

STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

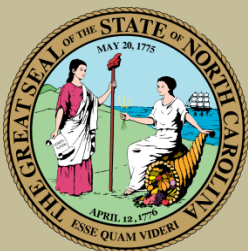
BETH A. WOOD, CPA



FAYETTEVILLE TECHNICAL COMMUNITY COLLEGE

FAYETTEVILLE, NORTH CAROLINA
FINANCIAL STATEMENT AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2017

A COMPONENT UNIT OF THE STATE OF NORTH CAROLINA



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The Taxpayers' Watchdog

STATE OF NORTH CAROLINA
Office of the State Auditor



Beth A. Wood, CPA
State Auditor

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AUDITOR'S TRANSMITTAL

The Honorable Roy Cooper, 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, 2017, 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

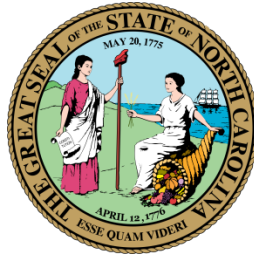


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Article V, Chapter 147 of the *North Carolina General Statutes*, gives the Auditor broad powers to examine all books, records, files, papers, documents, and financial affairs of every state agency and any organization that receives public funding. The Auditor also has the power to summon people to produce records and to answer questions under oath.



INDEPENDENT AUDITOR'S REPORT

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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 (College), a component unit of the State of North Carolina, as of and for the year ended June 30, 2017, 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, 2017, and the changes in financial position and 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 and other required supplementary information, as listed in the table of contents, 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

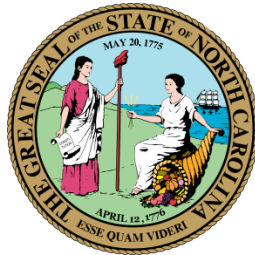
In accordance with *Government Auditing Standards*, we have also issued our report dated March 6, 2018 on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other 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, CPA
State Auditor

Raleigh, North Carolina

March 6, 2018



MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Fayetteville Technical Community College's (College's) financial statements presents Management's Discussion and Analysis of the College's financial activity during the fiscal year ended June 30, 2017, with comparative data for the fiscal year ended June 30, 2016. 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, notes to the financial statements, and required supplementary information.

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), deferred outflows of resources, liabilities (current and noncurrent), deferred inflows of resources, and net position (assets and deferred outflows of resources, less liabilities and deferred inflows of resources) 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.

For the fiscal year ended June 30, 2017, the College implemented GASB Statement No. 82, *Pension Issues - An Amendment of GASB Statements No. 67, No. 68, and No. 73*. See Note 18 - Changes in Financial Accounting and Reporting for additional information.

Financial Highlights

The College's net position increased from \$96,670,683.47 at June 30, 2016, to \$99,555,810.15 at June 30, 2017. This increase of \$2,885,126.68 is due to changes in a combination of accounts, including an increase in net investment in capital assets and an increase in unrestricted net position.

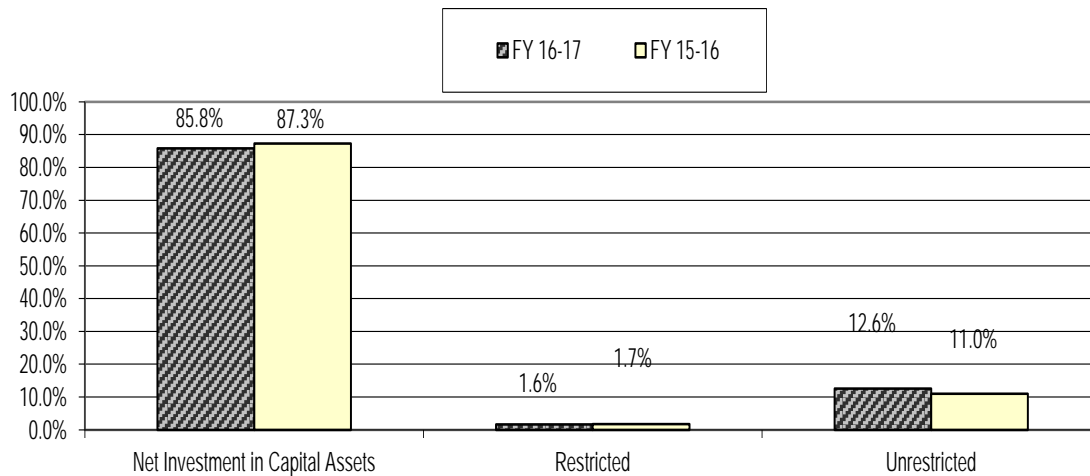
Net investment in capital assets increased \$1,059,619.74 or 1.3 percent. In FY 2017, the College recorded additions to several capital assets accounts including land, construction in

progress, buildings, and machinery and equipment. The land, construction in progress, and building increases, which totaled \$1,125,143.31, were associated with the College's purchase of a former childcare facility in Spring Lake. At June 30, 2017, this property was under renovation and will become the College's new Spring Lake Law Enforcement and Emergency Training Center. The College's machinery and equipment purchases totaled \$2,454,478.28 for FY 2017. Capital assets decreased due to depreciation expense of \$2,321,452.13, and the disposal of equipment that had a net remaining book value of \$170,022.83. The College's significant capital asset activity is covered later in this discussion and analysis.

Unrestricted net position increased \$1,859,245.31 or 17.5 percent from FY 2016 to FY 2017. This is the result of fluctuations in a combination of unrestricted accounts. An overall increase in unrestricted net position results when unrestricted revenues are greater than 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 the majority of the College's salaries and benefits, supplies and materials, services, and utilities. The change in this account balance at June 30, 2017, is due to a number of factors, which are addressed throughout this discussion and analysis.

Total net position as of June 30, 2017, consists of net investment in capital assets (85.8 percent), restricted net position (1.6 percent), and unrestricted net position (12.6 percent). The following is a graphic illustration of net position.

Analysis of Net Position for
FY 2016-2017 and FY 2015-2016



As of June 30, 2017, the College had recorded \$117,932,995.19 in capital assets and \$32,427,837.21 in accumulated depreciation, resulting in net capital assets of \$85,505,157.98.

Current assets increased \$2,180,898.55 or 9.0 percent from FY 2016 to FY 2017. The majority of this increase is the result of an increase in current cash and cash equivalents of \$1,555,723.44 and an increase in receivables, net of \$527,351.15.

The majority of the increase in current cash and cash equivalents is related to an \$875,330.35 increase in cash from bookstore operations, and a \$377,198.50 increase in cash in the technology fees fund. The increase in the technology fees fund was due to various salaries that were paid from technology fees in prior years being covered with state funds in FY 2017.

The increase in receivables at the end of FY 2017 is mainly due to the timing difference of when the College's largest third party sponsor, the Veteran Affairs Vocational Rehabilitation Program, was billed, as compared to FY 2016.

Noncurrent assets - capital increased \$1,088,146.63 or 1.3 percent from FY 2016 to FY 2017. This increase in noncurrent assets – capital correlates to the increase in the net investment in capital assets net position, which has been previously discussed.

Current liabilities decreased \$107,858.24 or 3.2 percent from FY 2016 to FY 2017. This decrease is attributable to the accounts payable and accrued liabilities account and stems from timing differences in payments made at fiscal year-end. The College processed more of its payments at the end of FY 2017 related to housekeeping, maintenance, and the bookstore, which decreased the amount owed at the end of the fiscal year, when compared to FY 2016.

Noncurrent liabilities consist of the long-term portion of compensated absences and the net pension liability. Noncurrent liabilities increased \$13,982,513.69 or 123.9 percent from FY 2016 to FY 2017. 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 long-term portion of total compensated absences decreased \$240,730.31 at June 30, 2017. This was due to College employees who opted to receive payouts of their bonus leave balances awarded in prior years. FY 2017 was the first year the State gave employees the option of cashing out bonus leave balances. The overall increase in noncurrent liabilities was the result of an increase in the College's net pension liability as of June 30, 2017. This account increased by \$14,223,244.00 in FY 2017. The increase in the College's net pension liability is explained in the following paragraph, along with the other pension related accounts.

