# STATE OF NORTH CAROLINA

## DURHAM TECHNICAL COMMUNITY COLLEGE

### DURHAM, NORTH CAROLINA

## FINANCIAL STATEMENT AUDIT REPORT

**FOR THE YEAR ENDED JUNE 30, 2010**


**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, 2010

STATE OF NORTH CAROLINA
Office of the State Auditor

**Beth A. Wood, CPA**
State Auditor

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## AUDITOR'S TRANSMITTAL

The Honorable Beverly E. Perdue, 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, 2010, 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, 2010, which collectively comprise the College's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the College's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Durham Technical Community College Foundation, Inc., 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 the discretely presented component unit, 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, 2010, 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.

## INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

As discussed in Note 14 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 51, *Accounting and Financial Reporting for Intangible Assets* during the year ended June 30, 2010.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 7, 2011 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, 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 required supplementary information. However, we did not audit the information and express no opinion on it.

Beth A. Wood

Beth A. Wood, CPA
State Auditor

June 7, 2011

## 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 interrelated 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 ending 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, 2010. 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 assets 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, 2010 and 2009:

**Condensed Statement of Net Assets**

| | 2010 | 2009 | Change |
|---|---|---|---|
| **ASSETS** | | | |
| Current Assets | $ 2,970,946.52 | $ 519,091.47 | $ 2,451,855.05 |
| Capital Assets, Net | 44,715,523.14 | 42,481,805.94 | 2,233,717.20 |
| Other Noncurrent Assets | 95,695.87 | 95,695.87 | |
| **Total Assets** | 47,782,165.53 | 43,096,593.28 | 4,685,572.25 |
| **LIABILITIES** | | | |
| Current Liabilities | 3,094,714.22 | 811,914.00 | 2,282,800.22 |
| Noncurrent Liabilities | 1,024,574.51 | 1,163,852.48 | (139,277.97) |
| **Total Liabilities** | 4,119,288.73 | 1,975,766.48 | 2,143,522.25 |
| **NET ASSETS** | | | |
| Invested in Capital Assets, Net of Related Debt | 44,695,494.82 | 42,381,784.70 | 2,313,710.12 |
| Restricted for: | | | |
| Expendable | 2,156,938.34 | 907,529.67 | 1,249,408.67 |
| Unrestricted | (3,189,556.36) | (2,168,487.57) | (1,021,068.79) |
| **Total Net Assets** | $ 43,662,876.80 | $ 41,120,826.80 | $ 2,542,050.00 |

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

- Current assets increased significantly from the prior year due to an increase in cash and cash equivalents and intergovernmental receivables. The increase in cash and cash equivalents was due primarily to a higher tuition rate charged for self support classes offered during the summer session of $390,000, an increase in bookstore commissions of $144,641 over last year, and an increase in student activity fees, parking fees, and other funds held for students of $397,532 over last year for a total of $932,173. In addition, intergovernmental receivables increased $930,187.89 due to recording receivables due from the federal government. The remaining increase relates to student receivables and results from the increase in enrollment and tuition and fees.

- The increase in capital assets is primarily attributable to the cost of renovation of the White Building.
- Liabilities totaled $4,119,288.73, an increase of $2,143,522.25 from the previous year. This increase is mainly due to the increase in current liabilities of $2,282,800.22 due to the following factors: Payables to vendors increased $910,607 due to a carryover of year-end accrued payables. Accounts payable increased $937,499.33 based on adjustments to record contract retainage at year end, to correct amounts due to students that were originally reflected as negative receivables, and to record payables due to the bookstore. The remaining difference is related to fewer goods and services purchased in 2009 compared to current year and, unlike fiscal year end 2010, funds were available to settle most outstanding payables before year end in 2009.
- 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 the 825 Bacon Street Building.
- Net assets totaled $43,662,876.80, an increase of $2,542,050.00 over the previous year. This increase is due primarily to an increase in invested in capital assets, net. Invested in capital assets, net increased primarily due to the renovation of the White Building project.
- Restricted expendable net assets increased $1,249,408.67. This was due to an increase of $930,187.89 as a result of recording intergovernmental receivables due from the federal government. The College received a grant from Duke Energy that was specifically given to the College for the use towards the Sustainability Technologies Program in the amount of $248,840.43.

**Capital Assets**

The College has undertaken several 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 fiscal year 2003-2004 and added an additional $2,000,000 in fiscal year 2006-2007.

The College expended $2,611,547.89 during fiscal year 2009-2010 and $2,191,961.63 during fiscal year 2008-2009 for the construction of buildings/infrastructure and for the renovation or repair of its facilities using county bond funds. The increase in capital assets, net of $2,233,717.20 is the result of construction in progress completed on the White Building.

