STATE OF
NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT OF

DURHAM TECHNICAL COMMUNITY COLLEGE

DURHAM, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2005

OFFICE OF THE STATE AUDITOR

LESLIE W. MERRITT, JR., CPA, CFP

STATE AUDITOR

FINANCIAL STATEMENT AUDIT REPORT OF

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DURHAM, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2005

STATE OF NORTH CAROLINA
Office of the State Auditor

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AUDITOR'S TRANSMITTAL

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

We have completed a financial statement audit of Durham Technical Community College for the year ended June 30, 2005, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

Our consideration of internal control over financial reporting and compliance and other matters based on an audit of the financial statements and our consideration of the College's administration of federal programs in accordance with applicable laws, regulations, contracts and grants disclosed a deficiency in internal control that is detailed in the Audit Findings and Recommendations section of this report. The College's response is included following the finding.

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.

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

April 4, 2006

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Office of the State Auditor

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INDEPENDENT AUDITOR'S REPORT

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, 2005, which collectively comprise the College's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of Durham Technical Community 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 represent 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 the 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 discretely presented component unit as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 14 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures*, during the year ended June 30, 2005.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 22, 2006, on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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.

Leslie W. Merritt, Jr.

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

February 22, 2006

DURHAM TECHNICAL COMMUNITY COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS

Introduction

Management's Discussion and Analysis is 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.

Statement of Net Assets

The *Statement of Net Assets* provides information regarding the College's assets, liabilities, and net assets as of June 30, 2005. 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 current year expenses. 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, 2005, and 2004.

Condensed Statement of Net Assets

	2005	2004	Change	% Change
ASSETS				
Current Assets	$ 2,138,442.31	$ 1,797,239.09	$ 341,203.22	18.98
Capital Assets, Net	22,467,672.69	17,650,415.72	4,817,256.97	27.29
Other Noncurrent Assets	3,008,391.49	3,854,669.42	(846,277.93)	(21.95)
Total Assets	27,614,506.49	23,302,324.23	4,312,182.26	18.51
LIABILITIES				
Current Liabilities	2,280,092.28	1,125,223.33	1,154,868.95	102.63
Noncurrent Long-Term Liabilities	1,143,812.15	1,223,631.45	(79,819.30)	(6.52)
Other Noncurrent Liabilities	29,352.17	29,352.17		
Total Liabilities	3,453,256.60	2,378,206.95	1,075,049.65	45.20
NET ASSETS				
Invested in Capital Assets	22,467,672.69	17,650,415.72	4,817,256.97	27.29
Restricted for:				
Expendable	2,879,373.49	4,045,555.39	(1,166,181.90)	(28.83)
Unrestricted	(1,185,796.29)	(771,853.83)	(413,942.46)	53.63
Total Net Assets	$ 24,161,249.89	$ 20,924,117.28	$ 3,237,132.61	15.47

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

- Assets totaled $27,614,506.49, an increase of $4,312,182.26 or 18.51% more than the previous year. The overall increase was attributable to an increase in net receivables and capital assets.

- Receivables, net increased due to the receipt of Pell Grant funds in July 2006 for fiscal year 2004-2005 student grant awards.

- The increase in capital assets is attributable to the addition/renovation of the Collins Building and the construction of the Student Services/Classroom Building.

- Liabilities totaled $3,453,256.60, an increase of $1,075,049.65 or 45.20% over the previous year. This is primarily attributable to construction payables of $968,542.17, accrued salaries and wages of $393,378.64, and deferred revenues of $195,248.89.
- Current liabilities consist primarily of accounts payables and accrued liabilities. Noncurrent liabilities consist primarily of long-term liabilities. The only long-term liability is compensated absences.
- The increase in deferred revenue is attributed to deferred revenue for in-state and out-of-state tuition earned after June 30, 2005.
- Net assets totaled $24,161,249.89, an increase of $3,237,132.61 or 15.47% over the previous year. This increase is due to an increase in invested in capital assets, offset by a decrease in restricted expendable capital projects.
- Invested in capital assets increased primarily due to increased construction activity.
- Restricted expendable, capital projects decreased because the College recognized more State bond funds and county capital appropriation as revenue in 2004 versus 2005.
- Unrestricted net assets decreased since expenditures for salaries, services and supplies were greater this year. For discussion of these increases, refer to the Operating Expenses section of this MD&A.

