STATE OF NORTH CAROLINA

DURHAM TECHNICAL COMMUNITY COLLEGE

DURHAM, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2011

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR

A Component Unit of the State of North Carolina

Durham Technical Community College

Durham, North Carolina

Financial Statement Audit Report

For the Year Ended June 30, 2011

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, 2011, 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 and/or instances of noncompliance 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, 2011, 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, 2011, 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)

In accordance with *Government Auditing Standards*, we have also issued our report dated June 29, 2012 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 29, 2012

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.

Financial Highlights

While the College has been adversely affected by the economic downturn of the past few years, the overall financial condition of the College remains strong. Enrollment, measured as full-time equivalent students (FTE), has grown in the past three years, resulting in some additional funding, but funding has not grown proportionately to enrollment. As a state supported community college, the College is reliant, in part, on state appropriations and, by extension, state tax revenues. With increasing demands and constraints on the state budget, funding per full-time equivalent student has declined, making it more difficult for the College to fulfill its core mission as an open door institution of higher education.

Because the College operates during the year on a budgetary (or cash) basis, reductions in funding often result in deferral of needed expenditures for supplies, materials, and other items. Such deferrals will not be evident from the financial statements. Furthermore, the increases in tuition and enrollment in the past few years that have led to significant increases in awards of federal financial aid gives the appearance of steady, even healthy, growth. However, even though spending per student (excluding financial aid expense) declined in the first two years of the economic downturn, to just under $7,000 per FTE, it actually increased for the current fiscal year. In the 2010-11 year the College was unable to continue operating effectively while deferring spending to the same extent as in the past two years. Consequently, limited spending from reserved sources was authorized, raising the spending level (excluding financial aid) to nearly $7,500 per FTE. Naturally, this resulted in a significantly greater loss, best measured for this purpose by the *Loss Before Other Revenues* caption.

The *Loss Before Other Revenues* parallels budgetary results. It is, of course, affected by a variety of accruals and noncash transactions, but those remain relatively constant from year to year. In most years the *Loss Before Other Revenues* will approximate the two most significant noncash transactions - depreciation expense and the increase in salaries and benefits related to increasing balances of accrued vacation pay. Although the current year's loss is $3 million in excess of the noncash transactions, the College still has sufficient non-state funded reserves to allow for flexibility in budgeting and operations, and to meet significant unanticipated needs.

The revenues referred to below the *Loss Before Other Revenues* caption consists of capital funding which usually offsets the more fundamental loss, resulting in a continuing increase in net assets, in most years. This year, however, despite $3.49 million in capital aid, total net assets decreased.

The following table shows the values discussed above for the past 4 years:

	Years ending June 30:			
	2011	2010 (as restated)	2009	2008
Enrollment (FTE)	$ 5,219	$ 4,919	$ 4,777	$ 4,591
Total Operating Expenses	46,844,630	41,129,122	36,933,509	34,691,792
Expense per FTE	8,976	8,361	7,732	7,556
Expense per FTE (net of Finanical Aid)	7,326	6,985	6,992	7,072
Loss Before other Revenues	(4,262,731)	(2,059,768)	(2,182,429)	(1,955,884)
Total Net Assets	42,130,007	42,899,891	41,120,827	41,934,139

Using the Financial Statements

The financial statements focus on the College as a whole. The full scope of the College's activities is considered to be a single, business-type activity and is presented in a single column in the basic financial statements. The basic financial statements consist of three statements which 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. Both of these statements conclude with the net assets balance as of June 30, 2011.