The College implemented GASB 68, *Accounting and Financial Reporting for Pensions*, in FY 2015. This accounting standard established the requirements for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenses, all related to pensions. Prior to FY 2015, the College was not required to record a liability related to its participation in the Teachers' and State Employees' Retirement System. Since the implementation of this standard, the College's net pension liability and related account balances are determined annually by actuaries. For FY 2017, deferred outflows related to pensions increased \$12,456,888.84, or 319.9 percent, deferred inflows related to pensions decreased \$949,760.00, or 46.1 percent, and the net pension liability increased

MANAGEMENT'S DISCUSSION AND ANALYSIS

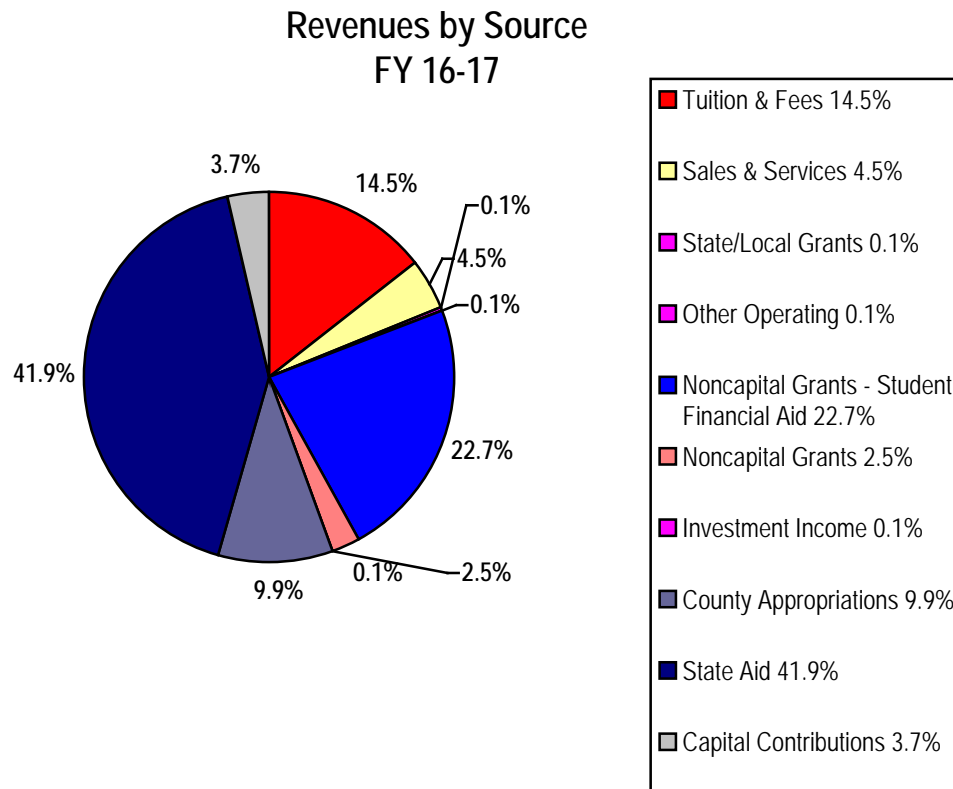
\$14,223,244.00, or 153.3 percent. In FY 2017, the College's *pro rata* share of the State's pooled net pension plan liability increased significantly due to three reasons. First, there was a sharp decrease in retirement earnings. Net investment income decreased from over \$9 billion in FY 2014 to under \$0.5 billion in FY 2016, which is the measurement date for the state pension liability reported for FY 2017. Second, there have been moderate increases in benefit payments. The net benefit payments from the pension plan to retirees have risen steadily each year. Payments were up approximately 9.0 percent from FY 2014 to FY 2016. Lastly, actuaries changed some of the assumptions they used for calculating the state pension liability. Those changes in actuarial assumptions added \$1.7 billion to the state pension liability.

Condensed Statement of Net Position				
	2017	2016	Dollar Change	% Change
ASSETS				
Current Assets	\$ 26,339,057.72	\$ 24,158,159.17	\$ 2,180,898.55	9.0%
Noncurrent Assets:				
Capital, Net	85,505,157.98	84,417,011.35	1,088,146.63	1.3%
Other	968,014.52	883,926.41	84,088.11	9.5%
Total Assets	112,812,230.22	109,459,096.93	3,353,133.29	3.1%
DEFERRED OUTFLOWS OF RESOURCES FOR PENSIONS				
	16,351,316.41	3,894,427.57	12,456,888.84	319.9%
LIABILITIES				
Current Liabilities	3,230,496.29	3,338,354.53	(107,858.24)	-3.2%
Long-Term Liabilities	25,266,441.19	11,283,927.50	13,982,513.69	123.9%
Total Liabilities	28,496,937.48	14,622,282.03	13,874,655.45	94.9%
DEFERRED INFLOWS OF RESOURCES FOR PENSIONS				
	1,110,799.00	2,060,559.00	(949,760.00)	-46.1%
NET POSITION				
Net Investment in Capital Assets	85,476,631.09	84,417,011.35	1,059,619.74	1.3%
Restricted	1,574,929.07	1,608,667.44	(33,738.37)	-2.1%
Unrestricted	12,504,249.99	10,645,004.68	1,859,245.31	17.5%
Total Net Position	\$ 99,555,810.15	\$ 96,670,683.47	\$ 2,885,126.68	3.0%

Total revenues for FY 2017 were \$107,244,130.33, an increase of 4.0 percent compared to FY 2016.

Operating revenues increased \$557,836.74 or 2.8 percent from FY 2016 to FY 2017. The majority of the change is due to an increase in student tuition and fees, net, of \$229,099.05, and an increase in sales and services, net, of \$261,739.99. The tuition rate remained flat in FY 2017, while enrollment increased almost 5 percent. The increase in enrollment is the driver of the increases in both operating revenue accounts.

Net nonoperating revenues, including capital contributions, increased \$3,803,015.60 or 4.6 percent from FY 2016 to FY 2017, which was the result of four main factors. First, state aid increased \$1,647,614.37. This increase is the result of the 2016 Appropriations Act compensation increase reserve, which included a recurring allotment to the College of \$682,580.00 to be used for salary increases, and a non-recurring allotment to the College of \$844,829.00 to be used as a one-time bonus or other allowable award. Second, county appropriations increased \$523,271.00. This increase in county funding was allotted to provide similar compensation awards to county funded employees and to fund additional plant operation costs associated with expanded College facilities. Third, state capital aid increased \$1,499,672.93. The majority of this increase is related to state funded capital projects. The College received \$828,850.25 of Connect NC bond funds to purchase land and a building in Spring Lake, which is being renovated into the College's new Spring Lake Law Enforcement and Emergency Training Center. The College received \$292,622.00 of state capital funds to expand and renovate the dental assisting lab. The College also received \$36,800.00 of state capital funds to upgrade the Salon and Spa Services Education Center. Lastly, county capital aid increased \$261,595.60. The majority of the increase in these funds is for the renovation of the College's new Spring Lake Law Enforcement and Emergency Training Center.



Total expenses at June 30, 2017, were \$104,359,003.65; at June 30, 2016, total expenses were \$100,637,885.52, resulting in a \$3,721,118.13 or 3.7 percent increase from FY 2016.