## 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 ended June 30, 2010. 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* provide 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 of June 30, 2010 and 2009:

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

| | FY 2009-2010 | FY 2008-2009 | Change |
|---|---|---|---|
| Operating Revenues: | | | |
| Student Tuition and Fees, Net | $ 4,462,927.33 | $ 3,558,532.76 | $ 904,394.57 |
| Federal Grants and Contracts | 81,862.60 | 77,899.12 | 3,963.48 |
| State and Local Grants and Contracts | 1,343,067.14 | 1,497,448.66 | (154,381.52) |
| Sales and Services | 302,273.89 | 202,108.69 | 100,165.20 |
| Other Operating Revenues | 586,642.64 | 244,613.05 | 342,029.59 |
| Total Operating Revenues | 6,776,773.60 | 5,580,602.28 | 1,196,171.32 |
| Operating Expenses: | | | |
| Salaries and Benefits | 25,802,940.89 | 25,430,258.75 | 372,682.14 |
| Supplies and Materials | 2,361,772.46 | 2,138,902.65 | 222,869.81 |
| Services | 3,628,383.82 | 4,125,373.81 | (496,989.99) |
| Scholarships and Fellowships | 6,769,128.31 | 3,530,879.59 | 3,238,248.72 |
| Other Operating Expenses | 1,803,910.59 | 1,708,094.17 | 95,816.42 |
| Total Operating Expenses | 40,366,136.07 | 36,933,508.97 | 3,432,627.10 |
| Operating Loss | (33,589,362.47) | (31,352,906.69) | (2,236,455.78) |
| Nonoperating Revenues: | | | |
| State Aid | 18,232,552.98 | 19,875,328.77 | (1,642,775.79) |
| County Appropriations | 4,742,465.04 | 4,775,345.37 | (32,880.33) |
| Noncapital Grants | 9,235,805.51 | 4,512,326.93 | 4,723,478.58 |
| Other Nonoperating Revenues | 81,756.36 | 7,476.30 | 74,280.06 |
| Total Nonoperating Revenues | 32,292,579.89 | 29,170,477.37 | 3,122,102.52 |
| Loss Before Other Revenues | (1,296,782.58) | (2,182,429.32) | 885,646.74 |
| Other Revenues | 3,838,832.58 | 1,369,116.85 | 2,469,715.73 |
| Increase (Decrease) in Net Assets | 2,542,050.00 | (813,312.47) | 3,355,362.47 |
| Net Assets, July 1 | 41,120,826.80 | 41,934,139.27 | (813,312.47) |
| Net Assets, June 30 | $ 43,662,876.80 | $ 41,120,826.80 | $ 2,542,050.00 |

The *Statement of Revenues, Expenses, and Changes in Net Assets* reflect an increase of $2,542,050.00 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 $33,589,362.47, a slight 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.
- Nonoperating revenues and operating expenses increased primarily due to an increase in federal student financial aid awarded and disbursed to students.
- Other revenues increased by $2,469,715.73 primarily due to an increase in county capital aid of $2,602,514.70, while state capital aid decreased by $132,798.97.

The main sources of operating revenues are the following: student tuition and fees (65.9%) and state and local grants and contracts (19.8%). Total operating revenue increased $1,196,171.32 primarily due to an increase in student tuition and fees revenue of $904,394.57 and an increase in other operating revenue of $342,029.59 due to an increase in fees. The revenue increases were a result of increased enrollment during the fiscal year.

Nonoperating revenue increased $3,122,102.52, primarily due to an increase in noncapital grants of $4,723,478.58. Noncapital grants increased by $4,164,170.38 due to an increase in federal student financial aid due to the increase in eligible students. Noncapital grants also increased by $559,308.20 due to an increase in state and private grants. The College had a $1,642,775.79 decrease in state aid for current operating use.

Salaries and benefits account for 63.9% of the total operating expenses and decreased slightly compared to the prior year of 68.9%. Salaries and benefits did not increase proportionally to revenue due to state hiring restrictions and no state pay increases over the past two years.

The remaining operating expenses account for 36.1% of total operating expenses. Those percentages are: scholarships and fellowships (16.8%), services (9.0%), supplies and materials (5.8%), and other (4.5%).

Supplies and materials expense increased $222,869.81, primarily due to cost increases for supplies and materials compared with the prior year and an increase in the number of classes taught.

Services expense decreased $496,989.99 primarily due to the reduction of personal service contracts for customized training program projects. These projects consisted of offering programs for customized, job-specific training needs of new industries which are moving into the state and also for existing industries undergoing a major expansion. Due to the declining economy, needs for this customized training program decreased from the prior year.

