



STATE OF NORTH CAROLINA

GUILFORD TECHNICAL COMMUNITY COLLEGE

JAMESTOWN, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2014

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR



Beth A. Wood, CPA
State Auditor

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AUDITOR'S TRANSMITTAL

The Honorable Pat McCrory, Governor
The General Assembly of North Carolina
Board of Trustees, Guilford Technical Community College

We have completed a financial statement audit of Guilford Technical Community College for the year ended June 30, 2014, 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.

A handwritten signature in cursive script that reads "Beth A. Wood".

Beth A. Wood, CPA
State Auditor

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Guilford Technical Community College
Jamestown, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of Guilford Technical Community College, a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 2014, 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 opinions on these financial statements based on our audit. We did not audit the financial statements of Guilford Technical Community College Foundation, Inc., the College's discretely presented component unit; nor the financial statements of GTCC Innovative Resources Corporation, the College's blended component unit which represents less than one percent of the respective assets, net position, and revenues of the College. Those statements were audited by other auditors, whose reports have been furnished to us, and our opinions, insofar as they relate to the amounts included for Guilford Technical Community College Foundation, Inc. and GTCC Innovative Resources Corporation, are based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of Guilford Technical Community College Foundation, Inc. and GTCC Innovative Resources Corporation were not audited in accordance with *Government Auditing Standards*.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

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 opinions.

Opinions

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of Guilford Technical Community College and its discretely presented component unit, as of June 30, 2014, and the changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters – Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 27, 2015 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,

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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

January 27, 2015

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GUILFORD TECHNICAL COMMUNITY COLLEGE MANAGEMENT'S DISCUSSION AND ANALYSIS

INTRODUCTION

Guilford Technical Community College (the "College" or "GTCC") provides the following Management's Discussion and Analysis (MD&A) as an overview of the financial activity during the fiscal year ended June 30, 2014. This discussion, the following financial statements, and related notes to the financial statements have been prepared by management and comprise the College's complete financial report. The financial statements, notes to the financial statements, and this discussion are the responsibility of College management.

The purpose of the MD&A is to identify significant transactions that have financial impact and to highlight favorable and unfavorable trends. It should be read in conjunction with, and is qualified in its entirety by, the financial statements and notes to the financial statements.

GTCC is a comprehensive, public, two year college serving primarily Guilford County residents on multiple campuses located in the Piedmont Triad region of North Carolina. Providing educational opportunities to approximately 40,000 students per year, the College offers a broad range of college transfer, associate and technical degree programs in addition to customized corporate training, continuing education and special interest classes.

REPORTING ENTITY

The financial statements report information about the College as a whole with one blended component unit. The GTCC Innovative Resources Corporation is a legally separate, non-profit organization formed to assist the College in its mission of service to the community. Its activities are blended with the College's as if it was part of the College; however, it is subject to a separate independent audit.

USING THE ANNUAL REPORT/ OVERVIEW OF FINANCIAL STATEMENTS

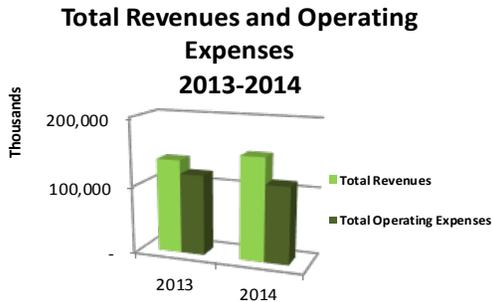
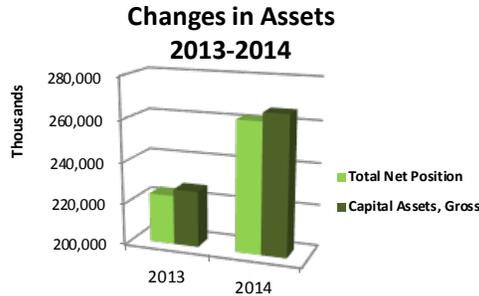
The College's financial report includes three financial statements:

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

These statements are prepared in accordance with the Governmental Accounting Standards Board Statement No. 35, *Basic Financial Statements-and Management's Discussion and Analysis-for Public Colleges and Universities* and present financial information in a form similar to that used by corporations.

MANAGEMENT’S DISCUSSION AND ANALYSIS (CONTINUED)

FINANCIAL HIGHLIGHTS 2013-14



- The College’s total assets exceed total liabilities at June 30, 2014 by \$262,090,968 (total net position). This is a \$38,422,154 increase in net position over the prior fiscal year.
- Capital assets before depreciation increased \$39,309,406 to \$266,119,435 on June 30, 2014.
- Total revenue for the fiscal year ended June 30, 2014 totaled \$153,020,167 which is an increase of \$14,295,966 from the prior year. Operating revenues decreased by \$1,415,012 to \$14,304,145 during the same period.
- Operating expenses at June 30, 2014 decreased by \$5,443,607 to \$112,812,499 from the prior year.

STATEMENT OF NET POSITION

The Statement of Net Position summarizes the financial position of the College at June 30, 2014, defined by the balances of assets, deferred outflows of resources, liabilities and deferred inflows of resources. The statement is a point-in-time statement, the purpose of which is to present a fiscal snapshot of the College. From the data presented, readers of this statement are able to determine the assets available to continue the operations of the institution. The net position is one indicator of the College’s financial health. Over time, increases or decreases in net position are one measure of the improvement or erosion of the College’s financial health when considered with non-financial factors such as enrollment levels and the condition of the facilities.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Investment in capital assets represents the College's equity in property, plant and equipment owned by the College.

The amounts shown in the Expendable Restricted caption are available for expenditure by the College but must be spent for purposes as determined by donors and external entities that have placed time or purpose restrictions on the use of the assets.

Unrestricted funds are available to the College for any lawful need of the College.

The following table is prepared from the College's Statement of Net Position and summarizes and compares the College's assets, liabilities and net position on June 30, 2014 and June 30, 2013.

Condensed Statement of Net Position			Increase/(Decrease)	
	FY 2014	FY2013	Amount	Percent
Assets:				
Current Assets	\$ 46,339,012	\$ 40,772,025	\$ 5,566,987	13.7%
Noncurrent Assets:				
Capital Assets, Net	220,437,886	185,600,298	34,837,588	18.8%
Other	5,195,184	5,070,055	125,129	2.5%
Total Assets	<u>271,972,082</u>	<u>231,442,378</u>	<u>40,529,704</u>	17.5%
Total Deferred Outflows of Resources	<u>0</u>	<u>0</u>	<u>0</u>	0.0%
Liabilities:				
Current Liabilities	8,307,183	6,413,401	1,893,782	29.5%
Noncurrent Liabilities	<u>1,573,931</u>	<u>1,360,163</u>	<u>213,768</u>	15.7%
Total Liabilities	<u>9,881,114</u>	<u>7,773,564</u>	<u>2,107,550</u>	27.1%
Total Deferred Inflows of Resources	<u>0</u>	<u>0</u>	<u>0</u>	0.0%
Net Position:				
Investment in Capital Assets	220,437,886	185,600,298	34,837,588	18.8%
Restricted for:				
Expendable	12,364,167	11,913,196	450,971	3.8%
Unrestricted	<u>29,288,915</u>	<u>26,155,320</u>	<u>3,133,595</u>	12.0%
Total Net Position	<u>\$ 262,090,968</u>	<u>\$ 223,668,814</u>	<u>\$ 38,422,154</u>	17.2%

Some highlights of the information presented in the table above include:

- Total current assets at June 30, 2014 were \$46.3 million, an increase of \$5.6 million (13.7%) over the prior fiscal year. This is primarily due to an increase in cash and cash equivalents of \$5.3 million and an increase in accounts receivable related to current construction projects of \$.3 million.
- Total noncurrent assets increased \$35.0 million (18.3%) to \$225.6 million directly related to increased construction in progress and the purchase of land and buildings contiguous to the Jamestown campus for transportation, welding and other program expansion.

