



# STATE OF NORTH CAROLINA

**FINANCIAL STATEMENT AUDIT REPORT OF  
DURHAM TECHNICAL COMMUNITY COLLEGE  
DURHAM, NORTH CAROLINA  
FOR THE YEAR ENDED JUNE 30, 2002**

**OFFICE OF THE STATE AUDITOR**

**RALPH CAMPBELL, JR.**

**STATE AUDITOR**

**FINANCIAL STATEMENT AUDIT REPORT OF**

**DURHAM TECHNICAL COMMUNITY COLLEGE**

**DURHAM, NORTH CAROLINA**

**FOR THE YEAR ENDED JUNE 30, 2002**

**STATE BOARD OF COMMUNITY COLLEGES**

**THE NORTH CAROLINA COMMUNITY COLLEGE SYSTEM**

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Ralph Campbell, Jr.  
State Auditor

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Office of the State Auditor

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**AUDITOR'S TRANSMITTAL**

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

This report presents the results of our financial statement audit of Durham Technical Community College, a component unit of the State of North Carolina, for the year ended June 30, 2002. Our audit was made by authority of Article 5A of General Statute 147.

The accounts and operations of the College are an integral part of the State's reporting entity represented in the State's *Comprehensive Annual Financial Report (CAFR)* and the State's *Single Audit Report*. In those reports, the State Auditor expresses an opinion on the State's financial statements. In the *Single Audit Report*, the State Auditor also presents the audit results on the State's internal controls and on the State's compliance with laws, regulations, contracts, and grants applicable to the State's financial statements and to its federal financial assistance programs.

As part of the audit work necessary for the CAFR and the *Single Audit Report*, the accounts and operations of the College were subjected to audit procedures as we considered necessary. In addition, we performed auditing procedures that we considered necessary for us to report on the accompanying financial statements that relate solely to Durham Technical Community College. The audit procedures were conducted in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States.

The purpose of this report is to present the results of our audit on the accompanying financial statements that relate solely to Durham Technical Community College. A summary of our reporting objectives and audit results is:

1. **Objective** – To express an opinion on the accompanying financial statements that relate solely to Durham Technical Community College.

**Results** - The accompanying financial statements present fairly, in all material respects, the amounts and disclosures made in accordance with accounting principles generally accepted in the United States of America. These matters are more fully described in the Independent Auditor's Report on the Financial Statements.

## AUDITOR'S TRANSMITTAL (CONCLUDED)

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2. **Objective** – To present significant deficiencies, if any, in internal control over financial reporting which could adversely affect the College's ability to record, process, summarize, and report financial data in the financial statements and present instances of noncompliance, if any, with laws, regulations, contracts, or grants.

**Results** - Our tests disclosed no material weaknesses in internal control over financial reporting and no instances of noncompliance which require disclosure herein under *Government Auditing Standards*. These matters are more fully described in the Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting.

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.



Ralph Campbell, Jr.  
State Auditor

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**INDEPENDENT AUDITOR'S REPORT**

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Board of Trustees  
Durham Technical Community College  
Durham, North Carolina

We have audited the accompanying basic financial statements of Durham Technical Community College, a component unit of the State of North Carolina, as of and for the year ended June 30, 2002, as listed in the table of contents. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Durham Technical Community College as of June 30, 2002, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 15 to the financial statements, the College implemented Governmental Accounting Standards Board 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* and Statement No. 38, *Certain Financial Statement Note Disclosures* during the year ended June 30, 2002.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 17, 2003 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

## INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis (MD&A) on pages 3 to 8 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. Schedule 1 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Ralph Campbell, Jr.  
State Auditor

April 17, 2003

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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### Overview of the Basic Financial Statements

Effective July 1, 2001, the College implemented new accounting and reporting standards required by the Governmental Accounting Standards Board (GASB) Statement No. 34/35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*, Statement No. 37, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus*, and Statement No. 38, *Certain Financial Statement Note Disclosures*. Under these new standards, the College now reports its financial information similar to that required of private universities and colleges and uses reporting concepts in a manner similar to that required of a business enterprise. Prior to July 1, 2001, the college reported its financial information using a fund structure presentation.

The new reporting requirements include Management's Discussion and Analysis (MD&A), the Statement of Net Assets, the Statement of Revenues, Expenses, and Changes in Net Assets, the Statement of Cash Flows, and Financial Statement Note Disclosures.

This part of the financial report, Management's Discussion and Analysis, provides an introduction and overview to assist the reader in interpreting and understanding the basic financial statements. Currently known facts, decisions, or conditions are discussed in management's analysis of financial position and results of operations. While comparative analysis with the prior year financial report is important to understanding the College's financial position and results of operations, its use in the year of implementation is not advisable due to the many accounting and reporting changes resulting from the implementation. Such comparative analysis will be presented next year.

The Statement of Net Assets provides information relative to the College's assets, liabilities, and net assets as of the last day of the fiscal year, June 30th. Assets and liabilities on this Statement are categorized as either current or noncurrent. Current assets are those that are available to pay for expenses in the next fiscal year. Current liabilities are those payable in the next fiscal year. Net assets on this Statement are categorized as either invested in capital assets (net of related debt), restricted or unrestricted. Restricted net assets are categorized as either nonexpendable or expendable. Overall, the Statement of Net Assets provides information relative to the financial strength of the college and its ability to meet current and long-term obligations.

The Statement of Revenues, Expenses, and Changes in Net Assets provides information relative to the results of the College's operations, nonoperating activities, and other activities affecting net assets that occurred during the fiscal year ended June 30th. Nonoperating activities include primarily subsidies from the State and County in the form of appropriations, noncapital gifts and grants, interest expense on financing activities, investment income (net of investment expenses) and loss on disposition of capital assets. Other activities were capital gifts or grants.