Scholarships and fellowships expense increased $3,238,248.72 primarily due to a large increase in student enrollment and more students qualifying for financial assistance.

## Economic Factors That Will Affect the Future

Management is not aware of any currently known specific 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 2010-2011 beyond those unknown variations having a global effect on virtually all types of business operations. We anticipate the College receiving less funding in the future, 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 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 43.8% of the College's total revenues for fiscal year 2009-2010.

Curriculum and occupational enrollment are increasing as is normal during periods of economic downturn and high unemployment. These same economic conditions have historically caused a reduction in state revenues which in turn places severe restrictions on state funding for education. The College management is closely monitoring these economic conditions and their impact on future state funding. To accommodate the increase enrollment growth, management will be pursuing alternative funding sources in the private sector to supplement our state and county funding.

***Durham Technical Community College***
***Statement of Net Assets***
***June 30, 2010*** ***Exhibit A-1***

| | | |
|---|---|---|
| **ASSETS** | | |
| Current Assets: | | |
| Restricted Cash and Cash Equivalents | $ | 1,253,473.13 |
| Restricted Short-Term Investments | | 11,033.47 |
| Receivables, Net (Note 3) | | 1,697,863.83 |
| Due from State of North Carolina Component Units | | 28.48 |
| Inventories | | 8,547.61 |
| Total Current Assets | | 2,970,946.52 |
| Noncurrent Assets: | | |
| Restricted Due from Primary Government | | 95,695.87 |
| Capital Assets - Nondepreciable (Note 4) | | 8,178,216.62 |
| Capital Assets - Depreciable, Net (Note 4) | | 36,537,306.52 |
| Total Noncurrent Assets | | 44,811,219.01 |
| Total Assets | | 47,782,165.53 |
| **LIABILITIES** | | |
| Current Liabilities: | | |
| Accounts Payable and Accrued Liabilities (Note 5) | | 2,508,321.03 |
| Unearned Revenue | | 212,569.59 |
| Funds Held for Others | | 185,061.49 |
| Long-Term Liabilities - Current Portion (Note 6) | | 188,762.11 |
| Total Current Liabilities | | 3,094,714.22 |
| Noncurrent Liabilities: | | |
| Long-Term Liabilities (Note 6) | | 1,024,574.51 |
| Total Liabilities | | 4,119,288.73 |
| **NET ASSETS** | | |
| Invested in Capital Assets, Net of Related Debt | | 44,695,494.82 |
| Restricted for: | | |
| Expendable: | | |
| Scholarships and Fellowships | | 825,728.99 |
| Loans | | 1,182.80 |
| Restricted for Specific Programs | | 248,840.43 |
| Other | | 1,081,186.12 |
| Unrestricted | | (3,189,556.36) |
| Total Net Assets | $ | 43,662,876.80 |

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, 2010*** ***Exhibit A-2***

| | | |
|---|---|---|
| **REVENUES** | | |
| Operating Revenues: | | |
| Student Tuition and Fees, Net (Note 8) | $ | 4,462,927.33 |
| Federal Grants and Contracts | | 81,862.60 |
| State and Local Grants and Contracts | | 1,343,067.14 |
| Sales and Services | | 302,273.89 |
| Other Operating Revenues | | 586,642.64 |
| Total Operating Revenues | | 6,776,773.60 |
| **EXPENSES** | | |
| Operating Expenses: | | |
| Salaries and Benefits | | 25,802,940.89 |
| Supplies and Materials | | 2,361,772.46 |
| Services | | 3,628,383.82 |
| Scholarships and Fellowships | | 6,769,128.31 |
| Utilities | | 708,519.87 |
| Depreciation | | 1,095,390.72 |
| Total Operating Expenses | | 40,366,136.07 |
| Operating Loss | | (33,589,362.47) |
| **NONOPERATING REVENUES** | | |
| State Aid | | 18,232,552.98 |
| County Appropriations | | 4,742,465.04 |
| Noncapital Grants - Federal Student Financial Aid | | 8,676,497.31 |
| Noncapital Grants | | 559,308.20 |
| Noncapital Gifts | | 81,519.08 |
| Investment Income | | 72.28 |
| Other Nonoperating Revenues | | 165.00 |
| Total Nonoperating Revenues | | 32,292,579.89 |
| Loss Before Other Revenues | | (1,296,782.58) |
| State Capital Aid | | 579,496.30 |
| County Capital Aid | | 3,259,336.28 |
| Increase in Net Assets | | 2,542,050.00 |
| **NET ASSETS** | | |
| Net Assets, July 1, 2009 | | 41,120,826.80 |
| Net Assets, June 30, 2010 | $ | 43,662,876.80 |

