STATE OF NORTH CAROLINA

DURHAM TECHNICAL COMMUNITY COLLEGE

DURHAM, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2008

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR

DURHAM TECHNICAL COMMUNITY COLLEGE

DURHAM, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2008

STATE OF NORTH CAROLINA
Office of the State Auditor

Beth A. Wood, CPA
State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601
Telephone: (919) 807-7500
Fax: (919) 807-7647
Internet
http://www.ncauditor.net

AUDITOR'S TRANSMITTAL

The Honorable Beverly E. Perdue
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, 2008, 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 disclosed certain deficiencies that are detailed in the Audit Findings and Responses section of this report. The College's response is included following each 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.

Beth A. Wood

Beth A. Wood, CPA
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, 2008, 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., the College's discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinions, insofar as they relate to the amounts included for those entities, are 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, 2008, 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. 45, *Accounting and Financial Reporting by*

Employers for Postemployment Benefits Other Than Pensions, and Statement No. 50, *Pension Disclosures*, during the year ended June 30, 2008.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 31, 2009 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.

Beth A. Wood

Beth A. Wood, CPA
State Auditor

July 31, 2009

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 post-employment benefits, insurance against losses, commitments and contingencies, accounting changes, and if necessary, a discussion of adjustments to prior periods and events subsequent to the College's financial statement period. Overall, 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, 2008. 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 expenditures. Liabilities classified as current are those that are due or payable in the next fiscal year. The net asset balances are classified as invested in capital assets, restricted or unrestricted. In addition, restricted net assets are classified as expendable or nonexpendable. 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, 2008 and 2007.

Condensed Statement of Net Assets

	2008	2007	Change
ASSETS			
Current Assets	$ 1,206,041.64	$ 1,338,396.11	$ (132,354.47)
Capital Assets, Net	41,277,623.08	38,169,995.71	3,107,627.37
Other Noncurrent Assets	2,080,270.68	2,726,426.29	(646,155.61)
Total Assets	44,563,935.40	42,234,818.11	2,329,117.29
LIABILITIES			
Current Liabilities	1,441,672.15	2,190,952.24	(749,280.09)
Noncurrent Liabilities	1,188,123.98	1,766,069.70	(577,945.72)
Total Liabilities	2,629,796.13	3,957,021.94	(1,327,225.81)
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	41,097,608.86	37,909,988.57	3,187,620.29
Restricted for:			
Expendable	2,684,633.06	1,993,659.16	690,973.90
Unrestricted	(1,848,102.65)	(1,625,851.56)	(222,251.09)
Total Net Assets	$ 41,934,139.27	$ 38,277,796.17	$ 3,656,343.10

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

- Assets totaled $44,563,935.40, an increase of $2,329,117.29 more than the previous year. The overall increase was attributable to an increase in capital assets.
- The increase in capital assets is primarily attributable to the completion of the Main Building of the Orange County Campus.
- Liabilities totaled $2,629,796.13, a decrease of $1,327,225.81 from the previous year. This is primarily attributable to a decrease in accrued vacation leave payable totaling $497,952.74 and accounts payable – capital assets in the amount of $681,567.23.

- Current liabilities consist primarily of accounts payable and accrued liabilities and unearned revenue. Noncurrent liabilities consist primarily of the long-term portion of compensated absences and the debt incurred with the purchase of 825 Bacon Street Building.
- Net assets totaled $41,934,139.27, an increase of $3,656,343.10 over the previous year. This increase is due to an increase in Invested in Capital Assets – Net.
- Invested in capital assets increased primarily due to the completion of the new construction project noted above.
- Restricted expendable capital projects increased from the prior year because the College has cash and receivables restricted for the purchase of equipment for the Orange County Campus and for renovations to the White Building.

The major change in the College's financial position is that net assets increased over the previous year. Net assets increased because of the completion of capital projects noted above. Another major change was the decrease in total liabilities. The decrease is related to the retirement of several long-time employees in executive positions and the payment of accrued vacation leave. The ratio of the College's total assets (excluding capital assets, net of depreciation) over liabilities is 1.25. The increase in this ratio as compared to the prior year is primarily due to the decrease in accounts payable – capital assets, which is a result of the completion of the Orange County Campus. The College's total assets are significantly more than the College's total liabilities with a ratio of 16.95 as compared to a ratio of 10.67 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, 2008. 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, 2008 and 2007.