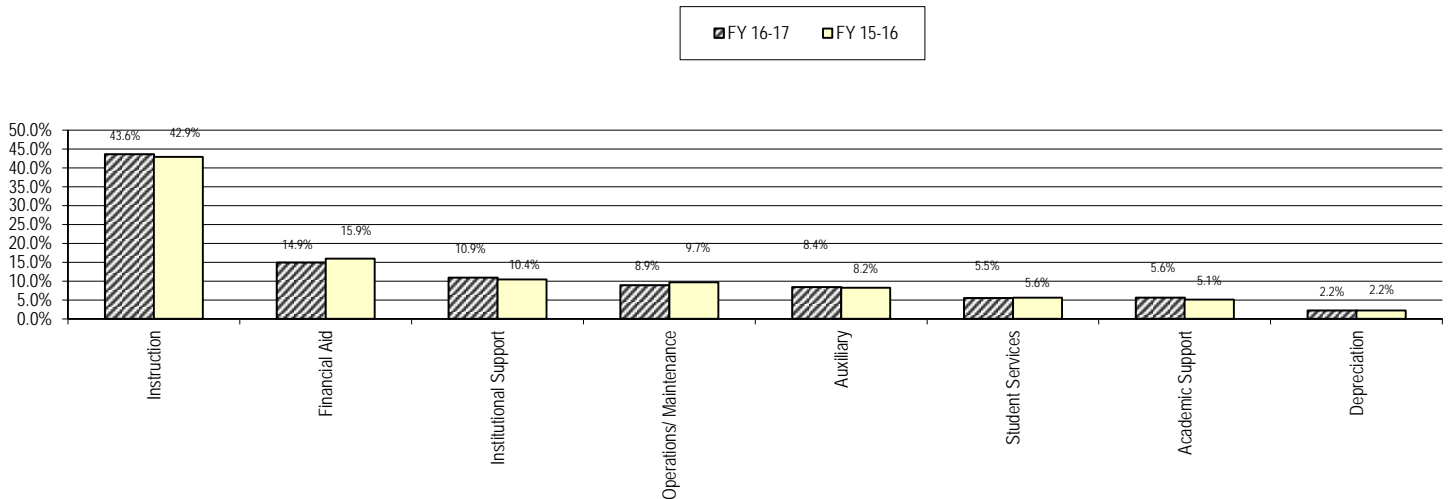
Salaries and benefits expense increased \$3,533,245.62, or 6.2 percent from FY 2016 to FY 2017. The College awarded a 3.0 to 3.5 percent salary increase, depending on performance, to full-time employees. The College also paid a one-time 2.0 percent bonus to full-time and some part-time employees in November 2016. The College's full-time salary scale increased 2.0 percent for new hires and for part-time employees. The remainder of the increase is the result of an increase in pension expense of \$3,688,278.00, or 357.5 percent. This drastic increase in pension expense is related to the required pension liability disclosures discussed previously in this Management Discussion and Analysis.

Supplies and materials expense increased \$1,004,705.78, or 8.5 percent from FY 2016 to FY 2017. The majority of this increase is related to increased instruction and academic support expenses. Funds were spent to upgrade some of the College's instructional and academic support technology and furnishings. The College also purchased new CollegeNET software.

Services expense decreased \$339,786.71, or 3.1 percent in FY 2017. This decrease can be attributed to less rental property expense and less equipment repair expense. In FY 2016, the College rented the Tallywood property for cosmetology and esthetics programs. These programs were back on the College's Fayetteville campus in FY 2017. Equipment repair expenses fluctuate from year-to-year based on need.

Scholarships and fellowships expense decreased \$397,912.01 in FY 2017 compared to FY 2016. This decrease is due to a drop in the number of students who were eligible for the Pell grant in FY 2017, and a decrease in the College's Federal Supplemental Educational Opportunity Grant.

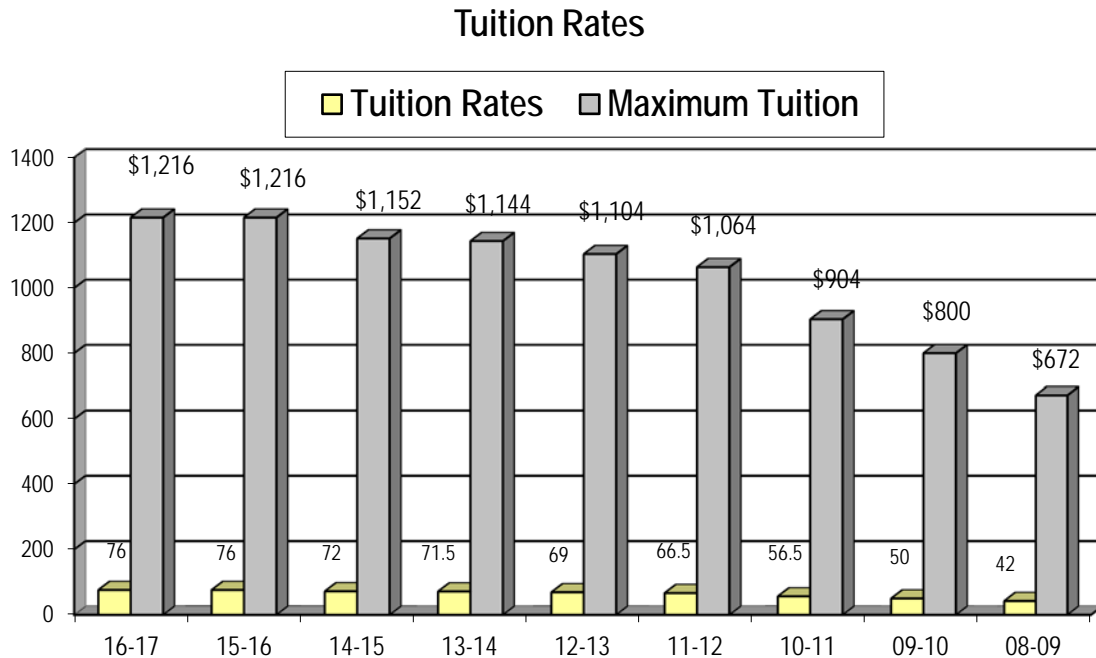
Operating Expenses by Function



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

	<u>2017</u>	<u>2016</u>	<u>Dollar Change</u>	<u>% Change</u>
OPERATING REVENUES				
Student Tuition and Fees, Net	\$ 15,534,082.34	\$ 15,304,983.29	\$ 229,099.05	1.5%
Grants and Contracts	55,998.10	13,986.02	42,012.08	300.4%
Sales and Services, Net	4,778,956.97	4,517,216.98	261,739.99	5.8%
Other Operating Revenues	157,297.72	132,312.10	24,985.62	18.9%
Total Operating Revenues	<u>20,526,335.13</u>	<u>19,968,498.39</u>	<u>557,836.74</u>	2.8%
OPERATING EXPENSES				
Salaries and Benefits	60,982,051.08	57,448,805.46	3,533,245.62	6.2%
Supplies and Materials	12,833,067.04	11,828,361.26	1,004,705.78	8.5%
Services	10,756,815.85	11,096,602.56	(339,786.71)	-3.1%
Scholarships and Fellowships	15,196,383.59	15,594,295.60	(397,912.01)	-2.6%
Utilities	2,137,814.13	2,050,099.20	87,714.93	4.3%
Depreciation	2,321,452.13	2,233,787.00	87,665.13	3.9%
Total Operating Expenses	<u>104,227,583.82</u>	<u>100,251,951.08</u>	<u>3,975,632.74</u>	4.0%
Operating Loss	<u>(83,701,248.69)</u>	<u>(80,283,452.69)</u>	<u>(3,417,796.00)</u>	4.3%
NONOPERATING REVENUES (EXPENSES)				
State Aid	44,987,265.18	43,339,650.81	1,647,614.37	3.8%
County Appropriations	10,627,787.00	10,104,516.00	523,271.00	5.2%
Noncapital Grants - Student Financial Aid	24,291,628.61	24,567,925.26	(276,296.65)	-1.1%
Noncapital Grants	2,727,207.76	2,869,734.10	(142,526.34)	-5.0%
Investment Income	142,182.63	107,012.55	35,170.08	32.9%
Other Nonoperating Expenses	(131,419.83)	(385,934.44)	(254,514.61)	-65.9%
Net Nonoperating Revenues	<u>82,644,651.35</u>	<u>80,602,904.28</u>	<u>2,041,747.07</u>	2.5%
Gain(Loss) Before Other Revenues	<u>(1,056,597.34)</u>	<u>319,451.59</u>	<u>(1,376,048.93)</u>	-430.8%
Capital Contributions	<u>3,941,724.02</u>	<u>2,180,455.49</u>	<u>1,761,268.53</u>	80.8%
Increase in Net Position	2,885,126.68	2,499,907.08	385,219.60	15.4%
NET POSITION				
Beginning of Year	<u>96,670,683.47</u>	<u>94,170,776.39</u>	<u>2,499,907.08</u>	
End of Year	<u>\$ 99,555,810.15</u>	<u>\$ 96,670,683.47</u>	<u>\$ 2,885,126.68</u>	

In FY 2017, the state tuition rates for in-state and out-of-state students remained at \$76.00 and \$268.00 per credit hour, respectively, for the fall and spring semesters. Over the last eight years, in-state tuition has increased 81.0 percent.