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, 2010* — ***Exhibit A-3***

| | |
|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | |
| Received from Customers | $ 6,192,663.13 |
| Payments to Employees and Fringe Benefits | (25,604,157.76) |
| Payments to Vendors and Suppliers | (5,459,103.23) |
| Payments for Scholarships and Fellowships | (7,699,316.20) |
| Other Receipts | 65,095.84 |
| Net Cash Used by Operating Activities | (32,504,818.22) |
| **CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES** | |
| State Aid Received | 18,232,552.98 |
| County Appropriations | 4,742,465.04 |
| Noncapital Grants - Federal Student Financial Aid | 8,676,497.31 |
| Noncapital Grants Received | 559,279.72 |
| Noncapital Gifts Received | 81,519.08 |
| Cash Provided by Noncapital Financing Activities | 32,292,314.13 |
| **CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES** | |
| State Capital Aid Received | 579,496.30 |
| County Capital Aid | 3,259,336.28 |
| Proceeds from Insurance on Capital Assets | 165.00 |
| Acquisition and Construction of Capital Assets | (2,611,547.89) |
| Principal Paid on Capital Debt | (79,992.92) |
| Net Cash Provided by Capital and Related Financing Activities | 1,147,456.77 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | |
| Investment Income | 72.28 |
| Purchase of Investments and Related Fees | (20.66) |
| Net Cash Provided by Investing Activities | 51.62 |
| Net Increase in Cash and Cash Equivalents | 935,004.30 |
| Cash and Cash Equivalents, July 1, 2009 | 318,468.83 |
| Cash and Cash Equivalents, June 30, 2010 | $ 1,253,473.13 |

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

| | |
|---|---|
| Operating Loss | $ (33,589,362.47) |
| Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities: | |
| Depreciation Expense | 1,095,390.72 |
| Changes in Assets and Liabilities: | |
| Receivables, Net | (1,517,817.46) |
| Inventories | 1,015.85 |
| Accounts Payable and Accrued Liabilities | 1,434,151.72 |
| Unearned Revenue | 3,519.10 |
| Funds Held for Others | 65,095.84 |
| Compensated Absences | 3,188.48 |
| Net Cash Used by Operating Activities | $ (32,504,818.22) |

**RECONCILIATION OF CASH AND CASH EQUIVALENTS**

| | |
|---|---|
| Current Assets: | |
| Restricted Cash and Cash Equivalents | $ 1,253,473.13 |
| Total Cash and Cash Equivalents - June 30, 2010 | $ 1,253,473.13 |

**NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES**

| | |
|---|---|
| Assets Acquired through Assumption of a Liability | $ 840,677.14 |
| Increase in Receivables Related to Nonoperating Income | 28.48 |

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, 2010* *Exhibit B-1*

| | | |
|---|---|---|
| **ASSETS** | | |
| Cash and Cash Equivalents | $ | 1,333,906 |
| Investments | | 881,745 |
| Total Assets | | 2,215,651 |
| **NET ASSETS** | | |
| Unrestricted | | 56,312 |
| Temporarily Restricted | | 2,159,339 |
| Total Net Assets | $ | 2,215,651 |

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, 2010*** ***Exhibit B-2***

| | | |
|---|---|---|
| **CHANGES IN UNRESTRICTED NET ASSETS** | | |
| Revenues and Gains: | | |
| Contributions | $ | 181,303 |
| Income on Long-Term Investments | | 499 |
| Total Unrestricted Revenues | | 181,802 |
| Net Assets Released from Restrictions: | | |
| Satisfaction of Program Restrictions | | 83,103 |
| Total Unrestricted Revenues and Other Support | | 264,905 |
| Expenses and Losses: | | |
| Program Services | | 83,103 |
| Management and General | | 204,929 |
| Total Expenses | | 288,032 |
| Decrease in Unrestricted Net Assets | | (23,127) |
| **CHANGES IN TEMPORARILY RESTRICTED NET ASSETS** | | |
| Contributions | | 117,135 |
| Income on Long-Term Investments | | 39,630 |
| Net Unrealized and Realized Gains on Long-Term Investments | | 20,039 |
| Net Assets Released from Restrictions: | | |
| Satisfaction of Program Restrictions | | (83,103) |
| Increase in Temporarily Restricted Net Assets | | 93,701 |
| Increase in Net Assets | | 70,574 |
| Net Assets at Beginning of Year | | 2,145,077 |
| Net Assets at End of Year | $ | 2,215,651 |

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

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

**Discretely Presented Component Unit** - Durham Technical Community College Foundation, Inc. (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 fundraising 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 the Governmental Accounting Standards Board (GASB) revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information in the College's financial reporting entity for these differences.