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

	2008	2007	Change
Operating Revenues	$ 8,327,741.05	$ 7,493,463.40	$ 834,277.65
Operating Expenses	34,691,792.11	33,161,539.59	1,530,252.52
Operating Loss	(26,364,051.06)	(25,668,076.19)	695,974.87
Nonoperating Revenues	24,408,166.71	22,901,001.94	1,507,164.77
Loss Before Other Revenues	(1,955,884.35)	(2,767,074.25)	(811,189.90)
Other Revenues	5,612,227.45	9,044,387.37	(3,432,159.92)
Increase/Decrease in Net Assets	3,656,343.10	6,277,313.12	(2,620,970.02)
Net Assets, July 1 (Restated)	38,277,796.17	32,000,483.05	6,277,313.12
Net Assets, June 30	$ 41,934,139.27	$ 38,277,796.17	$ 3,656,343.10

The *Statement of Revenues, Expenses, and Changes in Net Assets* reflect an increase of $3,656,343.10 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 $26,364,051.06, an increase 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 all expenses reported as operating expenses.
- Operating revenues increased by $834,277.65 whereas operating expenses increased by $1,530,252.52 for a combined net increase in operating loss of $695,974.87 over the previous year.
- Nonoperating revenues increased by $1,507,164.77, primarily due to an increase in State aid.
- Other revenues decreased by $3,432,159.92 primarily due to a decrease in State capital aid of $6,739,514.74, while county capital aid increased $3,174,580.12 and county capital grants decreased $117,225.30.

Operating Revenues

	FY 2007-2008	FY 2006-2007	Change
Student Tuition and Fees, Net	$ 3,840,016.26	$ 3,485,651.74	$ 354,364.52
Federal Grants and Contracts	3,553,726.01	3,510,447.15	43,278.86
Other Operating Revenues	933,998.78	497,364.51	436,634.27
Total Operating Revenues	$ 8,327,741.05	$ 7,493,463.40	$ 834,277.65

The main sources of operating revenues are the following: student tuition and fees (46.1%) and federal grants and contracts (42.7%). Total operating revenue increased $834,277.65 primarily due to an increase in student tuition and fees revenue of $354,364.52 and an increase in State and local grants and contracts revenue of $301,115.30. The revenue increases were a result of increased enrollment during the fiscal year. Enrollment in occupational courses increased while curriculum enrollment levels were stable.

Nonoperating and Other Revenues

	FY 2007-2008	FY 2006-2007	Change
State Aid	$ 19,593,971.07	$ 18,451,247.64	$ 1,142,723.43
County Appropriations	3,982,324.16	3,630,020.20	352,303.96
Other Nonoperating Revenues	831,871.48	819,734.10	12,137.38
State Capital Aid	1,300,769.97	8,040,284.71	(6,739,514.74)
County Capital Aid	4,061,457.48	886,877.36	3,174,580.12
Capital Grants		117,225.30	(117,225.30)
Capital Gifts	250,000.00		250,000.00
Total Nonoperating and Other Revenues	$ 30,020,394.16	$ 31,945,389.31	$ (1,924,995.15)

Nonoperating and other revenues decreased by $1,924,995.15. The decrease was primarily due to reduced appropriations in State capital aid as compared to fiscal year 2006-2007. State capital aid decreased by $6,739,514.74. The College received more State funds in the prior year due to the construction of the Orange County Campus and Wynn Center.

Operating Expenses

	FY 2007-2008	FY 2006-2007	Change
Personal Services	$ 24,044,559.43	$ 23,167,775.91	$ 876,783.52
Supplies and Materials	2,535,660.68	2,113,476.32	422,184.36
Services	4,310,623.21	3,939,503.74	371,119.47
Scholarships and Fellowships	2,225,289.51	2,126,659.87	98,629.64
Other Operating Expenses	1,575,659.28	1,814,123.75	(238,464.47)
Total Operating Expenses	$ 34,691,792.11	$ 33,161,539.59	$ 1,530,252.52

Salaries and benefits account for 69.3% of the total operating expenses and increased over the prior year. This increase in staff and faculty salaries is related to an effort to bring faculty and professional salaries closer to national averages and provide cost of living increases for employees.

The remaining operating expenses account for 30.7% of total operating expenses. Those percentages are: scholarships and fellowships (6.4%), services (12.4%), supplies and materials (7.3%) and other (4.6%).

Supplies and materials expense increased $422,184.36 primarily due to cost increases for supplies and materials compared with the prior year. Cost increases were due to the economic downturn.

Services expense increased $371,119.47 primarily due to cost increases for services as compared with the prior year. Cost increases were related to the economic downturn and the increase in gas prices.

Scholarships and fellowships expense increased $98,629.64 primarily due to an increase in applications for scholarships and fellowships. The increase in applications is a direct reflection of an increase in enrollment.

Other operating expenses decreased by $238,464.47 mainly due to the restatement of depreciation associated with the extension of the useful lives of fully depreciated assets still in use.

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 2008, the State allotted $646,155.62 to the College and the College's remaining authorization of $2,080,270.68 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 in county funds to the College beginning in FY 03-04 and added an additional $2,000,000 in FY 06-07.