MANAGEMENT’S DISCUSSION AND ANALYSIS (CONTINUED)

- Total current liabilities increased to \$8.3 million (an increase of \$1.9 million or 29.5%) as a result of accrued direct loans payable for the 2nd payment for summer term.
- The total net position at June 30, 2014 was \$262.1 million, an increase of \$38.4 million (17.2%) over the prior fiscal year. The growth in net position is due primarily to the increase in the investment in capital assets of \$34.8 million (18.8%).

Capital Assets

GTCC remains committed to providing a quality education to the citizens of Guilford County. One of the critical factors in meeting this commitment is the ability to develop, expand and improve its capital assets. In addition to the Condensed Statement of Net Position, a Condensed Statement of Capital Assets is included to provide detail on this major area within the Statement of Net Position.

Condensed Statement of Capital Assets			Increase/(Decrease)	
	FY 2014	FY 2013	Amount	Percent
Land	\$ 20,931,167	\$ 18,203,554	\$ 2,727,613	15.0%
Construction in Progress	51,910,643	26,043,115	25,867,528	99.3%
Buildings	144,887,981	138,386,179	6,501,802	4.7%
General Infrastructure	15,967,642	15,967,642		0.0%
Machinery and Equipment	32,422,002	28,209,539	4,212,463	14.9%
Total	266,119,435	226,810,029	39,309,406	17.3%
Less: Accumulated Depreciation	45,681,549	41,209,731	4,471,818	10.9%
Net Capital Assets	<u>\$ 220,437,886</u>	<u>\$ 185,600,298</u>	<u>\$ 34,837,588</u>	18.8%

The investment in capital assets includes land, construction in progress, buildings, infrastructure, equipment and vehicles. These accounts had an overall increase of \$39.3 million (before depreciation) from prior year’s total ending balance. This increase reflects the continued construction of the Donald W. Cameron Campus Center for Business and Industry and Aviation Center Classroom Building projects throughout 2013-14. Both structures received their certificate of occupancy in July, 2014.



Center for Business and Industry



Aviation Center Classroom Building

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Additional costs affecting the increase in the construction in progress balance were the expenditures associated with the major classroom and lab renovations to the Science Hall building located on the Jamestown campus and the construction of the Center for Creative and Performing Arts in High Point. The 9,410 square foot two-story building will consist of a stage, theater seating, dressing rooms, and scene and costume shops, and will serve as a teaching and performing space for students who are enrolled in the Creative and Performing Arts Department. This facility is an addition to the H2 building adjacent to the outdoor amphitheater.

Approximately \$1.6 million was added to buildings for the year ending June 30, 2014 associated primarily with two heating, ventilation and air conditioning renovation projects in the Medlin Campus Center and TH Davis Aviation Center buildings. During the 2013-14 year, the College completed the purchase of land and buildings next to the Jamestown campus to relocate the transportation and welding programs for approximately \$7.3 million. Land increased for the expansion of the College's Jamestown campus by approximately 33.5 acres and 1 acre at the High Point campus.

Machinery and equipment increased \$4.2 million. Furnishings and equipment for new construction and renovations accounted for \$1.7 million. Additionally, the College had several large expenditures for physics, machining, aviation and other career and technical programs (\$1.7 million).

The College does not issue debt to fund capital assets. The primary funding sources for equipment expenditures are state and county appropriations. Construction expenditures are funded by state capital funds, county general obligation bonds and county appropriations.

As of June 30, 2014, Guilford Technical Community College has future commitments for construction totaling \$3.7 million.

Statement of Revenues, Expenses and Changes in Net Position

The Statement of Revenues, Expenses, and Changes in Net Position presents the activity of the College during the year and is subdivided into four major components: operating revenues, operating expenses, nonoperating revenues (expenses), and other revenues, expenses, gains or losses.

Revenues are reported by major source. Intra-departmental sales, services and transfers are eliminated. Generally, operating revenues are earned for providing goods and services to the various constituencies of the institution. Due to the classification of certain revenues as nonoperating revenue, the College shows a loss from operations under governmental accounting standards. State and county appropriations, while budgeted for operations, are considered nonoperating revenues and are reflected accordingly in the nonoperating section of the Statement of Revenues, Expenses and Changes in Net Position, even though these funds are used solely for operating purposes. Nonoperating revenues include activities that have non-exchange characteristics (the College received revenue without providing a

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

commensurate good or service). In addition to state and county appropriations, the financial statements also classify federal grants (such as Pell) and contracts, and gifts as nonoperating revenues.

Student tuition and fees are reported net of scholarship discounts and allowances. Student loans are accounted for as a third party payments while all other aid is reflected as operating expenses or scholarship allowances which reduce revenues.

Expenses are reported by natural classification. Operating expenses are incurred to acquire or produce the goods and services provided in return for the operating revenues and to carry out the mission of the College. The utilization of long-lived assets, referred to as capital assets, is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life.

This schedule is prepared from the College's Statement of Revenues, Expenses, and Changes in Net Position.

Statement of Revenues, Expenses and Changes in Net Position			Increase/(Decrease)	
	FY 2014	FY 2013	Amount	Percent
Operating Revenues				
Student Tuition and Fees, Net	\$ 6,815,046	\$ 6,581,573	\$ 233,473	3.5%
Sales and Services, Net	7,381,685	9,043,023	(1,661,338)	-18.4%
Other Operating Revenues	107,414	94,561	12,853	13.6%
Total Operating Revenues	* 14,304,145	15,719,157	(1,415,012)	-9.0%
Operating Expenses				
Salaries and Benefits	62,043,549	63,605,546	(1,561,997)	-2.5%
Supplies and Materials	17,886,661	18,594,429	(707,768)	-3.8%
Services	10,237,645	10,339,242	(101,597)	-1.0%
Scholarships and Fellowships	15,944,488	19,146,917	(3,202,429)	-16.7%
Utilities	1,825,705	1,787,998	37,707	2.1%
Depreciation	4,874,451	4,781,974	92,477	1.9%
Total Operating Expenses	** 112,812,499	118,256,106	(5,443,607)	-4.6%
Operating Loss	(98,508,354)	(102,536,949)	4,028,595	3.9%
Nonoperating Revenues (Expenses)				
State Aid	* 41,440,528	38,898,375	2,542,153	6.5%
County Appropriations	* 12,397,690	11,706,979	690,711	5.9%
Noncapital Grants - Student Financial Aid	* 38,069,866	44,996,252	(6,926,386)	-15.4%
Noncapital Grants, Gifts and Investment Income	* 5,381,965	4,269,335	1,112,630	26.1%
Other Nonoperating Expenses	** (1,785,514)	(789,036)	(996,478)	-126.3%
Net Nonoperating Revenues	95,504,535	99,081,905	(3,577,370)	-3.6%
Loss before other Revenues	(3,003,819)	(3,455,044)	451,225	13.1%
State Capital Aid	* 5,607,184	6,816,372	(1,209,188)	-17.7%
County Capital Aid	* 35,341,195	16,278,387	19,062,808	117.1%
Capital Grants and Gifts	* 477,594	39,344	438,250	1113.9%
Increase in Net Position	38,422,154	19,679,059	18,743,095	95.2%
Net Position, Beginning of Year	223,668,814	203,989,755	19,679,059	9.6%
Net Position, End of Year	\$ 262,090,968	\$ 223,668,814	\$ 38,422,154	17.2%