## **MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

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Overall, the Statement of Revenues, Expenses, and Changes in Net Assets provides information relative to the College's segment of its operations and its ability to maintain its financial strength.

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

The Financial Statement Note Disclosures provide information relative to the significant accounting principles applied in the financial statements, authority for and associated risk of deposits and investments, detailed information on long-term liabilities, detailed information on accounts receivable, accounts payable, revenues and expenses, required information on pension plans and other post employment benefits, insurance against losses, commitments and contingencies, accounting changes, and if necessary a discussion of adjustments to prior periods and events subsequent to the College's financial statement period. Overall, the Financial Statement Note Disclosures provides information to better understand details, risk, and uncertainty associated with amounts reported in the Financial Statements.

### **Analysis of Financial Position and Results of Operations**

The College's overall financial position is relatively unchanged from the previous year. Net assets total \$17,113,528.57, a decrease of \$8,900,419.56. Implementation of GASB Statement No. 34/35 accounted for a \$9,286,156.82 decrease in capital assets. When compared to last year's restated net assets, net assets increased by \$385,737.26.

Total net assets increased by 2.31% which consists primarily of funds held for capital projects and proprietary fund collections held in reserve in case the College did not receive enough State funds to meet its obligations. Spending was reduced in all unrestricted funds due to the uncertainty of receiving the College's State cash certifications and the potential need to cover any State funds shortage with funds from other sources. However, the College did receive most of its State allocation and did not need to use any of the funds held in reserve. The College's cash and net assets increased during the year due to holding those funds in reserve and not spending county funds that were appropriated for capital projects.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

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The following table summarizes the College's assets, liabilities and net assets as of June 30, 2002:

	<u>2002</u>
<b>Assets</b>	
Current Assets	
Cash and Cash Equivalents	\$ 720,755.51
Restricted Short-Term Investments	9,084.13
Receivables, Net	317,620.28
Inventories	<u>54,930.98</u>
Total Current Assets	<u>1,102,390.90</u>
Noncurrent Assets	
Restricted Cash and Cash Equivalents	503,337.63
Restricted Due From Primary Government	116,817.08
Capital Assets, Net	<u>16,337,745.88</u>
Total Noncurrent Assets	<u>16,957,900.59</u>
Total Assets	<u>18,060,291.49</u>
<b>Liabilities</b>	
Current Liabilities	
Accounts Payable and Accrued Liabilities	98,756.86
Due to Primary Government	3,633.91
Funds Held for Others	58,435.12
Long-Term Liabilities – Current Portion	<u>97,265.47</u>
Total Current Liabilities	<u>258,091.36</u>
Noncurrent Liabilities	
Funds Held for Others	14,026.02
Long-Term Liabilities	<u>674,645.54</u>
Total Noncurrent Liabilities	<u>688,671.56</u>
Total Liabilities	<u>946,762.92</u>
<b>Net Assets</b>	
Invested in Capital Assets, Net of Related Debt	16,337,745.88
Restricted	
Scholarships and Fellowships	9,840.01
Loans	13,752.50
Capital Projects	610,510.45
Other	110,351.09
Unrestricted	<u>31,328.64</u>
Total Net Assets	<u>\$ 17,113,528.57</u>

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Current assets, 6.1% of total assets consist primarily of cash and equivalents, \$720,755.51, and accounts receivable, \$317,620.28. Noncurrent assets, 93.9% of total assets consist primarily of capital assets, \$16,337,745.88. \$771,911.01 of total liabilities is for accrued vacation leave, representing 81.53% of the College's total liabilities. Accounts payable and accrued liabilities accounted for 10.43% of total liabilities. The majority of the College's total net assets consist of capital assets (95.47%). Current assets are 6.10% of total assets, which is due to the College expending all of its State and county appropriations each year.

The following table summarizes the College's Revenues and Expenditures for the year ended June 30, 2002:

	Amount	Percent
<b>Operating Revenues</b>		
Student Tuition and Fees, Net	\$ 2,779,608.07	43.23
Federal Grants and Contracts	3,033,878.86	47.18
State and Local Grants and Contracts	277,120.05	4.31
Sales and Services, Net	319,960.96	4.98
Other Operating Revenues	19,341.82	0.30
Total Operating Revenues	6,429,909.76	100.00
<b>Operating Expenses</b>		
Personal Services	15,991,682.50	70.24
Supplies and materials	1,070,733.01	4.70
Services	2,257,163.39	9.91
Scholarships and Fellowships	1,842,154.92	8.09
Utilities	743,391.41	3.26
Depreciation	865,850.41	3.80
Total Operating Expenses	22,770,975.64	100.00
Operating Loss	(16,341,065.88)	
<b>Nonoperating Revenues and Expenses</b>		
State Aid	12,591,514.70	80.15
County Appropriations	2,884,006.01	18.35
Noncapital Gifts, Net	214,417.04	1.36
Investment Income, Net	11,583.52	0.07
Other Nonoperating Revenues	10,950.00	0.07
Net Nonoperating Revenues	15,712,471.27	100.00
Income Before Other Revenues and Expenses	(628,594.61)	
<b>Other Revenues</b>		
State Capital Aid	549,449.88	54.17
County Capital Appropriations	399,999.99	39.43
Capital Gifts, net	64,882.00	6.40
Total Other Revenues	1,014,331.87	100.00
<b>Total Revenues</b>	<b>23,156,712.90</b>	
Increase In Net Assets	\$ 385,737.26	

## **MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

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While the College shows an operating loss of \$16,341,065.88, this is an expected outcome for a public supported educational institution under the new accounting and reporting requirements. The operating loss is the result of State appropriations being reported as nonoperating revenue and expenses associated with nonoperating and capital grants and gifts being reported as operating expenses. When nonoperating and other revenues are included the College increased its net assets by \$385,737.26.