The College expended $3,700,225.37 during the year for the construction of buildings/infrastructure and for the renovation or repair of its facilities. Of this amount, $371,659.89 was provided from the Higher Education Improvement Bond Referendum and $3,328,565.48 was provided by Durham and Orange Counties.

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 2008-2009 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 2007-08 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 54% of the College's total revenues for fiscal year 2007-08.

Curriculum enrollment has leveled, while occupational courses provided are increasing. As the College's enrollment grows the need for additional space to accommodate the students increases. As a result of the Higher Education Improvement Bond program, Durham County Bond Referendum, and Orange County Funding, the College has the resources needed to add square footage for classrooms, and renovate existing facilities to provide comfortable and technologically advanced classrooms for students.

Durham Technical Community College
Statement of Net Assets
June 30, 2008

Exhibit A-1

ASSETS		
Current Assets:		
Cash and Cash Equivalents	$	297,473.02
Restricted Cash and Cash Equivalents		577,633.04
Restricted Short-Term Investments		10,835.54
Receivables, Net (Note 3)		288,162.43
Inventories		31,937.61
Total Current Assets		1,206,041.64
Noncurrent Assets:		
Restricted Due from Primary Government		2,080,270.68
Capital Assets - Nondepreciable (Note 4)		2,795,059.22
Capital Assets - Depreciable, Net (Note 4)		38,482,563.86
Total Noncurrent Assets		43,357,893.76
Total Assets		44,563,935.40
LIABILITIES		
Current Liabilities:		
Accounts Payable and Accrued Liabilities (Note 5)		942,446.54
Unearned Revenue		227,521.67
Funds Held for Others		106,024.40
Long-Term Liabilities - Current Portion (Note 6)		165,679.54
Total Current Liabilities		1,441,672.15
Noncurrent Liabilities:		
Long-Term Liabilities (Note 6)		1,188,123.98
Total Noncurrent Liabilities		1,188,123.98
Total Liabilities		2,629,796.13
NET ASSETS		
Invested in Capital Assets, Net of Related Debt		41,097,608.86
Restricted for:		
Expendable:		
Scholarships and Fellowships		51,389.75
Loans		4,326.06
Capital Projects		2,005,082.16
Other		623,835.09
Unrestricted		(1,848,102.65)
Total Net Assets	$	41,934,139.27

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, 2008 ***Exhibit A-2***

REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net (Note 8)	$	3,840,016.26
Federal Grants and Contracts		3,553,726.01
State and Local Grants and Contracts		384,579.93
Sales and Services, Net (Note 8)		170,676.33
Other Operating Revenues		378,742.52
Total Operating Revenues		8,327,741.05
EXPENSES		
Operating Expenses:		
Personal Services		24,044,559.43
Supplies and Materials		2,535,660.68
Services		4,310,623.21
Scholarships and Fellowships		2,225,289.51
Utilities		694,255.48
Depreciation		881,403.80
Total Operating Expenses		34,691,792.11
Operating Loss		(26,364,051.06)
NONOPERATING REVENUES		
State Aid		19,593,971.07
County Appropriations		3,982,324.16
Noncapital Grants		596,522.85
Noncapital Gifts		190,668.75
Investment Income		44,679.88
Net Nonoperating Revenues		24,408,166.71
Loss Before Other Revenues and Expenses		(1,955,884.35)
State Capital Aid		1,300,769.97
County Capital Aid		4,061,457.48
Capital Gifts		250,000.00
Increase in Net Assets		3,656,343.10
NET ASSETS		
Net Assets, July 1, 2007 as Restated (Note 15)		38,277,796.17
Net Assets, June 30, 2008	$	41,934,139.27

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, 2008 *Exhibit A-3*

CASH FLOWS FROM OPERATING ACTIVITIES	
Received from Customers	$ 8,368,981.69
Payments to Employees and Fringe Benefits	(24,526,492.86)
Payments to Vendors and Suppliers	(7,440,767.88)
Payments for Scholarships and Fellowships	(2,225,289.51)
Other Receipts	19,792.34
Net Cash Used by Operating Activities	(25,803,776.22)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Aid Received	19,593,971.07
County Appropriations	3,982,324.16
Noncapital Grants Received	596,522.85
Noncapital Gifts Received	190,668.75
Cash Provided by Noncapital Financing Activities	24,363,486.83
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
State Capital Aid Received	1,946,925.58
County Capital Aid	4,061,457.48
Capital Grants Received	30,000.00
Capital Gifts Received	250,000.00
Acquisition and Construction of Capital Assets	(4,834,210.05)
Principal Paid on Capital Debt	(79,992.98)
Net Cash Provided by Capital and Related Financing Activities	1,374,180.03
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment Income	44,679.88
Purchase of Investments and Related Fees	(448.49)
Net Cash Provided by Investing Activities	44,231.39
Net Decrease in Cash and Cash Equivalents	(21,877.97)
Cash and Cash Equivalents, July 1, 2007	896,984.03
Cash and Cash Equivalents, June 30, 2008	$ 875,106.06

RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES

Operating Loss	$	(26,364,051.06)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense		881,403.80
Changes in Assets and Liabilities:		
Receivables, Net		71,941.11
Inventories		8,983.88
Accounts Payable and Accrued Liabilities		166,566.44
Unearned Revenue		(30,700.47)
Funds Held for Others		19,792.34
Compensated Absences		(557,712.26)
Net Cash Used by Operating Activities	$	(25,803,776.22)

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:		
Cash and Cash Equivalents	$	297,473.02
Restricted Cash and Cash Equivalents		577,633.04
Total Cash and Cash Equivalents - June 30, 2008	$	875,106.06

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired Through Assumption of a Liability	$	187,787.58

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, 2008 — *Exhibit B-1*

ASSETS		
Cash and Cash Equivalents	$	1,177,104.00
Investments		1,294,412.00
Contributions Receivable, Net		49,307.00
Other Receivables		4,010.00
Total Assets		2,524,833.00
NET ASSETS		
Unrestricted		95,628.00
Temporarily Restricted		2,429,205.00
Total Net Assets	$	2,524,833.00

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

Durham Technical Community College Foundation, Inc.
Statement of Activities
For the Fiscal Year Ended June 30, 2008 — *Exhibit B-2*

CHANGES IN UNRESTRICTED NET ASSETS	
Revenues, Gains and Other Support:	
Contributions	$ 45,813.00
Campus Fund Drive	10,603.00
Interest and Dividends	1,273.00
Total Unrestricted Revenues and Gains	57,689.00
Net Assets Released from Restrictions:	
Satisfaction of Program Restrictions	707,013.00
Total Net Assets Released from Restrictions	707,013.00
Total Unrestricted Revenues, Gains and Other Support	764,702.00
Expenses:	
Scholarships	153,755.00
Grants	588,006.00
Management and General	36,816.00
Total Expenses	778,577.00
Decrease in Unrestricted Net Assets	(13,875.00)
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS	
Revenues, Gains and Other Support:	
Contributions	222,219.00
Matching Funds	7,334.00
Interest and Dividends	58,241.00
Realized Gains on Investments	25,098.00
Unrealized Losses on Investments	(90,934.00)
Total Temporarily Restricted Revenues and Gains	221,958.00
Net Assets Released from Restrictions:	
Satisfaction of Program Restrictions	(707,013.00)
Decrease in Temporarily Restricted Net Assets	(485,055.00)
Decrease in Net Assets	(498,930.00)
Net Assets at Beginning of Year	3,023,763.00
Net Assets at End of Year	$ 2,524,833.00

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

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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 (GAAP), the financial reporting entity includes both the primary government and all of its component units. An organization other than a primary government serves as a nucleus for a reporting entity when it issues separate financial statements. 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 component units 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 are 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 Governmental Accounting Standards Board

(GASB) revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information in the College's financial reporting entity for these differences.

During the year ended June 30, 2008, the Foundation distributed $741,761 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.

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 overnight repurchase agreements.

E. **Investments –** This classification includes a mutual fund holding by the College through The North Carolina Capital Management Trust. Investment in the Trust is reported 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, 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 method over the estimated useful lives of the assets, generally 10 to 75 years for general infrastructure, 10 to 75 years for buildings, and 5 to 25 years for equipment.

I. Restricted Assets – Certain resources are reported as restricted assets because restrictions on asset use change the nature or normal understanding of the availability of the asset. Resources that are not available for current operations and are reported as restricted include resources restricted or designated for the acquisition or construction of capital assets and resources whose use is limited by external parties or statute.

J. Noncurrent Long-Term Liabilities – Noncurrent long-term liabilities include notes payable and 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 1 or for which an employee can be paid upon termination of employment. Also, any accumulated vacation leave in excess of 30 days at year end is converted to sick leave.

In addition to the vacation leave described above, compensated absences include the accumulated unused portion of the special annual leave bonuses awarded by the North Carolina General Assembly. The bonus leave balance on June 30 is retained by employees and transferred into the next fiscal year. It is not subject to the limitation on annual leave carried forward described above and is not subject to conversion to sick leave.

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

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

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

Restricted Net Assets – Expendable – Expendable restricted net assets include resources 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 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.

O. **Internal Sales Activities** – The Print Shop provides goods and services to College departments. All internal sales activities to College departments from the Print Shop have been eliminated in the accompanying financial statements. These eliminations are recorded by removing the revenue and expense in the Print Shop 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 $1,800.00, and deposits in private financial institutions with a carrying value of $873,306.06, and a bank balance of $1,106,543.36.