* Total Revenues equal \$153,020,167

**Total Expenses equal \$114,598,013

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

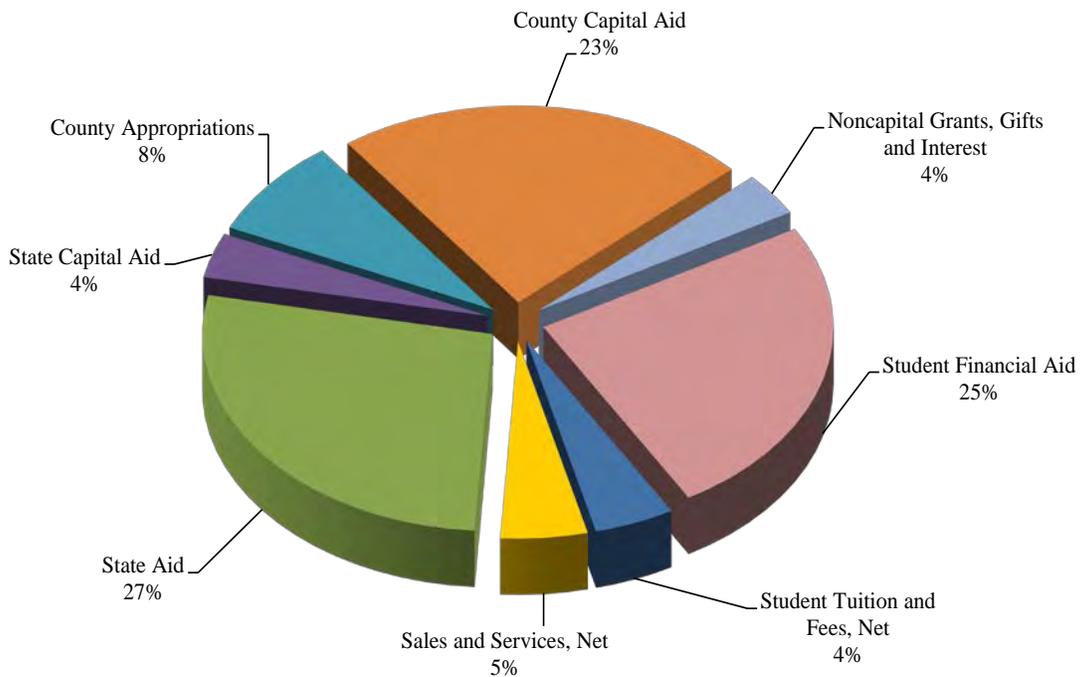
Revenues

Operating revenues dropped by \$1.4 million to \$14.3 million as a result of a decrease of \$1.7 million in net sales and services attributed to lower bookstore sales from declining enrollment and a change in the schedule for direct loan disbursements.

Net nonoperating revenues decreased \$3.6 million to \$95.5 million in fiscal year 2014. This was primarily due to an increase in State aid of \$2.5 million offset by a decrease in student financial aid of \$6.9 million. The decrease in student financial aid reflects a decrease in enrollment and a changing demographic of our student population from independent to dependent and from primarily full-time to part-time. Both changes result in a decline in financial aid eligibility.

Total state aid and state capital aid, net of tuition receipts collected, increased \$1.3 million. State aid (excluding capital aid) constituted 27% of the College's total revenues for fiscal year 2013-14, down from 32% last year.

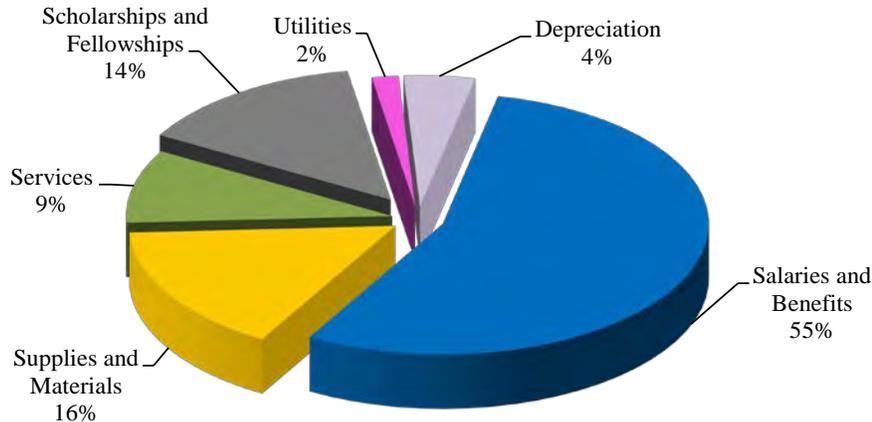
Total Revenues FY 2014



Expenses

Operating expenses for fiscal year 2014 decreased \$5.4 million to \$112.8 million. Personal services decreased \$1.6 million due primarily to reduction in adjunct faculty caused by declining enrollment. Scholarships decreased \$3.2 million primarily due to decreases in student grants. There was a marginal decrease in expenses for supplies and materials of \$0.7 million caused by a reduction in furniture purchases.

Operating Expenses FY 2014



Expenses by functional area show trends consistent with the College's focus on student retention and completion initiatives.

- Instructional costs declined primarily related to decreased salaries and benefits as discussed above.
- Increases in Academic Support and Institutional Support reflect an emphasis on student retention and completion efforts.
- Decreases in Operations and Maintenance of Plant displays the continuing efforts for cost reductions given a flat county budget.
- Decreases in Student Financial Aid dropped due to declining enrollment and changing student demographics as discussed above.
- Decreases in Auxiliary Enterprises correlate to decreased bookstore sales as discussed above.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Expenses by Functional Area	FY 2014	FY 2013	Increase/(Decrease)	
			Amount	Percent
Education and General				
Instruction	\$ 43,406,700	\$ 46,515,570	\$ (3,108,870)	-6.7%
Academic Support	8,259,156	6,735,063	1,524,093	22.6%
Student Services	5,139,380	5,008,292	131,088	2.6%
Institutional Support	14,341,537	13,028,898	1,312,639	10.1%
Operations and Maintenance of Plant	10,021,151	10,349,733	(328,582)	-3.2%
Student Financial Aid	15,944,488	19,146,917	(3,202,429)	-16.7%
Total Educational and General	97,112,412	100,784,473	(3,672,061)	-3.6%
Other Operating Expenses				
Auxiliary Enterprises	10,825,636	12,689,659	(1,864,023)	-14.7%
Depreciation	4,874,451	4,781,974	92,477	1.9%
Total Other Operating Expenses	15,700,087	17,471,633	(1,771,546)	-10.1%
Total Operating Expenses	\$ 112,812,499	\$ 118,256,106	\$ (5,443,607)	-4.6%

STATEMENT OF CASH FLOWS

The statement of cash flows illustrates the sources and uses of cash by an entity. The sources and uses of cash are further divided into the categories of operating, investing or financing activities. The statement of cash flows shows the change in cash from one period to the next.

In private industry, the operating category is generally regarded as the most important section of the cash flow statement because it shows whether a company was able to generate cash from its operating activities. However, public colleges' dependency on state and county aid and gifts usually results in an operating deficit as those items are classified as nonoperating revenues under governmental accounting standards.

This schedule is prepared from the College's Statement of Cash Flows.