In FY 2017 compared to FY 2016, the FTEs (full-time equivalents) that generate the College's state budget (budget FTEs) increased in curriculum and decreased in the areas of occupational extension and college/career readiness. Each individual category of the College's funding is based on actual FTE earned during the prior fiscal year or a two year average, whichever is greater. In FY 2017, actual FTEs earned in FY 2016 were used by the North Carolina Community College Systems Office to generate the FY 2017 budget in the area of curriculum. In the areas of occupational extension and college/career readiness, a two year average was used for funding.

	<u>2016-2017</u>	<u>2015-2016</u>	<u>% Increase / (Decrease)</u>
Curriculum	9,143	9,071	0.8%
Occupational Extension	1,877	1,921	(2.3%)
College and Career Readiness	814	939	(13.3%)
Total FTEs	<u>11,834</u>	<u>11,931</u>	(0.8%)

For FY 2017, the General Assembly again enacted a management flexibility reduction to the College's 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 (DCC 2-1) was \$2,265,991.00. There were no additional budget reversions required in FY 2017.

The state of the economy, reflected by unemployment rates in Cumberland and surrounding counties, typically has a direct relationship to enrollment. When unemployment increases, the College's enrollment increases. FY 2017 is an exception. The actual overall FTE earned during FY 2017 increased by 4.8 percent, even though unemployment rates have improved in Cumberland County. The College has worked hard to improve retention and has seen an increase in high school student enrollments and military enrollments.

Cumberland County Unemployment Rates

	<u>2016-2017</u>	<u>2015-2016</u>	<u>2014-2015</u>	<u>2013-2014</u>	<u>2012-2013</u>	<u>2011-2012</u>
January	6.8%	7.2%	7.3%	7.9%	11.0%	10.3%
February	6.2%	7.1%	7.0%	7.5%	10.2%	10.1%
March	5.8%	6.7%	6.8%	7.6%	9.7%	9.7%
April	5.3%	6.3%	6.6%	7.0%	9.4%	9.5%
May	5.4%	6.0%	7.5%	7.7%	10.0%	9.9%
June	5.3%	6.4%	7.7%	7.5%	10.6%	10.4%

Significant Capital Asset Activities

The College purchased land and a childcare facility in Spring Lake for the purpose of creating a Law Enforcement and Emergency Training Center. The land and building were purchased in the spring of 2017 for a total of \$828,850.25. The purchase was funded by state Connect NC bond funds. A second project began in May 2017, which involved a complete renovation of the building to change it from a childcare facility to the Law Enforcement and Emergency Training Center. The budget for this project is \$464,735.53, which consists of county funds. M&E Contracting, Inc. was awarded the general contract and Gordon Johnson Architecture was awarded the architectural contract. At June 30, 2017, \$47,680.00 was the total amount expended for this project. The project is expected to be completed in the fall of 2017.

The Salon and Spa Services upgrade project has a budget of \$36,800.00 consisting of state funds. The project was approved by the State Board on June 26, 2017 and involves the addition of plumbing, electrical resources, a color station, replacement of nail technology workstations, and the addition of shampoo stations, in order to support program growth. There were no expenses incurred for this project as of June 30, 2017, and the project is expected to be completed in the fall of 2017.

The Health Technologies Center Dental Assisting Lab Expansion and Renovation project has a budget of \$292,622.00 consisting of state funds. The project was approved by the State Board on April 21, 2017 and involves steps that will increase the future service potential of the dental assisting lab. This project involves enlarging the space and expanding the lab in order to add seven new dental chairs, installation of additional cabinetry, removal of walls,

trenching of floors, repairs to floors and ceilings, and adding access to water, compressed air, and vacuum extraction systems. At June 30, 2017, \$248,613.06 was the total amount expended for this project. The project is expected to be completed in the fall of 2017.

The Horace Sisk multiple renovations project has a budget of \$450,000.00 consisting of state funds. HH Architecture was awarded the design/architect contract in a previous year. At June 30, 2017, \$409,835.00 was the total amount expended for this project.

The elevator upgrades project for Cumberland Hall and the YMCA building has a budget of \$214,151.60.00 consisting of state funds of \$138,000.00 and county funds of \$76,151.60. Two contracts were awarded, M-R Electric and Security Alarms and ThyssenKrupp. At June 30, 2017, \$214,151.60 was expended for this project and the project was considered complete.

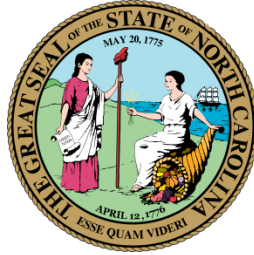
The Health Technologies Center Roof Replacement project was approved by the State Board at their July 21, 2017 meeting. This project has a budget of \$452,000.00 consisting of state NC Connect bond funds. This project will begin in FY 2018.

The Connect NC Bond was approved by voters on March 15, 2016. The College is authorized \$10,668,066.00 in bond funds for repair and renovations, purchase of facilities, and/or new construction. There is no match required for repair and renovations but there is a required match of local funds for new construction. The College has met the match requirement for the bond funds. Projects that will be funded by the remaining bond proceeds of approximately \$9.4 million have not yet been determined.

Economic Forecast

The College budget for FY 2018 shows some signs of a recovering economy. The College's formula allotment increased \$3,934,647.00, or 6.0 percent. The College saw some increase in the management flexibility reduction in the new budget. Overall, the College's management flexibility reduction was \$2,714,793.00, an increase of \$448,802 compared to FY 2016. The College is prepared to revert 1.0 percent for future callbacks during the year, but there is hope that this will not be necessary in FY 2018.

The College's enrollment for fall 2018 appears to be slightly up. The College continues to be strategic in its preparation of the annual budget. Due to the uncertainty of the economy, the College continues to exercise caution before incurring recurring expenses such as adding faculty and staff. The College continues to be successful in managing the budget with limited resources without affecting the quality of instruction or services provided to students and the community.



FINANCIAL STATEMENTS

Fayetteville Technical Community College
Statement of Net Position
June 30, 2017

Exhibit A-1
Page 1 of 2

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 21,337,511.23
Restricted Cash and Cash Equivalents	1,092,039.39
Receivables, Net (Note 5)	2,097,451.30
Due from Primary Government	9,509.27
Inventories	823,168.26
Prepaid Items	977,571.52
Notes Receivable, Net (Note 5)	1,806.75
	<hr/>
Total Current Assets	26,339,057.72

Noncurrent Assets:

Restricted Cash and Cash Equivalents	336,140.47
Restricted Due from County	295,090.00
Restricted Due from Primary Government	336,784.05
Capital Assets - Nondepreciable (Note 6)	8,393,715.91
Capital Assets - Depreciable, Net (Note 6)	77,111,442.07
	<hr/>
Total Noncurrent Assets	86,473,172.50
	<hr/>
Total Assets	112,812,230.22

DEFERRED OUTFLOWS OF RESOURCES

Deferred Outflows Related to Pensions	16,351,316.41
	<hr/>

LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 7)	1,429,627.35
Unearned Revenue	1,272,104.17
Funds Held for Others	56,538.50
Long-Term Liabilities - Current Portion (Note 8)	472,226.27
	<hr/>
Total Current Liabilities	3,230,496.29

