



# STATE OF NORTH CAROLINA

## FINANCIAL STATEMENT AUDIT REPORT OF DURHAM TECHNICAL COMMUNITY COLLEGE

DURHAM, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2004

OFFICE OF THE STATE AUDITOR

LESLIE W. MERRITT, JR., CPA, CFP

STATE AUDITOR

**FINANCIAL STATEMENT AUDIT REPORT OF**

**DURHAM TECHNICAL COMMUNITY COLLEGE**

**DURHAM, NORTH CAROLINA**

**FOR THE YEAR ENDED JUNE 30, 2004**

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Leslie W. Merritt, Jr., CPA, CFP  
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, 2004. Our audit was made by authority of Article 5A of Chapter 147 of the *North Carolina General Statutes*.

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 significant deficiencies 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 Internal Control over Financial Reporting and on Compliance and Other Matters.

3. **Objective** – To present significant deficiencies, if any, in internal control over compliance that could adversely affect the College's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants and present instances of noncompliance with federal laws, regulations, contracts or grants, the effects of which have a material effect in relation to a type of compliance requirement or audit objective identified in *OMB Circular A-133 Compliance Supplement*.

**Results** - The following instance of noncompliance was noted as a result of our audit:

### **Finding**

Salaries Charged to Vocational Education (CFDA 84.048) are not Supported by Time Records.

These matters are described in the Audit Finding and Recommendation section of this report.

*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.



Leslie W. Merritt, Jr., CPA, CFP  
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 financial statements of Durham 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, 2004, which collectively comprise Durham Technical Community College's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the College's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Durham Technical Community College Foundation, Inc., which represents 100% of the College's discretely presented component units. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component unit, is based on the report 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 of material misstatement. The financial statements of Durham Technical Community College Foundation, Inc. were not audited in accordance with *Government Auditing Standards*. 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 and the report of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of Durham Technical Community College and its component unit, as of June 30, 2004, and the respective changes in its financial position and its cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

## INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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As discussed in Note 14 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, during the year ended June 30, 2004.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 9, 2005, on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of this report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis, as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the 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.



Leslie W. Merritt, Jr., CPA, CFP  
State Auditor

March 9, 2005

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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### Introduction

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. This overview includes comparative financial analysis with discussion of significant changes from the prior year, as well as a discussion of currently known facts, decisions, and conditions. This information is provided by the College's financial management in conjunction with the issuance of the accompanying financial statements.

### Using the Financial Statements

The financial statements of the College provide information regarding its financial position and results of operations as of the report date. The *Statement of Net Assets* evaluates the College's financial position; and the *Statement of Revenues, Expenses, and Changes in Net Assets* evaluates the College's results of operations. These two financial statements are inter-related in that the accounting transactions associated with the College's activities are reflected on both statements. One side of the transaction records the effect on assets and liabilities, while the other side records the effect on revenue and expenses. These statements are articulated by agreeing the end net assets balance reported on both statements.

The financial statements also include a *Statement of Cash Flows*. This statement is used to identify the College's sources and uses of cash for operating activities, noncapital financing activities, capital financing activities, and investing activities. This statement articulates with the other statements by agreeing the ending cash reported to the *Statement of Net Assets* and the net operating loss reported to the *Statement of Revenues, Expenses, and Changes in Net Assets*.

The three statements described above are the basic financial statements required by the Governmental Accounting Standards Board (GASB) accounting principles. In accordance with the GASB, the financial statements are presented on the College as a whole and are similar to that required of a business enterprise. The financial statement balances reported are presented in a classified format to aid the reader in understanding the nature of the financial statement balance.

The *Notes to the Financial Statements* should be read in conjunction with the financial statements. The notes provide information regarding the significant accounting policies 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 postemployment 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, these notes provide information to better understand details, risk, and uncertainty associated with amounts reported in the financial statements.



## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

### Statement of Net Assets

The *Statement of Net Assets* provides information regarding the College's assets, liabilities, and net assets as of June 30, 2004. The assets and liability balances are classified as either current or noncurrent. Assets classified as current are those that are available to pay for current liabilities or as current year expenditures. Liabilities classified as current are those that are due or payable in the next fiscal year. The net assets balances are classified as either invested in capital assets, restricted or unrestricted. In addition, restricted net assets are classified as expendable. Overall, the *Statement of Net Assets* provides information to evaluate the financial strength of the College and its ability to meet current and long-term obligations.

Following is a comparative analysis of the condensed balances reported in the *Statement of Net Assets* as of June 30, 2004 and 2003.

### Condensed Statement of Net Assets

	<u>2004</u>	<u>2003</u>	<u>Change</u>	<u>Percent Change</u>
<b>Assets</b>				
Current Assets	\$ 1,797,239.09	\$ 1,310,941.81	\$ 486,297.28	37.10%
Capital Assets, Net	17,650,415.72	16,060,247.47	1,590,168.25	9.90%
Other Noncurrent Assets	<u>3,854,669.42</u>	<u>518,096.38</u>	<u>3,336,573.04</u>	644.01%
Total Assets	<u>23,302,324.23</u>	<u>17,889,285.66</u>	<u>5,413,038.57</u>	30.26%
<b>Liabilities</b>				
Current Liabilities	1,125,223.33	421,871.63	703,351.70	166.72%
Noncurrent Liabilities	<u>1,252,983.62</u>	<u>947,550.79</u>	<u>305,432.83</u>	32.23%
Total Liabilities	<u>2,378,206.95</u>	<u>1,369,422.42</u>	<u>1,008,784.53</u>	73.66%
<b>Net Assets</b>				
Invested in Capital Assets	17,650,415.72	16,060,247.47	1,590,168.25	9.90%
Restricted for:				
Expendable	4,045,555.39	552,704.88	3,492,850.51	631.96%
Unrestricted	<u>(771,853.83)</u>	<u>(93,089.11)</u>	<u>(678,764.72)</u>	729.16%
Total Net Assets	<u>\$ 20,924,117.28</u>	<u>\$ 16,519,863.24</u>	<u>\$ 4,404,254.04</u>	26.66%

