9,163,305.00
Noncapital Grants - Federal Student Financial Aid	27,894,942.08
Noncapital Grants Received	5,542,376.71
William D. Ford Direct Lending Receipts	17,253,958.00
William D. Ford Direct Lending Disbursements	(17,253,958.00)
Net Cash Provided by Noncapital Financing Activities	81,135,704.99
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
State Capital Aid Received	2,212,559.62
County Capital Aid	3,130,569.36
Proceeds from Sale of Capital Assets	916.37
Acquisition and Construction of Capital Assets	(3,754,955.09)
Net Cash Provided by Capital and Related Financing Activities	1,589,090.26
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment Income	59,011.23
Net Cash Provided by Investing Activities	59,011.23
Net Increase in Cash and Cash Equivalents	1,162,456.33
Cash and Cash Equivalents, July 1, 2012	19,171,590.99
Cash and Cash Equivalents, June 30, 2013	$ 20,334,047.32

RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES

Operating Loss	$ (84,045,581.92)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation/ Amortization Expense	2,036,327.10
Provision for Uncollectible Loans and Write-Offs	20,925.85
Miscellaneous Nonoperating Income	21,644.59
Changes in Assets and Liabilities:	
Receivables, Net	188,288.96
Inventories	(80,912.15)
Prepaid Items	41,486.71
Notes Receivable, Net	(16,383.66)
Accounts Payable and Accrued Liabilities	(124,910.57)
Unearned Revenue	89,224.42
Funds Held for Others	17,987.06
Compensated Absences	230,553.46
Net Cash Used by Operating Activities	$ (81,621,350.15)

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	$ 15,888,873.25
Restricted Cash and Cash Equivalents	1,480,357.95
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	2,964,816.12
Total Cash and Cash Equivalents - June 30, 2013	$ 20,334,047.32

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through Assumption of a Liability	$ 429,766.52
Increase in Receivables Related to Nonoperating Income	1,722,544.82
Loss on Disposal of Capital Assets	(294,321.63)

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 (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 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.

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, include 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 (STIF). The STIF 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 other intangible assets, such as purchased computer software, which are capitalized when the value or cost is $100,000 or greater.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 40 to 75 years for general infrastructure, 40 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, resources whose use is limited by external parties or statute, and endowment and other restricted investments.

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. Under this policy, the accumulated vacation leave for each employee at June 30 equals the leave carried forward at the previous June 30 plus the leave earned, less the leave taken between July 1 and June 30.

In addition to the vacation leave described above, compensated absences include the accumulated unused portion of the special annual leave bonuses awarded by the North Carolina General Assembly. The bonus leave balance on June 30 is retained by employees and transferred into the next 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.

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 Position** - The College's net position is classified as follows:

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

Restricted Net Position - Nonexpendable - Nonexpendable restricted net position includes 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 Position - Expendable - Expendable restricted net position includes resources for which the College is legally or contractually obligated to spend in accordance with restrictions imposed by external parties.

Unrestricted Net Position - Unrestricted net position includes 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 Position. 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 nonoperating revenues in the accompanying Statement of Revenues, Expenses, and Changes in Net Position. 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 Position. 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 appropriations and county capital appropriations do not revert and are available for future use as approved by the county commissioners.

NOTE 2 - DEPOSITS

The College is required by *North Carolina General Statute* 147-77 to deposit any funds collected or received that belong to the State of North Carolina with the State Treasurer or with a depository institution in the name of the State Treasurer. All funds of the College, other than those required to be deposited with the State Treasurer, 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 Position as cash and cash equivalents includes cash on hand totaling $3,790.00, and deposits in private financial institutions with a carrying value of $9,165,705.14 and a bank balance of $10,009,510.93.

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, 2013, 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 any form of investment established or managed by certain investment advisors pursuant to G.S. 115D-58.6 (d1) or 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, a 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 of custodian.

At June 30, 2013, the amount shown on the Statement of Net Position as cash and cash equivalents includes $11,164,552.18 which represents the College's equity position in the State Treasurer's Short-Term Investment Fund (STIF). The STIF (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission and does not have a credit rating) had a weighted average maturity of 1.6 years as of June 30, 2013. Assets and shares of the STIF 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 STIF) 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) 707-0500.