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. The cash and cash equivalents balance reflected on this statement agrees to the ending cash reported in the *Statement of Net Assets* and the *Net Cash used by Operations* is reconciled to the *Net Operating Loss* reported in the *Statement of Revenues, Expenses, and Changes in Net Assets.*

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, 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, 2011. The asset 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, 2011 and 2010:

Condensed Statement of Net Assets

	2011	2010 (as restated)	Change
ASSETS			
Current Assets	$ 1,695,592.45	$ 2,970,946.52	$ (1,275,354.07)
Capital Assets, Net	44,480,624.28	44,715,523.14	(234,898.86)
Other Noncurrent Assets	95,695.87	95,695.87	
Total Assets	46,271,912.60	47,782,165.53	(1,510,252.93)
LIABILITIES			
Current Liabilities	2,301,086.74	3,188,179.96	(887,093.22)
Noncurrent Liabilities	1,840,818.82	1,694,094.43	146,724.39
Total Liabilities	4,141,905.56	4,882,274.39	(740,368.83)
NET ASSETS			
Invested in Capital Assets	44,480,624.28	44,695,494.82	(214,870.54)
Restricted, Expendable	1,660,448.25	2,156,938.34	(496,490.09)
Unrestricted	(4,011,065.49)	(3,952,542.02)	(58,523.47)
Total Net Assets	$ 42,130,007.04	$ 42,899,891.14	$ (769,884.10)

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

- Current assets decreased significantly from the prior year due to decreases in both cash and cash equivalents and receivables. The decrease in cash and cash equivalents of about $375,000 was due primarily to more timely payments of accounts payable, which decreased as noted below. The decrease in receivables resulted from a more realistic estimate of collectible student accounts (reduced by about $462,000) and more timely draw down of federal financial aid (intergovernmental receivables were reduced by about $504,000).
- The decrease in capital assets is primarily attributable to depreciation expense and the write-off of obsolete equipment and other assets that are no longer in service.

- Liabilities totaled $4,141,905.56, a decrease of $740,368.83 from the previous year, after restatement of long-term debt at June 30, 2010 (see Note 14). The decrease is due primarily to a decrease in accounts payable, as the College paid on accounts more timely.
- Noncurrent liabilities consist entirely of the long-term portion of compensated absences.
- Net assets totaled $42,130,007.04 a decrease of $769,884.10 from the previous year, as restated. A portion of this decrease is related to the change in capital assets noted above, while the remainder is primarily due to the changes in current assets and current liabilities, most of which occurred in restricted funds.

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, 2011. Revenues and expenses are classified as operating, nonoperating, or other.

Given the large operating loss, it is important to understand how the College is funded. Durham Technical Community College is a State supported college that provides subsidized educational services to citizens of North Carolina. As such, it is expected that operating expenses will exceed operating revenues every year, resulting in an operating loss. The operating loss is offset by state and county appropriations, federal financial aid grants, and other revenues which are classified as nonoperating revenues. Virtually all expenses of the College are considered operating expenses.

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 of June 30, 2011 and 2010:

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

	FY 2010-11	FY 2009-10 (as restated)	Change
Operating Revenues:			
Student Tuition and Fees, Net	$ 4,207,286.25	$ 4,462,927.33	$ (255,641.08)
Grants and Contracts	1,308,201.06	604,825.74	703,375.32
All Other Operating Revenues	1,190,734.86	888,916.53	301,818.33
Total Operating Revenues	6,706,222.17	5,956,669.60	749,552.57
Operating Expenses:			
Salaries and Benefits	28,170,832.63	26,565,926.55	1,604,906.08
Supplies and Materials	3,774,202.22	2,361,772.46	1,412,429.76
Services	4,432,816.09	3,628,383.82	804,432.27
Scholarships and Fellowships	8,612,711.82	6,769,128.31	1,843,583.51
Other Operating Expenses	1,854,067.06	1,803,910.59	50,156.47
Total Operating Expenses	46,844,629.82	41,129,121.73	5,715,508.09
Operating Loss	(40,138,407.65)	(35,172,452.13)	(4,965,955.52)
Nonoperating Revenues:			
State Aid	18,693,191.31	18,232,552.98	460,638.33
County Appropriations	4,616,767.04	4,742,465.04	(125,698.00)
Noncapital Grants	12,562,596.19	10,055,909.51	2,506,686.68
Other Nonoperating Revenues	3,122.24	81,756.36	(78,634.12)
Total Nonoperating Revenues	35,875,676.78	33,112,683.89	2,762,992.89
Loss Before Other Revenues	(4,262,730.87)	(2,059,768.24)	(2,202,962.63)
Other Revenues (Capital Aid)	3,492,846.77	3,838,832.58	(345,985.81)
Increase (Decrease) in Net Assets	(769,884.10)	1,779,064.34	(2,548,948.44)
Net Assets, July 1	42,899,891.14	41,120,826.80	1,779,064.34
Net Assets, June 30	$ 42,130,007.04	$ 42,899,891.14	$ (769,884.10)