Some highlights of the information presented on the Statement of Net Assets are as follows:

- Assets totaled \$23,302,324.23, an increase of \$5,413,038.57 or 30.26% more than the previous year. The overall increase was attributable to an increase in net receivables, an increase in due from State of NC component units, an increase in due from primary government, and an increase in capital assets.
- Receivables, net, increased because the College expended funds on construction projects funded by Durham County that were not reimbursed by the county until after June 30, 2004.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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- The amount shown as due from State of North Carolina component units is a grant receivable from the Golden Leaf Foundation for \$140,000 and is for start-up costs for a new curriculum program, Industrial Systems.
- Due from primary government increased since the amount recognized as revenue from the Higher Education Improvement Bond funds was greater than the amount expended during FY 03-04.
- The increase in capital assets is primarily attributable to the capitalization of expenditures for two capital improvement projects, the Addition/Renovation of the Collins Building and the new Student Services/Classroom Building, to construction in progress.
- Liabilities totaled \$2,378,206.95, an increase of \$1,008,784.53 or 73.66% over the previous year. This is primarily attributable to an increase in compensated absences of \$400,241.37 and having construction payables in the amount of \$500,949.40.
- Current liabilities consist primarily of accounts payables and accrued liabilities. Noncurrent liabilities consist primarily of long-term liabilities. The only long-term liability that the College has is compensated absences.
- The large increase in compensated absences is primarily due to the mandate by the General Assembly that all full-time employees receive an additional 10 days of bonus leave effective July 1, 2003.
- Net assets totaled \$20,924,117.28, an increase of \$4,404,254.04 or 26.66% over the previous year. This increase is due to increases in invested in capital assets and restricted expendable capital projects.
- Invested in capital assets increased primarily due to the capitalization of construction in progress.
- Restricted expendable capital projects increased because the College recognized State bond funds and county capital appropriation as revenue.
- Unrestricted net assets decreased since accrued expenditures were greater this year due to the recognition of the bonus leave days as an expense and having a larger salary payable as of June 30, 2004, than the previous year.

The major change in the College's financial position is that net assets increased by 26.66% over the previous year. Net assets increased because of the appropriations received from the State and the county for capital improvement projects. Otherwise, the College's financial position is relatively unchanged. Current assets are more than sufficient to cover current liabilities with a ratio of 1.60 as compared to 3.11 in the prior year. The College's total assets excluding capital assets, net of depreciation, are more than sufficient to cover total liabilities with a ratio of 2.38 as compared to 1.34 in the prior year. The College's total assets are significantly more than the College's liabilities with a ratio of 9.80 as compared to 13.06 in the prior year.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

### Statement of Revenues, Expenses, and Changes in Net Assets

The *Statement of Revenues, Expenses, and Changes in Net Assets* provides information regarding the College's activities for the year ending June 30, 2004. The activity balances are classified as operating, nonoperating, or other. Activities classified as operating include all revenues of the College except those considered nonoperating, or those associated with funds received to enhance capital assets and all expenses. Activities classified as nonoperating include State aid, county appropriation, noncapital gifts and grants revenue, and investment income. Activities classified as other include capital gifts or grants from various sources. Overall, the *Statement of Revenues, Expenses, and Changes in Net Assets* provides information to evaluate the College's management of operations and maintenance of financial strength.

Following is a comparative analysis of the condensed balances reported on the *Statement of Revenues, Expenses, and Changes in Net Assets* for the fiscal years June 30, 2004, and 2003.

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

	<u>2004</u>	<u>2003</u>	<u>Change</u>	<u>Percent Change</u>
Operating Revenues	\$ 8,298,663.00	\$ 7,044,437.68	\$ 1,254,225.32	17.80 %
Operating Expenses	<u>(26,917,605.33)</u>	<u>(24,764,451.62)</u>	<u>(2,153,153.71)</u>	8.69 %
Operating Loss	(18,618,942.33)	(17,720,013.94)	(898,928.39)	5.07 %
Nonoperating Revenues	<u>17,109,380.45</u>	<u>16,123,645.87</u>	<u>985,734.58</u>	6.11 %
Loss Before Other Revenues	(1,509,561.88)	(1,596,368.07)	86,806.19	(5.44) %
Other Revenues	<u>5,913,815.92</u>	<u>1,002,702.74</u>	<u>4,911,113.18</u>	489.79 %
Increase/Decrease in Net Assets	4,404,254.04	(593,665.33)	4,997,919.37	(841.87) %
Net Assets, July 1	<u>16,519,863.24</u>	<u>17,113,528.57</u>	<u>(593,665.33)</u>	(3.47) %
Net Assets, June 30	<u><u>\$ 20,924,117.28</u></u>	<u><u>\$ 16,519,863.24</u></u>	<u><u>\$ 4,404,254.04</u></u>	26.66 %

The *Statement of Revenues, Expenses, and Changes in Net Assets* reflects an increase of \$4,404,254.04 in net assets at the end of the year. Some highlights of the information presented on the *Statement of Revenues, Expenses, and Changes in Net Assets* are as follows:

- The College shows an operating loss of \$18,618,942.33, an increase of 5.07% over the previous year. An operating loss is an expected outcome for a public supported educational institution and is the result of State aid reported as nonoperating revenue and expenses associated with nonoperating and capital grants and gifts reported as operating expenses.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

- Operating revenues increased by \$1,254,225.32 (17.80%) whereas operating expenses increased by \$2,153,153.71 (8.69%) for a combined net increase in operating loss of \$898,928.39 (5.07%) over the previous year.
- Nonoperating revenues increased by \$985,734.58 (6.11%), primarily due to an increase in State aid.
- Other revenues increased by \$4,911,113.18 (489.79%), primarily due to the additional appropriation of county funds for capital construction projects and the additional State bond funds appropriated.