As a result of the new accounting and reporting standards, tuition and fees are now shown net of amounts received in other revenue accounts for student financial aid. This method of net reporting is referred to as Discounting. In addition, sales and services are now shown net of amounts charged internally to other college departments. This method of net reporting is referred to as Elimination of Internal Sales. These changes remove the duplication of revenues and expenses on the College's financial statements as a whole. In prior years these items were shown as revenues and expenses as required in the fund based financial statements. Another change resulting from the new accounting and reporting standards is that the change in allowance for uncollectible accounts is now reported as a reduction to revenues rather than expensed as in prior years.

As a result of the new accounting and reporting standards, operating expenses are reduced for discounting the elimination of internal sales. Scholarships and fellowships now represent payments to students exclusive of tuition and fees amounts received from other college revenue sources. In addition, depreciation is now recorded to report the utilization of long-lived assets. In prior years, capital assets were shown at historical cost with no depreciation.

Operating revenues consist primarily of Federal grants and contracts, \$3,033,878.86 and student tuition and fees, \$2,779,608.07. Nonoperating revenues consist primarily of State Aid, \$12,591,514.70 and County appropriations, \$2,884,006.01. Other revenues consist primarily of State capital aid, \$549,449.88 and County capital appropriations, \$399,999.99. The primary operating expense is for personal services, accounting for 70.24% of the total.

The Statement of Cash Flows provides additional information about the College's financial results, by reporting the major sources and uses of cash. The following table summarizes the College's cash receipts and payments for the year ended June 30, 2002.

	<u>Amount</u>
Cash Provided (Used by	
Operating Activities	\$ (15,820,886.52)
Noncapital Financing	15,689,937.75
Capital and Related Financing Activities	490,950.67
Investing Activities	<u>11,371.76</u>
Net Increase in Cash	371,373.66
Cash – Beginning of Year	<u>852,719.48</u>
Cash – End of Year	<u><u>\$ 1,224,093.14</u></u>

**Capital Assets and Long-Term Debt Activities**

**Capital Assets**

With the passage of the Higher Education Improvement Bond Referendum by North Carolina voters on November 7, 2000, the College is in excellent position to improve and modernize its facilities. The referendum provided \$15,427,992 in State funds to the College over a six-year period beginning in fiscal year 2001. As of June 30, 2002, the College had recognized \$48,000 as State contributions earned. The remaining amount is outstanding pending future bond sales and allotment approvals.

**Long-Term Debt Activities**

Durham Technical Community College does not have any long-term debt activity.

**Economic Factors That Will Affect the Future**

The major source of funding for the College is appropriations from the State of North Carolina. As a result of increased enrollment growth (9%) at Durham Technical Community College in fiscal year 2002, the State appropriations for fiscal year 2003 should increase significantly. However, State appropriations will depend upon the economic welfare of the State of North Carolina and there is no guarantee that the College will receive any additional funding. However, if State appropriations do not increase proportionally to the increased enrollment, the College will find it more difficult to serve its students.

As a result of the Higher Education Improvement Bond program, the College has \$15,379,992 in State resources still available for construction and facilities improvement in future years.

The College does not know of any factors that may materially affect the carrying value or classification of assets, liabilities, or fund balances as presented on the financial statements. No events have occurred subsequent to the fiscal year that would require adjustments to the College's statements.

<b>Durham Technical Community College</b>		
<b>Statement of Net Assets</b>		
<b>June 30, 2002</b>		<b>Exhibit A</b>
<b>ASSETS</b>		
Current Assets:		
Cash and Cash Equivalents	\$	720,755.51
Restricted Short-Term Investments		9,084.13
Receivables, Net (Note 3)		317,620.28
Inventories		54,930.98
<b>Total Current Assets</b>		<b>1,102,390.90</b>
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		503,337.63
Restricted Due from Primary Government		116,817.08
Capital Assets, Net (Note 4)		16,337,745.88
<b>Total Noncurrent Assets</b>		<b>16,957,900.59</b>
<b>Total Assets</b>		<b>18,060,291.49</b>
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts Payable and Accrued Liabilities (Note 5)		98,756.86
Due to Primary Government		3,633.91
Funds Held for Others		58,435.12
Long-Term Liabilities - Current Portion (Note 6)		97,265.47
<b>Total Current Liabilities</b>		<b>258,091.36</b>
Noncurrent Liabilities:		
Funds Held for Others		14,026.02
Long-Term Liabilities (Note 6)		674,645.54
<b>Total Noncurrent Liabilities</b>		<b>688,671.56</b>
<b>Total Liabilities</b>		<b>946,762.92</b>
<b>NET ASSETS</b>		
Invested in Capital Assets		16,337,745.88
Restricted For:		
Expendable:		
Scholarships and Fellowships		9,840.01
Loans		13,752.50
Capital Projects		610,510.45
Other		110,351.09
Unrestricted		31,328.64
<b>Total Net Assets</b>	<b>\$</b>	<b>17,113,528.57</b>
The accompanying notes to the financial statements are an integral part of this statement.		