The major change in the College's financial position is that net assets increased by 15.47% over the previous year. The Investment in Capital Assets component was greater this year due to the increase in construction activity which accounts for the major change in Net Assets. Otherwise, the College's financial position is relatively unchanged. The College's total assets excluding capital assets, net of depreciation, are sufficient to cover total liabilities with a ratio of 1.49. The College's total assets are significantly more than the College's liabilities with a ratio of 8.00 as compared to 9.80 in the prior year.

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, 2005. 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, 2005, and 2004.

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

	2005	2004	Change	% Change
Operating Revenues	$ 8,503,933.65	$ 8,298,663.00	$ 205,270.65	2.47
Operating Expenses	(29,009,836.62)	(26,917,605.33)	(2,092,231.29)	7.77
Operating Loss	(20,505,902.97)	(18,618,942.33)	(1,886,960.64)	10.13
Nonoperating Revenues	18,605,624.54	17,109,380.45	1,496,244.09	8.75
Loss Before Other Revenues	(1,900,278.43)	(1,509,561.88)	(390,716.55)	25.88
Other Revenues	5,137,411.04	5,913,815.92	(776,404.88)	(13.13)
Increase in Net Assets	3,237,132.61	4,404,254.04	(1,167,121.43)	(26.50)
Net Assets, July 1	20,924,117.28	16,519,863.24	4,404,254.04	26.66
Net Assets, June 30	$ 24,161,249.89	$ 20,924,117.28	$ 3,237,132.61	15.47

The *Statement of Revenues, Expenses, and Changes in Net Assets* reflects an increase of $3,237,132.61 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 $20,505,902.97, an increase of 10.13% 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.
- Operating revenues increased by $205,270.65 (2.47%), whereas operating expenses increased by $2,092,231.29 (7.77%) for a combined net increase in operating loss of $1,886,960.64 (10.13%) over the previous year.
- Net Nonoperating revenues increased by $1,496,244.09 (8.75%), primarily due to an increase in State aid.
- Other revenues decreased by $776,404.88 (13.13%), primarily due to the recognition of county and State appropriated funds for capital construction projects in the prior year.

Operating Revenues

	2004-2005	2003-2004	Change	% Change
Student Tuition and Fees, Net	$ 3,741,876.67	$ 3,733,677.98	$ 8,198.69	0.22
Federal Grants and Contracts	4,201,121.99	4,129,261.99	71,860.00	1.74
Other Operating Revenues	560,934.99	435,723.03	125,211.96	28.74
Total Operating Revenues	$ 8,503,933.65	$ 8,298,663.00	$ 205,270.65	2.47

The main sources of operating revenues are 1) student tuition and fees (44.00%) and 2) federal grants and contracts (49.40%).

Nonoperating and Other Revenues

	2004-2005	2003-2004	Change	% Change
State Aid	$ 14,925,779.42	$ 13,430,590.62	$ 1,495,188.80	11.13
County Appropriations	3,058,716.00	2,983,716.00	75,000.00	2.51
Other Nonoperating Revenues	621,129.12	695,073.83	(73,944.71)	(10.64)
State Capital Aid	3,940,394.57	5,339,329.74	(1,398,935.17)	(26.20)
County Capital Appropriations	1,141,690.52	553,810.83	587,879.69	106.15
Capital Grants	55,325.95	20,675.35	34,650.60	167.59
Total Nonoperating and Other Revenues	$ 23,743,035.58	$ 23,023,196.37	$ 719,839.21	3.13

Nonoperating and other revenues increased by 3.13%. The increase was primarily due to additional appropriations in State aid and County Appropriations as compared to FY 2003-2004. In FY 2003-2004, the College recognized $4,684,702 as revenue from the 2001 Higher Education Bonds as compared to total State Capital Aid of $3,184,920 in FY 2004-2005. State aid increased by $1,495,188.80 or 11.13% due to increased enrollment during FY 2003-2004.