The North Carolina Administrative Code (20 NCAC 7) requires all depositories to collateralize public deposits in excess of federal depository insurance coverage by using one of two methods, dedicated or pooled. Under the dedicated method, a separate escrow account is established by each depository in the name of each local governmental unit and the responsibility of monitoring collateralization rests with the local unit. Under the pooling method, each depository establishes an escrow account in the name of the State Treasurer to secure all of its public deposits. This method shifts the monitoring responsibility from the local unit to the State Treasurer.

Custodial credit risk is the risk that in the event of a bank failure, the College's deposits may not be returned to it. As of June 30, 2008, the College's bank balance in excess of federal depository insurance coverage was covered 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, 2008, the College investments consisted of money market mutual funds with a fair value of $10,835.54 in the North Carolina Capital Management Trust. This investment is subject to interest rate risk at June 30, 2008. Interest rate risk is defined by GASB Statement No. 40 as the risk a government may face should interest rate variances affect the fair value of investments. The College does not have a formal investment policy that addresses interest rate risk. The North Carolina Capital Management Trust had a maturity of less than one year at June 30, 2008.

Credit Risk: The College does not have a formal policy that addresses credit risk. As of June 30, 2008, the College's investment held in the North Carolina Capital Management Trust carried a credit rating of AAAm by Standard and Poor's.

A reconciliation of deposits and investments for the College to the basic financial statements at June 30, 2008, is as follows:

Cash on Hand	$	1,800.00
Carrying Amount of Deposits with Private Financial Institutions		873,306.06
Investment in the NC Capital Management Trust		10,835.54
Total Deposits and Investments	$	885,941.60
Current:		
Cash and Cash Equivalents	$	297,473.02
Restricted Cash and Cash Equivalents		577,633.04
Restricted Short-Term Investments		10,835.54
Total	$	885,941.60

Component Unit - Investments of the College's component unit, the Foundation, are subject to and restricted by G.S. 36B "Uniform Management of Institutional Funds Act" (UMIFA) and any requirements placed on them by contract or donor agreements. Because the Foundation reports under the FASB reporting model, disclosures of various investment risks are not required.

Investments, at market, consist of the following at June 30, 2008:

Asset Description		Amount
Equity Securities	$	816,313.00
US Treasuries Securities		217,334.00
Corporate Bonds		33,958.00
Fixed Income		226,807.00
Total Investments, at market	$	1,294,412.00

NOTE 3 - RECEIVABLES

Receivables at June 30, 2008, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	$ 277,835.75	$ 113,273.20	$ 164,562.55
Intergovernmental	48,570.66		48,570.66
Other	75,029.22		75,029.22
Total Current Receivables	$ 401,435.63	$ 113,273.20	$ 288,162.43

NOTE 4 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2008, is presented as follows:

	Balance July 1, 2007 (as restated)	Increases	Decreases	Balance June 30, 2008
Capital Assets, Nondepreciable:				
Land	$ 2,411,526.91	$ 0.00	$ 0.00	$ 2,411,526.91
Construction in Progress	4,961,238.97	3,153,708.73	7,731,415.39	383,532.31
Total Capital Assets, Nondepreciable	7,372,765.88	3,153,708.73	7,731,415.39	2,795,059.22
Capital Assets, Depreciable:				
Buildings	33,838,527.82	8,342,330.53		42,180,858.35
Machinery and Equipment	4,516,161.21	224,407.30		4,740,568.51
General Infrastructure	743,676.00			743,676.00
Total Capital Assets, Depreciable	39,098,365.03	8,566,737.83		47,665,102.86
Less Accumulated Depreciation:				
Buildings	6,439,931.81	703,771.72		7,143,703.53
Machinery and Equipment	1,562,273.30	153,072.53		1,715,345.83
General Infrastructure	298,930.09	24,559.55		323,489.64
Total Accumulated Depreciation	8,301,135.20	881,403.80		9,182,539.00
Total Capital Assets, Depreciable, Net	30,797,229.83	7,685,334.03		38,482,563.86
Capital Assets, Net	$ 38,169,995.71	$ 10,839,042.76	$ 7,731,415.39	$ 41,277,623.08

NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2008, were as follows:

	Amount
Accounts Payable	$ 352,024.55
Accrued Payroll	530,421.99
Contract Retainage	60,000.00
Total Accounts Payable and Accrued Liabilities	$ 942,446.54

NOTE 6 - LONG-TERM LIABILITIES

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

	Balance July 1, 2007	Additions	Reductions	Balance June 30, 2008	Current Portion
Notes Payable	$ 260,007.08	$ 0.00	$ 79,992.92	$ 180,014.16	$ 79,992.92
Compensated Absences	1,731,501.68	250,211.11	807,923.43	1,173,789.36	85,686.62
Total Long-Term Liabilities	$ 1,991,508.76	$ 250,211.11	$ 887,916.35	$ 1,353,803.52	$ 165,679.54