<b>Durham Technical Community College</b>		
<b>Statement of Revenues, Expenses, and Changes in Net Assets</b>		
<b>For the Fiscal Year Ended June 30, 2002</b>		<b>Exhibit B</b>
<b>REVENUES</b>		
Operating Revenues:		
Student Tuition and Fees, Net (Note 8)	\$	2,779,608.07
Federal Grants and Contracts		3,033,878.86
State and Local Grants and Contracts		277,120.05
Sales and Services, Net (Note 8)		319,960.96
Other Operating Revenues		19,341.82
<b>Total Operating Revenues</b>		<b>6,429,909.76</b>
<b>EXPENSES</b>		
Operating Expenses:		
Personal Services		15,991,682.50
Supplies and Materials		1,070,733.01
Services		2,257,163.39
Scholarships and Fellowships		1,842,154.92
Utilities		743,391.41
Depreciation		865,850.41
<b>Total Operating Expenses</b>		<b>22,770,975.64</b>
<b>Operating (Loss)</b>		<b>(16,341,065.88)</b>
<b>NONOPERATING REVENUES (EXPENSES):</b>		
State Aid		12,591,514.70
County Appropriations		2,884,006.01
Noncapital Gifts		214,417.04
Investment Income, Net		11,583.52
Other Nonoperating Revenues (Expenses)		10,950.00
<b>Net Nonoperating Revenues</b>		<b>15,712,471.27</b>
<b>Income Before Other Revenues, Expenses, Gains, and Losses</b>		<b>(628,594.61)</b>
State Capital Aid		549,449.88
County Capital Appropriations		399,999.99
Capital Gifts		64,882.00
<b>Increase (Decrease) in Net Assets</b>		<b>385,737.26</b>
<b>NET ASSETS</b>		
Net Assets, July 1, 2001 as Restated		16,727,791.31
<b>Net Assets, June 30, 2002</b>	<b>\$</b>	<b>17,113,528.57</b>
The accompanying notes to the financial statements are an integral part of this statement.		

<b>Durham Technical Community College</b>		
<b>Statement of Cash Flows</b>		
<b>For the Fiscal Year Ended June 30, 2002</b>		<b>Exhibit C</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Received from Customers	\$	6,363,888.28
Payments to Employees and Fringe Benefits		(16,119,711.74)
Payments to Vendors and Suppliers		(4,229,103.98)
Payments for Scholarships and Fellowships		(1,863,946.25)
Other Receipts (Payments)		27,987.17
Net Cash Provided (Used) by Operating Activities		(15,820,886.52)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
State Aid Received		12,591,514.70
County Appropriations		2,884,006.01
Noncapital Gifts Received		214,417.04
Net Cash Provided by Noncapital Financing Activities		15,689,937.75
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
State Capital Aid Received		549,449.88
County Capital Appropriations		399,999.99
Acquisition and Construction of Capital Assets		(458,499.20)
Net Cash Provided (Used) by Capital and Related Financing Activities		490,950.67
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest on Investments		11,583.52
Purchase of Investments and Related Fees		(211.76)
Net Cash Provided (Used) by Investing Activities		11,371.76
Net Increase (Decrease) in Cash and Cash Equivalents		371,373.66
Cash and Cash Equivalents, July 1, 2001		852,719.48
Cash and Cash Equivalents, June 30, 2002	\$	1,224,093.14
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES</b>		
Operating (Loss)	\$	(16,341,065.88)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense		865,850.41
Miscellaneous Nonoperating Income		10,950.00
Changes in Assets and Liabilities:		
Receivables, Net		(67,023.76)
Inventories		4,891.97
Accounts Payable and Accrued Liabilities		(217,294.61)
Due to Primary Government		3,633.91
Deferred Revenue		(20,789.05)
Funds Held for Others		17,037.17
Compensated Absences		(77,076.68)
Net Cash Used by Operating Activities	\$	(15,820,886.52)



<b><i>Durham Technical Community College</i></b>		
<b><i>Statement of Cash Flows</i></b>		<b><i>Exhibit C</i></b>
<b><i>For the Fiscal Year Ended June 30, 2002</i></b>		<b><i>Page 2</i></b>
<b>NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES</b>		
Assets Acquired Through a Gift	\$	64,882.00
Increase in Receivables Related to Nonoperating Income		38,489.00
The accompanying notes to the financial statements are an integral part of this statement.		

**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2002**

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES**

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

The accompanying financial statements present all funds for which the College's Board of Trustees is financially accountable. Related foundations and similar non-profit corporations for which the College is not financially accountable are not part of the accompanying financial statements. These entities are not included because they are separately incorporated and there are neither common directors nor other evidence of common control.

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

Pursuant to the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as amended by GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – For Public Colleges and Universities* effective for the College's year ended June 30, 2002, the full scope of the College's activities is considered to be a single business-type activity (BTA) 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. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

- D. Cash and Cash Equivalents** – This classification appears on the Statement of Net Assets and the Statement of Cash Flows and includes undeposited receipts, petty cash, cash on deposit with private bank accounts, savings accounts, and money market accounts.
- E. Investments** - This classification includes a mutual fund holding by the College through North Carolina Capital Management Trust. Investment in the Trust is recorded at cost, which approximates market value. Investments are accounted for at fair value, as determined by quoted market prices, or an amount determined by management if quoted market prices are not available. The net increase (decrease) in the fair value of investments is recognized as a component of investment income.
- F. Receivables** – Receivables consist of tuition and fees charges 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.
- G. Inventories** – Inventories, consisting of expendable supplies, are stated at the lower of cost or market value using the first-in, first-out method.
- H. Capital Assets** – Capital assets are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. The College capitalizes assets that have a value or cost in excess of \$5,000 at the date of acquisition and an expected useful life of one or more years. Library books are expensed.

Depreciation is computed using the straight-line and/or units of output method over the estimated useful lives of the assets, generally 15 to 25 years for infrastructure, 40 years for buildings and 3 to 15 years for equipment.

- I. Restricted Assets** – Restricted assets represent assets whose use is restricted by external parties or by law through constitutional provisions or enabling legislation.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

**K. 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 1st or for which an employee can be paid upon termination of employment. Also, any accumulated vacation leave in excess of 30 days at year-end is converted to sick leave.

When classifying compensated absences into current and noncurrent, leave is considered taken using a last in, first out method.

**L. Net Assets** – The College's net assets are classified as follows:

**Invested in Capital Assets, Net of Related Debt** – This represents the College's total investment in capital assets, net of outstanding debt obligations related to those capital assets.