Noncurrent Liabilities:

Long-Term Liabilities (Note 8)	25,266,441.19
	<hr/>
Total Liabilities	28,496,937.48

DEFERRED INFLOWS OF RESOURCES

Deferred Inflows Related to Pensions	1,110,799.00
	<hr/>

Fayetteville Technical Community College
Statement of Net Position
June 30, 2017

Exhibit A-1
Page 2 of 2

NET POSITION

Net Investment in Capital Assets	85,476,631.09
Restricted for:	
Nonexpendable:	
Endowment	39,050.00
Expendable:	
Scholarships and Fellowships	26,093.93
Loans	252,520.17
Capital Projects	475,996.16
Departmental Uses	573,619.97
Other	207,648.84
Unrestricted	<u>12,504,249.99</u>
Total Net Position	<u><u>\$ 99,555,810.15</u></u>

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, 2017

Exhibit A-2

REVENUES

Operating Revenues:	
Student Tuition and Fees, Net (Note 10)	\$ 15,534,082.34
State and Local Grants and Contracts	55,998.10
Sales and Services, Net (Note 10)	4,778,956.97
Other Operating Revenues	157,297.72
	<hr/>
Total Operating Revenues	20,526,335.13
	<hr/>

EXPENSES

Operating Expenses:	
Salaries and Benefits	60,982,051.08
Supplies and Materials	12,833,067.04
Services	10,756,815.85
Scholarships and Fellowships	15,196,383.59
Utilities	2,137,814.13
Depreciation	2,321,452.13
	<hr/>
Total Operating Expenses	104,227,583.82
	<hr/>
Operating Loss	(83,701,248.69)
	<hr/>

NONOPERATING REVENUES (EXPENSES)

State Aid	44,987,265.18
County Appropriations	10,627,787.00
Noncapital Grants - Student Financial Aid	24,291,628.61
Noncapital Grants	2,727,207.76
Investment Income	142,182.63
Other Nonoperating Expenses	(131,419.83)
	<hr/>
Net Nonoperating Revenues	82,644,651.35
	<hr/>
Loss Before Other Revenues	(1,056,597.34)
	<hr/>
State Capital Aid	3,655,362.42
County Capital Aid	286,361.60
	<hr/>
Increase in Net Position	2,885,126.68

NET POSITION

Net Position, July 1, 2016	96,670,683.47
	<hr/>
Net Position, June 30, 2017	\$ 99,555,810.15
	<hr/> <hr/>

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, 2017

Exhibit A-3
Page 1 of 2

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 20,219,350.19
Payments to Employees and Fringe Benefits	(60,440,165.65)
Payments to Vendors and Suppliers	(26,009,957.21)
Payments for Scholarships and Fellowships	(15,232,517.40)
Loans Issued to Students	(13,434.23)
Collection of Loans to Students	11,930.50
Other Receipts	5,003.45
	<hr/>
Net Cash Used by Operating Activities	(81,459,790.35)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Aid Received	44,987,265.18
County Appropriations	10,627,787.00
Noncapital Grants - Student Financial Aid	24,297,222.03
Noncapital Grants	2,738,433.60
William D. Ford Direct Lending Receipts	21,781,726.00
William D. Ford Direct Lending Disbursements	(21,781,726.00)
	<hr/>
Net Cash Provided by Noncapital Financing Activities	82,650,707.81

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

State Capital Aid Received	3,909,706.61
County Capital Aid	26,371.60
Proceeds from Sale of Capital Assets	5,429.39
Acquisition and Construction of Capital Assets	(3,612,478.25)
	<hr/>
Net Cash Provided by Capital and Related Financing Activities	329,029.35

CASH FLOWS FROM INVESTING ACTIVITIES

Investment Income	142,182.63
	<hr/>
Net Increase in Cash and Cash Equivalents	1,662,129.44
Cash and Cash Equivalents, July 1, 2016	21,103,561.65
	<hr/>
Cash and Cash Equivalents, June 30, 2017	\$ 22,765,691.09

Fayetteville Technical Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2017

Exhibit A-3
Page 2 of 2

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

Operating Loss	\$ (83,701,248.69)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	2,321,452.13
Provision for Uncollectible Loans and Write-Offs	2,428.80
Nonoperating Other Income	33,173.61
Changes in Assets and Deferred Outflows of Resources:	
Receivables, Net	(551,351.91)
Inventories	67,041.07
Prepaid Items	(102,726.40)
Notes Receivable, Net	(1,503.73)
Deferred Outflows for Pensions	(12,456,888.84)
Changes in Liabilities and Deferred Inflows of Resources:	
Accounts Payable and Accrued Liabilities	(250,564.48)
Unearned Revenue	208,233.16
Net Pension Liability	14,223,244.00
Funds Held for Others	(28,170.16)
Deferred Inflows for Pensions	(949,760.00)
Compensated Absences	(273,148.91)
Net Cash Used by Operating Activities	<u>\$ (81,459,790.35)</u>

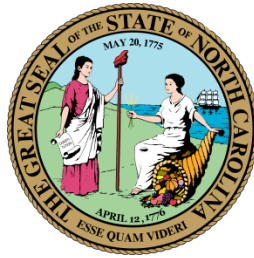
RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	\$ 21,337,511.23
Restricted Cash and Cash Equivalents	1,092,039.39
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	<u>336,140.47</u>
Total Cash and Cash Equivalents - June 30, 2017	<u>\$ 22,765,691.09</u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through Assumption of a Liability	\$ 28,526.89
Increase in Receivables Related to Nonoperating Income	271,089.24
Loss on Disposal of Capital Assets	(164,593.44)

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



NOTES TO THE FINANCIAL STATEMENTS

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 (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 aid, 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. The College's equity position in the STIF is recorded at fair value.

Additional information regarding the fair value measurement of deposits held by the State Treasurer in the STIF is disclosed in Note 3.

- 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 acquisition value at date of donation in the case of gifts. Donated capital assets acquired prior to July 1, 2015 are stated at fair value as of the date of donation. 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 in the following manner:

<u>Asset Class</u>	<u>Estimated Useful Life</u>
Buildings	40-75 years
Machinery and Equipment	5-45 years
General Infrastructure	40-75 years
Computer Software	10 years

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

The net pension liability represents the College's proportionate share of the collective net pension liability reported in the State of North Carolina's 2016 *Comprehensive Annual Financial Report*. This liability represents the College's portion of the collective total pension liability less the fiduciary net position of the Teachers' and State Employees' Retirement System. See Note 12 for further information regarding the College's policies for recognizing liabilities, expenses, and deferred outflows of resources and deferred inflows of resources related to pensions.

- 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. Deferred Outflows/Inflows of Resources** - In addition to assets, the Statement of Net Position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. Deferred outflows for pensions qualifies for reporting in this category.

In addition to liabilities, the Statement of Net Position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until then. Deferred inflows for pensions qualifies for reporting in this category.

L. Net Position - The College's net position is classified as follows:

Net Investment in Capital Assets - This represents the College's total investment in capital assets, net of outstanding liabilities related to those 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. Both restricted and unrestricted net position include consideration of deferred outflows of resources and deferred inflows of resources.

M. Scholarship Discounts - Student tuition and fees revenues and certain other revenues from College charges are reported net of scholarship discounts in the accompanying Statement of Revenues, Expenses, and Changes in Net 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.

N. Revenue and Expense Recognition - The College classifies its revenues and expenses as operating or nonoperating in the accompanying Statement of Revenues, Expenses, and Changes in Net 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 that represent subsidies or gifts to the College, as well as investment income, are considered nonoperating since these are either investing, capital, or noncapital financing activities. Capital contributions are presented separately after nonoperating revenues and expenses.

- O. **Internal Sales Activities** - 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 units and, if significant, allocating any residual balances to those departments receiving the goods and services during the year.
- P. **County Appropriations** - County appropriations are provided to the College primarily to fund its plant operation and maintenance function and to fund construction projects, motor vehicle purchases, and maintenance of equipment. Unexpended county current appropriations and county capital appropriations do not revert and are available for future use as approved by the county commissioners.