Operating Expenses

	2004-2005	2003-2004	Change	% Change
Salaries and Benefits	$ 19,427,148.34	$ 18,262,764.25	$ 1,164,384.09	6.38
Supplies and Materials	2,193,987.10	1,347,132.51	846,854.59	62.86
Services	3,410,019.52	2,999,487.40	410,532.12	13.69
Scholarships and Fellowships	2,634,875.78	3,019,271.33	(384,395.55)	(12.73)
Other Operating Expenses	1,343,805.88	1,288,949.84	54,856.04	4.26
Total Operating Expenses	$ 29,009,836.62	$ 26,917,605.33	$ 2,092,231.29	7.77

Salaries and benefits account for 66.97% of the total operating expenses and increased by 6.38% over FY 2003-2004. This increase is due to the effects of contractual increases for faculty and staff salaries.

The remaining operating expenses account for 33.03% of total operating expenses. Those percentages are: scholarships (9.08%), services (11.76%), supplies and materials (7.56%), and other (4.63%). Services increased by 13.69% due to an increased cost of housekeeping, security, and landscaping services. Supplies and materials increased by 62.86% as the College expended more funds for minor equipment and general operating 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.

Following is a comparative analysis of the condensed balances reported in the *Statement of Cash Flows* for the fiscal years ended June 30, 2005 and 2004.

Condensed Statement of Cash Flows

	2005	2004	% Change
Operating Activities			
Sources	$ 7,909,156.36	$ 8,353,364.23	(5.32)
Used	(27,740,351.72)	(25,784,619.31)	7.58
Cash Used by Operating Activities	(19,831,195.36)	(17,431,255.08)	13.77
Noncapital Financing			
Sources	18,574,416.27	16,963,289.07	9.50
Capital and Related Financing Activities			
Sources	6,128,704.80	2,001,955.67	206.14
Used	(5,086,632.16)	(1,824,116.14)	178.85
Cash Provided by Capital and Related Financing Activities	1,042,072.64	177,839.53	485.96
Investing Activities			
Sources	5,377.16	4,116.38	30.63
Used	(137.09)	(82.22)	66.74
Cash Provided by Investing Activities	5,240.07	4,034.16	29.89
Net Decrease in Cash	(209,466.38)	(286,092.32)	(26.78)
Cash-Beginning of Year	1,167,549.11	1,453,641.43	(19.68)
Cash-End of Year	$ 958,082.73	$ 1,167,549.11	(17.94)

Cash used by operating activities totaled $19,831,195.36, an increase in cash used of $2,399,940.28 or 13.77% over the previous year. This increase is attributable to the increase of employee salaries and fringe benefit expenses and payments made to vendors and suppliers.

Cash provided by noncapital financing activities totaled $18,575,416.27, an increase of $1,611,127.20 or 9.5% over the previous year. This increase is attributable to an increase in State aid.

Cash provided by capital and related financing activities totaled $1,042,072.64, an increase of $864,233.11 or 485.96% over the previous year. This increase is attributable to expending funds held for capital projects and additional appropriations from the county and state for capital construction projects.

Cash provided by investing activities totaled $5,240.07, an increase of $1,205.91 or 29.89% over the previous year. This increase is attributable to having more cash available for investment purposes and higher interest rates on the funds invested.

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. During 2005, the State allotted $3,184,920 to the College and the College's remaining authorization of $7,399,300.00 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 provided $8,200,000.00 in county funds to the College beginning in FY 03-04.

The College expended $5,448,309.68 during the year for the construction of buildings/infrastructure and for the renovation or repair of its facilities. Of this amount, $4,816,034.53 was or will be provided from the Higher Education Improvement Bond Referendum. The Durham County Bond Referendum provided $632,275.15.

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 2005-2006 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 2004-2005 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% of the College's total revenues for fiscal year 2004-05.