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

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

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

**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 Assets. The scholarship discount is the difference between the actual charge for goods and services provided by the College and the amount that is paid by students or by third parties on the students' behalf. Student financial assistance grants, such as Pell grants, and other federal, State or nongovernmental programs, are recorded as either operating or non-operating revenues in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. To the extent that

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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 presents its revenues and expenses as operating or nonoperating based on recognition definitions from GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*. Operating activities are those activities that are necessary and essential to the mission of the College. Operating revenues include all charges to customers, grants received for student financial assistance, and interest earned on loans. Grants received for student financial assistance are considered operating revenues because they provide resources for student charges and such programs are necessary and essential to the mission of the College. Revenues from nonexchange transactions and State appropriations that represent subsidies or gifts to the College, as well as investment income, are considered nonoperating since these are either capital or noncapital financing or investing activities. Operating expenses are all expense transactions incurred other than those related to capital or noncapital financing or investing activities. Revenues received for capital financing activities, as well as related expenses, are considered neither operating nor nonoperating activities and are presented after nonoperating activities on the accompanying Statement of Revenues, Expenses, and Changes in Net Assets.
- O. 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 and Copy Centers. 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 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.
- P. County Appropriations** - County Appropriations are provided to the College primarily to fund its plant operation and maintenance function (county current fund) and to fund construction projects, motor vehicles and maintenance equipment (county plant fund). Unexpended county current appropriation and county capital appropriation do not revert and are available for future use.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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### NOTE 2 - DEPOSITS AND INVESTMENTS

- A. **Deposits** - All funds of the College are deposited in board-designated official depositories and are required to be collateralized in accordance with 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 or with the State Treasurer's Cash and Investment Pool. Also, the College may establish time deposit accounts, money market accounts, and certificates of deposit. At year-end, cash on hand was \$1,710.00. The carrying amount of cash on deposit was \$1,222,383.14 and the bank balance was \$1,574,063.45. All of the cash was on deposit with private financial institutions.

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.

Of the cash on deposit with private financial institutions at June 30, 2002, \$214,026.02 of the bank balance was covered by federal depository insurance, \$1,360,037.43 was covered by collateral held by an authorized escrow agent in the name of the State Treasurer (pooling method).

- B. **Investments** – In addition to donated securities and real estate held by the College, the College is authorized to invest idle funds as provided by General Statute 115D-58.6. In accordance with this statute, the College and the Board of Trustees manage investments to ensure they can be converted into cash when needed.

Generally, funds belonging to the College may be invested in the form of investments pursuant to General Statute 159-30(c), as follows: 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 non-guaranteed federal agencies; prime quality commercial paper bearing specified ratings and banker's acceptances; The North Carolina Capital Management Trust, an SEC registered mutual fund; repurchase

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

agreements; 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.

The College's investments are categorized to give an indication of the level of risk assumed by the College. The credit risk categories are concerned with custodial credit risk, which is the risk that a government will not be able to recover the value of investment or collateral securities that are in possession of an outside party if the counterparty to the investment transaction fails. Category 1 includes investments that are insured or registered or for which the securities are held by the College or its agent in the College's name. Category 2 includes uninsured and unregistered investments for which the securities are held by a counterparty's trust department or agent in the College's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by a counterparty's trust department or agent, but not in the College's name.

At June 30, 2002 the College was a participant in the North Carolina Capital Management Trust, an SEC registered mutual fund. The North Carolina Capital Management Trust is exempt from risk categorization because the College does not own identifiable securities, but is a shareholder of a percentage of funds. Investment in the trust is stated at cost, which approximates market. The carrying amount and market value of its investment in the trust at June 30, 2002 was \$9,084.13.

### NOTE 3 - RECEIVABLES

Receivables at June 30, 2002 were as follows:

	<u>Gross Receivables</u>	<u>Allowance for Doubtful Accounts</u>	<u>Net Receivables</u>
Current Receivables:			
Students	\$ 212,970.72	\$ 99,586.08	\$ 113,384.64
Accounts	19,435.89		19,435.89
Intergovernmental	184,799.75		184,799.75
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total Current Receivables	<u>\$ 417,206.36</u>	<u>\$ 99,586.08</u>	<u>\$ 317,620.28</u>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 4 - CAPITAL ASSETS

A summary of changes in the capital assets is presented as follows:

<b>Capital Assets, Non-Depreciable:</b>	Balance July 1, 2001	Increases	Decreases	Balance June 30, 2002
Land	\$ 731,918.38	\$ 137,638.95	\$ 0.00	\$ 869,557.33
Construction in Progress		21,689.46		21,689.46
Total Capital Assets, Non-Depreciable	<u>731,918.38</u>	<u>159,328.41</u>		<u>891,246.79</u>
<b>Capital Assets, Depreciable:</b>				
Buildings	19,799,508.12	127,051.33		19,926,559.45
Machinery and Equipment	3,237,585.47	168,223.63	107,651.28	3,298,157.82
General Infrastructure	328,896.66	31,352.43		360,249.09
Totals	<u>23,365,990.25</u>	<u>326,627.39</u>	<u>107,651.28</u>	<u>23,584,966.36</u>
Less Accumulated Depreciation:				
Buildings	5,579,607.60	569,175.84		6,148,783.44
Machinery and Equipment	1,628,855.98	275,874.91	107,651.28	1,797,079.61
General Infrastructure	171,804.56	20,799.66		192,604.22
Totals	<u>7,380,268.14</u>	<u>865,850.41</u>	<u>107,651.28</u>	<u>8,138,467.27</u>
Total capital assets, depreciable, net	<u>15,985,722.11</u>	<u>(539,223.02)</u>		<u>15,446,499.09</u>
<b>Capital Assets, net</b>	<u>\$ 16,717,640.49</u>	<u>\$ (379,894.61)</u>	<u>\$ 0.00</u>	<u>\$ 16,337,745.88</u>

### NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2002 were as follows:

	<u>Totals</u>
Accounts Payable	\$ 59,323.99
Accrued Payroll	39,032.87
Intergovernmental Payables	<u>400.00</u>
<b>Total accounts payable and accrued liabilities</b>	<u><u>\$ 98,756.86</u></u>