MANAGEMENT’S DISCUSSION AND ANALYSIS (CONTINUED)

Condensed Statement of Cash Flows			Increase/(Decrease)	
	FY 2014	FY 2013	Amount	Percent
CASH FLOWS FROM OPERATING ACTIVITIES				
Received from Customers	\$ 14,818,321	\$ 15,845,131	\$ (1,026,810)	-6.5%
Payments to Employees and Vendors	(89,361,998)	(94,747,371)	5,385,373	5.7%
Payments for Scholarships and Fellowships	(15,944,488)	(19,146,917)	3,202,429	16.7%
Other Receipts (Payments)	54,116	(96,376)	150,492	156.2%
Net Cash Used by Operating Activities	<u>(90,434,049)</u>	<u>(98,145,533)</u>	<u>7,711,484</u>	7.9%
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Governmental Appropriations (State and County)	53,838,218	50,605,354	3,232,864	6.4%
Noncapital Grants - Student Financial Aid	36,722,203	44,996,252	(8,274,049)	-18.4%
Noncapital Grants, Gifts and Other Received	5,284,922	4,144,995	1,139,927	27.5%
Net Cash Provided by Noncapital Financing Activities	<u>95,845,343</u>	<u>99,746,601</u>	<u>(3,901,258)</u>	-3.9%
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
State and County Capital Aid Received	41,560,813	17,652,494	23,908,319	135.4%
Other	266,272	216,474	49,798	23.0%
Acquisition and Construction of Capital Assets	(41,697,738)	(15,721,409)	(25,976,329)	-165.2%
Net Cash Provided by Capital and Related Financing Activities	<u>129,347</u>	<u>2,147,559</u>	<u>(2,018,212)</u>	-94.0%
CASH FLOWS FROM INVESTING ACTIVITIES				
Investment Income	<u>94,892</u>	<u>108,254</u>	<u>(13,362)</u>	-12.3%
Net Increase in Cash and Cash Equivalents	5,635,533	3,856,881	1,778,652	46.1%
Cash and Cash Equivalents, July 1	<u>32,221,710</u>	<u>28,364,829</u>	<u>3,856,881</u>	13.6%
Cash and Cash Equivalents, June 30	<u>\$ 37,857,243</u>	<u>\$ 32,221,710</u>	<u>\$ 5,635,533</u>	17.5%

FACTORS IMPACTING FUTURE PERIODS

As the federal government works through its own financial constraints, there are efforts underway to focus on innovation and competitiveness of the nation’s workforce. Community colleges are on the front lines of this endeavor. Additionally, federal support is crucial for the College’s students since 69% receive some type of federal financial aid, predominately in the form of Pell Grants and William D. Ford Direct Loans. The loans increase the students’ outstanding debt which can leave the College more vulnerable to actions of government agencies. Changes in the calculation of student default rates and the resulting impact to the College are worrisome. Over the last few years, College direct loan disbursements have been at an all-time high. Many students have not stayed current with the required loan payments. A student’s default ascribes to the College and could adversely affect the College’s ability to participate in federal aid programs. During 2013-14, GTCC changed its direct loan processes and set limits on first year and/or new borrowers. The College also changed the disbursement schedule for all loans to encourage course completion and discourage early withdrawals. While further analysis is needed, early results are encouraging. In the spring 2014 semester, the College saw a 37% reduction in the number of student withdrawals resulting in repayments of financial aid.

As the economic recovery continues, the College is experiencing declining enrollment. During 2013-14, the College experienced a decrease in enrollment of approximately 10%. It is expected that enrollment will also decline in 2014-15. Enrollment is now close to pre-recession numbers. As a result of these declines, the College will see a reduction in State

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

funding. To address this, the College has embarked on an effort to manage enrollment, reduce costs, improve the efficiency and effectiveness of its operations and maximize revenue opportunities.

Meanwhile, accountability requirements for colleges and universities continue to escalate. The College has made a commitment to address long-term accountability goals for accessibility, student fees, financial aid and performance outcome measures. As a part of the focus on student learning and success, the College has implemented SPARK – Students Providing Alternative Resources for Knowledge. This is an institution-wide approach to peer learning and establishes a formalized academic peer support program in which learning outcomes can be tracked and measured.

As a public institution, the College's financial position is closely tied to that of the State of North Carolina and is always at the risk of funding reductions due to deteriorating economic conditions or changes in funding priorities. Traditionally in North Carolina, the state has allocated funds to the College on the basis of enrollment. Following a national trend, the state is moving to a performance-based funding model that is grounded in meeting performance measures and attaining certain goals of student success. This model more clearly shows how the College uses its state support to assist students with course and degree completion. Over the next few years, the percentage of performance-based funding will increase. Meeting the challenges of the change in funding is critical, as the level of state support is one of the key factors influencing the College's financial condition and its ability to expand programs, undertake new initiatives, and meet its core mission and ongoing operational needs.

Appropriations from the County provide funding for maintenance and operations of facilities. The level of county support is critical to the mission of the College and impacts our ability to maintain, upgrade and construct facilities. In 2007-08, the College ranked 5th among the North Carolina community colleges for county funding per budget FTE. By 2010-11, the ranking had degraded to 15th and by 2013-14, it had further declined to 19th. A flat renovation and repair budget is expected to continue. In the same period of time, multiple buildings have been completed and, with the flat budget, preventive maintenance on all existing structures cannot be performed. This results in increased maintenance and repair costs and reduced efficiency. The College continues to utilize cost saving and energy efficiency programs in order to offset the flat budget but it is becoming more challenging to meet the needs of the community without additional funds.

Due to economic conditions and a reluctance to incur debt before it is required, the County has not sold all the bonds approved for GTCC in a 2008 bond referendum. By July 2014, the College will have expended all cash available from bonds issued on its behalf. Although construction projects are waning, there is still one large project to complete. In order to complete that project, additional funds must be made available by the County for the College's use.

In 2010, the Patient Protection and Affordable Care Act (PPACA) was signed into law. Also in 2010, the Health Care and Education Reconciliation Act of 2011 was signed, amending the PPACA (collectively the "Affordable Care Act" or "ACA"). ACA addresses a broad range of

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

topics affecting the health care industry, including a significant expansion of health care coverage. Some provisions of the legislation became effective immediately while others are being phased in over time. Significant portions of ACA will become effective during the 2014-15 year. For colleges and universities, ACA presents unique challenges. The College has been actively reviewing the requirements of ACA in order to comply with its provisions.

The College also seeks non-traditional, entrepreneurial activities to generate non-state, non-county revenues. GTCC Innovative Resources Corporation (GIRC) has expanded its operations and now includes three programs within its organization.

- The first project, begun during 2012-13, was the NC Center for Global Logistics (NCCGL). The NCCGL is a collaborative effort between community colleges, universities, and industry partners focused on developing a highly trained workforce for the logistics and supply chain industry.
- The second project, begun during 2013-14, is the Center for Creative and Performing Arts with the goal of enhancing the cultural landscape of the Triad.
- The third project, beginning 2014-15, is a conference center. This conference center is housed on the College's new Cameron campus which opened in July 2014.

As funding from the State and County declines, the need for alternative revenues increases. The College will continue to focus resources in this area.

Guilford Technical Community College is committed to continuous improvement in all areas of the College. The College continues to build strong relationships with the various constituencies within Guilford County and desires to positively impact its citizens. GTCC is optimistic about the future and believes it will be an integral part of the economic recovery for our area.