The *Statement of Revenues, Expenses, and Changes in Net Assets* reflects a decrease of $769,884.10 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 $40,138,407.65, an increase in loss of $4.97 million over the previous year. As noted above, an operating loss is an expected outcome for a public supported educational institution and largely offset by state and county aid, and state and federal financial aid funds that are reported as nonoperating revenue.
- The increase in operating loss is caused by the increase in salaries and benefits, supplies and materials, and scholarships and fellowships expenses. Both salaries and benefits and scholarships and fellowships increased due to continued increase in enrollment and an increase in students qualifying for financial aid.

The main sources of operating revenues are the following: student tuition and fees (62.74%) and grants and contracts (19.5%). Total operating revenue reflected an increase of $749,552.57 mainly due to an increase in state grants to be used for operating purposes of the College.

Nonoperating revenue increased $2,762,992.89, primarily due to an increase in noncapital grants - almost entirely financial aid - of $2.5 million. This increase is the result of enrollment increases and more students eligible for financial aid.

Salaries and benefits account for 60.1% of the total operating expenses which is a lower percentage than last year, when it was 64.6%. This decrease in percentage is not due to any reduction in salaries and benefits (which, in fact, increased by $1.60 million or 6.04%) but rather from the 27.24% increase in scholarships and fellowships expense due to increases in student financial aid.

Supplies and materials expenditures increased by $1,412,429.76, largely because of a relaxation of spending restrictions that had been in place in the second half of the 2009-10 fiscal year. Those restrictions not only reduced spending in that year, but resulted in a back-log of needed supplies and materials which were purchased in the 2010-11 year.

Economic Factors That Will Affect the Future

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 42.9% of the College's total revenues for fiscal year 2010-11 - 56.8% excluding financial aid.

The State's base funding per full-time equivalent student (FTE) has changed very little over the past three years, but reductions from that base level of funding have increased dramatically. In the year ended June 30, 2011, those reductions total $1.13 million in a combination of a "management flexibility" reduction of about $740,000 at the beginning of the year and reversions of $390,000 later in the year. For the 2011-12 fiscal year, the "management flexibility" reduction at the beginning of the year was $1.56 million, and the likelihood of an additional reversion later in the year is still high.

While the College's financial position remains strong, the reductions in state funding, coupled with the need to reduce spending to a sustainable level, as described above, will continue to challenge the College.

Durham Technical Community College
Statement of Net Assets
June 30, 2011 — *Exhibit A-1*

ASSETS	
Current Assets:	
Restricted Cash and Cash Equivalents	$ 877,995.27
Restricted Short-Term Investments	11,047.02
Receivables, Net (Note 3)	741,699.48
Due from State of North Carolina Component Units	42,896.53
Inventories	21,954.15
Total Current Assets	1,695,592.45
Noncurrent Assets:	
Restricted Due from Primary Government	95,695.87
Capital Assets - Nondepreciable (Note 4)	8,597,840.57
Capital Assets - Depreciable, Net (Note 4)	35,882,783.71
Total Noncurrent Assets	44,576,320.15
Total Assets	46,271,912.60
LIABILITIES	
Current Liabilities:	
Accounts Payable and Accrued Liabilities (Note 5)	1,623,221.36
Unearned Revenue	276,033.35
Funds Held for Others	205,584.58
Long-Term Liabilities - Current Portion (Note 6)	196,247.45
Total Current Liabilities	2,301,086.74
Noncurrent Liabilities:	
Long-Term Liabilities (Note 6)	1,840,818.82
Total Liabilities	4,141,905.56
NET ASSETS	
Invested in Capital Assets	44,480,624.28
Restricted for:	
Expendable:	
Scholarships and Fellowships	91,829.56
Loans	13,877.10
Restricted for Specific Programs	534,219.76
Restricted for Supply and Technology Fees	913,568.01
Other	106,953.82
Unrestricted	(4,011,065.49)
Total Net Assets	$ 42,130,007.04