Operating Revenues	FY 2003-2004	FY 2002-2003	Change	Percent Change
Student Tuition and Fees, Net	\$ 3,733,677.98	\$ 3,344,222.21	\$ 389,455.77	11.65%
Federal Grants and Contracts	4,129,261.99	3,476,321.38	652,940.61	18.78%
Other Operating Revenues	435,723.03	223,894.09	211,828.94	94.61%
<b>Total Operating Revenues</b>	<b>\$ 8,298,663.00</b>	<b>\$ 7,044,437.68</b>	<b>\$ 1,254,225.32</b>	<b>17.80%</b>

The main sources of operating revenues are student tuition and fees (44.99%) and federal grants and contracts (49.76%). Student tuition and fees revenues increased by 11.65% due to an increase in the number of students and the increase in State tuition from \$34.25 per credit hour to \$35.50 per credit hour for in-State students and from \$190.75 to \$197.00 per credit hour for out-of-State students. The increase in federal grants and contracts is due to an increase in the number of students receiving Pell grants.

### Nonoperating and Other Revenues

	FY 2003-2004	FY 2002-2003	Change	Percent Change
State Aid	\$ 13,430,590.62	\$ 12,440,985.96	\$ 989,604.66	7.95 %
County Appropriations	2,983,716.00	2,971,154.00	12,562.00	0.42 %
Other Nonoperating Revenues	695,073.83	711,505.91	(16,432.08)	(2.31) %
State Capital Aid	5,339,329.74	689,850.74	4,649,479.00	673.98 %
County Capital Appropriations	553,810.83	312,852.00	240,958.83	77.02 %
Capital Grants	20,675.35		20,675.35	100.00 %
<b>Total Nonoperating and Other Revenues</b>	<b>\$ 23,023,196.37</b>	<b>\$ 17,126,348.61</b>	<b>\$ 5,896,847.76</b>	<b>34.43 %</b>

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Nonoperating and other revenues increased by 34.43%. The increase was primarily due to the large increases in State aid and State capital aid. The College recognized \$4,684,702 as revenue from the 2001 Higher Education Bonds. State aid increased by \$989,604.66 or 7.95% due to increased enrollment during FY 02-03.

### Operating Expenses

	<u>FY 2003-2004</u>	<u>FY 2002-2003</u>	<u>Change</u>	<u>Percent Change</u>
Salaries and Benefits	\$ 18,262,764.25	\$ 16,832,983.60	\$ 1,429,780.65	8.49 %
Supplies and Materials	1,347,132.51	1,903,041.56	(555,909.05)	(29.21) %
Services	2,999,487.40	2,330,661.93	668,825.47	28.70 %
Scholarships and Fellowships	3,019,271.33	2,349,643.40	669,627.93	28.50 %
Other Operating Expenses	<u>1,288,949.84</u>	<u>1,348,121.13</u>	<u>(59,171.29)</u>	(4.39) %
Total Operating Expenses	<u>\$ 26,917,605.33</u>	<u>\$ 24,764,451.62</u>	<u>\$ 2,153,153.71</u>	8.69 %

Salaries and benefits account for 67.85% of the total operating expenses and increased by 8.49% over FY 02-03. This increase is due to the effects of contractual increases for faculty and staff salaries and hiring additional faculty and staff due to enrollment growth.

The remaining operating expenses account for 32.15% of total operating expenses. Those percentages are: scholarships (11.22%), services (11.14%), supplies and materials (5.00%), and other (4.79%). Scholarships increased by 28.5% due to increased Pell grant awards. Services increased by 28.70% due to an increase in New and Expanding Industry contracts and to the increased cost of housekeeping, security, and landscaping services. Supplies and materials decreased by 29.21% as the College expended more funds for capital projects and for capitalized equipment instead of minor equipment and supplies.

### Statement of Cash Flows

The *Statement of Cash Flows* provides information regarding the College's sources and uses of cash funds. The sources and uses of cash are classified as operating, noncapital financing, capital financing, and investing activities.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Following is a comparative analysis of the condensed balances reported in the *Statement of Cash Flows* for the fiscal years ended June 30, 2004, and 2003.

	<u>2004</u>	<u>2003</u>	<u>Percent Change</u>
<b>Operating Activities</b>			
Sources	\$ 8,353,364.23	\$ 7,158,667.33	16.69 %
Used	<u>(25,784,619.31)</u>	<u>(23,535,290.15)</u>	9.56 %
Cash Used by Operating Activities	<u>(17,431,255.08)</u>	<u>(16,376,622.82)</u>	6.44 %
<b>Noncapital Financing</b>			
Sources	16,963,289.07	16,116,569.13	5.25 %
<b>Capital and Related Financing Activities</b>			
Sources	2,001,955.67	1,036,757.82	93.10 %
Used	<u>(1,824,116.14)</u>	<u>(554,112.93)</u>	229.20 %
Cash Provided by Capital and Related Financing Activities	<u>177,839.53</u>	<u>482,644.89</u>	63.15 %
<b>Investing Activities</b>			
Sources	4,116.38	7,076.74	(41.83) %
Used	<u>(82.22)</u>	<u>(119.65)</u>	(31.28) %
Cash Provided by Investing Activities	<u>4,034.16</u>	<u>6,957.09</u>	(42.01) %
<b>Net Increase (Decrease) in Cash</b>	<u>(286,092.32)</u>	<u>229,548.29</u>	(224.63) %
<b>Cash-Beginning of Year</b>	<u>1,453,641.43</u>	<u>1,224,093.14</u>	18.75 %
<b>Cash-End of Year</b>	<u>\$ 1,167,549.11</u>	<u>\$ 1,453,641.43</u>	(19.68) %

Cash used by operating activities totaled \$17,431,255.08, an increase in cash used of \$1,054,632.26 or 6.44% over the previous year. This is attributable to increased operating expenses due to the increase in students.