NOTE 2 - DEPOSITS AND INVESTMENTS

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 \$3,580.00, and deposits in private financial institutions with a carrying value of \$6,914,892.85 and a bank balance of \$7,372,093.03.

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, 2017, 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 (STIF); obligations of or fully guaranteed by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain nonguaranteed federal agencies; prime quality commercial paper bearing specified ratings; 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 of custodian.

At June 30, 2017, the amount shown on the Statement of Net Position as cash and cash equivalents includes \$15,847,218.24, 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 or subject to any other regulatory oversight and does not have a credit rating) had a weighted average maturity of 1.6 years as of June 30, 2017. Assets and shares of the STIF are valued at 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 North Carolina Department of State Treasurer Investment Programs' separately issued audit report. This separately issued report can be obtained from the Department of State Treasurer, 3200 Atlantic Avenue, Raleigh, NC 27604 or can be accessed from the Department of State Treasurer's website at <https://www.nctreasurer.com/> in the Audited Financial Statements section.

NOTE 3 - FAIR VALUE MEASUREMENTS

To the extent available, the College's investments are recorded at fair value as of June 30, 2017. GASB Statement No. 72, *Fair Value Measurement and Application*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Inputs are used in applying the various valuation techniques and take into account the assumptions that market participants use to make valuation decisions. Inputs may include price information, credit data, interest and yield curve data, and other factors specific to the financial instrument. Observable inputs reflect market data obtained from independent sources. In contrast, unobservable inputs reflect the entity's assumptions about how market participants would value the financial instrument. Valuation techniques should maximize the use of observable inputs to the extent available.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used for financial instruments measured at fair value on a recurring basis:

- | | |
|---------|---|
| Level 1 | Investments whose values are based on quoted prices (unadjusted) for identical assets in active markets that a government can access at the measurement date. |
| Level 2 | Investments with inputs - other than quoted prices included within Level 1 - that are observable for an asset, either directly or indirectly. |
| Level 3 | Investments classified as Level 3 have unobservable inputs and may require a degree of professional judgment. |

Short-Term Investment Fund - At year-end, all of the College's investments valued at \$15,847,218.24 were held in the STIF which is a Level 2 investment. Ownership interest of the STIF is determined on a fair market valuation basis as of fiscal year end in accordance with the STIF operating procedures. Valuation of the underlying assets is performed by the custodian.

NOTE 4 - 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

NOTES TO THE FINANCIAL STATEMENTS

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, 2017, net appreciation of \$450.93 was available to be spent, all of which was classified in net position as restricted, expendable for scholarships and fellowships.

NOTE 5 - RECEIVABLES

Receivables at June 30, 2017, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	\$ 1,488,110.45	\$ 966,198.90	\$ 521,911.55
Student Sponsors	1,182,066.19		1,182,066.19
Accounts	339,416.51		339,416.51
Intergovernmental	52,351.56		52,351.56
Other	1,705.49		1,705.49
Total Current Receivables	<u>\$ 3,063,650.20</u>	<u>\$ 966,198.90</u>	<u>\$ 2,097,451.30</u>
Notes Receivable:			
Notes Receivable - Current:			
Institutional Student Loan Programs	<u>\$ 12,567.05</u>	<u>\$ 10,760.30</u>	<u>\$ 1,806.75</u>

NOTE 6 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2017, is presented as follows:

	Balance July 1, 2016	Increases	Decreases	Balance June 30, 2017
Capital Assets, Nondepreciable:				
Land	\$ 7,776,692.05	\$ 320,730.80	\$ 0.00	\$ 8,097,422.85
Construction in Progress		296,293.06		296,293.06
Total Capital Assets, Nondepreciable	<u>7,776,692.05</u>	<u>617,023.86</u>		<u>8,393,715.91</u>
Capital Assets, Depreciable:				
Buildings	84,707,738.98	508,119.45		85,215,858.43
Machinery and Equipment	19,476,911.85	2,454,478.28	434,777.78	21,496,612.35
General Infrastructure	1,619,600.50			1,619,600.50
Computer Software	1,207,208.00			1,207,208.00
Total Capital Assets, Depreciable	<u>107,011,459.33</u>	<u>2,962,597.73</u>	<u>434,777.78</u>	<u>109,539,279.28</u>
Less Accumulated Depreciation for:				
Buildings	22,683,439.15	1,226,386.84		23,909,825.99
Machinery and Equipment	6,116,264.81	953,448.97	264,754.95	6,804,958.83
General Infrastructure	595,609.28	20,895.48		616,504.76
Computer Software	975,826.79	120,720.84		1,096,547.63
Total Accumulated Depreciation	<u>30,371,140.03</u>	<u>2,321,452.13</u>	<u>264,754.95</u>	<u>32,427,837.21</u>
Total Capital Assets, Depreciable, Net	<u>76,640,319.30</u>	<u>641,145.60</u>	<u>170,022.83</u>	<u>77,111,442.07</u>
Capital Assets, Net	<u>\$ 84,417,011.35</u>	<u>\$ 1,258,169.46</u>	<u>\$ 170,022.83</u>	<u>\$ 85,505,157.98</u>

NOTE 7 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2017, were as follows:

	<u>Amount</u>
Current Accounts Payable and Accrued Liabilities:	
Accounts Payable	\$ 672,492.68
Accrued Payroll	498,175.22
Other	<u>258,959.45</u>
Total Current Accounts Payable and Accrued Liabilities	<u><u>\$ 1,429,627.35</u></u>

NOTE 8 - LONG-TERM LIABILITIES

A summary of changes in the long-term liabilities for the year ended June 30, 2017, is presented as follows:

	<u>Balance July 1, 2016</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2017</u>	<u>Current Portion</u>
Net Pension Liability	\$ 9,280,066.00	\$ 14,223,244.00	\$ 0.00	\$ 23,503,310.00	\$ 0.00
Compensated Absences	<u>2,508,506.37</u>	<u>1,524,892.84</u>	<u>1,798,041.75</u>	<u>2,235,357.46</u>	<u>472,226.27</u>
Total Long-Term Liabilities	<u><u>\$ 11,788,572.37</u></u>	<u><u>\$ 15,748,136.84</u></u>	<u><u>\$ 1,798,041.75</u></u>	<u><u>\$ 25,738,667.46</u></u>	<u><u>\$ 472,226.27</u></u>

Additional information regarding the net pension liability is included in Note 12.

NOTE 9 - OPERATING LEASES

The College entered into cancelable operating leases. Rental expense for all operating leases during the year was \$396,172.16.

NOTE 10 - REVENUES

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

	<u>Gross Revenues</u>	<u>Internal Sales Eliminations</u>	<u>Less Scholarship Discounts</u>	<u>Less Allowance for Uncollectibles</u>	<u>Net Revenues</u>
Operating Revenues:					
Student Tuition and Fees, Net	<u>\$ 23,944,191.62</u>	<u>\$ 0.00</u>	<u>\$ 8,370,527.45</u>	<u>\$ 39,581.83</u>	<u>\$ 15,534,082.34</u>
Sales and Services:					
Sales and Services of Auxiliary Enterprises:					
Bookstore	\$ 7,699,149.63	\$ 46,555.23	\$ 4,287,015.41	\$ 8,984.83	\$ 3,356,594.16
Vending/Cafeteria	129,573.86				129,573.86
Early Childhood Education Center	1,205,496.78				1,205,496.78
Athletic	3,800.00				3,800.00
Other	1,745.00				1,745.00
Sales and Services of Education and Related Activities	<u>81,747.17</u>				<u>81,747.17</u>
Total Sales and Services, Net	<u><u>\$ 9,121,512.44</u></u>	<u><u>\$ 46,555.23</u></u>	<u><u>\$ 4,287,015.41</u></u>	<u><u>\$ 8,984.83</u></u>	<u><u>\$ 4,778,956.97</u></u>