Curriculum enrollment is leveling, while continuing education enrollment is increasing. 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, Durham County Bond Referendum, and Orange County Funding, 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, 2005 ***Exhibit A-1***

ASSETS		
Current Assets:		
Cash and Cash Equivalents	$	565,337.67
Restricted Cash and Cash Equivalents		392,745.06
Restricted Short-Term Investments		9,423.09
Receivables, Net (Note 3)		997,706.47
Due from State of North Carolina Component Units		100,000.00
Inventories		73,230.02
Total Current Assets		2,138,442.31
Noncurrent Assets:		
Restricted Due from Primary Government		3,008,391.49
Capital Assets - Nondepreciable, Net (Note 4)		4,547,090.78
Capital Assets - Depreciable, Net (Note 4)		17,920,581.91
Total Noncurrent Assets		25,476,064.18
Total Assets		27,614,506.49
LIABILITIES		
Current Liabilities:		
Accounts Payable and Accrued Liabilities (Note 5)		1,997,804.45
Deferred Revenue		195,248.89
Funds Held for Others		25,332.25
Long-Term Liabilities - Current Portion (Note 6)		61,706.69
Total Current Liabilities		2,280,092.28
Noncurrent Liabilities:		
Funds Held for Others		29,352.17
Long-Term Liabilities (Note 6)		1,143,812.15
Total Noncurrent Liabilities		1,173,164.32
Total Liabilities		3,453,256.60
NET ASSETS		
Invested in Capital Assets		22,467,672.69
Restricted for:		
Expendable:		
Scholarships and Fellowships		25,177.62
Loans		9,503.02
Capital Projects		2,221,853.11
Other		622,839.74
Unrestricted		(1,185,796.29)
Total Net Assets	$	24,161,249.89

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

Durham Technical Community College
Statement of Revenues, Expenses, and Changes in Net Assets
For the Fiscal Year Ended June 30, 2005

Exhibit A-2

REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net (Note 8)	$	3,741,876.67
Federal Grants and Contracts		4,201,121.99
State and Local Grants and Contracts		178,043.56
Sales and Services, Net (Note 8)		184,255.36
Other Operating Revenues		198,636.07
Total Operating Revenues		8,503,933.65
EXPENSES		
Operating Expenses:		
Personal Services		19,427,148.34
Supplies and Materials		2,193,987.10
Services		3,410,019.52
Scholarships and Fellowships		2,634,875.78
Utilities		588,837.92
Depreciation		754,967.96
Total Operating Expenses		29,009,836.62
Operating Loss		(20,505,902.97)
NONOPERATING REVENUES		
State Aid		14,925,779.42
County Appropriations		3,058,716.00
Noncapital Grants		408,698.34
Noncapital Gifts		207,053.62
Investment Income		5,377.16
Net Nonoperating Revenues		18,605,624.54
Loss Before Other Revenues		(1,900,278.43)
State Capital Aid		3,940,394.57
County Capital Appropriations		1,141,690.52
Capital Grants		55,325.95
Increase in Net Assets		3,237,132.61
NET ASSETS		
Net Assets, July 1, 2004		20,924,117.28
Net Assets, June 30, 2005	$	24,161,249.89

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

Durham Technical Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2005 — *Exhibit A-3*

CASH FLOWS FROM OPERATING ACTIVITIES	
Received from Customers	$ 7,909,156.36
Payments to Employees and Fringe Benefits	(19,450,282.54)
Payments to Vendors and Suppliers	(5,684,252.01)
Payments for Scholarships and Fellowships	(2,605,925.27)
Other Receipts	108.10
Net Cash Used by Operating Activities	(19,831,195.36)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Aid Received	14,925,779.42
County Appropriations	3,058,716.00
Noncapital Grants Received	382,867.23
Noncapital Gifts Received	207,053.62
Net Cash Provided by Noncapital Financing Activities	18,574,416.27
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
State Capital Aid Received	4,786,672.50
County Capital Appropriations	1,141,690.52
Capital Grants Received	200,341.78
Acquisition and Construction of Capital Assets	(5,086,632.16)
Net Cash Provided by Capital and Related Financing Activities	1,042,072.64
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment Income	5,377.16
Purchase of Investments and Related Fees	(137.09)
Net Cash Provided by Investing Activities	5,240.07
Net Decrease in Cash and Cash Equivalents	(209,466.38)
Cash and Cash Equivalents, July 1, 2004	1,167,549.11
Cash and Cash Equivalents, June 30, 2005	$ 958,082.73
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES	
Operating Loss	$ (20,505,902.97)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	754,967.96
Changes in Assets and Liabilities:	
Receivables, Net	(672,305.55)
Inventories	2,588.32
Accounts Payable and Accrued Liabilities	638,232.93
Due to Primary Government	(1,593.32)
Deferred Revenue	106,478.77
Funds Held for Others	108.10
Compensated Absences	(153,769.60)
Net Cash Used by Operating Activities	$ (19,831,195.36)