During the year ended June 30, 2010, the Foundation distributed $83,103 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 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 FASB pronouncements issued after November 30, 1989, 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, regardless of the timing of the cash flows.

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

**D. Cash and Cash Equivalents** - This classification includes undeposited receipts, petty cash, and cash on deposit with private bank 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 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 value of assets constructed includes all material direct and indirect construction costs. Interest costs incurred are capitalized during the period of construction.

The College capitalizes assets that have a value or cost of $5,000 or greater at the date of acquisition and an estimated useful life of more than one year. 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 2 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 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. When classifying compensated absences into current and noncurrent, leave is considered taken using a last-in, first-out (LIFO) method. Also, any accumulated vacation leave in excess of 30 days at 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.

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

**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. 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 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. **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 $3,300.00, and deposits in private financial institutions with a carrying value of $1,250,173.13, and a bank balance of $1,649,014.94.

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, 2010, 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, 2010, the College's investments consisted of money market mutual funds with a fair value of $11,033.47 in the North Carolina Capital Management Trust. This investment is subject to interest rate risk at June 30, 2010. 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, 2010.

*Credit Risk*: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The College does not have a formal policy that addresses credit risk. As of June 30, 2010, the College's investments in the North Carolina Capital Management Trust were rated as AAAm by Standard and Poor's.

A reconciliation of deposits and investments for the College to the basic financial statements at June 30, 2010, is as follows:

| | | |
|---|---|---|
| Cash on Hand | $ | 3,300.00 |
| Carrying Amount of Deposits with Private Financial Institutions | | 1,250,173.13 |
| Other Investments | | 11,033.47 |
| Total Deposits and Investments | $ | 1,264,506.60 |
| Current: | | |
| Restricted Cash and Cash Equivalents | $ | 1,253,473.13 |
| Restricted Short-Term Investments | | 11,033.47 |
| Total | $ | 1,264,506.60 |

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

| June 30, 2010 | | Fair Value |
|---|---|---|
| **Asset Description:** | | |
| Equity Securities | $ | 464,568 |
| U.S. Treasury Securities | | 92,286 |
| Corporate Bonds | | 20,725 |
| Mutual Funds | | 304,166 |
| | $ | 881,745 |

## NOTE 3 - RECEIVABLES

Receivables at June 30, 2010, were as follows:

| | Gross Receivables | Less Allowance for Doubtful Accounts | Net Receivables |
|---|---|---|---|
| **Current Receivables:** | | | |
| Students | $ 1,068,394.07 | $ 395,392.37 | $ 673,001.70 |
| Intergovernmental | 978,496.00 | | 978,496.00 |
| Other | 46,366.13 | | 46,366.13 |
| **Total Current Receivables** | $ 2,093,256.20 | $ 395,392.37 | $ 1,697,863.83 |

## NOTE 4 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2010, is presented as follows:

| | Balance July 1, 2009 | Increases | Decreases | Balance June 30, 2010 |
|---|---|---|---|---|
| Capital Assets, Nondepreciable: | | | | |
| Land and Permanent Easements | $ 2,411,526.91 | $ 0.00 | $ 0.00 | $ 2,411,526.91 |
| Construction in Progress | 2,479,488.72 | 3,287,200.99 | | 5,766,689.71 |
| **Total Capital Assets, Nondepreciable** | 4,891,015.63 | 3,287,200.99 | | 8,178,216.62 |
| Capital Assets, Depreciable: | | | | |
| Buildings | 42,180,858.35 | | | 42,180,858.35 |
| Machinery and Equipment | 4,831,903.26 | 41,906.93 | | 4,873,810.19 |
| General Infrastructure | 743,676.00 | | | 743,676.00 |
| Total Capital Assets, Depreciable | 47,756,437.61 | 41,906.93 | | 47,798,344.54 |
| Less Accumulated Depreciation for: | | | | |
| Buildings | 7,615,083.56 | 825,964.42 | | 8,441,047.98 |
| Machinery and Equipment | 2,130,097.50 | 187,187.93 | | 2,317,285.43 |
| General Infrastructure | 420,466.24 | 82,238.37 | | 502,704.61 |
| Total Accumulated Depreciation | 10,165,647.30 | 1,095,390.72 | | 11,261,038.02 |
| **Total Capital Assets, Depreciable, Net** | 37,590,790.31 | (1,053,483.79) | | 36,537,306.52 |
| **Capital Assets, Net** | $ 42,481,805.94 | $ 2,233,717.20 | $ 0.00 | $ 44,715,523.14 |

## NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2010, were as follows:

| | Amount |
|---|---|
| Accounts Payable | $ 1,371,438.13 |
| Accrued Payroll | 404,556.83 |
| Contract Retainage | 254,955.72 |
| Other | 477,370.35 |
| **Total Accounts Payable and Accrued Liabilities** | $ 2,508,321.03 |

## NOTE 6 - LONG-TERM LIABILITIES

**A. Changes in Long-Term Liabilities** - A summary of changes in the long-term liabilities for the year ended June 30, 2010, is presented as follows:

| | Balance July 1, 2009 | Additions | Reductions | Balance June 30, 2010 | Current Portion |
|---|---|---|---|---|---|
| Notes Payable | $ 100,021.24 | $ 0.00 | $ 79,992.92 | $ 20,028.32 | $ 20,028.32 |
| Compensated Absences | 1,190,119.82 | 918,105.77 | 914,917.29 | 1,193,308.30 | 168,733.79 |
| **Total Long-Term Liabilities** | $ 1,290,141.06 | $ 918,105.77 | $ 994,910.21 | $ 1,213,336.62 | $ 188,762.11 |

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

| Purpose | Financial Institution | Interest Rate | Final Maturity Date | Original Amount of Issue | Principal Paid Through June 30, 2010 | Principal Outstanding June 30, 2010 |
|---|---|---|---|---|---|---|
| Purchase Building | Durham Exchange Club | 0.00% | 09/30/2010 | $ 400,000.00 | $ 379,971.68 | $ 20,028.32 |

## NOTE 7 - OPERATING LEASE OBLIGATIONS

The College entered into operating leases for rental of classroom and office space. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2010:

| Fiscal Year | Amount |
|---|---|
| 2011 | $ 123,986.16 |
| 2012 | 127,708.38 |
| 2013 | 131,529.42 |
| 2014 | 135,482.22 |
| 2015 | 139,533.84 |
| 2016 - 2019 | 70,788.06 |
| Total Minimum Lease Payments | $ 729,028.08 |

Rental expense for all operating leases during the year was $120,725.76.

## NOTE 8 - REVENUES

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

| | Gross Revenues | Less Scholarship Discounts | Less Allowance for Uncollectibles | Net Revenues |
|---|---|---|---|---|
| **Operating Revenues:** | | | | |
| **Student Tuition and Fees** | $ 7,482,367.64 | $ 2,775,667.38 | $ 243,772.93 | $ 4,462,927.33 |

## NOTE 9 - OPERATING EXPENSES BY FUNCTION

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

| | Salaries and Benefits | Supplies and Materials | Services | Scholarships and Fellowships | Utilities | Depreciation | Total |
|---|---|---|---|---|---|---|---|
| Instruction | $ 15,746,434.66 | $ 1,022,568.03 | $ 591,230.73 | $ 0.00 | $ 0.00 | $ 0.00 | $ 17,360,233.42 |
| Public Service | 61,436.52 | 1,084.36 | 24,050.00 | | | | 86,570.88 |
| Academic Support | 2,624,535.28 | 190,528.67 | 64,095.01 | | | | 2,879,158.96 |
| Student Services | 1,920,596.62 | 50,100.78 | 160,133.17 | | | | 2,130,830.57 |
| Institutional Support | 4,192,726.26 | 293,071.09 | 1,064,985.18 | | | | 5,550,782.53 |
| Operations and Maintenance of Plant | 1,257,211.55 | 795,228.82 | 1,707,126.81 | | 708,519.87 | | 4,468,087.05 |
| Student Financial Aid | | | 1,225.98 | 6,769,128.31 | | | 6,770,354.29 |
| Auxiliary Enterprises | | 9,190.71 | 15,536.94 | | | | 24,727.65 |
| Depreciation | | | | | | 1,095,390.72 | 1,095,390.72 |
| Total Operating Expenses | $ 25,802,940.89 | $ 2,361,772.46 | $ 3,628,383.82 | $ 6,769,128.31 | $ 708,519.87 | $ 1,095,390.72 | $ 40,366,136.07 |

## 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 is a cost-sharing multiple-employer defined benefit pension plan established by the State to provide pension benefits for employees of the State, its component units, and local boards of education. The Plan is administered by 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, 2010, these rates were set at 3.57% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the College had a total payroll of $22,655,029.60, of which $16,904,704.55 was covered under the Teachers' and State Employees' Retirement System. Total employer and employee contributions for pension benefits for the year were $603,497.95 and $1,014,282.27, respectively.