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, 2011

Exhibit A-2

REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net (Note 8)	$	4,207,286.25
Federal Grants and Contracts		255,936.38
State and Local Grants and Contracts		1,052,264.68
Sales and Services		419,670.04
Other Operating Revenues		771,064.82
Total Operating Revenues		6,706,222.17
EXPENSES		
Operating Expenses:		
Salaries and Benefits		28,170,832.63
Supplies and Materials		3,774,202.22
Services		4,432,816.09
Scholarships and Fellowships		8,612,711.82
Utilities		730,200.75
Depreciation		1,123,866.31
Total Operating Expenses		46,844,629.82
Operating Loss		(40,138,407.65)
NONOPERATING REVENUES		
State Aid		18,693,191.31
County Appropriations		4,616,767.04
Noncapital Grants - Student Financial Aid		11,788,665.12
Noncapital Grants		773,931.07
Noncapital Gifts		3,000.00
Investment Income		122.24
Total Nonoperating Revenues		35,875,676.78
Loss Before Other Revenues		(4,262,730.87)
State Capital Aid		1,078,717.85
County Capital Aid		2,414,128.92
Decrease in Net Assets		(769,884.10)
NET ASSETS		
Net Assets, July 1, 2010 as Restated (Note 14)		42,899,891.14
Net Assets, June 30, 2011	$	42,130,007.04

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

Durham Technical Community College
Statement of Cash Flows — *Exhibit A-3*
For the Fiscal Year Ended June 30, 2011 — *Page 1 of 2*

CASH FLOWS FROM OPERATING ACTIVITIES	
Received from Customers	$ 7,223,858.90
Payments to Employees and Fringe Benefits	(27,811,735.94)
Payments to Vendors and Suppliers	(9,572,644.35)
Payments for Scholarships and Fellowships	(8,612,711.82)
Other Receipts	20,523.09
Net Cash Used by Operating Activities	(38,752,710.12)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Aid Received	18,693,191.31
County Appropriations	4,616,767.04
Noncapital Grants - Student Financial Aid	12,292,499.91
Noncapital Grants Received	713,093.10
Noncapital Gifts	3,000.00
Cash Provided by Noncapital Financing Activities	36,318,551.36
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
State Capital Aid Received	1,078,717.85
County Capital Aid	2,414,128.92
Acquisition and Construction of Capital Assets	(1,414,259.79)
Principal Paid on Capital Debt and Leases	(20,028.32)
Net Cash Provided by Capital and Related Financing Activities	2,058,558.66
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment Income	122.24
Cash Provided by Investing Activities	122.24
Net Decrease in Cash and Cash Equivalents	(375,477.86)
Cash and Cash Equivalents, July 1, 2010	1,253,473.13
Cash and Cash Equivalents, June 30, 2011	$ 877,995.27

Durham Technical Community College
Statement of Cash Flows — *Exhibit A-3*
For the Fiscal Year Ended June 30, 2011 — *Page 2 of 2*

RECONCILIATION OF OPERATING LOSS
TO NET CASH USED BY OPERATING ACTIVITIES

Operating Loss	$	(40,138,407.65)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation		1,123,866.31
Changes in Assets and Liabilities:		
Receivables, Net		454,172.97
Inventories		(13,406.54)
Accounts Payable and Accrued Liabilities		(343,694.37)
Unearned Revenue		63,463.76
Funds Held for Others		20,523.09
Compensated Absences		80,772.31
Net Cash Used by Operating Activities	$	(38,752,710.12)

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through Assumption of a Liability	$	299,271.84
Increase in Receivables Related to Nonoperating Income		60,837.97
Capital Asset Write-Offs		457,647.20