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:		
Cash and Cash Equivalents	$	565,337.67
Restricted Cash and Cash Equivalents		392,745.06
Total Cash and Cash Equivalents - June 30, 2005	$	958,082.73

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Capital Asset Write-Offs	$	52,204.96

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

Durham Technical Community College Foundation, Inc.
Statement of Financial Position
June 30, 2005 — *Exhibit B-1*

ASSETS		
Cash and Cash Equivalents	$	1,350,592.00
Investments		884,951.00
Contributions Receivable, Net		572,799.00
Other Receivables		4,260.00
Total Assets		2,812,602.00
NET ASSETS		
Unrestricted		97,541.00
Temporarily Restricted		2,715,061.00
Total Net Assets	$	2,812,602.00

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, 2005 — *Exhibit B-2*

CHANGES IN UNRESTRICTED NET ASSETS	
Revenues and Gains:	
Contributions	$ 47,136.00
Campus Fund Drive	3,216.00
Interest and Dividends	1,895.00
Total Unrestricted Revenues and Gains	52,247.00
Net Assets Released from Restrictions:	
Satisfaction of Program Restrictions	298,069.00
Total Unrestricted Revenues and Other Support	350,316.00
Expenses:	
Scholarships	127,422.00
Technology Capital Campaign	7,742.00
Grants	175,954.00
Management and General	21,919.00
Total Expenses	333,037.00
Increase in Unrestricted Net Assets	17,279.00
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS	
Contributions	608,705.00
Income on Long-Term Investments	37,445.00
Net Unrealized and Realized Gains on Long-Term Investments	21,647.00
Net Assets Released from Restrictions:	
Satisfaction of Program Restrictions	(298,069.00)
Increase in Temporarily Restricted Net Assets	369,728.00
Increase in Net Assets	387,007.00
Net Assets at Beginning of Year	2,425,595.00
Net Assets at End of Year	$ 2,812,602.00

See Note 1 in the Notes to the Financial Statements

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity - The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their constituents for their actions. As required by accounting principles generally accepted in the United States of America, 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 units' 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. (Foundation) 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.

The Foundation is a private not-for-profit organization that reports its financial results under Financial Accounting Standards Board (FASB) Statements. As such, certain 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, 2005, the Foundation distributed $311,119.00 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. Investment in the Trust is recorded at cost, which approximates market value.

F. **Receivables** - Receivables consist of tuition and fees charged to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from the federal government, State and local governments, private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants. Receivables are recorded net of estimated uncollectible amounts**.**

G. **Inventories** - Inventories, consisting of expendable supplies, are valued at cost using either 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 method over the estimated useful lives of the assets, generally 15 to 25 years for general infrastructure, 25 to 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 fiscal year end 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 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, 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 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 *North Carolina General Statute* 115D-58.7. Official depositories may be established with any bank or savings and loan association whose principal office is located in North Carolina. Also, the College may establish time deposit accounts, money market accounts, and certificates of deposit. The amount shown on the Statement of Net Assets as cash and cash equivalents includes cash on hand totaling $1,710.00, and deposits in private financial institutions with a carrying value of $956,372.73 and a bank balance of $1,907,246.69.

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, 2005, $228,518.23 of the bank balance was covered by federal depository insurance, and $1,678,728.46 was covered by collateral held by an authorized escrow agent in the name of the State Treasurer under the pooling method.

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

Generally, funds belonging to the College may be invested in the form of investments pursuant to G.S. 159-30(c), as follows: a commingled investment pool established and administered by the State Treasurer pursuant to G.S. 147-69.3 (STIF), obligations of or fully guaranteed by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain nonguaranteed federal agencies; prime quality commercial paper bearing specified ratings 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.

At June 30, 2005, the College investments consisted of $9,423.09 in the North Carolina Capital Management Trust. This investment is subject to the following risks:

Credit Risk: Credit risk is the risk that an issuer or other counterpart to an investment will not fulfill its obligations. The College does not have a formal investment policy that addresses credit risk. At June 30, 2005, North Carolina Capital Management Trust carried a credit rating of AAAm by Standard and Poor's.