Required employer contribution rates for the years ended June 30, 2009, and 2008, were 3.36% and 3.05%, respectively, while employee contributions were 6% each year. The College made 100% of its annual required contributions for the years ended June 30, 2010, 2009, and 2008, which were $603,497.95, $565,500.28, and $494,288.72, 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.nc.gov/ and clicking on "Proceed directly to OSC's index page," then "Reports," or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

**B. Supplemental Retirement Income Plan** - IRC Section 401(k) Plan - All members of the Teachers' and State Employees' Retirement System are eligible to enroll in the Supplemental Retirement Income Plan, a defined contribution plan, created under Internal Revenue Code Section 401(k). All costs of administering the Plan are the responsibility of the Plan participants. No costs are incurred by the College except for a 5% employer contribution for the College's law enforcement officers, which is mandated under General Statute 143-166.30(e). Total employer contributions on behalf of College law enforcement officers for the year ended June 30, 2010, were $9,034.89. The voluntary contributions by employees amounted to $265,854.00 for the year ended June 30, 2010.

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 $114,400.80 for the year ended June 30, 2010.

## 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 *North Carolina General Statute* 135-7 and Chapter 135, Article 3A, of the General Statutes and may be amended only by the North Carolina General Assembly. The Plan does not provide for automatic post-retirement benefit increases.

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

For the current fiscal year the College contributed 4.5% of the covered payroll under the Teachers' and State Employees' Retirement System to the Fund. Required contribution rates for the years ended June 30, 2009, and 2008, were 4.1% and 4.1%, respectively. The College made 100% of its annual required contributions to the Plan for the years ended June 30, 2010, 2009, and 2008, which were $760,711.70, $690,044.98, and $664,453.69, respectively. The College assumes no liability for retiree health care benefits provided by the programs other than its required contribution.

Additional detailed information about these programs can be located in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page http://www.osc.nc.gov/ and clicking on "Proceed directly to OSC's index page," then "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 by the General Assembly. For the fiscal year ended June 30, 2010, 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, 2009, and 2008, were .52% and .52%, respectively. The College made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2010, 2009, and 2008, which were $87,904.46, $87,517.90, and $84,272.18, 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, including participation in state-administered insurance programs, purchase of commercial insurance, and self-retention of certain risks. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

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

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

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

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

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

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

The College has obtained Health Providers Professional Liability coverage with a private insurance company for students in clinical settings with patient contact. Coverage limits are $2,000,000 per occurrence and $5,000,000 aggregate.

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

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

## NOTE 13 - COMMITMENTS

The College has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were $911,874.25 and on other purchases were $171,746.00 at June 30, 2010.

## NOTE 14 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2010, the College implemented the following pronouncements issued by the GASB:

> GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*.

GASB Statement No. 51, requires reporting certain intangible assets as capital assets.

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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, 2010, which collectively comprise the College's basic financial statements and have issued our report thereon dated June 7, 2011. 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. 51, *Accounting and Financial Reporting for Intangible Assets* during the year ended June 30, 2010.

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 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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the College's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in findings 1 and 2 in the Audit Findings and Responses section of this report to be material weaknesses.

A significant deficiency is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in finding 3 in the Audit Findings and Responses section of this report to be a significant deficiency.

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.

This report is intended solely for the information and use of management of the College, the College Board of Trustees, others within the entity, the State Board of Community Colleges, the Governor, the General Assembly, and the State Controller, 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

June 7, 2011

## AUDIT FINDINGS AND RESPONSES

The following audit findings were identified during the current audit and describe conditions that represent deficiencies in internal control or noncompliance with laws, regulations, contracts, grant agreements, or other matters.

1. FINANCIAL STATEMENTS REQUIRED SIGNIFICANT CORRECTIONS

   The financial statements prepared by the College contained significant misstatements that were corrected as a result of our audit. These misstatements indicate that the College's internal control over financial reporting was ineffective, and without these corrections, the financial statements could have been misleading to readers. Misstatements noted in our audit included the following:

   a. The College misclassified cash and cash equivalents due to not properly considering the effect of interfund borrowing on the financial statements. Restricted cash and cash equivalents was understated by $1,164,043 and unrestricted cash and cash equivalents was overstated by the same amount.

   b. The College did not follow guidance provided by the North Carolina Community College System Office for recording the student accounts receivable year-end accruals. As a result, student accounts receivable and tuition and fees were both overstated by $1,667,563.

   c. At year-end, the College owed $447,370 to students for financial aid. The College erroneously subtracted this from the student accounts receivable account instead of recording a liability. This error resulted in the understatement of both the student accounts receivable and accounts payable balances by $447,370.

   d. The College did not record an intergovernmental receivable and noncapital grant for federal student financial aid in the amount of $930,188. This amount was owed to the College at year-end to reimburse eligible student financial aid expenses incurred.