Cash provided by noncapital financing activities totaled \$16,963,289.07, an increase of \$846,719.94 or 5.25% over the previous year. This is attributable to an increase in State aid.

Cash provided by capital and related financing activities totaled \$177,839.53, a decrease of \$304,805.36 or 63.15% under the previous year. This is attributable to expending funds previously held for capital projects and expending funds not yet reimbursed from the county for capital construction projects.

Cash provided by investing activities totaled \$4,034.16, a decrease of \$2,922.93 or 42.01% under the previous year. This is attributable to having less cash available for investment purposes and to receiving lower interest rates on the funds invested.

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

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### **Capital Assets**

Due to the passage of the Higher Education Improvement Bond Referendum by North Carolina voters on November 7, 2000, the College has undertaken a number of construction projects to improve and modernize its facilities. The referendum provided \$15,427,992 in State funds to the College beginning in fiscal year 2001. As of June 30, 2004, the State allotted \$4,843,772.00 to the College and the College's remaining authorization of \$10,584,220.00 is contingent on future bond sales and allotment approvals.

The College has undertaken several other capital construction projects due to the passage of a Durham County Bond Referendum. The referendum will provide \$8,200,000.00 in county funds to the College beginning in FY 03-04.

The College expended \$1,920,909.95 during the year for the construction of new buildings/infrastructure and for the renovation or repair of its facilities. Of this amount, \$1,424,367.30 was or will be provided from the Higher Education Improvement Bond Referendum. The Durham County Bond Referendum will provide \$150,955.55 and \$345,587.10 was provided from the College's yearly county capital appropriation.

### **Economic Factors That Will Affect the Future**

Management is not aware of any currently known facts, decisions, or conditions that are expected to have a significant effect on the College's financial position or results of operations during fiscal year 2004-05 beyond those unknown variations having a global effect on virtually all types of business operations. We anticipate the current fiscal year will be very similar to the 2003-04 fiscal year and, accordingly, will maintain a close watch over resources so that the College will be able to react to unknown and external issues.

The major source of funding for the College is funding from the State of North Carolina and the level of this 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. State aid and State capital aid constituted approximately 60 percent of the College's total revenues for fiscal year 2003-04.

Curriculum and continuing education enrollment has continued to increase and the College expects that trend to continue. As the College's enrollment grows, the need for new facilities grows as we try to accommodate those students. As a result of the Higher Education Improvement Bond program and the Durham County Bond Referendum, the College has the resources needed for new construction and facilities improvement in future years.

**Durham Technical Community College**  
**Statement of Net Assets**  
**June 30, 2004**

**Exhibit A-1**

**ASSETS**

Current Assets:

Cash and Cash Equivalents	\$ 816,644.07
Restricted Cash and Cash Equivalents	350,905.04
Restricted Short-Term Investments	9,286.00
Receivables, Net (Note 3)	404,585.64
Due from State of North Carolina Component Units	140,000.00
Inventories	75,818.34
<b>Total Current Assets</b>	<b>1,797,239.09</b>

Noncurrent Assets:

Restricted Due from Primary Government	3,854,669.42
Capital Assets - Nondepreciable (Note 4)	2,620,279.64
Capital Assets - Depreciable, Net (Note 4)	15,030,136.08
<b>Total Noncurrent Assets</b>	<b>21,505,085.14</b>
<b>Total Assets</b>	<b>23,302,324.23</b>

**LIABILITIES**

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 5)	873,978.75
Due to Primary Government	1,593.32
Deferred Revenue	88,770.12
Funds Held for Others	25,224.15
Long-Term Liabilities - Current Portion (Note 6)	135,656.99
<b>Total Current Liabilities</b>	<b>1,125,223.33</b>

Noncurrent Liabilities:

Funds Held for Others	29,352.17
Long-Term Liabilities (Note 6)	1,223,631.45
<b>Total Noncurrent Liabilities</b>	<b>1,252,983.62</b>
<b>Total Liabilities</b>	<b>2,378,206.95</b>

**NET ASSETS**

Invested in Capital Assets	17,650,415.72
Restricted for:	
Expendable:	
Scholarships and Fellowships	17,683.90
Loans	13,877.10
Capital Projects	3,569,447.99
Other	444,546.40
Unrestricted	(771,853.83)
<b>Total Net Assets</b>	<b>\$ 20,924,117.28</b>