NOTE 11 - 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	Total
Instruction	\$ 38,100,932.02	\$ 3,778,807.02	\$ 3,496,911.29	\$ 0.00	\$ 0.00	\$ 0.00	\$ 45,376,650.33
Academic Support	4,243,961.34	687,775.91	837,807.28				5,769,544.53
Student Services	5,033,839.86	226,756.97	487,493.41				5,748,090.24
Institutional Support	7,606,542.53	866,922.75	2,904,584.83				11,378,050.11
Operations and Maintenance of Plant	3,570,505.97	1,002,282.85	2,597,829.12		2,137,814.13		9,308,432.07
Student Financial Aid	341,690.27			15,196,383.59			15,538,073.86
Auxiliary Enterprises	2,084,579.09	6,270,521.54	432,189.92				8,787,290.55
Depreciation						2,321,452.13	2,321,452.13
Total Operating Expenses	<u>\$ 60,982,051.08</u>	<u>\$ 12,833,067.04</u>	<u>\$ 10,756,815.85</u>	<u>\$ 15,196,383.59</u>	<u>\$ 2,137,814.13</u>	<u>\$ 2,321,452.13</u>	<u>\$ 104,227,583.82</u>

NOTE 12 - PENSION PLANS

Defined Benefit Plan

Plan Administration: The State of North Carolina administers the Teachers' and State Employees' Retirement System (TSERS) plan. This plan is a cost-sharing, multiple-employer, defined benefit pension plan established by the State to provide pension benefits for general employees and law enforcement officers (LEOs) of the State, general employees and LEOs of its component units, and employees of Local Education Agencies (LEAs) and charter schools not in the reporting entity. Membership is comprised of employees of the State (state agencies and institutions), universities, community colleges, and certain proprietary component units along with the LEAs and charter schools that elect to join the Retirement System. Benefit provisions are established by General Statute 135-5 and may be amended only by the North Carolina General Assembly.

Benefits Provided: TSERS provides retirement and survivor benefits. Retirement benefits are determined as 1.82% of the member's average final compensation times the member's years of creditable service. A member's average final compensation is calculated as the average of a member's four highest consecutive years of compensation. General employee plan members are eligible to retire with full retirement benefits at age 65 with five years of creditable service, at age 60 with 25 years of creditable service, or at any age with 30 years of creditable service. General employee plan members are eligible to retire with partial retirement benefits at age 50 with 20 years of creditable service or at age 60 with five years of creditable service. Survivor benefits are available to eligible beneficiaries of general members who die while in active service or within 180 days of their last day of service and who also have either completed 20 years of creditable service regardless of age, or have completed five years of service and have reached age 60. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions. The plan does not provide for automatic post-retirement benefit increases. Increases are contingent upon actuarial gains of the plan.

Contributions: Contribution provisions are established by General Statute 135-8 and may be amended only by the North Carolina General Assembly. Employees are required to contribute 6% of their annual pay. The contribution rate for employers is set each year by the North Carolina General Assembly in the Appropriations Act based on the actuarially-determined rate recommended by the actuary. The College's contractually-required contribution rate for the year ended June 30, 2017 was 9.98% of covered payroll. Employee contributions to the pension plan were \$2,349,029.96, and the College's contributions were \$3,907,219.84 for the year ended June 30, 2017.

The TSERS plan's financial information, including all information about the plan's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fiduciary net position, is included in the State of North Carolina's fiscal year 2016 *Comprehensive Annual Financial Report*. An electronic version of this report is available on the North Carolina Office of the State Controller's website at <http://www.osc.nc.gov/> or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

TSERS Basis of Accounting: The financial statements of the TSERS plan were prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has a legal requirement to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan. The plan's fiduciary net position was determined on the same basis used by the pension plan.

Methods Used to Value TSERS Investment: Pursuant to *North Carolina General Statutes*, the State Treasurer is the custodian and administrator of the retirement systems. The State Treasurer maintains various investment portfolios in its Investment Pool. The pension trust funds are the primary participants in the Long-Term Investment portfolio and the sole participants in the External Fixed Income Investment, Equity Investment, Real Estate Investment, Alternative Investment, Credit Investment, and Inflation Protection Investment portfolios. The Fixed Income Asset Class includes the Long-Term Investment and External Fixed Income Investment Portfolios. The Global Equity Asset Class includes the Equity Investment Portfolio. The investment balance of each pension trust fund represents its share of the fair market value of the net position of the various portfolios within the pool. Detailed descriptions of the methods and significant assumptions regarding investments of the State Treasurer are provided in the 2016 *Comprehensive Annual Financial Report*.

Net Pension Liability: At June 30, 2017, the College reported a liability of \$23,503,310.00 for its proportionate share of the collective net pension liability. The net pension liability was measured as of June 30, 2016. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2015, and update procedures were used to roll forward the total pension liability to June 30, 2016. The College's proportion of the net pension liability was based on the present value of future salaries for the College relative to the present value of future salaries for all

participating employers, actuarially-determined. As of June 30, 2016, the College's proportion was 0.25572%, which was an increase of 0.0039 from its proportion measured as of June 30, 2015.

Actuarial Assumptions: The following table presents the actuarial assumptions used to determine the total pension liability for the TSERS plan at the actuarial valuation date:

Valuation Date	12/31/2015
Inflation	3%
Salary Increases*	3.50% - 8.10%
Investment Rate of Return**	7.25%

* Salary increases include 3.5% inflation and productivity factor.

** Investment rate of return is net of pension plan investment expense, including inflation.

TSERS currently uses mortality tables that vary by age, gender, employee group (i.e. teacher, general, law enforcement officer) and health status (i.e. disabled and healthy). The current mortality rates are based on published tables and based on studies that cover significant portions of the U.S. population. The healthy mortality rates also contain a provision to reflect future mortality improvements.

The actuarial assumptions used in the December 31, 2015 valuations were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014.

Future ad hoc Cost of Living Adjustment (COLA) amounts are not considered to be substantively automatic and are therefore not included in the measurement.

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2016 (the valuation date) are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return
Fixed Income	1.4%
Global Equity	5.3%
Real Estate	4.3%
Alternatives	8.9%
Credit	6.0%
Inflation Protection	4.0%

The information in the preceding table is based on 30-year expectations developed with the consulting actuary and is part of the asset, liability, and investment policy of the North Carolina Retirement Systems. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.05%. Return projections do not include any excess return expectations over benchmark averages. All rates of return and inflation are annualized.

Discount Rate: The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate: The following presents the net pension liability of the plan at June 30, 2016 calculated using the discount rate of 7.25%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.25%) or 1-percentage point higher (8.25%) than the current rate:

Net Pension Liability		
1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
\$ 44,205,184.00	\$ 25,503,310.00	\$ 6,095,871.00

Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions: For the year ended June 30, 2017, the College recognized pension expense of \$4,720,009.00. At June 30, 2017, the College reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Employer Balances of Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions by Classification:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference Between Actual and Expected Experience	\$ 0.00	\$ 1,110,799.00
Changes of Assumptions	3,466,167.57	
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	8,382,033.00	
Change in Proportion and Differences Between Agency's Contributions and Proportionate Share of Contributions	595,896.00	
Contributions Subsequent to the Measurement Date	<u>3,907,219.84</u>	
Total	<u><u>\$ 16,351,316.41</u></u>	<u><u>\$ 1,110,799.00</u></u>

The amount of \$3,907,219.84 reported as deferred outflows of resources related to pensions will be included as a reduction of the net pension liability in the fiscal year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Schedule of the Net Amount of the Employer's Balances of Deferred Outflows of Resources and Deferred Inflows of Resources That will be Recognized in Pension Expense:

<u>Year Ended June 30:</u>	<u>Amount</u>
2018	\$ 2,003,598.57
2019	2,029,618.00
2020	4,693,920.00
2021	<u>2,606,161.00</u>
Total	<u><u>\$ 11,333,297.57</u></u>

NOTE 13 - 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 (TSERS). 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 TSERS 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 period July 1, 2016 through December 31, 2016, the College contributed 5.60% of the covered payroll under TSERS to the Fund, and for the period January 1, 2017 through June 30, 2017, the College contributed 6.02% of the covered payroll under TSERS to the Fund. Required contribution rates for the years ended June 30, 2016, and 2015, were 5.60% and 5.49%, respectively. The College made 100% of its annual required contributions to the Plan for the years ended June 30, 2017, 2016, and 2015, which were \$2,274,644.02, \$2,132,183.84, and \$2,098,565.14, 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 on the North Carolina Office of the State Controller's website at <http://www.osc.nc.gov/> 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 TSERS. 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, 2017, the College made a statutory contribution of .38% of covered payroll under TSERS to the DIPNC. Required contribution rates for the years ended June 30, 2016, and 2015, were .41% in both years. The College made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2017, 2016, and 2015, which were \$148,771.90, \$156,106.32, and \$156,723.44, 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 14 - 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.