Guilford Technical Community College
Statement of Net Position
June 30, 2014

Exhibit A-1
Page 1 of 2

ASSETS

Current Assets:

Cash and Cash Equivalents	\$	29,354,003
Restricted Cash and Cash Equivalents		8,053,599
Receivables, Net (Note 3)		5,931,521
Inventories		1,142,132
Prepaid Items		1,857,408
Notes Receivable		349

Total Current Assets 46,339,012

Noncurrent Assets:

Restricted Cash and Cash Equivalents		449,641
Restricted Due from Primary Government		4,745,543
Capital Assets - Nondepreciable (Note 4)		72,841,810
Capital Assets - Depreciable, Net (Note 4)		147,596,076

Total Noncurrent Assets 225,633,070

Total Assets 271,972,082

DEFERRED OUTFLOWS OF RESOURCES

Total Deferred Outflows of Resources 0

LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 5)		6,660,568
Unearned Revenue		938,820
Funds Held for Others		459,628
Long-Term Liabilities - Current Portion (Note 6)		248,167

Total Current Liabilities 8,307,183

Noncurrent Liabilities:

Unearned Revenue		6,375
Long-Term Liabilities (Note 6)		1,567,556

Total Noncurrent Liabilities 1,573,931

Total Liabilities 9,881,114

DEFERRED INFLOWS OF RESOURCES

Total Deferred Inflows of Resources 0

***Guilford Technical Community College
Statement of Net Position
June 30, 2014***

***Exhibit A-1
Page 2 of 2***

NET POSITION

Investment in Capital Assets	220,437,886
Restricted for:	
Expendable:	
Scholarships and Fellowships	11,961
Capital Projects	7,862,771
Other	4,489,435
Unrestricted	<u>29,288,915</u>
Total Net Position	<u>\$ 262,090,968</u>

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

***Guilford Technical Community College
Statement of Revenues, Expenses, and
Changes in Net Position
For the Fiscal Year Ended June 30, 2014***

Exhibit A-2

REVENUES

Operating Revenues:	
Student Tuition and Fees, Net (Note 8)	\$ 6,815,046
Sales and Services, Net (Note 8)	7,381,685
Other Operating Revenues	107,414
	<hr/>
Total Operating Revenues	14,304,145
	<hr/>

EXPENSES

Operating Expenses:	
Salaries and Benefits	62,043,549
Supplies and Materials	17,886,661
Services	10,237,645
Scholarships and Fellowships	15,944,488
Utilities	1,825,705
Depreciation	4,874,451
	<hr/>
Total Operating Expenses	112,812,499
	<hr/>
Operating Loss	(98,508,354)
	<hr/>

NONOPERATING REVENUES (EXPENSES)

State Aid	41,440,528
County Appropriations	12,397,690
Noncapital Grants - Student Financial Aid	38,069,866
Noncapital Grants	5,192,818
Noncapital Gifts	94,255
Investment Income	94,892
Other Nonoperating Expenses	(1,785,514)
	<hr/>
Net Nonoperating Revenues	95,504,535
	<hr/>
Loss Before Other Revenues	(3,003,819)
	<hr/>
State Capital Aid	5,607,184
County Capital Aid	35,341,195
Capital Grants	266,272
Capital Gifts	211,322
	<hr/>
Increase in Net Position	38,422,154

NET POSITION

Net Position, July 1, 2013	223,668,814
	<hr/>
Net Position, June 30, 2014	\$ 262,090,968
	<hr/> <hr/>

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

***Guilford Technical Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2014***

***Exhibit A-3
Page 1 of 2***

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 14,818,321
Payments to Employees and Fringe Benefits	(62,051,049)
Payments to Vendors and Suppliers	(27,310,949)
Payments for Scholarships and Fellowships	(15,944,488)
Loans Issued to Students	(42,974)
Collection of Loans to Students	44,325
Other Receipts	52,765
	<hr/>
Net Cash Used by Operating Activities	(90,434,049)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Aid Received	41,440,528
County Appropriations	12,397,690
Noncapital Grants - Student Financial Aid	36,730,151
Noncapital Grants	5,188,067
Noncapital Gifts	96,855
William D. Ford Direct Lending Receipts	28,664,653
William D. Ford Direct Lending Disbursements	(28,672,601)
	<hr/>
Net Cash Provided by Noncapital Financing Activities	95,845,343

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

State Capital Aid Received	5,835,400
County Capital Aid	35,725,413
Capital Grants	266,272
Acquisition and Construction of Capital Assets	(41,697,738)
	<hr/>
Net Cash Provided by Capital and Related Financing Activities	129,347

CASH FLOWS FROM INVESTING ACTIVITIES

Investment Income	94,892
	<hr/>
Net Cash Provided by Investing Activities	94,892

Net Increase in Cash and Cash Equivalents	5,635,533
Cash and Cash Equivalents, July 1, 2013	32,221,710
	<hr/>
Cash and Cash Equivalents, June 30, 2014	\$ 37,857,243

Guilford Technical Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2014

Exhibit A-3
Page 2 of 2

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

Operating Loss	\$ (98,508,354)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	4,874,451
Provision for Uncollectible Loans and Write-Offs	(350)
Nonoperating Other Expenses	(57,712)
Changes in Assets and Liabilities:	
Receivables, Net	654,540
Inventories	7,537
Prepaid Items	(5,219)
Notes Receivable	1,351
Accounts Payable and Accrued Liabilities	2,590,836
Unearned Revenue	(146,973)
Funds Held for Others	117,086
Compensated Absences	38,758
	<hr/>
Net Cash Used by Operating Activities	<u><u>\$ (90,434,049)</u></u>

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	\$ 29,354,003
Restricted Cash and Cash Equivalents	8,053,599
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	449,641
	<hr/>
Total Cash and Cash Equivalents - June 30, 2014	<u><u>\$ 37,857,243</u></u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through Assumption of a Liability	\$ 3,043,682
Assets Acquired through a Gift	211,322
Loss on Disposal of Capital Assets	(1,727,803)

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

Guilford Technical Community College Foundation, Inc.
Statement of Financial Position
June 30, 2014

Exhibit B-1

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 75,715
Accounts Receivable	37,184
Promises to Give Due in One Year	776,229
Investments	9,674,722
Investments - Partnership Interests	497,495
Inventory	18,124
Prepaid Expenses	6,722
	<hr/>
Total Current Assets	11,086,191

Other Assets:

Promises to Give Due After One Year, Less Discounts of \$24,484	815,152
Land	1,060,726
Beneficial Interest in Charitable Remainder Trust	125,497
	<hr/>
Total Other Assets	2,001,375
	<hr/>
Total Assets	\$ 13,087,566

LIABILITIES AND NET ASSETS

Liabilities:

Accounts Payable	\$ 14,984
Deferred Revenues	19,500
	<hr/>
Total Current Liabilities	34,484

Net Assets:

Unrestricted:	
Undesignated	5,016,424
Board Designated	1,119,528
	<hr/>
Total Unrestricted	6,135,952
Temporarily Restricted	3,523,458
Permanently Restricted	3,393,672
	<hr/>
Total Net Assets	13,053,082
	<hr/>
Total Liabilities and Net Assets	\$ 13,087,566

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

Guilford Technical Community College Foundation, Inc.
Statement of Activities
For the Year Ended June 30, 2014

Exhibit B-2

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Foundation Properties</u>	<u>Total</u>
REVENUE AND SUPPORT					
Revenues and Gains:					
Contributions	\$ 65,709	\$ 148,066	\$ 125,083	\$ 1,060,000	\$ 1,398,858
Change in Beneficial Interest in Charitable Remainder Trust			13,684		13,684
Grants		71,371			71,371
Investment Income	857,506	393,345	190		1,251,041
Miscellaneous Income		18,153			18,153
Administrative Services Contributed by College	326,030				326,030
Contributed Materials and Equipment	36,292	204,254			240,546
Total Revenue and Support	<u>1,285,537</u>	<u>835,189</u>	<u>138,957</u>	<u>1,060,000</u>	<u>3,319,683</u>
Net Assets Released from Restrictions	<u>604,057</u>	<u>(604,057)</u>			<u>-</u>
Total Revenue and Support	<u>1,889,594</u>	<u>231,132</u>	<u>138,957</u>	<u>1,060,000</u>	<u>3,319,683</u>
EXPENSES					
Operating Expenses:					
Program Support	244,117				244,117
Student Aid	153,841				153,841
Grants and Projects	174,564				174,564
Materials and Equipment Contributed to College	240,546				240,546
Administration	395,784			514	396,298
Total Operating Expenses	<u>1,208,852</u>			<u>514</u>	<u>1,209,366</u>
Excess of Revenues Over Expenses	680,742	231,132	138,957	1,059,486	2,110,317
Transfers Among Funds	<u>747,587</u>	<u>(1,091,955)</u>	<u>344,368</u>		
Increase (Decrease) in Net Assets	1,428,329	(860,823)	483,325	1,059,486	2,110,317
Net Assets at Beginning of Year	<u>3,648,137</u>	<u>4,384,281</u>	<u>2,910,347</u>		<u>10,942,765</u>
Net Assets at End of Year	<u>\$ 5,076,466</u>	<u>\$ 3,523,458</u>	<u>\$ 3,393,672</u>	<u>\$ 1,059,486</u>	<u>\$ 13,053,082</u>

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

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GUILFORD TECHNICAL COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

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. Guilford Technical Community College is a component unit of the State of North Carolina and an integral part of the State's Comprehensive Annual Financial Report.