   e. The College incorrectly recorded student textbook purchases as a scholarship discount. This resulted in a $1,412,915 understatement of the student tuition and fees revenue account, a $29,883 understatement of the sales and services revenue account, and a $1,442,798 understatement of the scholarships and fellowships expense account.

   f. The College made numerous errors related to the classification of net assets. The errors resulted in restricted net assets being overstated by $1,575,322 and unrestricted net assets being understated by the same amount. There were also numerous errors within the restricted net asset classifications totaling $1,924,181.

   g. The College did not record a liability related to ongoing construction, resulting in an understatement of capital assets and accounts payable in the amount of $254,956.

h. The College duplicated depreciation for some capital assets, failed to adjust depreciation when it became known that useful lives estimates were understated, depreciated capital assets in excess of acquisition cost, and recorded negative depreciation expense for multiple assets. However, the errors were offsetting such that the net overall misstatement was negligible.

These misstatements occurred, in part, because management's review of the financial statements was ineffective and there was no review of year-end journal entries. We also noted that the College's financial statement package was not submitted timely to either the Office of the State Controller or the Office of the State Auditor and that procedures to ensure that new accounts are set up correctly in the accounting system were ineffective.

*Recommendation*: The College should place greater emphasis on the year-end financial reporting process and strengthen 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. Further, the College should consider whether its accounting staff could benefit from additional training on financial reporting matters.

*College Response*: The errors in financial reporting relate to the year-end conversion from the budgetary basis of accounting to the accrual basis, which is used for the College's financial statements and for the inclusion of the College's assets, liabilities, and activities in the state's Comprehensive Annual Financial Report. While they do not represent any loss or misuse of funds, we understand the importance of accurate financial reporting to both the College and the state. Consequently, in hiring a new Chief Financial Officer for the College, we made it a priority to hire a candidate with long experience and a successful track record in such financial reporting, in addition to success in maintaining and improving operations in the day to day budgetary accounting. We believe we have met that priority and that the reporting difficulties will be substantially eliminated in the coming year.

2. DEFICIENCIES IN BANK RECONCILIATIONS AND CASH MANAGEMENT

The College needs to improve its bank reconciliation and cash management processes. Inadequate bank reconciliations increase the risk of error or fraud occurring without timely detection. An ineffective cash management system can lead to improper uses of restricted moneys, lost investment income, and financial reporting difficulties.

The College did not perform monthly bank reconciliations for the institutional funds account during our audit period and was unable to completely reconcile the account until January 2011. Consequently, reconciling items were not properly identified and researched, nor were errors corrected, in a timely manner.

Cash balances in the restricted fund accounts were not monitored and drawdowns from the federal government were not executed in a timely manner. As a result, the College used institutional funds that were restricted for other purposes to cover financial aid expenses. The difficulties involved in adjusting for the impact of deficit cash balances in individual funds and the tardiness of the federal drawdowns contributed to some of the financial reporting errors described above.

*Recommendation*: The College should establish procedures to ensure that all bank accounts are reconciled completely, accurately, and in a timely manner with appropriate review. Management should also implement policies and procedures over cash management so that requests for federal drawdowns are completed in a timely manner and interfund borrowing minimized.

*College Response*: We agree that timely monthly bank reconciliations are critical in effective cash management and control. The delays in reconciliation of accounts for the year ended June 2010 have been addressed. Bank reconciliations are now occurring on a timely basis and are appropriately reviewed. We will continue to monitor the reconciliation process to assure that reconciliations remain current and are properly reviewed in a timely manner.

We have also addressed the monitoring of financial aid drawdowns and have reduced the occurrence of deficit cash balances that resulted from delays in drawdowns. More remains to be done, but adequate cash management and control over interfund borrowing will remain a priority.

3. IMPROPER ACCESS RIGHTS RELATED TO PAYROLL

The College did not appropriately assign employee access rights to ensure adequate segregation of duties. As a result, there is an increased risk of unauthorized or inappropriate transactions. Duties should be segregated such that employees, in the normal course of performing their assigned functions, can prevent or detect errors or fraud on a timely basis.

All employees with payroll access rights had inappropriate access to human resource functions. This deficiency makes it possible for payroll employees to create fictitious employees and/or make changes to current employees' salaries.

*Recommendation*: The College should evaluate and reassign system access rights as necessary to better segregate duties and enhance internal control. If there are situations where segregation of duties is not feasible, the College should implement effective monitoring of activity as a compensating control.

*College Response*: We have begun a review of access rights for all financial applications, a complicated process involving rights to hundreds of processes. Payroll and Human Resources will be the first areas of responsibilities addressed in this review. We will reduce access as appropriate and improve our documentation to make the review process easier and more effective.

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