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



<b><i>Durham Technical Community College</i></b>		
<b><i>Statement of Revenues, Expenses, and</i></b>		
<b><i>Changes in Net Assets</i></b>		
<b><i>For the Fiscal Year Ended June 30, 2004</i></b>		<b><i>Exhibit A-2</i></b>
<b>REVENUES</b>		
Operating Revenues:		
Student Tuition and Fees, Net (Note 8)	\$	3,733,677.98
Federal Grants and Contracts		4,129,261.99
State and Local Grants and Contracts		267,722.58
Sales and Services, Net (Note 8)		145,931.51
Other Operating Revenues		22,068.94
Total Operating Revenues		8,298,663.00
<b>EXPENSES</b>		
Operating Expenses:		
Salaries and Benefits		18,262,764.25
Supplies and Materials		1,347,132.51
Services		2,999,487.40
Scholarships and Fellowships		3,019,271.33
Utilities		554,052.55
Depreciation		734,897.29
Total Operating Expenses		26,917,605.33
Operating Loss		(18,618,942.33)
<b>NONOPERATING REVENUES</b>		
State Aid		13,430,590.62
County Appropriations		2,983,716.00
Noncapital Grants		484,382.01
Noncapital Gifts		206,575.44
Investment Income		4,116.38
Total Nonoperating Revenues		17,109,380.45
Loss Before Other Revenues		(1,509,561.88)
State Capital Aid		5,339,329.74
County Capital Appropriations		553,810.83
Capital Grants		20,675.35
Increase in Net Assets		4,404,254.04
<b>NET ASSETS</b>		
Net Assets, July 1, 2003		16,519,863.24
Net Assets, June 30, 2004	\$	20,924,117.28
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, 2004</b>		<b>Exhibit A-3</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Received from Customers		\$ 8,353,364.23
Payments to Employees and Fringe Benefits		(17,628,178.60)
Payments to Vendors and Suppliers		(5,100,389.97)
Payments for Scholarships and Fellowships		(3,035,115.46)
Other Payments		(20,935.28)
Net Cash Used by Operating Activities		(17,431,255.08)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
State Aid Received		13,430,590.62
County Appropriations		2,983,716.00
Noncapital Grants Received		342,407.01
Noncapital Gifts Received		206,575.44
Cash Provided by Noncapital Financing Activities		16,963,289.07
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
State Capital Aid Received		1,567,422.32
County Capital Appropriations		413,858.00
Capital Grants Received		20,675.35
Acquisition and Construction of Capital Assets		(1,824,116.14)
Net Cash Provided by Capital and Related Financing Activities		177,839.53
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Investment Income		4,116.38
Purchase of Investments and Related Fees		(82.22)
Net Cash Provided by Investing Activities		4,034.16
Net Decrease in Cash and Cash Equivalents		(286,092.32)
Cash and Cash Equivalents, July 1, 2003		1,453,641.43
Cash and Cash Equivalents, June 30, 2004		\$ 1,167,549.11
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES</b>		
Operating Loss		\$ (18,618,942.33)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense		734,897.29
Changes in Assets and Liabilities:		
Receivables, Net		(49,913.02)
Inventories		(5,532.15)
Accounts Payable and Accrued Liabilities		41,463.67
Due to Primary Government		(1,304.75)
Deferred Revenue		88,770.12
Funds Held for Others		(20,935.28)
Compensated Absences		400,241.37
Net Cash Used by Operating Activities		\$ (17,431,255.08)

<b><i>Durham Technical Community College</i></b>		
<b><i>Statement of Cash Flows</i></b>		<b><i>Exhibit A-3</i></b>
<b><i>For the Fiscal Year Ended June 30, 2004</i></b>		<b><i>Page 2</i></b>
<b>RECONCILIATION OF CASH AND CASH EQUIVALENTS</b>		
Current Assets:		
	Cash and Cash Equivalents	\$ 816,644.07
	Restricted Cash and Cash Equivalents	350,905.04
	Total Cash and Cash Equivalents - June 30, 2004	<u>\$ 1,167,549.11</u>
<b>NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES</b>		
	Assets Acquired through Assumption of a Liability	\$ 500,949.40
	Increase in Receivables Related to Nonoperating Income	4,053,435.25
	Capital Asset Write-Offs	79,343.01
The accompanying notes to the financial statements are an integral part of this statement.		

<b><i>Durham Technical Community College Foundation, Inc.</i></b>			
<b><i>Statement of Financial Position</i></b>			
<b><i>June 30, 2004</i></b>			<b><i>Exhibit B-1</i></b>
<b>ASSETS</b>			
Cash and Cash Equivalents			\$ 1,366,492.00
Investments			778,443.00
Receivables, Net			1,649.00
Pledges Receivable/Promises			279,011.00
Total Assets			<u>2,425,595.00</u>
<b>NET ASSETS</b>			
Unrestricted			80,262.00
Temporarily Restricted			2,345,333.00
Total Net Assets			<u>\$ 2,425,595.00</u>
See Note 1 in the Notes to the Financial Statements			

**Durham Technical Community College Foundation, Inc.****Statement of Activities and Changes in Net Assets****For the Fiscal Year Ended June 30, 2004****Exhibit B-2****CHANGES IN UNRESTRICTED NET ASSETS**

Revenues:		
Contributions		\$ 56,717.00
Income on Long-Term Investments		709.00
Total Unrestricted Revenues		57,426.00
Net Assets Released from Restrictions:		
Satisfaction of Program Restrictions		137,873.00
Total Unrestricted Revenues and Other Support		195,299.00
Expenses:		
Scholarships		97,168.00
Technology Capital Campaign		7,742.00
Grants		60,792.00
Management and General		23,713.00
Total Expenses		189,415.00
Increase in Unrestricted Net Assets		5,884.00

**CHANGES IN TEMPORARILY RESTRICTED NET ASSETS**

Contributions		647,798.00
Income on Long-Term Investments		17,315.00
Net Unrealized and Realized Gains on Long-Term Investments		53,255.00
Net Assets Released from Restrictions:		
Satisfaction of Program Restrictions		(137,873.00)
Increase in Temporarily Restricted Net Assets		580,495.00
Increase in Net Assets		586,379.00
Net Assets at Beginning of Year		1,839,216.00
Net Assets at End of Year		\$ 2,425,595.00

See Note 1 in the Notes to the Financial Statements

**DURHAM TECHNICAL COMMUNITY COLLEGE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2004**

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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 of the College and the component unit for which the College's Board of Trustees is financially accountable. The College's component unit is discretely presented in the financial statements. The discretely presented component unit's financial data is reported in separate financial statements because of its use of different GAAP reporting models and to emphasize its legal separateness.