The accompanying financial statements present all funds of the College and its component units for which the College's Board of Trustees is financially accountable. The College's component units are either blended or discretely presented in the College's financial statements. See below for further discussion of the College's component units.

Blended Component Unit - Although legally separate, GTCC Innovative Resources Corporation (GIRC) is reported as if it was part of the College. GIRC is governed by a 12-member board consisting of five ex officio directors, four elected directors, and three non-voting liaison directors. GIRC's purpose is to aid, support, and promote teaching, research, and service in the various educational, scientific, scholarly, professional, artistic, and creative endeavors of the College. Because the elected directors of the GIRC are appointed by the members of the Guilford Technical Community College Board of Trustees and the GIRC's sole purpose is to benefit Guilford Technical Community College, its financial statements have been blended with those of the College.

Separate financial statements for GIRC may be obtained from the College Chief Financial Officer, P.O. Box 309, Jamestown, NC 27282. Other related foundations and similar nonprofit corporations for which the College is not financially accountable are not part of the accompanying financial statements.

Condensed combining information regarding blended component unit is provided in Note 15.

Discretely Presented Component Unit - Guilford Technical Community College Foundation, Inc. (Foundation) is a legally separate nonprofit

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

corporation and is reported as a discretely presented component unit based on the nature and significance of its relationship to the College.

The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the College in support of its programs. The Foundation board consists of 23 members. Although the College does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, that the Foundation holds and invests are restricted to the activities of the College by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of the College, the Foundation is considered a component unit of the College and is reported in separate financial statements because of the difference in its reporting model, as described below.

The Foundation is a private nonprofit organization that reports its financial results under the Financial Accounting Standards Board (FASB) Codification. As such, certain revenue recognition criteria and presentation features are different from the Governmental Accounting Standards Board (GASB) revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information in the College's financial reporting entity for these differences.

During the year ended June 30, 2014, the Foundation distributed \$813,068 to the College for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from the College's Chief Financial Officer, P.O. Box 309, Jamestown, NC 27282.

- B. Basis of Presentation** - The accompanying financial statements are presented in accordance with accounting principles generally accepted in the United States of America as prescribed by the 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

- D. Cash and Cash Equivalents** - This classification includes petty cash, cash on deposit with private bank accounts, and deposits held by the State Treasurer in the short-term investment fund (STIF). The STIF maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.
- E. Receivables** - Receivables consist of tuition and fees charged to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from the federal government, state and local governments, 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, postage, fuel, and merchandise for resale, are valued at last invoice cost.
- G. Capital Assets** - Capital assets are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. The value of assets constructed includes all material direct and indirect construction costs.

The College capitalizes assets that have a value or cost of \$5,000 or greater at the date of acquisition and an estimated useful life of more than one year.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 50 to 75 years for general infrastructure, 50 years for buildings, and 2 to 25 years for equipment.

- H. Restricted Assets** - Certain resources are reported as restricted assets because restrictions on asset use change the nature or normal understanding of the availability of the asset. Resources that are not available for current operations and are reported as restricted include resources restricted for the acquisition or construction of capital assets, and resources whose use is limited by external parties or statute.
- I. Noncurrent Long-Term Liabilities** - Noncurrent long-term liabilities include compensated absences that will not be paid within the next fiscal year.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- 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 fiscal 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 College to all full-time permanent employees as of September 30, 2002, as of July 1, 2003, and as of September 1, 2005. The unused portion of this leave remains available until used notwithstanding the limitation on annual leave carried forward described above.

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

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

Investment in Capital Assets - This represents the College's total investment in capital assets. Additionally, deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of capital assets or related debt are also included in this component of net position.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 inflows and outflows of resources.

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

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

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

N. Internal Sales Activities - Certain institutional auxiliary operations provide goods and services to College departments, as well as to its customers. These institutional auxiliary operations include activities such as central stores, the duplicating center, and postal services. In addition, the College has other miscellaneous sales and service units that operated either on a reimbursement or charge basis. All internal sales activities to

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

College departments from auxiliary operations and sales and service units have been eliminated in the accompanying financial statements. These eliminations are recorded by removing the revenue and expense in the auxiliary operations and sales and service units and, if significant, allocating any residual balances to those departments receiving the goods and services during the year.

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

NOTE 2 - DEPOSITS 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 \$6,165, and deposits in private financial institutions with a carrying value of \$16,157,811 and a bank balance of \$17,454,805.

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, 2014, the College's bank balance in excess of federal depository insurance coverage was covered under the pooling method.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

Generally, funds belonging to the College may be invested in any form of investment established or managed by certain investment advisors pursuant to G.S. 115D-58.6 (d1) or in the form of investments pursuant to G.S. 159-30(c), as follows: a commingled investment pool established and administered by the State Treasurer pursuant to G.S. 147-69.3, obligations of or fully guaranteed by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain nonguaranteed federal agencies; prime quality commercial paper bearing specified ratings; specified bills of exchange; certain savings certificates; The North Carolina Capital Management Trust, 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, 2014, the amount shown on the Statement of Net Position as cash and cash equivalents includes \$21,693,267 which represents the College's equity position in the State Treasurer's Short-Term Investment Fund (STIF). The STIF (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission and does not have a credit rating) had a weighted average maturity of 1.3 years as of June 30, 2014. Assets and shares of the STIF are valued at amortized cost, which approximates fair value. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's STIF) are included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.nc.gov/> and clicking on "Reports" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

A reconciliation of deposits and investments for the College to the basic financial statements as of June 30, 2014, is as follows:

Cash on Hand	\$	6,165
Carrying Amount of Deposits with Private Financial Institutions		16,157,811
Investments in the Short-Term Investment Fund		<u>21,693,267</u>
Total Deposits and Investments	\$	<u><u>37,857,243</u></u>
Deposits		
Current:		
Cash and Cash Equivalents	\$	29,354,003
Restricted Cash and Cash Equivalents		8,053,599
Noncurrent:		
Restricted Cash and Cash Equivalents		<u>449,641</u>
Total Deposits and Investments	\$	<u><u>37,857,243</u></u>

Component Unit - Investments of the College's discretely presented component unit, Guilford Technical Community College Foundation, Inc., are subject to and restricted by G.S. 36E "Uniform Prudent Management of Institutional Funds Act" (UPMIFA) and any requirements placed on them by contract or donor agreements. Because the Foundation reports under the FASB reporting model, disclosures of the various investment risks are not required. The following is an analysis of investments by type:

Investment Type	<u>Fair Value</u>
Cash and Cash Equivalents	\$ 258,682
Money Market Accounts	7,920
Fixed Income Funds	4,662,623
Equity Funds	4,320,854
Diversifying Funds	<u>424,643</u>
Total Investments	\$ <u><u>9,674,722</u></u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 3 - RECEIVABLES

Receivables at June 30, 2014, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	\$ 1,896,751	\$ 821,233	\$ 1,075,518
Student Sponsors	163,352	358	162,994
Accounts	207,606		207,606
Intergovernmental	4,337,135		4,337,135
Other	155,304	7,036	148,268
Total Current Receivables	\$ 6,760,148	\$ 828,627	\$ 5,931,521