B. Notes Payable – The College was indebted for notes payable for the purposes shown in the following table:

Purpose	Financial Institution	Interest Rate/ Ranges	Final Maturity Date	Original Amount of Issue	Principal Paid Through 06/30/2008	Principal Outstanding 06/30/2008
Purchase Building	Durham Exchange Industries	0.00%	09/30/2011	$ 400,000.00	$ 219,985.84	$ 180,014.16

The annual requirements to pay principal on the notes payable at June 30, 2008, are as follows:

Fiscal Year	Principal
2009	$ 79,993.00
2010	79,993.00
2011	20,028.16
Total Requirements	$ 180,014.16

Durham Technical Community College purchased the facility at 825 Bacon Street, Durham, NC for a cost of $752,910.00 from the Durham Exchange Industries, Inc., a nonprofit corporation. The terms of the purchase include a down payment at closing of $352,910.00 and an interest free note of $400,000.00 with equal payments over 60 months. The funding source for the monthly payments will be the Durham County annual capital appropriation. The payments began in November 2005 and will mature with the last payment in September 2011.

NOTE 7 - OPERATING LEASE OBLIGATIONS

Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2008:

Fiscal Year	Amount
2009	$ 175,354.00
2010	196,855.00
2011	200,478.00
2012	204,201.00
2013	208,022.00
2014-2018	422,296.00
Total Minimum Lease Payments	$ 1,407,206.00

Rental expense for all operating leases during the year was $70,999.72.

NOTE 8 - REVENUES

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

	Gross Revenues	Internal Sales Eliminations	Less Scholarship Discounts	Less Allowance for Uncollectibles	Net Revenues
Operating Revenues:					
Student Tuition and Fees	$ 5,525,808.81	$ 0.00	$ 1,740,643.74	$ (54,851.19)	$ 3,840,016.26
Sales and Services:					
Sales and Services of Auxiliary Enterprises:					
Dining	$ 21,218.39	$ 0.00	$ 0.00	$ 0.00	$ 21,218.39
Bookstore	178,656.00		53,619.61		125,036.39
Other	24,421.55				24,421.55
Print Shop	209,167.53	209,167.53			0.00
Total Sales and Services	$ 433,463.47	$ 209,167.53	$ 53,619.61	$ 0.00	$ 170,676.33

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	$ 15,301,865.63	$ 1,800,480.09	$ 1,288,107.06	$ 0.00	$ 0.00	$ 0.00	$ 18,390,452.78
Public Service	76,967.59	14,410.69	11,106.62				102,484.90
Academic Support	2,775,185.31	136,617.18	88,776.92				3,000,579.41
Student Services	1,613,015.50	24,477.48	220,910.78				1,858,403.76
Institutional Support	3,572,874.24	241,097.91	950,447.01				4,764,419.16
Operations and Maintenance of Plant	662,129.84	306,653.15	1,643,555.98		694,255.48		3,306,594.45
Student Financial Aid			8,509.64	2,225,289.51			2,233,799.15
Auxiliary Enterprises	42,521.32	11,924.18	99,209.20				153,654.70
Depreciation						881,403.80	881,403.80
Total Operating Expenses	$ 24,044,559.43	$ 2,535,660.68	$ 4,310,623.21	$ 2,225,289.51	$ 694,255.48	$ 881,403.80	$ 34,691,792.11

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, 2008, these rates were set at 3.05% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the College had a total payroll of $21,800,963.29, of which $16,206,187.62 was covered under the Teachers' and State Employees' Retirement System. Total employer and employee contributions for pension benefits for the year were $494,288.72 and $972,371.36, respectively.

Required employer contribution rates for the years ended June 30, 2007, and 2006, were 2.66% and 2.34%, respectively, while employee contributions were 6% each year. The College made 100% of its annual required contributions for the years ended June 30, 2008, 2007, and 2006, which were $494,288.72, $401,042.80, and $323,208.83, 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.ncosc.net/ 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. The voluntary contributions by employees amounted to $277,770 for the year ended June 30, 2008.

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 $178,057.06 for the year ended June 30, 2008.

NOTE 11 - OTHER POSTEMPLOYMENT BENEFITS

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

The Plan's benefit and contribution provisions are established by Chapter 135-7, Article 1, and Chapter 135, Article 3, of the General Statutes and may be amended only by the North Carolina General Assembly. The Plan does not provide for automatic post-retirement benefit increases.

By General Statute, a Retiree Health Benefit Fund (the Fund) has been established as a fund in which accumulated contributions from employers and any earnings on those contributions shall be used to provide health benefits to retired and disabled employees and applicable beneficiaries. By statute, the Fund is administered by the Board of Trustees Teachers' and State Employees' Retirement System and contributions to the fund are irrevocable. Also by law, Fund assets are dedicated to providing benefits to retired and disabled employees and applicable beneficiaries and are not subject to the claims of creditors of the employers making contributions to the Fund. Contribution rates to the Fund, which are intended to finance benefits and administrative expenses on a pay-as-you-go basis, are determined by the General Assembly in the Appropriations Bill.