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, 2013, net appreciation of $173.08 was available to be spent, all of which was classified in net position as restricted expendable for scholarships and fellowships.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2013, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	$ 1,188,564.52	$ 893,190.58	$ 295,373.94
Student Sponsors	172,338.62		172,338.62
Accounts	265,836.49		265,836.49
Intergovernmental	505,733.78		505,733.78
Other	7,171.61		7,171.61
Total Current Receivables	$ 2,139,645.02	$ 893,190.58	$ 1,246,454.44
Notes Receivable:			
Notes Receivable - Current:			
Institutional Student Loan Programs	$ 62,660.93	$ 53,249.81	$ 9,411.12

NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2013, is presented as follows:

	Balance July 1, 2012 (as restated)	Increases	Decreases	Balance June 30, 2013
Capital Assets, Nondepreciable:				
Land	$ 6,951,692.05	$ 0.00	$ 0.00	$ 6,951,692.05
Construction in Progress	10,303,886.69	2,520,768.38	10,117,728.69	2,706,926.38
Total Capital Assets, Nondepreciable	17,255,578.74	2,520,768.38	10,117,728.69	9,658,618.43
Capital Assets, Depreciable:				
Buildings	67,967,913.53	10,216,383.54		78,184,297.07
Machinery and Equipment	15,784,295.34	1,099,995.81	748,563.23	16,135,727.92
General Infrastructure	1,619,600.50			1,619,600.50
Computer Software	1,207,208.00			1,207,208.00
Total Capital Assets, Depreciable	86,579,017.37	11,316,379.35	748,563.23	97,146,833.49
Less Accumulated Depreciation/Amortization for:				
Buildings	18,045,404.99	1,114,446.20		19,159,851.19
Machinery and Equipment	5,576,486.05	780,264.58	453,325.23	5,903,425.40
General Infrastructure	512,027.36	20,895.48		532,922.84
Computer Software	492,943.43	120,720.84		613,664.27
Total Accumulated Depreciation/Amortization	24,626,861.83	2,036,327.10	453,325.23	26,209,863.70
Total Capital Assets, Depreciable, Net	61,952,155.54	9,280,052.25	295,238.00	70,936,969.79
Capital Assets, Net	$ 79,207,734.28	$ 11,800,820.63	$ 10,412,966.69	$ 80,595,588.22

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2013, were as follows:

	Amount
Current Accounts Payable and Accrued Liabilities:	
Accounts Payable	$ 576,267.62
Accrued Payroll	524,866.27
Contract Retainage	151,523.07
Other	208,296.10
Total	$ 1,460,953.06

NOTE 7 - CHANGES IN LONG-TERM LIABILITIES

A summary of changes in the long-term liabilities for the year ended June 30, 2013, is presented as follows:

	Balance July 1, 2012	Additions	Reductions	Balance June 30, 2013	Current Portion
Compensated Absences	$ 2,497,095.32	$ 1,478,319.85	$ 1,247,766.39	$ 2,727,648.78	$ 270,005.79

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	$ 23,675,747.11	$ 0.00	$ 9,263,408.05	$ 98,303.95	$ 14,314,035.11
Sales and Services:					
Sales and Services of Auxiliary Enterprises:					
Bookstore	$ 7,676,997.51	$ 31,120.41	$ 4,562,958.76	$ 50,492.98	$ 3,032,425.36
Vending/Cafeteria	169,423.58				169,423.58
Early Childhood Ed. Center	871,454.18				871,454.18
Other	2,420.00				2,420.00
Sales and Services of Education and Related Activities	74,325.22				74,325.22
Total Sales and Services	$ 8,794,620.49	$ 31,120.41	$ 4,562,958.76	$ 50,492.98	$ 4,150,048.34

* Note: The Allowance for Uncollectibles is equivalent to the change in the Allowance for Doubtful Accounts, excluding items such as direct write-offs.

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	$ 38,507,425.51	$ 3,116,257.62	$ 3,452,698.19	$ 0.00	$ 0.00	$ 0.00	$ 45,076,381.32
Academic Support	3,932,688.19	268,243.16	740,888.92				4,941,820.27
Student Services	4,114,397.94	110,533.36	605,993.64				4,830,924.94
Institutional Support	6,486,424.93	669,380.47	2,334,053.55				9,489,858.95
Operations and Maintenance of Plant	3,516,545.62	2,244,433.90	2,204,707.66		1,759,459.56		9,725,146.74
Student Financial Aid	243,786.43			17,883,880.31			18,127,666.74
Auxiliary Enterprises	1,692,457.37	6,421,722.59	310,085.11				8,424,265.07
Depreciation/ Amortization						2,036,327.10	2,036,327.10
Total Operating Expenses	$ 58,493,725.99	$ 12,830,571.10	$ 9,648,427.07	$ 17,883,880.31	$ 1,759,459.56	$ 2,036,327.10	$ 102,652,391.13

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 (TSERS) 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 a 14-member Board of Trustees, with the State Treasurer serving as Chairman of the Board.