NOTE 4 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2014, is presented as follows:

	Balance July 1, 2013	Increases	Decreases	Balance June 30, 2014
Capital Assets, Nondepreciable:				
Land	\$ 18,203,554	\$ 2,727,613	\$ 0	\$ 20,931,167
Construction in Progress	26,043,115	26,613,749	746,221	51,910,643
Total Capital Assets, Nondepreciable	44,246,669	29,341,362	746,221	72,841,810
Capital Assets, Depreciable:				
Buildings	138,386,179	6,530,060	28,258	144,887,981
Machinery and Equipment	28,209,539	6,314,641	2,102,178	32,422,002
General Infrastructure	15,967,642			15,967,642
Total Capital Assets, Depreciable	182,563,360	12,844,701	2,130,436	193,277,625
Less Accumulated Depreciation for:				
Buildings	30,928,159	2,863,643	1,977	33,789,825
Machinery and Equipment	7,586,894	1,707,138	400,656	8,893,376
General Infrastructure	2,694,678	303,670		2,998,348
Total Accumulated Depreciation	41,209,731	4,874,451	402,633	45,681,549
Total Capital Assets, Depreciable, Net	141,353,629	7,970,250	1,727,803	147,596,076
Capital Assets, Net	\$ 185,600,298	\$ 37,311,612	\$ 2,474,024	\$ 220,437,886

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2014, were as follows:

	Amount
Current Accounts Payable and Accrued Liabilities:	
Accounts Payable	\$ 2,563,738
Accrued Payroll	876,498
Contract Retainage	1,814,960
Intergovernmental Payables	4,397
Other	1,400,975
Total Current Accounts Payable and Accrued Liabilities	\$ 6,660,568

NOTE 6 - LONG-TERM LIABILITIES

A summary of changes in the long-term liabilities for the year ended June 30, 2014, is presented as follows:

	Balance July 1, 2013	Additions	Reductions	Balance June 30, 2014	Current Portion
Compensated Absences	\$ 1,776,964	\$ 1,601,877	\$ 1,563,118	\$ 1,815,723	\$ 248,167

NOTE 7 - OPERATING LEASE OBLIGATIONS

The College entered into no new operating leases for equipment and property. Future minimum lease payments under existing noncancelable operating leases consist of the following at June 30, 2014:

Fiscal Year	Amount
2015	\$ 491,129
2016	274,722
2017	78,848
2018	36,833
2019	36,931
2020-2024	186,228
2025-2029	189,154
2030-2034	192,547
2035-2039	73,386
Total Minimum Lease Payments	\$ 1,559,778

Rental expense for all operating leases during the year was \$542,168.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 8 - REVENUES

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

	Gross Revenues	Internal Sales Eliminations	Less Scholarship Discounts	Less Allowance for Uncollectibles	Net Revenues
Operating Revenues:					
Student Tuition and Fees	\$ 24,859,117	\$ 0	\$ 17,902,365	\$ 141,706	\$ 6,815,046
Sales and Services:					
Sales and Services of Auxiliary Enterprises:					
Dining	\$ 486,734	\$ 0	\$ 0	\$ 0	\$ 486,734
Bookstore	10,302,493		4,264,557	(15,480)	6,053,416
Athletic	333				333
Other	787,817	598,200		(5,742)	195,359
Sales and Services of Education and Related Activities	645,843				645,843
Total Sales and Services	\$ 12,223,220	\$ 598,200	\$ 4,264,557	\$ (21,222)	\$ 7,381,685

NOTE 9 - OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	\$ 36,961,537	\$ 4,223,189	\$ 2,221,974	\$ 0	\$ 0	\$ 0	\$ 43,406,700
Academic Support	6,637,253	1,049,348	572,555				8,259,156
Student Services	4,426,489	391,798	321,093				5,139,380
Institutional Support	7,992,578	2,192,070	4,156,889				14,341,537
Operations and Maintenance of Plant	4,462,572	1,050,772	2,682,102		1,825,705		10,021,151
Student Financial Aid				15,944,488			15,944,488
Auxiliary Enterprises	1,563,120	8,979,484	283,032				10,825,636
Depreciation						4,874,451	4,874,451
Total Operating Expenses	\$ 62,043,549	\$ 17,886,661	\$ 10,237,645	\$ 15,944,488	\$ 1,825,705	\$ 4,874,451	\$ 112,812,499

NOTE 10 - PENSION PLANS

Each permanent full-time employee, as a condition of employment, is a member of the Teachers' and State Employees' Retirement System. The Teachers' and State Employees' Retirement System (TSERS) is a cost-sharing multiple-employer defined benefit pension plan established by the State to provide pension benefits for employees of the State, its component units and local boards of education. The Plan is administered by a 14-member Board of Trustees, with the State Treasurer serving as Chairman of the Board.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Benefit and contribution provisions for the TSERS are established by *North Carolina General Statutes* 135-5 and 135-8 and may be amended only by the North Carolina General Assembly. Employer and member contribution rates are set each year by the North Carolina General Assembly based on annual actuarial valuations. For the year ended June 30, 2014, these rates were set at 8.69% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the College had a total payroll of \$47,828,105, of which \$37,618,950 was covered under the TSERS. Total employer and employee contributions for pension benefits for the year were \$3,269,087 and \$2,257,137, respectively.

Required employer contribution rates for the years ended June 30, 2013, and 2012, were 8.33% and 7.44%, respectively, while employee contributions were 6% each year. The College made 100% of its annual required contributions for the years ended June 30, 2014, 2013, and 2012, which were \$3,269,087, \$3,233,306, and \$2,809,147, respectively.

The TSERS financial information is included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.nc.gov/> and clicking on "Reports" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

NOTE 11 - OTHER POSTEMPLOYMENT BENEFITS

A. Health Benefits - The College participates in the Comprehensive Major Medical Plan (the Plan), a cost-sharing, multiple-employer defined benefit health care plan that provides postemployment health insurance to eligible former employees. Eligible former employees include long-term disability beneficiaries of the Disability Income Plan of North Carolina and retirees of the Teachers' and State Employees' Retirement System. Coverage eligibility varies depending on years of contributory membership service in their retirement system prior to disability or retirement.

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

By General Statute, a Retiree Health Benefit Fund (the Fund) has been established as a fund in which accumulated contributions from employers and any earnings on those contributions shall be used to provide health benefits to retired and disabled employees and applicable beneficiaries. By statute, the Fund is administered by the Board of Trustees of the

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Teachers' and State Employees' Retirement System and contributions to the Fund are irrevocable. Also by law, Fund assets are dedicated to providing benefits to retired and disabled employees and applicable beneficiaries and are not subject to the claims of creditors of the employers making contributions to the Fund. Contribution rates to the Fund, which are intended to finance benefits and administrative expenses on a pay-as-you-go basis, are established by the General Assembly.

For the current fiscal year the College contributed 5.40% of the covered payroll under the Teachers' and State Employees' Retirement System to the Fund. Required contribution rates for the years ended June 30, 2013, and 2012, were 5.30% and 5.0%, respectively. The College made 100% of its annual required contributions to the Plan for the years ended June 30, 2014, 2013, and 2012, which were \$2,031,423, \$2,057,206, and \$1,887,868, respectively. The College assumes no liability for retiree health care benefits provided by the programs other than its required contribution.

Additional detailed information about these programs can be located in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.nc.gov/> and clicking on "Reports" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

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

Disability income benefits are funded by actuarially determined employer contributions that are established by the General Assembly. For the fiscal year ended June 30, 2014, the College made a statutory contribution of .44% of covered payroll under the Teachers' and State Employees' Retirement System to the DIPNC. Required contribution rates for the years ended June 30, 2013, and 2012, were .44% and .52%, respectively. The College made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2014, 2013, and 2012, which were \$165,523, \$170,787, and \$196,338, respectively. The College assumes no liability for long-term disability benefits under the Plan other than its contribution.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Additional detailed information about the DIPNC is disclosed in the State of North Carolina's *Comprehensive Annual Financial Report*.