For the current fiscal year, the College contributed 4.1% of the covered payroll under the Teachers' and State Employees' Retirement System to the Fund. Required contribution rates for the years ended June 30, 2007, and 2006, were 3.8% and 3.8%, respectively. The College made 100% of its annual required contributions to the Plan for the years ended June 30, 2008, 2007, and 2006, which were $664,453.69, $572,918.28, and $524,869.05, respectively. The College assumes no liability for retiree health care benefits provided by the programs other than its required contribution.

Additional detailed information about these programs can be located in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page http://www.ncosc.net/ and clicking on "Financial Reports," or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

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

Disability income benefits are funded by actuarially determined employer contributions that are established in the Appropriations Bill by the General Assembly. For the fiscal year ended June 30, 2008, the College made a statutory contribution of .52% of covered payroll under the Teachers' and State Employees' Retirement System to the DIPNC. Required contribution rates for the years ended June 30, 2007, and 2006, were .52% and .52%, respectively. The College made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2008, 2007, and 2006, which were $84,272.18, $78,399.34, and $71,824.19, respectively. The College assumes no liability for long-term disability benefits under the Plan other than its contribution.

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

NOTE 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 $1,000,000 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. This coverage is with a private insurance company and is handled by the North Carolina Department of Insurance with coverage of $5,000,000 per occurrence with a $75,000 deductible and a 10% participation in each loss above the deductible. The College also has a private insurance coverage from employee dishonesty, forgery or alterations, 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. The employer contribution rate was .16% for the current fiscal year.

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

NOTE 13 - COMMITMENTS

The College has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were $5,039,009.63 at June 30, 2008.

NOTE 14 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2008, the College implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

> GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.
>
> GASB Statement No. 50, *Pension Disclosures*.

GASB Statement No. 45, requires cost-sharing employers to recognize OPEB expense for their contractually required contributions to the plan generally consistent with the approach adopted in GASB Statement No. 27, *Accounting* *for Pensions by State and Local Governmental Employers*, with modifications to reflect differences between pension benefits and OPEB.

GASB Statement No. 50, aligns financial reporting requirements for pensions with those of other postemployment benefits, to conform with GASB Statement No. 45. This Statement amends GASB Statement No. 27 to require note disclosure of the employer contribution rates and percentage of the amount contributed for the current and preceding two years and to disclose how the required contribution rates are established.

NOTE 15 - NET ASSET RESTATEMENT

As of July 1, 2007, net assets as previously reported was restated as follows:

	Amount
July 1, 2007, Net Assets as Previously Reported	$ 33,360,081.19
Restatement:	
To Correct Errors in the Omission and Calculation of Depreciation Expense for Capital Assets	4,917,714.98
July 1, 2007, Net Assets as Restated	$ 38,277,796.17

STATE OF NORTH CAROLINA
Office of the State Auditor

Beth A. Wood, CPA
State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601
Telephone: (919) 807-7500
Fax: (919) 807-7647
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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, 2008, which collectively comprise the College's basic financial statements and have issued our report thereon dated July 31, 2009. Our report was modified to include a reference to other auditors.

As discussed in Note 14 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* and Statement No. 50, *Pension Disclosures*, during the year ended June 30, 2008.

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. Other auditors audited the financial statements of Durham Technical Community College Foundation, Inc., the discretely presented component unit, as described in our report on the College's financial statements. The financial statements of the discretely presented component unit were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the College's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the College's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the College's financial statements that is more than inconsequential will not be prevented or detected by the College's internal control. We consider the deficiencies described in the Audit Findings and Responses section of this report to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the College's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, the significant deficiencies described above are considered 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*.

The College's responses to the findings identified in our audit are described in the Audit Findings and Responses section of this report. We did not audit the College's response and, accordingly, we express no opinion on it.

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)

This report is intended solely for the information and use of management of the College the Board of Trustees, others within the entity, the State Board of Community Colleges, the Governor, the State Controller, and the General Assembly, and is not intended to be and should not be used by anyone other than these specified parties.

Beth A. Wood

Beth A. Wood, CPA
State Auditor

July 31, 2009

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AUDIT FINDINGS AND RESPONSES

Matters Related to Financial Reporting

The following findings were identified during the current audit and describe conditions that represent significant deficiencies in internal control.

1. FINANCIAL STATEMENTS AND NOTES REQUIRED SIGNIFICANT CORRECTIONS

   The financial statements and notes prepared and presented for audit by the College contained significant errors. Audit adjustments were necessary to correct the financial statements to ensure the proper presentation of the College's financial condition and results of operations.