Custodial Credit Risk: Custodial credit risk is the risk that, in the event of the failure of the counterparty, the College will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The College does not have a formal policy for custodial credit risk. At June 30, 2005, the College's investment was held by a counterparty, not in the College's name.

NOTE 3 - RECEIVABLES

Receivables at June 30, 2005, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	$ 646,013.64	$ 172,375.82	$ 473,637.82
Intergovernmental	433,302.41		433,302.41
Other	90,766.24		90,766.24
Total Current Receivables	$ 1,170,082.29	$ 172,375.82	$ 997,706.47

NOTE 4 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2005, is presented as follows:

	Balance July 1, 2004	Adjustments	Increases	Decreases	Balance June 30, 2005
Capital Assets, Nondepreciable:					
Land	$ 869,557.33	$ 0.00	$ 176,821.08	$ 0.00	$ 1,046,378.41
Construction in Progress	1,750,722.31	(3,504,194.19)	5,254,184.25		3,500,712.37
Total Capital Assets, Nondepreciable	2,620,279.64	(3,504,194.19)	5,431,005.33		4,547,090.78
Capital Assets, Depreciable:					
Buildings	20,529,358.91	3,504,194.19		51,925.33	23,981,627.77
General Infrastructure	382,174.09				382,174.09
Machinery and Equipment	3,604,909.04		193,424.56	129,695.22	3,668,638.38
Total Capital Assets, Depreciable	24,516,442.04	3,504,194.19	193,424.56	181,620.55	28,032,440.24
Less Accumulated Depreciation:					
Buildings	7,245,790.74		505,085.19	46,673.59	7,704,202.34
General Infrastructure	229,813.60		36,541.84		266,355.44
Machinery and Equipment	2,010,701.62		213,340.93	82,742.00	2,141,300.55
Total Accumulated Depreciation	9,486,305.96		754,967.96	129,415.59	10,111,858.33
Total Capital Assets, Depreciable, Net	15,030,136.08	3,504,194.19	(561,543.40)	52,204.96	17,920,581.91
Capital Assets, Net	$ 17,650,415.72	$ 0.00	$ 4,869,461.93	$ 52,204.96	$ 22,467,672.69

NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2005, were as follows:

	Amount
Accounts Payable	$ 1,591,233.65
Accrued Payroll	393,378.64
Intergovernmental Payables	519.00
Other	12,673.16
Total Accounts Payable and Accrued Liabilities	$ 1,997,804.45

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, 2004	Additions	Reductions	Balance June 30, 2005	Current Portion
Compensated Absences	$ 1,359,288.44	$ 825,857.41	$ 979,627.01	$ 1,205,518.84	$ 61,706.69

NOTE 7 - OPERATING LEASE OBLIGATIONS

Rental expense for all operating leases during the year was $179,346.50.

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 Change in Allowance for Uncollectibles	Net Revenues
Operating Revenues:					
Student Tuition and Fees	$ 5,246,703.18	$ 0.00	$ 1,453,551.93	$ 51,274.58	$ 3,741,876.67
Sales and Services:					
Sales and Services of Auxiliary Enterprises:					
Bookstore	$ 175,711.41	$ 0.00	$ 38,052.20	$ 0.00	$ 137,659.21
Food Service	25,331.67				25,331.67
Print Shop	216,309.87	216,309.87			
Other	21,264.48				21,264.48
Total Sales and Services	$ 438,617.43	$ 216,309.87	$ 38,052.20	$ 0.00	$ 184,255.36

NOTE 9 - OPERATING EXPENSES BY FUNCTION

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

	Personal Services	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	$ 12,338,545.13	$ 1,386,106.46	$ 1,028,761.16	$ 0.00	$ 0.00	$ 0.00	$ 14,753,412.75
Public Service	89,193.62	1,982.54	17,793.34				108,969.50
Academic Support	2,010,559.91	142,598.91	71,003.23				2,224,162.05
Student Services	1,488,128.32	27,698.25	186,935.06				1,702,761.63
Institutional Support	2,821,951.75	247,090.75	630,725.72				3,699,768.22
Operations and Maintenance of Plant	660,966.04	302,135.55	1,395,449.78		588,837.92		2,947,389.29
Student Financial Aid				2,634,875.78			2,634,875.78
Auxiliary Enterprises	17,803.57	86,374.64	79,351.23				183,529.44
Depreciation						754,967.96	754,967.96
Total Operating Expenses	$ 19,427,148.34	$ 2,193,987.10	$ 3,410,019.52	$ 2,634,875.78	$ 588,837.92	$ 754,967.96	$ 29,009,836.62

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, 2005, these rates were set at 2.17% of covered payroll for employers and 6% of covered payroll for members.