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, 2011 ***Exhibit B-1***

ASSETS		
Cash and Cash Equivalents	$	761,658
Investments		1,643,529
Pledges Receivable/Promises		14,595
Property and Equipment, Net		10,132
Total Assets		2,429,914
LIABILITIES		
Accounts Payable		10,132
NET ASSETS		
Unrestricted		188,226
Temporarily Restricted		1,790,630
Permanently Restricted		440,926
Total Net Assets	$	2,419,782

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, 2011 *Exhibit B-2*

CHANGES IN UNRESTRICTED NET ASSETS		
Revenues and Gains:		
Contributions	$	198,951
Income on Long-Term Investments		3,723
Net Unrealized and Realized Gains on Long-Term Investments		15,146
Total Unrestricted Revenues and Gains		217,820
Net Assets Released from Restrictions:		
Satisfaction of Program Restrictions		131,494
Total Unrestricted Revenues, Gains, and Other Support		349,314
Expenses:		
Program Services		126,934
Management and General		237,198
Total Expenses		364,132
Decrease in Unrestricted Net Assets		(14,818)
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS		
Contributions		66,062
Income on Long-Term Investments		29,080
Net Unrealized and Realized Gains on Long-Term Investments		227,849
Net Assets Released from Restrictions:		
Satisfaction of Program Restrictions		(131,494)
Increase in Temporarily Restricted Net Assets		191,497
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS		
Contributions		21,338
Increase in Net Assets		198,017
Net Assets at Beginning of Year		2,221,765
Net Assets at End of Year	$	2,419,782

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 unit 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, 2011, the Foundation distributed $126,934.00 to the College for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from the Durham Technical Community College Foundation, Inc. Treasurer at 1637 Lawson Street, Durham, NC 27703.

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 100 years for buildings, and 2 to 30 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 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 - This represents the College's total investment in capital assets.

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

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

Restricted and unrestricted resources are tracked using a fund accounting system. When both restricted and unrestricted funds are available for expenditure, the decision for funding is transactional based within the departmental management system in place at the College.

M. **Scholarship Discounts** - Student tuition and fees revenues and certain other revenues from College charges are reported net of scholarship discounts in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. The scholarship discount is the difference between the actual charge for goods and services provided by the College and the amount that is paid by students or by third parties on the students' behalf. Student financial assistance grants, such as Pell grants, and other federal, State, or nongovernmental programs, are recorded as either operating or nonoperating revenues in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. To the extent that revenues from these programs are used to satisfy tuition, fees, and other charges, the College has recorded a scholarship discount.

N. **Revenue and Expense Recognition** - The College classifies its revenues and expenses as operating or nonoperating in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the College's principal ongoing operations. Operating revenues include activities that have characteristics of exchange transactions, such as (1) student tuition and fees, (2) sales and services of auxiliary enterprises, and (3) certain federal, State, and local grants and contracts. Operating expenses are all expense transactions incurred other than those related to capital and noncapital financing or investing activities as defined by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*.

Nonoperating revenues include activities that have the characteristics of nonexchange transactions. Revenues from nonexchange transactions and State aid that represent subsidies or gifts to the College, as well as investment income, are considered nonoperating since these are either investing, capital, or noncapital financing activities. Capital contributions are presented separately after nonoperating revenues and expenses.

O. **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. Cash on hand at June 30, 2011 was $800.00, and deposits in private financial institutions with a carrying value of $877,195.27, and a bank balance of $1,522,181.84.

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, 2011, 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; specified bills of exchange; certain savings certificates; 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 of custodian.

At June 30, 2011, the College's investments consisted of money market mutual funds with a fair value of $11,047.02 in the North Carolina Capital Management Trust. This investment is subject to interest rate risk, which 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's Cash Portfolio had an average maturity of less than one year at June 30, 2011.

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, 2011, the College's investment in the North Carolina Cash Management Trust were rated AAAm by Standards and Poor's.