**Discretely Presented Component Unit** - Durham Technical Community College Foundation, Inc. is a legally separate not-for-profit 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 community, educational, and business leaders from Durham and Orange counties. 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.

Durham Technical Community College Foundation, Inc. is a private not-for-profit organization that reports its financial results under Financial Accounting Standards Board (FASB) Statements. As such, certain

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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revenue recognition criteria and presentation features are different from 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, 2004, the Foundation distributed \$162,702 to the College for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from the Durham Technical Community College Foundation, Inc. Treasurer at 1637 Lawson Street, Durham, NC 27703, or by calling (919) 686-3720.

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

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

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

- C. Basis of Accounting** - The financial statements of the College have been prepared using the economic resource measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.
- D. Cash and Cash Equivalents** – This classification 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 The North Carolina Capital Management Trust.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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Investment in the Trust is recorded at cost, which approximates market value.

- 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 valued at cost 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 more than one year. Library books are generally not considered to have a useful life of more than one year unless part of a collection and are expensed in the year of acquisition.

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

- I. Restricted Assets** – Unexpended capital contributions are classified as restricted assets because their use is limited by donor/grantor agreements. Certain other assets are classified as restricted because their use is limited by external parties or statute.
- 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 June 30th is converted to sick leave.

In addition to the vacation leave described above, compensated absences includes the accumulated unused portion of the special annual leave bonuses awarded by the College to all full-time permanent employees as of July 1, 2003. The unused portion of this leave remains available until



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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used, notwithstanding the limitation on annual leave carried forward described above.

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** – This represents the College’s total investment in capital assets.

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

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

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

**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 nonoperating revenues in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. To the extent that revenues from these programs are used to satisfy tuition, fees, and other charges, the College has recorded a scholarship discount.

**N. Revenue and Expense Recognition** – The College classifies its revenues and expenses as operating or nonoperating in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the College’s principal

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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.

- 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 and to fund construction projects, motor vehicle purchases, and maintenance of equipment. Unexpended county current appropriation and county capital appropriation do not revert and are available for future use by the College.

### 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 Investment Pool. Also, the College may establish time deposit accounts, money market

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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accounts, and certificates of deposit. At year-end, cash on hand was \$1,710.00. The carrying amount of cash on deposit was \$1,165,839.11 and the bank balance was \$1,593,625.73. 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, 2004, \$229,352.17 of the bank balance was covered by federal depository insurance, and \$1,364,273.56 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 nonguaranteed 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 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.

Investments of the College's component unit, the Durham Technical Community College Foundation, Inc., are subject to and restricted by General Statute 36B "Uniform Management of Institutional Funds Act"

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(UMIFA) and any requirements placed on them by contract or donor agreements.

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 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, 2004, 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, 2004, was \$9,286.00.

### NOTE 3 - RECEIVABLES

Receivables at June 30, 2004, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
<b>Current Receivables:</b>			
Students	\$ 259,294.12	\$ 121,101.24	\$ 138,192.88
Intergovernmental	242,530.28		242,530.28
Other	23,862.48		23,862.48
<b>Total Current Receivables</b>	<b>\$ 525,686.88</b>	<b>\$ 121,101.24</b>	<b>\$ 404,585.64</b>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 4 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2004, is presented as follows:

	Balance July 1, 2003	Adjustments	Increases	Decreases	Balance June 30, 2004
<b>Capital Assets, Nondepreciable:</b>					
Land	\$ 869,557.33	\$ 0.00	\$ 0.00	\$ 0.00	\$ 869,557.33
Construction in Progress	349,094.22	(173,694.76)	1,575,322.85		1,750,722.31
<b>Total Capital Assets, Nondepreciable</b>	<b>1,218,651.55</b>	<b>(173,694.76)</b>	<b>1,575,322.85</b>		<b>2,620,279.64</b>
<b>Capital Assets, Depreciable:</b>					
Buildings	20,010,077.05	173,694.76	345,587.10		20,529,358.91
Machinery and Equipment	3,280,096.46		404,155.59	79,343.01	3,604,909.04
General Infrastructure	382,174.09				382,174.09
<b>Total Capital Assets, Depreciable</b>	<b>23,672,347.60</b>	<b>173,694.76</b>	<b>749,742.69</b>	<b>79,343.01</b>	<b>24,516,442.04</b>
<b>Less Accumulated Depreciation:</b>					
Buildings	6,656,775.41		589,015.33		7,245,790.74
Machinery and Equipment	1,961,659.39		128,385.24	79,343.01	2,010,701.62
General Infrastructure	212,316.88		17,496.72		229,813.60
<b>Total Accumulated Depreciation</b>	<b>8,830,751.68</b>		<b>734,897.29</b>	<b>79,343.01</b>	<b>9,486,305.96</b>
<b>Total Capital Assets, Depreciable, Net</b>	<b>14,841,595.92</b>	<b>173,694.76</b>	<b>14,845.40</b>		<b>15,030,136.08</b>
<b>Capital Assets, Net</b>	<b>\$ 16,060,247.47</b>	<b>\$ 0.00</b>	<b>\$ 1,590,168.25</b>	<b>\$ 0.00</b>	<b>\$ 17,650,415.72</b>

### NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2004, were as follows:

	Amount
Accounts Payable	\$ 537,767.29
Accrued Payroll	264,673.47
Contract Retainage	51,029.00
Intergovernmental Payables	400.00
Other	20,108.99
<b>Total Accounts Payable and Accrued Liabilities</b>	<b>\$ 873,978.75</b>

### NOTE 6 - LONG-TERM LIABILITIES

A summary of changes in the long-term liabilities is presented as follows:

	Balance July 1, 2003	Additions	Reductions	Balance June 30, 2004	Current Portion
Compensated Absences	\$ 959,047.07	\$ 1,272,077.44	\$ 871,836.07	\$ 1,359,288.44	\$ 135,656.99

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 7 - OPERATING LEASE OBLIGATIONS

Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2004:

Fiscal Year	Amount
2005	\$ 60,000.00

Rental expense for all operating leases during the year was \$114,689.56.