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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### NOTE 6 - LONG-TERM LIABILITIES

**Changes in Long-Term Liabilities** - A summary of changes in the long-term liabilities is presented as follows:

	Balance July 1, 2001	Additions	Reductions	Balance June 30, 2002	Current Portion
Compensated Absences	\$ 848,987.69	\$ 692,603.87	\$ 769,680.55	\$ 771,911.01	\$ 97,265.47

### NOTE 7 - LEASE OBLIGATIONS

**Operating Lease Obligations** - Future minimum lease payments under non-cancelable operating leases consist of the following at June 30, 2002:

Fiscal Year	Amount
2003	\$ 153,920
2004	
2005	
2006	
2007	
2008-2013	
2014-2019	
<b>Total Minimum Lease Payments</b>	<b>\$ 153,920</b>

Rental expense for all operating leases during the year was \$ 185,899.71.

## 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
<b>Operating revenues:</b>					
<b>Student tuition and fees</b>	\$ 3,711,481.47	\$	\$ 906,197.45	\$ 25,675.95	\$ 2,779,608.07
<b>Sales and services:</b>					
Sales and services of auxiliary enterprises:					
Bookstore	85,492.68				85,492.68
Print Shop	186,703.04	186,703.04			0.00
Parking	36,048.74				36,048.74
Other	198,419.54				198,419.54
<b>Total sales and services</b>	\$ 506,664.00	\$ 186,703.04	\$ 0.00	\$ 0.00	\$ 319,960.96

### 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	\$ 10,303,164.96	\$ 487,178.72	\$ 548,030.21	\$	\$	\$	\$ 11,338,373.89
Public Service	44,709.58	10,235.42	14,915.60		2,749.28		72,609.88
Academic Support	1,310,397.79	87,019.34	62,406.62				1,459,823.75
Student Services	1,277,717.00	10,121.01	129,517.09				1,417,355.10
Institutional Support	2,412,064.93	299,321.87	555,817.65				3,267,204.45
Operations and Maintenance of Plant	603,151.22	89,059.60	884,799.05		740,642.13		2,317,652.00
Student Financial Aid	40,477.02			1,842,154.92			1,882,631.94
Auxiliary Enterprises		87,797.05	61,677.17				149,474.22
Depreciation						865,850.41	865,850.41
<b>Total Operating Expenses</b>	\$ 15,991,682.50	\$ 1,070,733.01	\$ 2,257,163.39	\$ 1,842,154.92	\$ 743,391.41	\$ 865,850.41	\$ 22,770,975.64

### NOTE 10 - PENSION PLANS

**A. Retirement Plans** - Each permanent full-time employee, as a condition of employment, is a member of the Teachers' and State Employees' Retirement System. The Teachers' and State Employees' Retirement System (System) is a multiple-employer cost sharing defined benefit pension plan administered by the North Carolina State Treasurer.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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After five years of creditable service, members of the Teachers' and State Employees' Retirement System qualify for a vested deferred benefit. Employees who retire on or after age 65 and complete 5 years of membership service (age 55 and 5 years of creditable service for law enforcement officers), reach age 60 with 25 years of membership service, or complete 30 years of creditable service receive a retirement allowance of 1.81% of an average final compensation (based on the 4 consecutive years that produce the highest average) multiplied by the number of years of creditable service. Employees may retire with reduced benefits if they reach age 50 with 20 years of creditable service or reach age 60 with 5 years of creditable service (age 50 with 15 years creditable service for law enforcement officers).

Benefit and contribution provisions for the Teachers' and State Employees' Retirement System are established by North Carolina General Statute 135-5 and 135-8 and may be amended only by the North Carolina General Assembly. Employer and member contributions rates are set each year by the North Carolina General Assembly based on annual actuarial valuations. For the year ended June 30, 2002, these rates were set at 1.97% of covered payroll for employers and 6% of covered payroll for members.

For the year ended June 30, 2002, the College had a total payroll of \$13,804,750.13 of which \$11,138,748.62 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were \$668,324.97 and \$219,433.35, respectively. The College made one hundred percent of its annual required contributions for the years ended June 30, 2002, 2001, and 2000, which were \$219,433.35, \$567,955.59, and \$805,490.54, respectively.

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

### **B. Deferred Compensation and Supplemental Retirement Income Plans**

IRC Section 401(k) Plan - All members of the Teachers' and State Employees' Retirement System are eligible to enroll in the Supplemental Retirement Income Plan, a defined contribution plan, created under Internal Revenue Code Section 401(k). All costs of administering the

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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plan are the responsibility of the Plan participants. There were no costs incurred by the College. The voluntary contributions by employees amounted to \$161,412.00 for the year ended June 30, 2002.

IRC Section 403(b) and 403(b)(7) Plans - Eligible College employees can participate in tax sheltered annuity plans created under Internal Revenue Code Sections 403(b) and 403(b)(7). The employee's eligible contributions, made through salary reduction agreements, are exempt from federal and State income taxes until the annuity is received or the contributions are withdrawn. These plans are exclusively for employees of colleges and certain charitable and other non-profit institutions. All costs of administering and funding these plans are the responsibility of the Plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to \$125,526.33 for the year ended June 30, 2002.