Benefit and contribution provisions for the TSERS 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, 2013, these rates were set at 8.33% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the College had a total payroll of $49,352,431.94, of which $37,159,255.40 was covered under the TSERS. Total employer and employee contributions for pension benefits for the year were $3,095,365.97 and $2,229,555.32, respectively.

Required employer contribution rates for the years ended June 30, 2012, and 2011, were 7.44% and 4.93%, respectively, while employee contributions were 6% each year. The College made 100% of its annual required contributions for the years ended June 30, 2013, 2012, and 2011, which were $3,095,365.97, $2,645,297.97, and $1,745,903.59, respectively.

The TSERS 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) 707-0500.

B. Deferred Compensation and Supplemental Retirement Income Plans - Internal Revenue Code 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 \$60,533.00 for the year ended June 30, 2013.

Internal Revenue Code 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 \$684,047.00 for the year ended June 30, 2013.

Internal Revenue Code 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. The plan administrator is Verity Asset Management. No costs are incurred by the College. The voluntary contributions by employees amounted to \$79,168.16 for the year ended June 30, 2013.

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 Chapter 135, Article 3B, 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 established by the General Assembly.

For the current fiscal year the College contributed 5.30% of the covered payroll under the Teachers' and State Employees' Retirement System to the Fund. Required contribution rates for the years ended June 30, 2012, and 2011, were 5.0% and 4.9%, respectively. The College made 100% of its annual required contributions to the Plan for the years ended June 30, 2013, 2012, and 2011, which were $1,969,440.53, $1,777,754.01, and $1,735,279.43, 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) 707-0500.

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, 2013, the College made a statutory contribution of .44% of covered payroll under the Teachers' and State Employees' Retirement System to the DIPNC. Required contribution rates for the years ended June 30, 2012, and 2011, were .52% and .52%, respectively. The College made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2013, 2012, and 2011, which were $163,500.72, $184,886.42, and $184,152.10, 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 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 $1,004,055.37 at June 30, 2013.

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 position, or operational transactions of the Foundation, except for support from the Foundation. This support approximated $74,275.00 for the year ended June 30, 2013.

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 significant transactions between the FTCC Innovation Center and the College for the year ended June 30, 2013.

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, 2013:

Fiscal Year	Amount
2014	$ 20,957.00
2015	20,957.00
2016	20,957.00
2017	20,957.00
2018	20,957.00
2019-2023	104,785.00
2024-2028	104,785.00
2029-2033	104,785.00
2034-2036	62,871.00
Total Minimum Lease Revenues	$ 482,011.00

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

NOTE 16 - NET POSITION RESTATEMENT

As of July 1, 2012, the net position as previously reported was restated. Equipment purchased for a building under construction at June 30, 2012, was recorded in error to the construction in progress account as part of the cost of the building. The equipment was also accurately recorded in the equipment account at year-end. The result of the duplication was a $617,096.01 overstatement of nondepreciable capital assets and investment in capital assets at June 30, 2012.

	Amount
July 1, 2012, Net Position as Previously Reported	$ 97,517,931.93
Restatement: Capital Assets, Nondepreciable	(617,096.01)
July 1, 2012, Net Position as Restated	$ 96,900,835.92

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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
Fayetteville Technical Community College
Fayetteville, North Carolina

We have audited, in accordance with the 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, 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, 2013, and the related notes to the financial statements, which collectively comprise the College's basic financial statements, and have issued our report thereon dated April 8, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the College's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion(s) on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control. Accordingly, we do not express an opinion on the effectiveness of the College's internal control.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the College's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Beth A. Wood

Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

April 8, 2014

ORDERING INFORMATION

Copies of this report 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

Internet: http://www.ncauditor.net

To report alleged incidents of fraud, waste or abuse in state government contact the:

Office of the State Auditor Fraud Hotline: 1-800-730-8477

or download our free app

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https://itunes.apple.com/us/app/nc-state-auditor-hotline/id567315745

For additional information contact:
Bill Holmes
Director of External Affairs
919-807-7513

This audit required 507 audit hours at an approximate cost of $38,532.