### NOTE 8 - REVENUES

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

	Gross Revenues	Internal Sales Eliminations	Less Scholarship Discounts	Net Revenues
<b>Operating Revenues:</b>				
<b>Student Tuition and Fees</b>	\$ 4,934,951.71	\$ 0.00	\$ 1,201,273.73	\$ 3,733,677.98
<b>Sales and Services:</b>				
Sales and Services of Auxiliary Enterprises:				
Bookstore	\$ 119,776.27	\$ 0.00	\$ 33,595.08	\$ 86,181.19
Food Service	20,474.04			20,474.04
Print Shop	207,780.61	207,780.61		0.00
Other	39,276.28			39,276.28
<b>Total Sales and Services</b>	\$ 387,307.20	\$ 207,780.61	\$ 33,595.08	\$ 145,931.51

### 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	\$ 11,795,901.51	\$ 550,429.28	\$ 889,156.34	\$ 0.00	\$ 0.00	\$ 0.00	\$ 13,235,487.13
Public Service	75,059.21	684.37	19,664.46				95,408.04
Academic Support	1,601,850.62	110,740.59	59,808.97				1,772,400.18
Student Services	1,480,860.10	51,534.77	153,813.51				1,686,208.38
Institutional Support	2,602,262.99	295,257.62	630,875.24				3,528,395.85
Operations and Maintenance of Plant	655,720.80	292,071.66	1,216,116.34		554,052.55		2,717,961.35
Student Financial Aid	46,389.04		500.00	3,019,271.33			3,066,160.37
Auxiliary Enterprises	4,719.98	46,414.22	29,552.54				80,686.74
Depreciation						734,897.29	734,897.29
<b>Total Operating Expenses</b>	\$ 18,262,764.25	\$ 1,347,132.51	\$ 2,999,487.40	\$ 3,019,271.33	\$ 554,052.55	\$ 734,897.29	\$ 26,917,605.33

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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### 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 cost sharing multiple-employer defined benefit pension plan administered by the North Carolina State Treasurer.

Benefit and contribution provisions for the Teachers' and State Employees' Retirement System are established by *North Carolina General Statutes* 135-5 and 135-8 and may be amended only by the North Carolina General Assembly. Employer and member contribution rates are set each year by the North Carolina General Assembly based on annual actuarial valuations. For the year ended June 30, 2004, these rates were set at .22% of covered payroll for employers and 6% of covered payroll for members.

For the year ended June 30, 2004, the College had a total payroll of \$15,275,475.61, of which \$12,026,641.74 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were \$721,598.54 and \$26,458.61, respectively. The College made one hundred percent of its annual required contributions for the years ended June 30, 2004, 2003, and 2002, which were \$26,458.61, \$0.00, and \$219,433.35, respectively.

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

- B. 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 Plan are the responsibility of the Plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to \$176,101.00 for the year ended June 30, 2004.

IRC Section 403(b) and 403(b)(7) Plans - Eligible College employees can participate in tax sheltered annuity plans created under Internal Revenue

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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Code Sections 403(b) and 403(b)(7). The employee's eligible contributions, made through salary reduction agreements, are exempt from federal and State income taxes until the annuity is received or the contributions are withdrawn. These plans are exclusively for employees of colleges and certain charitable and other nonprofit institutions. All costs of administering and funding these plans are the responsibility of the Plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to \$138,447.23 for the year ended June 30, 2004.

### NOTE 11 - OTHER POSTEMPLOYMENT BENEFITS

#### A. Health Care for Long-Term Disability Beneficiaries and Retirees -

The College participates in State-administered programs which provide 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. 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 3.2% of the covered payroll under the Teachers' and State Employees' Retirement System for these health care benefits. For the fiscal year ended

June 30, 2004, the College's total contribution to the Plan was \$384,852.99. 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. Employer contributions are established in the Appropriations Bill by the General Assembly. The College was not required to contribute to the DIPNC for the fiscal year ended June 30, 2004. 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*.



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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### 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. Except for a reduction in the public officers' and employees' liability insurance from \$11,000,000 to \$5,000,000, 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 \$5,000,000 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 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. 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 a third-party contractor.

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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 and funded via employer contributions. There were no employer contributions required for the current fiscal year.

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

### NOTE 13 - COMMITMENTS AND CONTINGENCIES

- A. **Commitments** - The College has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were \$1,968,424.00 and on other purchases were \$146,612.40 at June 30, 2004.
- B. **Pending Litigation and Claims** – The College is a party to an EEOC charge of discrimination claim. Legal counsel reviewed the claim and believes it to have no merit. Since it is not possible to predict the ultimate outcome, no provision for any liability has been made in the financial statements. College management is of the opinion that the liability, if any, for this matter will not have a material adverse effect on the financial position of the College.
- C. **Community College General Obligation Bonds** – The 1999-2000 Session of the General Assembly of North Carolina authorized the issuance of \$600 million 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 were authorized for issuance over a six-year period beginning in 2001 at a level

## NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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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 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 of \$10,584,220.00 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 - CHANGE IN FINANCIAL ACCOUNTING AND REPORTING**

For the fiscal year ended June 30, 2004, the College implemented Governmental Accounting Standards Board Statement No. 39, *Determining Whether Certain Organizations are Component Units*. This Statement amends GASB Statement No. 14, *The Financial Reporting Entity*, to provide additional guidance to determine whether certain organizations for which the College is not financially accountable should be reported as component units based on the nature and significance of their relationship to the College.