### NOTE 11 - OTHER POSTEMPLOYMENT BENEFITS

- A. Health Care for Long-Term Disability Beneficiaries and Retirees -** The College participates in state administered programs which provide post employment health insurance to eligible former employees. Eligible former employees include long-term disability beneficiaries of the Disability Income Plan of North Carolina and retirees of the Teachers' and State Employees' Retirement System. These benefits were established by Chapter 135, Article 3, Part 3, of the General Statutes and may be amended only by the North Carolina General Assembly. Funding for the health care benefit for long-term disability beneficiaries and retirees is financed on a pay-as-you-go basis. The College contributed 2.35% of the covered payroll under the Teachers' and State Employees' Retirement System for these health care benefits. For the fiscal year ended June 30, 2002, the College's total contribution to the Plan was \$261,760.60. The College assumes no liability for retiree health care benefits provided by the programs other than its required contribution. Additional detailed information about these programs can be located in the State of North Carolina's *Comprehensive Annual Financial Report*.
- B. Long-Term Disability -** The College participates in the Disability Income Plan of North Carolina (DIPNC). Established by Chapter 135, Article 6, of the General Statutes, DIPNC provides short-term and long-term disability benefits to eligible members of the Teachers' and State Employees' Retirement System. Long-term disability income benefits are advance funded on an actuarially determined basis using the one-year term cost method. The College contributes .52% of covered payroll under the Teachers' and State Employees' Retirement System and

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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the Optional Retirement Program to the DIPNC. For the fiscal year ended June 30, 2002, the College's total contribution to the DIPNC was \$57,921.50. The College assumes no liability for long-term disability benefits under the plan other than its contribution. Additional detailed information about the DIPNC is disclosed in the State of North Carolina's *Comprehensive Annual Financial Report*.

### NOTE 12 - RISK MANAGEMENT

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

Tort claims of up to \$500,000 are self-insured under the authority of the State Tort Claims Act. In addition, the State provides excess public officers' and employees' liability insurance up to \$11,000,000 via contract with a private insurance company. The premium, based on a composite rate, is paid by the North Carolina Community College System Office directly to the private insurer. Fire and other property losses are covered by contracts with private insurance companies. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

State-owned vehicles used for instructional purposes are covered by liability insurance handled by the State Department of Insurance. Liability insurance for other college-owned vehicles are covered by contracts with private insurance companies.

The College is protected for losses from employee dishonesty and computer fraud for employees paid in whole or in part from State funds. The blanket honesty bond is with a private insurance company and is handled by the North Carolina Department of Insurance with coverage of \$5,000,000 per occurrence and a \$50,000 deductible. The College also has private insurance coverage for losses from employee dishonesty, forgery or alteration, and theft, disappearance and destruction with no deductibles for employees paid from County and Institutional Funds.

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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a third party contractor. Effective for the October 1, 2001 through September 30, 2002 year, the Plan no longer offers health coverage through HMO plans.

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

Term life insurance of \$25,000 to \$50,000 is provided to eligible workers. This self-insured death benefit program is administered by the State Treasurer's Office and funded via employer contributions.

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

### NOTE 13 - COMMITMENTS AND CONTINGENCIES

**A. Commitments** - The College has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. There were no outstanding commitments on construction contracts at June 30, 2002. There were \$200,573.26 of outstanding commitments on other purchases at June 30, 2002.

**B. Community College General Obligation Bonds** - The 1999-2000 Session of the General Assembly of North Carolina authorized the issuance of six hundred million dollars of general obligation bonds of the State, as subsequently approved by a vote of qualified voters of the State, to provide funds for capital improvements for the North Carolina Community College System. The funds authorized are to be used solely to construct new buildings and to renovate and modernize existing buildings on the North Carolina Community College System campuses. The bond legislation specifies the amount of bond funding for each College campus as well as the intended amount for new construction and repair and replacement. The legislation further provides that the State Board of Community Colleges shall be responsible for the approval of projects in accordance with provisions of the legislation. The bonds are authorized to be issued over a six-year period beginning in 2001 at a level not to exceed amounts provided in the legislation. Using a cash flow financing approach, The Community College System's Office (CCSO), establishes annual amounts not to exceed for each approved project. The amounts not to exceed are subject to change due to actual cash availability

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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and needs during the year. Subsequent to the bond sales and the availability of bond proceeds, CCSO notifies the Office of State Budget, and Management (OSBM) of the amount not to exceed for the total of the approved projects. Within this amount, based on an official request of cash needs from the State Board of Community Colleges, OSBM authorizes allotments. These allotments are then recorded to specific community college allotment accounts by the CCSO. The College records the allotments as revenue on the accompanying financial statements. The College's remaining authorization \$15,379,992.00 is contingent on future bond sales and CCSO allotment approval. Because of uncertainty and time restrictions the remaining authorization is not recorded as an asset or revenue on the accompanying financial statements.

### **NOTE 14 - DURHAM TECHNICAL COMMUNITY COLLEGE FOUNDATION, INC.**

The Durham Technical Community College Foundation, Inc. is a separately incorporated non-profit foundation associated with the College. This organization serves as the primary fundraising arm of the College through which individuals, corporations, and other organizations support College programs by providing scholarships, fellowships, faculty salary supplements, and unrestricted funds to specific departments and the College's overall academic environment. The College's financial statements do not include the assets, liabilities, net assets, or operational transactions of the Foundation, except for the distributions made and benefits provided by the Foundation. The distributions received and/or benefits provided approximated \$127,720.00 for the year ended June 30, 2002.

### **NOTE 15 - ACCOUNTING CHANGES**

Effective July 1, 2001, the College implemented 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 financial statement presentation required by these Statements is a single-column enterprise activity rather than the fund-group perspective previously reported. Significant accounting changes in order to comply with the new requirements include adopting depreciation on capital assets, reporting revenues net of discounts and allowances, eliminating inter-fund activities, classifying activities as operating or nonoperating, classifying assets and liabilities as current or noncurrent, and prorating summer school activities to periods earned.

## NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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In addition, the College implemented GASB Statement No. 38, *Certain Financial Statement Note Disclosures*. Changes in existing disclosures include more detailed information on debt service requirements, obligations under leases, and short-term debt. New disclosures include variable debt interest information and the major components of receivable and payable balances.