For the year ended June 30, 2005, the College had a total payroll of $16,888,482.58, of which $13,129,950.71 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were $787,797.04 and $284,919.94, respectively. The College made 100% of its annual required contributions for the years ended June 30, 2005, 2004, and 2003, which were $284,919.94, $26,458.61, and $0.00, 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. 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 $178,799.16 for the year ended June 30, 2005.

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 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 $198,074.32 for the year ended June 30, 2005.

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, 2005, the College's total contribution to the Plan was $420,158.43. 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 .445% of covered payroll under the Teachers' and State Employees' Retirement System to the DIPNC. For the year ended June 30, 2005, the College's total contribution to the DIPNC was $58,428.28. 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, and can include 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 $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 a 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 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 $4,133,103.25 and on other purchases were $117,312.47 at June 30, 2005.

B. Pending Litigation and Claims - The College is a party to an EEOC charge of discrimination claim. Since it is not possible to predict the ultimate outcome of these matters, no provision for any liability has been made in the financial statements. College management is of the opinion that the liability, if any, for any of these matters will not have a material adverse effect on the financial position of the College.

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 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 $7,399,300.00 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, 2005, the College implemented Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures*. This Statement establishes and modifies disclosure requirements related to investment risks: credit risk, interest rate risk, and foreign currency risk. This statement also establishes and modifies disclosure requirements for deposit risks: custodial credit risk and foreign currency risk.

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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*

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, 2005, which collectively comprise the College's basic financial statements and have issued our report thereon dated February 22, 2006. We did not audit the financial statements of Durham Technical Community College Foundation, Inc., which represent 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. 40, *Deposit and Investment Risk Disclosures,* during the year ended June 30, 2005.

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 discretely presented 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. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the College's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the Audit Findings and Recommendations section of this report

Finding

Financial Statements and Notes Required Corrections

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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

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, the State Board of Community Colleges, management 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

February 22, 2006

Matters Related to Financial Reporting

The following finding was identified during the current audit and describes a condition that represents significant deficiency in internal control.

FINANCIAL STATEMENTS AND NOTES REQUIRED CORRECTIONS

The College's financial statements and notes presented for audit contained significant errors. Numerous adjustments were necessary for fair presentation of the financial statements and notes. Included in the errors were:

- Buildings were understated and construction in progress was overstated by $3,504,194.19 due to failure to capture the costs of a building addition put into service during the year.
- Net assets were misclassified by $1,487,165.62 due to improper account classification on the College's general ledger.
- Liabilities were overstated by $741,718.86 due to failure to properly reverse prior year accruals.

Management is responsible for the fair presentation of its financial position and results for operations in accordance with accounting principles generally accepted in the United States of America and the policies of the Office of the State Controller. Management is also responsible for establishing and maintaining internal controls over financial reporting to detect and correct material misstatements in a timely manner.

Recommendation: We recommend that the College implement controls to ensure that the year-end financial statements and notes are adequately prepared and reviewed to ensure misstatements and presentation errors are detected and corrected prior to submission of the statements and notes to the Office of the State Controller and the Office of the State Auditor.

College's Response: Durham Technical Community College will take the following steps to ensure that the year-end financial statements and notes are accurately prepared and reviewed prior to submitting the statements and notes to the Office of the State Controller and the Office of the State Auditor:

1. Develop and implement use of a checklist detailing the standard account reclassifications and journal entries required to prepare the year-end financial statements and notes;

2. Document and follow the procedure to prepare the required year-end journal entries and notes needed to complete the financial statements and supplementary reports; and

3. Develop and follow a project schedule that includes adequate time for the Chief Financial Officer to review the financial reports, notes, and Management's Discussion and Analysis prior to submitting the report to the Office of the State Controller and the Office of the State Auditor.

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