A reconciliation of deposits and investments for the College to the basic financial statements at June 30, 2011, is as follows:

Cash on Hand	$	800.00
Carrying Amount of Deposits with Private Financial Institutions		877,195.27
Other Investments		11,047.02
Total Deposits and Investments	$	889,042.29
Current:		
Restricted Cash and Cash Equivalents	$	877,995.27
Restricted Short-Term Investments		11,047.02
Total	$	889,042.29

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, 2011		Fair Value
Asset Description:		
Equity Securities	$	799,882
U.S. Treasury Securities		185,896
Corporate Bonds		316,253
Mutual Funds		341,498
Total	$	1,643,529

NOTE 3 - RECEIVABLES

Receivables at June 30, 2011, were as follows:

		Gross Receivables		Less Allowance for Doubtful Accounts		Net Receivables
Current Receivables:						
Students	$	918,528.46	$	795,322.65	$	123,205.81
Student Sponsors		142,287.42		62,791.01		79,496.41
Intergovernmental		474,661.21				474,661.21
Other		64,336.05				64,336.05
Total Current Receivables	$	1,599,813.14	$	858,113.66	$	741,699.48

NOTE 4 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2011, is presented in the following table. The individual line items for the balances at June 30, 2010 have been restated to better reflect appropriate categorization and accounting for the extension of useful lives. The total Capital Assets, Net is unchanged at June 30, 2010.

	Balance July 1, 2010 (as restated)	Increases	Decreases	Balance June 30, 2011
Capital Assets, Nondepreciable:				
Land	$ 2,411,526.91	$ 0.00	$ 0.00	$ 2,411,526.91
Construction in Progress	5,766,689.71	419,623.95		6,186,313.66
Total Capital Assets, Nondepreciable	8,178,216.62	419,623.95		8,597,840.57
Capital Assets, Depreciable:				
Buildings	43,107,860.07	64,962.71	104,412.20	43,068,410.58
Machinery and Equipment	4,414,624.53	296,832.00	332,918.25	4,378,538.28
General Infrastructure	873,181.25	107,548.79	20,316.75	960,413.29
Total Capital Assets, Depreciable	48,395,665.85	469,343.50	457,647.20	48,407,362.15
Less Accumulated Depreciation for:				
Buildings	8,585,596.35	892,918.39	104,412.20	9,374,102.54
Machinery and Equipment	2,712,498.14	165,846.96	332,918.25	2,545,426.85
General Infrastructure	560,264.84	65,100.96	20,316.75	605,049.05
Total Accumulated Depreciation	11,858,359.33	1,123,866.31	457,647.20	12,524,578.44
Total Capital Assets, Depreciable, Net	36,537,306.52	(654,522.81)		35,882,783.71
Capital Assets, Net	$ 44,715,523.14	$ (234,898.86)	$ 0.00	$ 44,480,624.28

NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2011, were as follows:

	Amount
Accounts Payable	$ 694,560.18
Accrued Payroll	682,881.21
Contract Retainage	143,945.83
Other	101,834.14
Total Accounts Payable and Accrued Liabilities	$ 1,623,221.36

NOTE 6 - LONG-TERM LIABILITIES

A summary of changes in the long-term liabilities for the year ended June 30, 2011, is presented as follows:

	Balance July 1, 2010 (as restated)	Additions	Reductions	Balance June 30, 2011	Current Portion
Notes Payable	$ 20,028.32	$ 0.00	$ 20,028.32	$ 0.00	$ 0.00
Compensated Absences	1,956,293.96	1,505,335.01	1,424,562.70	2,037,066.27	196,247.45
Total Long-Term Liabilities	$ 1,976,322.28	$ 1,505,335.01	$ 1,444,591.02	$ 2,037,066.27	$ 196,247.45

NOTE 7 - OPERATING LEASE OBLIGATIONS

The College entered into operating leases for classroom and office space. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2011:

Fiscal Year	Amount
2012	$ 163,719.18
2013	205,131.42
2014	209,084.22
2015	213,135.84
2016	107,289.06
Total Minimum Lease Payments	$ 898,359.72

Rental expense for all operating leases during the year was $198,378.36.