NOTE 12 - RISK MANAGEMENT

The College is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These exposures to loss are handled via a combination of methods, including participation in state-administered insurance programs, purchase of commercial insurance, and self-retention of certain risks. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

The risk of tort claims of up to \$1,000,000 per claimant is retained under the authority of the State Tort Claims Act. In addition, the State provides excess public officers' and employees' liability insurance up to \$10,000,000 via contract with a private insurance company. The North Carolina Community College System Office pays the premium, based on a composite rate, directly to the private insurer.

Fire and other property losses are covered by contracts with private insurance companies. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

State-owned vehicles are covered by liability insurance through a private insurance company and handled by the North Carolina Department of Insurance. The liability limits for losses are \$1,000,000 per claim and \$10,000,000 per occurrence. The College pays premiums to the North Carolina Department of Insurance for the coverage. Liability insurance for other College-owned vehicles is covered by contracts with private insurance companies.

The College is protected for losses from employee dishonesty and computer fraud for employees paid in whole or in part from state funds. This coverage is with a private insurance company and is handled by the North Carolina Department of Insurance. North Carolina Community College System Office is charged a premium by the private insurance company. Coverage limit is \$5,000,000 per occurrence. The private insurance company pays 90% of each loss less a \$75,000 deductible.

The College also provides crime coverage of \$300,000 with a \$250 deductible for employee dishonesty on all employees, including county and institutional fund employees. Coverage for theft of money and securities by other than employee dishonesty is also provided up to \$300,000 with a \$250 deductible.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The College also has a \$2,000,000 error and omissions policy purchased from a private insurance company covering trustees, employees, volunteers, student teachers and interns.

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

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

Term life insurance (death benefits) of \$25,000 to \$50,000 is provided to eligible workers. This Death Benefit Plan is administered by the State Treasurer and funded via employer contributions. The employer contribution rate was .16% for the current fiscal year.

Additional details on the state-administered risk management programs are disclosed in the State's *Comprehensive Annual Financial Report*, issued by the Office of the State Controller.

NOTE 13 - COMMITMENTS AND CONTINGENCIES

- A. **Commitments** - The College has established an encumbrance system to track its outstanding commitments on construction projects. Outstanding commitments on construction contracts were \$3,702,094 at June 30, 2014.
- B. **Pending Litigation and Claims** - The College is a party to litigation and claims in the ordinary course of its operations. Since it is not possible to predict the ultimate outcome of these matters, no provision for any liability has been made in the financial statements. College management is of the opinion that the liability, if any, for any of these matters will not have a material adverse effect on the financial position of the College.

NOTE 14 - RELATED PARTY

Non-Profit Corporation - The GHG Construction Corporation is a legally separate not-for-profit corporation established to foster, promote, manage, and develop the College's carpentry program. The records of the corporation are maintained separately by the College. GHG contracts with an independent

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

accounting firm to audit its financial records and prepare an Independent Auditor's Report. This report is provided to the College and to GHG Board members by an independent auditor.

NOTE 15 - BLENDED COMPONENT UNIT

Condensed combining information for the College's blended component unit for the year ended June 30, 2014, is presented as follows:

Condensed Statement of Net Position June 30, 2014

	GTCC	GTCC Innovative Resources Corp.	Eliminations	Total
ASSETS				
Current Assets	\$ 45,973,374	\$ 365,638	\$ 0	\$ 46,339,012
Capital Assets	220,437,886			220,437,886
Other Noncurrent Assets	5,195,184			5,195,184
Total Assets	271,606,444	365,638	0	271,972,082
Total Deferred Outflows of Resources	0	0	0	0
LIABILITIES				
Current Liabilities	8,189,958	162,825	(45,600)	8,307,183
Noncurrent Liabilities	1,567,556	6,375		1,573,931
Total Liabilities	9,757,514	169,200	(45,600)	9,881,114
Total Deferred Inflows of Resources	0	0	0	0
NET POSITION				
Net Investment in Capital Assets	220,437,886			220,437,886
Restricted - Expendable	12,364,167			12,364,167
Unrestricted	29,046,877	196,438	45,600	29,288,915
Total Net Position	\$ 261,848,930	\$ 196,438	\$ 45,600	\$ 262,090,968

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

Condensed Statement of Revenues, Expenses, and Changes in Net Position For the Fiscal Year Ended June 30, 2014

	GTCC	GTCC Innovative Resources Corp.	Eliminations	Total
OPERATING REVENUES				
Student Tuition and Fees, Net	\$ 6,815,046	\$ 0	\$ 0	\$ 6,815,046
Sales and Services, Net	7,121,635	319,940	(59,890)	7,381,685
Other Operating Revenues	107,414			107,414
Total Operating Revenues	14,044,095	319,940	(59,890)	14,304,145
OPERATING EXPENSES				
Operating Expenses	107,698,941	244,398	(5,291)	107,938,048
Depreciation	4,874,451			4,874,451
Total Operating Expenses	112,573,392	244,398	(5,291)	112,812,499
Operating Income (Loss)	(98,529,297)	75,542	(54,599)	(98,508,354)
NONOPERATING REVENUES (EXPENSES)				
State Aid	41,440,528			41,440,528
County Appropriations	12,397,690			12,397,690
Noncapital Grants - Student Financial Aid	38,069,866			38,069,866
Noncapital Grants	5,192,818			5,192,818
Noncapital Gifts, Net	60,000	39,614	(5,359)	94,255
Investment Income	94,892			94,892
Other Nonoperating Expenses	(1,785,514)			(1,785,514)
State Capital Aid	5,607,184			5,607,184
County Capital Aid	35,341,195			35,341,195
Capital Grants	266,272			266,272
Capital Gifts, Net	211,322			211,322
Net Nonoperating Revenues	136,896,253	39,614	(5,359)	136,930,508
Transfers	(16,293)		16,293	
Increase in Net Position	38,350,663	115,156	(43,665)	38,422,154
NET POSITION				
Net Position, July 1, 2013	223,498,267	81,282	89,265	223,668,814
Net Position, June 30, 2014	\$ 261,848,930	\$ 196,438	\$ 45,600	\$ 262,090,968

Condensed Statement of Cash Flows June 30, 2014

	GTCC	GTCC Innovative Resources Corp.	Total
Net Cash Provided (Used) by Operating Activities	\$ (90,458,524)	\$ 24,475	\$ (90,434,049)
Net Cash Provided by Noncapital Financing Activities	95,845,343		95,845,343
Net Cash Provided by Capital and Related Financing Activities	129,347		129,347
Net Cash Provided by Investing Activities	94,892		94,892
Net Increase in Cash and Cash Equivalents	5,611,058	24,475	5,635,533
Cash and Cash Equivalents, July 1, 2013	31,894,226	327,484	32,221,710
Cash and Cash Equivalents, June 30, 2014	\$ 37,505,284	\$ 351,959	\$ 37,857,243

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Office of the State Auditor

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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
Guilford Technical Community College
Jamestown, 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 Guilford Technical Community College, a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the College's basic financial statements, and have issued our report thereon dated January 27, 2015. Our report includes a reference to other auditors who audited the financial statements of Guilford Technical Community College Foundation, Inc. and GTCC Innovative Resources Corporation, as described in our report on the College's financial statements. The financial statements of Guilford Technical Community College Foundation, Inc. and GTCC Innovative Resources Corporation were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with those entities.

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

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

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

January 27, 2015

ORDERING INFORMATION

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State of North Carolina
2 South Salisbury Street
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For additional information contact:
Bill Holmes
Director of External Affairs