**Durham Technical Community College**  
**Schedule of General Obligation Bond Project Authorizations,**  
**Budgets, and Expenditures**  
**For Project-to-Date as of June 30, 2004**

*Schedule 1*

	Original Projected Start Date	Revised/ Actual Start Date	General Obligation Bonds Authorized	Other Sources	Total Project Budget	Amount Expended	Percent Completed	Original Expected Completion Date	Revised/ Actual Completion Date
<b>Capital Improvement Projects</b>									
<i>Projects Approved by the State Board</i>									
Collins Building Renovation - CP #1170	Nov 2001	Nov 2001	\$ 3,446,502.00	\$ 0.00	\$ 3,446,502.00	\$ 1,260,710.63	36.58%	Nov 2004	Feb 2005
Student Services/Classroom Building - CP #1199	Apr 2003	Apr 2003	6,300,000.00	3,000,000.00	9,300,000.00	490,011.68	5.27%	Nov 2005	Nov 2005
White Building Renovation	Jul 2004	Jan 2005	1,152,672.00		1,152,672.00			Apr 2004	Apr 2007
<i>Projects Pending Approval by the State Board</i>									
Satellite Campus	Feb 2004	Jan 2005	4,000,000.00		4,000,000.00			May 2004	Oct 2006
Multipurpose Classroom/Physical Training Facility	Jul 2004	Jul 2005	528,818.00		528,818.00			Nov 2006	Nov 2007
<b>Total All Projects</b>			<u>\$ 15,427,992.00</u>	<u>\$ 3,000,000.00</u>	<u>\$ 18,427,992.00</u>	<u>\$ 1,750,722.31</u>			

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.

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Leslie W. Merritt, Jr., CPA, CFP  
State Auditor

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**Office of the 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**

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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, and its discretely presented component unit, as of and for the year ended June 30, 2004, which collectively comprise Durham Technical Community College's basic financial statements, and have issued our report thereon dated March 9, 2005. We did not audit the financial statements of Durham Technical Community College Foundation, Inc., which represents 100% of the College's discretely presented component units. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for Durham Technical Community College Foundation, Inc., is based on the report of the other auditors.

As discussed in Note 14 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, during the year ended June 30, 2004.

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. The financial statements of the discretely presented component unit were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not extend to the component unit.

**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 opinions on the financial statements and not to provide an opinion 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

**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)**

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might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the College's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of 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.

*Leslie W. Merritt, Jr.*

Leslie W. Merritt, Jr., CPA, CFP  
State Auditor

March 9, 2005

## **AUDIT FINDING AND RECOMMENDATION**

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### **Matters Related to Federal Compliance Objectives**

The following finding and recommendation was identified during the current audit and describes a condition that represents noncompliance with laws, regulations, contracts, grant agreements or other matters.

1. **SALARIES CHARGED TO VOCATIONAL EDUCATION (CFDA 84.048) ARE NOT SUPPORTED BY TIME RECORDS**

Time records do not support the percentage of Guidance and Counseling employees' salaries charged to the Vocational Education Program. Time spent on general activities was charged entirely to Vocational Education, rather than being prorated as indirect activity.

OMB Circular A-87 requires that employees working on multiple activities maintain records to track direct and indirect cost activity, as well as activities unallowable for program purposes. Questioned costs for improper charges to Vocational Education are likely in excess of \$10,000.

*Recommendation:* The College should establish and communicate to employees guidelines for charging salaries to the Vocational Education Program that are in compliance with Federal regulations.

*College's Response:* Durham Technical Community College based the method for accounting for time attributable to the vocational education funding on two sources: the Perkins Act Section 135 (c), which shows permissive expenditures from this fund, and information provided in clarification of questions at conferences sponsored by the North Carolina Community College System Office. Prior to this audit, there had been no verbal or written clarification from either source regarding the prorating of time percentages for salaries funded by the grant. The College believed that the reporting methods and paradigms being used were in accordance with the expectations of the System Office and were similar to those being used by other community colleges in the system. Our previous understanding, which was reflected in the accounting of allowable direct and indirect hours during the 2003-2004 period, was that it was appropriate and allowable to charge 100% of the activity hours for any direct or indirect activity that served a majority of vocational and technical students.

As a result of this new clarification on the specific focus of allowable activities and the requirement to prorate percentages of salaries charged to the grant, the College will establish a reporting arrangement to allow more accurate tracking of federal vocational education funds in salaries of employees in the Counseling and Student Development office. The College will adjust the allowable salary percentages of employees in Counseling and Student Development for FY 2004-2005 based on appointment records



## **AUDIT FINDINGS AND RECOMMENDATIONS (CONCLUDED)**

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available in the administrative computing system while discounting those direct and indirect activities that are not clearly intended for vocational and technical students only. The College will also determine a standardized accounting method for all employees partially funded by the grant and will clarify with each of the employees the specific new guidelines for direct and indirect activities. If money is available in the future, grant proposals will be written to ensure vocational education funds can be clearly charged to direct and indirect activities that are specifically designed for vocational and technical students.

## 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.

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The Honorable Richard H. Moore  
The Honorable Roy A. Cooper, III  
Mr. David T. McCoy  
Mr. Robert L. Powell  
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Dr. Phail Wynn, Jr.  
Ms. Cynthia Carter

Dr. Mary Ann Peter

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Lieutenant Governor of North Carolina  
State Treasurer  
Attorney General  
State Budget Officer  
State Controller  
President, North Carolina Community College System  
President, Durham Technical Community College  
Business Manager/Chief Financial Officer  
Durham Technical Community College  
Chairman, Board of Trustees  
Durham Technical Community College

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Director, Fiscal Research Division

Mary 6, 2005

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