NOTE 8 - REVENUES

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

	Gross Revenues	Less Scholarship Discounts	Less Change in Allowance for Uncollectibles	Net Revenues
Operating Revenues:				
Student Tuition and Fees	$ 8,658,237.43	$ 3,988,229.89	$ 462,721.29	$ 4,207,286.25

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	$ 16,671,037.35	$ 1,311,421.22	$ 681,181.16	$ 10,653.00	$ 0.00	$ 0.00	$ 18,674,292.73
Public Service	63,502.38	5,097.17	30,328.83				98,928.38
Academic Support	2,699,988.96	67,171.59	97,433.48				2,864,594.03
Student Services	2,095,292.27	60,540.17	231,615.92	28,726.69			2,416,175.05
Institutional Support	5,075,015.75	792,357.19	1,390,450.18	26,065.92			7,283,889.04
Operations and Maintenance of Plant	1,565,995.92	1,528,182.62	1,851,867.79		730,200.75		5,676,247.08
Student Financial Aid				8,547,266.21			8,547,266.21
Auxiliary Enterprises		9,432.26	149,938.73				159,370.99
Depreciation						1,123,866.31	1,123,866.31
Total Operating Expenses	$ 28,170,832.63	$ 3,774,202.22	$ 4,432,816.09	$ 8,612,711.82	$ 730,200.75	$ 1,123,866.31	$ 46,844,629.82

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, 2011, these rates were set at 4.93% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the College had a total payroll of $24,093,928.77, of which $18,155,216.29 was covered under the Teachers' and State Employees' Retirement System. Total employer and employee contributions for pension benefits for the year were $895,052.16 and $1,089,312.98, respectively.

Required employer contribution rates for the years ended June 30, 2010, and 2009, were 3.57% and 3.36%, respectively, while employee contributions were 6% each year. The College made 100% of its annual required contributions for the years ended June 30, 2011, 2010, and 2009, which were $895,052.16, $603,497.95, and $565,500.28, 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 "Reports," or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

B. Supplemental Retirement Income Plans - IRC Section 401(k) Plan - All members of the Teachers' and State Employees' Retirement System are eligible to enroll in the Supplemental Retirement Income Plan, a defined contribution plan, created under Internal Revenue Code Section 401(k). All costs of administering the Plan are the responsibility of the Plan participants. No costs are incurred by the College 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, 2011, were $19,558.65. The voluntary contributions by employees amounted to $340,747.00 for the year ended June 30, 2011.

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 $101,300.80 for the year ended June 30, 2011.

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 4.9% of the covered payroll under the Teachers' and State Employees' Retirement System to the Fund. Required contribution rates for the years ended June 30, 2010, and 2009, were 4.5% and 4.1%, respectively. The College made 100% of its annual required contributions to the Plan for the years ended June 30, 2011, 2010, and 2009, which were $889,605.60, $760,711.70, and $690,044.98, 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 "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, 2011, 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, 2010, and 2009, were .52% and .52%, respectively. The College made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2011, 2010, and 2009, which were $94,407.12, $87,904.46, and $87,517.90, 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.

The risk of tort claims of up to $1,000,000 per claimant is 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 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 discretely presented component unit 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 who have contact with patients in clinical settings. Coverage limits are $2,000,000 per occurrence and $5,000,000 in the 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 other purchases were $38,234.33 at June 30, 2011.

NOTE 14 - NET ASSET RESTATEMENT

As of July 1, 2010, net assets as previously reported were restated as follows:

	Amount
July 1, 2010 Net Assets as Previously Reported	$ 43,662,876.80
Restatement:	
To Correct Error in Accruing Compensated Absences	(762,985.66)
July 1, 2010 Net Assets as Restated	$ 42,899,891.14

NOTE 15 - SUBSEQUENT EVENT

In December 2011, the College acquired property at 1604 East Lawson Street, Durham, North Carolina, which adjoins the College's main campus. The property was purchased for $1.8 million, which was funded by Durham County bond funds. The acquisition is not expected to have an immediate impact on the operation of the College since the existing tenant will remain in the building through December 2013, and the property will require substantial renovation and/or new construction.