   Misstatements noted in our audit included:

   a. The College posted one erroneous journal entry and failed to record another journal entry that resulted in a $401,334 overstatement of unearned revenue.

   b. The College failed to properly record their joint ownership of land with Orange County, resulting in an understatement of nondepreciable capital assets in the amount of $1,254,012.

   c. The College did not perform an adequate annual review of its capital assets to ensure the reasonableness of estimated useful lives. As a result, there were a number of fully depreciated assets that remained in use and should still be reflected in the capital asset balances. An audit adjustment in the amount for $3,834,911 was required to properly reflect the balances of depreciable assets.

   d. The College failed to adequately review automatically generated journal entries for depreciation expense. As a result, land was depreciated in error, resulting in depreciable capital assets being understated by $38,394.

   e. The College failed to reconcile the capital assets subsidiary ledger to the general ledger, which led to material misstatements as identified above in the capital assets accounts.

   f. The College misclassifed the receipt of county capital aid in the amount of $3,240,048. The revenue was inappropriately recorded as state capital aid.

   g. The long-term liabilities note did not disclose any additions to the compensated absences liability for leave earned during the year.

   h. The College failed to disclose future minimum lease payments in the amount of $1,407,206 for their operating lease obligations.

   i. The College failed to disclose outstanding commitments on construction contracts in the amount of $5,039,010.

There were other problems and a lack of controls related to the financial reporting process as well. Specifically:

- The College's financial statement package was not submitted timely to the Office of the State Controller and Office of the State Auditor.
- The College's financial statements submitted for audit were not supported by the College's general ledger. The College made several attempts to produce financial statements, notes, and supporting documentation; however, the numerous inconsistencies required extensive analysis and investigation to ensure the financial statements were fairly presented.
- Journal entries posted by the College did not have adequate explanations or supporting documentation.
- Management's review of the financial statements and the notes to the financial statements prior to submission to the Office of the State Controller and the Office of the State Auditor was limited and failed to identify misstatements on the financial statements and notes.

Recommendation: The College should place greater emphasis on the year-end financial reporting process and implement effective internal control procedures to ensure the completeness and accuracy of the financial statements. The College should perform an adequate review of the journal entries posted to the general ledger to ensure the entries are appropriate and adequately supported.

Response: The College agrees with the recommendation related to Finding 1 and has implemented personnel changes that are designed to strengthen internal control procedures and provide more effective review of all financial transactions and the related entries to properly record those transactions. Personnel changes implemented effective July 1, 2008 included:

1. Hiring a new Chief Financial Officer with prior experience managing the College's business office.
2. Reassigning duties of existing staff to: strengthen management control; more clearly delineate accountability for record keeping and maintenance of ledgers; and to clarify duties and designate specific personnel responsible for internal and external reporting to include preparation of financial statements.
3. Reviewing and making changes to business office operating procedures to ensure compliance with external reporting requirements.

These changes, coupled with more direct involvement in daily operations by the Chief Financial Officer, are designed to provide more complete, timely and accurate preparation and reporting of the College's financial reports and statements.

2. INADEQUATE BANK RECONCILIATIONS

The College did not perform monthly bank reconciliations for the institutional funds account during our audit period. In addition, the College did not perform bank reconciliations for the county funds account for the last six months of our audit period. This increases the risk of error and misappropriation of assets.

The majority of the College's transactions are processed through these two bank accounts. The College was unable to completely reconcile these accounts until March 2009, resulting in reconciling items that were not properly identified, researched, and corrected in a timely manner. An audit adjustment in the amount of $39,269 was required to correct the cash balance.

Recommendation: The College should establish procedures to ensure that all bank accounts are reconciled completely, accurately, and timely.

Response: The College agrees with this recommendation and has reassigned the responsibility for bank statement preparation to more experienced staff. Bank reconciliations for all accounts are currently being reconciled on a timely basis.

3. DEFICIENCIES IN INTERNAL CONTROL OVER ACCOUNTS RECEIVABLE

The College did not properly prepare for the July 1, 2007 implementation of a new accounting system module used to maintain student accounts. As a result, a significant portion of the receivables balance was recorded twice. Additionally, the College inadequately reviewed the receivables account at year-end. As a result, accounts that were uncollectible were included in the account balance. These issues resulted in an overstatement of receivables in the amount of $128,053.

Recommendation: The College should recognize that significant changes, such as implementing new systems, heighten the risk of error in the financial statements and implement effective internal control procedures to address the increased risk. Additionally, the College should implement proper policies and procedures to ensure accounts are sufficiently reviewed at year-end to avoid significant misstatements in the financial statements and note disclosures.

Response: The College agrees with this recommendation and, as cited in our response to Finding 1, personnel changes and reassignment of duties among our business office staff have been implemented to enhance internal control, promote operational efficiency and accountability. Additionally, business office staff will be required to participate in ongoing training for our new accounting system modules as opportunities for such training is made available through the Community College System training support staff.

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