### NOTE 16 - NET ASSET RESTATEMENT

As referred to in Note 15, the College implemented 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*

July 1, 2001 Fund Equity as previously reported	\$ 26,013,948.13
Implementation of GASB 34/35	<u>(9,286,156.82)</u>
July 1, 2001 Net Assets as Restated	<u>\$ 16,727,791.31</u>

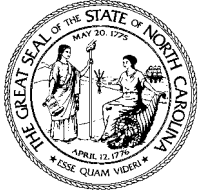


**Durham Technical Community College  
Schedule of General Obligation Bond Project Authorizations,  
Budgets and Expenditures  
For Project-to-Date as of June 30, 2002**

**Schedule 1**

<b>Capital Improvement Projects</b>	<b>Projected Start Date</b>	<b>General Obligation Bonds Authorized</b>	<b>Other Sources</b>	<b>Total Project Budget</b>	<b>Amount Expended</b>	<b>Percent Completed</b>	<b>Expected Completion Date</b>
<b><i>Projects Approved by the State Board</i></b>							
Collins Building Renovation - CP # 1170	Nov 2001	2,000,000.00		2,000,000.00	21,689.46	1.08%	Jan 2004
Student Services/Classroom Building - CP # 1199	Oct 2002	6,300,000.00	3,000,000.00	9,300,000.00			May 2005
<b><i>Projects Pending Approval by the State Board</i></b>							
Satellite Campus	Jul 2003	4,000,000.00		4,000,000.00			
Multipurpose Classroom/Physical Training Facility	Jul 2004	1,000,000.00		1,000,000.00			
White Building Renovation	May 2003	2,127,992.00		2,127,992.00			
<b>Total All Projects</b>		<b>\$ 15,427,992.00</b>	<b>\$ 3,000,000.00</b>	<b>\$ 18,427,992.00</b>	<b>\$ 21,689.46</b>		

Note: The 1999-2000 Session of the General Assembly of North Carolina authorized the issuance of six hundred million dollars of general obligation bonds of the State, as subsequently approved by a vote of qualified voters of the State, to provide funds for capital improvements for the North Carolina Community College System. The projects listed on this schedule are those funded or to be funded by bond proceeds from the general obligation bonds authorized by Senate Bill 912.



Ralph Campbell, Jr.  
State Auditor

STATE OF NORTH CAROLINA  
**Office of the State Auditor**

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

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Board of Trustees  
Durham Technical Community College  
Durham, North Carolina

We have audited the financial statements of Durham Technical Community College, a component unit of the State of North Carolina, as of and for the year ended June 30, 2002, and have issued our report thereon dated April 17, 2003.

As discussed in Note 15 to the financial statements, the College implemented Governmental Accounting Standards Board 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* and Statement No. 38, *Certain Financial Statement Note Disclosures* during the year ended June 30, 2002.

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.

Compliance

As part of obtaining reasonable assurance about whether the College's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under *Government Auditing Standards*.

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

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Internal Control Over Financial Reporting

In planning and performing our audit, we considered the College's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Board of Trustees and the State Board of Community Colleges, management and staff of the College, the Governor, the State Controller, the General Assembly, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.



Ralph Campbell, Jr.  
State Auditor

April 17, 2003

## **DISTRIBUTION OF AUDIT REPORT**

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In accordance with General Statutes 147-64.5 and 147-64.6(c)(14), copies of this report have been distributed to the public officials listed below. Additional copies are provided to other legislators, state officials, the press, and the general public upon request.

### **EXECUTIVE BRANCH**

The Honorable Michael F. Easley	Governor of North Carolina
The Honorable Beverly M. Perdue	Lieutenant Governor of North Carolina
The Honorable Richard H. Moore	State Treasurer
The Honorable Roy A. Cooper, III	Attorney General
Mr. David T. McCoy	State Budget Officer
Mr. Robert L. Powell	State Controller
Mr. H. Martin Lancaster	President, North Carolina Community College System
Dr. Phail Wynn, Jr.	President, Durham Technical Community College
Cynthia Carter	Business Manager/Chief Financial Officer Durham Technical Community College
Jessie B. Anglin	Chairman, Board of Trustees Durham Technical Community College

### **LEGISLATIVE BRANCH**

Appointees to the Joint Legislative Commission on Governmental Operations

Senator Marc Basnight, Co-Chairman	Representative James B. Black, Co-Chairman
Senator Charlie Albertson	Representative Richard T. Morgan, Co-Chairman
Senator Kever M. Clark	Representative Martha B. Alexander
Senator Daniel G. Clodfelter	Representative E. Nelson Cole
Senator Walter H. Dalton	Representative James W. Crawford, Jr.
Senator James Forrester	Representative William T. Culpepper, III
Senator Linda Garrou	Representative W. Pete Cunningham
Senator Wilbur P. Gulley	Representative Beverly M. Earle
Senator Kay R. Hagan	Representative Stanley H. Fox
Senator David W. Hoyle	Representative R. Phillip Haire
Senator Ellie Kinnaird	Representative Dewey L. Hill
Senator Jeanne H. Lucas	Representative Maggie Jeffus
Senator William N. Martin	Representative Edd Nye
Senator Stephen M. Metcalf	Representative William C. Owens, Jr.
Senator Eric M. Reeves	Representative Drew P. Saunders
Senator Larry Shaw	Representative Wilma M. Sherrill
Senator R. C. Soles, Jr.	Representative Joe P. Tolson
Senator David F. Weinstein	Representative Thomas E. Wright
	Representative Douglas Y. Yongue

### **Other Legislative Officials**

Senator Anthony E. Rand	Majority Leader of the N. C. Senate
Senator Patrick J. Ballantine	Minority Leader of the N. C. Senate
Representative N. Leo Daughtry	N. C. House of Representatives
Mr. James D. Johnson	Director, Fiscal Research Division

May 19, 2003

## ORDERING INFORMATION

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Copies of this report may be obtained by contacting the:

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