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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, 2011, which collectively comprise the College's basic financial statements and have issued our report thereon dated June 29, 2012. Our report was modified to include a reference to 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. 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.

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)

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 did not identify any deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

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*.

We noted certain matters that we reported to management of the College in a separate letter dated June 19, 2012.

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 responses 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 29, 2012

AUDIT FINDINGS AND RESPONSES

Matters Related to Financial Reporting

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

1. FINANCIAL STATEMENTS CONTAINED MISSTATEMENTS AND MISCLASSIFICATIONS

The financial statements prepared by the College contained misstatements and misclassifications that were corrected as a result of our audit, which indicates that the College's internal control over financial reporting was not effective. Without our corrections, the financial statements could have been misleading to readers. Misstatements noted in our audit included the following:

- The College failed to reduce both its Student Tuition and Fees account and its Scholarships and Fellowships account for scholarship discounts and allowances. This error resulted in the overstatement of both accounts by $3.3 million.
- The College misclassified federal funds that passed through the North Carolina Community College System Office. Consequently, Nonoperating Noncapital Grants was understated by $773,931 and Operating Federal Contracts and Grants was overstated by the same amount.
- The College failed to capitalize current year expenses for construction, buildings, machinery and equipment, and general infrastructure. As a result, Net Capital Assets was understated by $738,157; Accounts Payable - Contract Retainage was understated by $8,408; and Supplies and Materials Expense was overstated by $729,749.
- The College misclassified financial aid grants. Operating State and Local Contracts and Grants was overstated by $529,001 and Nonoperating Noncapital Grants - Student Financial Aid was understated by the same amount.

The financial statements and supporting documentation were not independently reviewed by a qualified member of management to ensure that the information was consistently and accurately presented. The College's financial statements were prepared by the same individual who prepared the year-end journal entries.

Recommendation: The College should implement a system of independent review and approval of the financial statements to help ensure that the financial statements are fairly presented in accordance with generally accepted accounting principles. The College should also consider developing a quality control checklist to help ensure items are properly presented (e.g. with questions such as "Have current year capital costs been capitalized rather than reported as expenses?").

College's Response: As in prior years, 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. We concur that a system of independent review and approval of the financial statements is appropriate, and with the hiring of a new and well qualified CFO in April of 2011, and the addition of a Controller position in December of 2011, both of whom are CPA's with considerable experience in governmental accounting, we believe we have instituted such a system.

We would note, however, that we do not believe the lack of such a system at June 30, 2011 contributed significantly to the misstatements and misclassifications reported here. Rather, several years of financial statement misstatements and misclassifications had left a large volume of incorrect and unresolved general ledger entries which had to be resolved before the normal process of converting from the budgetary to accrual basis could begin. Those residual entries were in fact resolved, but there was simply not enough time after that to adequately prepare the conversion. The accounts that were misstated or misclassified were among the last accounts for which conversion was completed, and there was no time for even limited review.

2. DEFICIENCIES IN MONITORING RESTRICTED FUND ACCOUNTS

The College did not properly monitor transactions in its restricted fund accounts to ensure that restricted funds were only spent for purposes for which the funds were restricted. As a result of interfund borrowing, the College did not have sufficient unrestricted cash to cover numerous deficit balances in restricted cash accounts at year end. At June 30, 2011, the College had a cash deficit totaling $579,796 in individual restricted accounts.

Recommendation: The College should more closely monitor interfund borrowings to ensure funds are spent only for the purposes authorized.

College's Response: The College began to address the lack of unrestricted in the 2010-11 fiscal year, but it is apparent that there was not sufficient unrestricted cash to meet normal deficit balances in restricted funds that are funded on a reimbursement basis. Consequently, the College's approach to this matter is twofold. First, we have endeavored to reduce the size of the unrestricted deficit by more promptly billing or drawing funds in the restricted funds. Secondly, we have reduced expenditures of unrestricted funds in order to allow cash balances in those funds to grow sufficiently to meet the need. While we have seen improvements, the current economic climate did not allow sufficient growth in unrestricted cash to eliminate this problem. We will continue our efforts on both fronts.

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