A. Public Entity Risk Pool

Public School Insurance Fund

Fire and other property losses are covered by the Public School Insurance Fund (Fund), a state-administered public entity risk pool. The Fund is financed by premiums and interest collected through membership participation and retains a \$10 million deductible per occurrence. Reinsurance is purchased by the Fund to cover catastrophic events in excess of the \$10 million deductible. Membership insured property is covered under an all risk coverage contract. Building and contents are valued under a replacement cost basis. No coinsurance penalties apply. 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.

B. Employee Benefit Plans**1. State Health Plan**

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.

2. Death Benefit Plan of North Carolina

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.

C. Other Risk Management and Insurance Activities**1. Automobile Insurance**

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.

2. Public Officers' and Employees' Liability Insurance

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.

3. Employee Dishonesty and Computer Fraud

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 \$100,000 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.

4. Statewide Workers' Compensation Program

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.

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 15 - 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 \$243,582.40 at June 30, 2017.
- 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 16 - OPERATING LEASE 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, 2017:

Fiscal Year	Amount
2018	\$ 22,578.96
2019	22,578.96
2020	22,578.96
2021	22,578.96
2022	22,578.96
2023-2027	112,894.80
2028-2032	112,894.80
2033-2036	90,315.84
Total Minimum Lease Revenues	<u>\$ 429,000.24</u>

Rental revenue for all operating leases during the year was \$22,578.96

NOTE 17 - 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 \$231,715 for the year ended June 30, 2017.

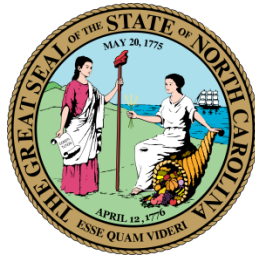
Formed as a corporation on April 23, 2010, the FTCC Innovation Center is a separately incorporated nonprofit corporation associated with the College. This corporation is organized to support Fayetteville Technical Community College and thereby advance education and science. There were no significant transactions between the FTCC Innovation Center and the College for the year ended June 30, 2017.

NOTE 18 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2017, the College implemented the following pronouncement issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 82, Pension Issues - An amendment of GASB Statement No. 67, No. 68, and No. 73

GASB Statement No. 82 addresses certain issues with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.



REQUIRED SUPPLEMENTARY INFORMATION

Fayetteville Technical Community College
Required Supplementary Information
Schedule of the Proportionate Net Pension Liability
Teachers' and State Employees' Retirement System
Last Four Fiscal Years

Exhibit B-1

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Proportionate Share Percentage of Collective Net Pension Liability	0.25572%	0.25182%	0.25193%	0.25300%
Proportionate Share of TSERS Collective Net Pension Liability	\$ 23,503,310.00	\$ 9,280,066.00	\$ 2,953,680.00	\$ 15,359,678.00
Covered Payroll	\$ 38,074,711.35	\$ 38,225,230.28	\$ 37,886,681.53	\$ 37,159,255.40
Net Pension Liability as a Percentage of Covered Payroll	61.73%	24.28%	7.80%	41.33%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	87.32%	94.64%	98.24%	90.60%

Fayetteville Technical Community College
Required Supplementary Information
Schedule of College Contributions
Teachers' and State Employees' Retirement System
Last Ten Fiscal Years

Exhibit B-2

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually Required Contribution	\$ 3,907,219.84	\$ 3,483,836.09	\$ 3,497,608.57	\$ 3,292,352.62	\$ 3,095,365.97
Contributions in Relation to the Contractually Determined Contribution	<u>3,907,219.84</u>	<u>3,483,836.09</u>	<u>3,497,608.57</u>	<u>3,292,352.62</u>	<u>3,095,365.97</u>
Contribution Deficiency (Excess)	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>
Covered Payroll	\$ 39,150,499.40	\$ 38,074,711.35	\$ 38,225,230.28	\$ 37,886,681.53	\$ 37,159,255.40
Contributions as a Percentage of Covered Payroll	9.98%	9.15%	9.15%	8.69%	8.33%

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Contractually Required Contribution	\$ 2,645,297.97	\$ 1,745,903.59	\$ 1,244,272.02	\$ 1,198,596.48	\$ 1,069,970.29
Contributions in Relation to the Contractually Determined Contribution	<u>2,645,297.97</u>	<u>1,745,903.59</u>	<u>1,244,272.02</u>	<u>1,198,596.48</u>	<u>1,069,970.29</u>
Contribution Deficiency (Excess)	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>
Covered Payroll	\$ 35,555,080.22	\$ 35,413,865.92	\$ 34,853,557.88	\$ 35,672,514.35	\$ 35,080,993.08
Contributions as a Percentage of Covered Payroll	7.44%	4.93%	3.57%	3.36%	3.05%

Note: Changes in benefit terms, methods, and assumptions are presented in the Notes to Required Supplementary Information (RSI) schedule following the pension RSI tables.

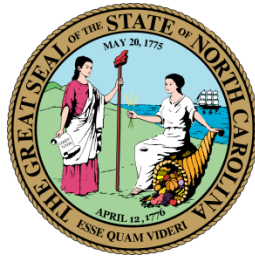
Fayetteville Technical Community College
Notes to Required Supplementary Information
Schedule of College Contributions
Teachers' and State Employees' Retirement System
Last Ten Fiscal Years

Changes of Benefit Terms:

<u>Cost of Living Increase</u>									
<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
N/A	N/A	1.00%	N/A	N/A	N/A	2.20%	2.20%	3.00%	2.00%

Changes of assumptions. In 2008, 2012, and 2015, the actuarial assumptions were updated to more closely reflect actual experience. In 2015, the North Carolina Retirement Systems' consulting actuaries performed the quinquennial investigation of each retirement systems' actual demographic and economic experience (known as the "Experience Review"). The Experience Review provides the basis for selecting the actuarial assumptions and methods used to determine plan liabilities and funding requirements. The most recent Experience Review examined each plan's experience during the period between January 1, 2010, and December 31, 2014. Based on the findings, the Board of Trustees of the Teachers' and State Employees' Retirement System adopted a number of new actuarial assumptions and methods. The most notable changes to the assumptions include updates to the mortality tables and the mortality improvement projection scales to reflect reduced rates of mortality and significant increases in mortality improvements. These assumptions were adjusted to reflect the mortality projection scale MP-2015, released by the Society of Actuaries in 2015. In addition, the assumed rates of retirement, salary increases, and rates of termination from active employment were reduced to more closely reflect actual experience.

The Notes to Required Supplementary Information reflects information included in the State of North Carolina's 2016 *Comprehensive Annual Financial Report*.



INDEPENDENT AUDITOR'S REPORT

STATE OF NORTH CAROLINA
Office of the State Auditor



Beth A. Wood, CPA
State Auditor

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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 (College), a component unit of the State of North Carolina, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the College's basic financial statements, and have issued our report thereon dated March 6, 2018.

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 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.

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, CPA
State Auditor

Raleigh, North Carolina

March 6, 2018

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For additional information contact:
Brad Young
Director of External Affairs
919-807-7513



This audit required 412 hours at an approximate cost of \$42,436.