STATE OF
NORTH CAROLINA

DURHAM TECHNICAL COMMUNITY COLLEGE

DURHAM, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2013

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, 2013

STATE OF NORTH CAROLINA
Office of the State Auditor

Beth A. Wood, CPA
State Auditor

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AUDITOR'S TRANSMITTAL

The Honorable Pat McCrory, 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, 2013, 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 the finding.

North Carolina General Statutes require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.

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

Report on the Financial Statements

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, 2013, and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 statements were audited by other auditors, whose report has been furnished to us, and our opinions, insofar as they relate to the amounts included for Durham Technical Community College Foundation, Inc., are based solely 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 from material misstatement. The financial statements of Durham Technical Community College Foundation, Inc. were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the College's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of Durham Technical Community College, and its discretely presented component unit, as of June 30, 2013, and the changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters – Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 23, 2014 on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control over financial reporting and compliance.

Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

May 23, 2014

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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. After substantial increases in the early years of the downturn, enrollment, measured as full-time equivalent students (FTE), has returned to levels similar to those experienced prior to the downturn and seems to be relatively stable. Funding has not remained proportionate to enrollment, however. 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 student has declined, making it more difficult for the College to fulfill its core mission as an open door institution of higher education.

As the economic environment has stabilized, the College has adapted to changes in funding. In the 2012-13 year, state aid was reduced by 3.9% and tuition and fees declined by 8.7%, despite tuition rate increases. 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.

The addition of federal student loans to the College's financial aid offerings over the past few years has led to significant increases in federal financial aid. That adds to the appearance of steady, even healthy, growth. In reality, much of the increase in financial aid passes to the students and does little to contribute to the College's fiscal well-being.

Operating expenses decreased 1.3%, 2.5% excluding the increases in scholarships and fellowships. The operating expenses have been sustained at that level only because of the College's willingness to spend a portion of its reserves to sustain programs while the economy recovers. With that use of reserves, the expenditures per student, net of financial aid, has remained stable.

The College's *Loss Before Other Revenues* is the best measure of the College's results because it includes, in addition to operating revenues, aid from the state and counties and grants – nonoperating revenues that are, in reality, a significant resource for the operation of the College. The *Loss Before Other Revenues* also 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. If all else remains constant, the *Loss Before Other Revenues* will approximate the two most significant noncash transactions – depreciation expense and the change in balances of accrued vacation pay. A loss that is less than these noncash transactions is a positive result.

For the year ended June 30, 2013, the *Loss Before Other Revenues* decreased $1,041,310 and is nearly $500,000 less than those noncash transactions, which is a great improvement. This continues a pattern of improvement since the depths of the economic downturn. Furthermore, the College still has sufficient non-state funded reserves to allow for flexibility in budgeting and operations, and to meet significant unanticipated needs.

The following table shows the values discussed above for the past 5 years:

	Years ending June 30:				
	2013	2012 (as restated)	2011	2010 (as restated)	2009
Enrollment (FTE)	$ 4,759	$ 4,924	$ 5,219	$ 4,919	$ 4,777
Total Operating Expenses	42,251,586	42,794,109	46,844,630	41,129,122	36,933,509
Expense per FTE	8,878	8,691	8,976	8,361	7,732
Expense per FTE (Net of Financial Aid)	7,937	7,331	7,326	6,985	6,992
Loss Before Other Revenues	(489,948)	(1,531,258)	(4,262,731)	(2,059,768)	(2,182,429)
Total Net Position	44,125,388	43,676,400	42,130,007	42,899,891	41,120,827

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 Position* evaluates the College's financial position and the *Statement of Revenues, Expenses, and Changes in Net Position* evaluates the College's results of operations. Both of these statements conclude with the net position balance as of June 30, 2013.

The financial statements also include a *Statement of Cash Flows*. This statement identifies 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 Position* 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 Position*.

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 help the reader to better understand details, risk, and uncertainty associated with amounts reported in the financial statements.

Statement of Net Position

The *Statement of Net Position* provides information regarding the College's assets, liabilities, and net position as of June 30, 2013. 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 position balances are classified as investment in capital assets, restricted, or unrestricted. In addition, restricted net position is classified as expendable or nonexpendable. Overall, the *Statement of Net Position* 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 Position* as of June 30, 2013 and 2012:

Condensed Statement of Net Position

	2013	2012 (as restated)	Change
ASSETS			
Current Assets	$ 2,438,014.87	$ 1,616,360.24	$ 821,654.63
Capital Assets, Net	44,852,382.76	45,616,325.96	(763,943.20)
Other Noncurrent Assets	95,695.87	95,695.87	
Total Assets	47,386,093.50	47,328,382.07	57,711.43
LIABILITIES			
Current Liabilities	1,637,588.19	1,954,717.26	(317,129.07)
Noncurrent Liabilities	1,623,117.01	1,697,264.91	(74,147.90)
Total Liabilities	3,260,705.20	3,651,982.17	(391,276.97)
NET POSITION			
Net Investment in Capital Assets	44,852,382.76	45,616,325.96	(763,943.20)
Restricted, Expendable	985,068.65	460,295.88	524,772.77
Unrestricted	(1,712,063.11)	(2,400,221.94)	688,158.83
Total Net Position	$ 44,125,388.30	$ 43,676,399.90	$ 448,988.40

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

- Current assets increased significantly from the prior year primarily due to increases in cash and receivables, which was due to cash remaining from the first year of the Durham County Connect Fund program, increased student receivables, and a receivable from Durham County for the Retired and Senior Volunteer Program (RSVP).
- The decrease in capital assets resulted from higher depreciation expense while new acquisitions were limited. The completion of the White Building renovations resulted in a decrease in construction in progress and an increase in buildings.

- Liabilities totaled \$3,260,705, a decrease of \$391,277 from the previous year. The decrease is due primarily to a decrease in accounts payable, as the College reduced spending and continued to pay accounts on a timely basis.
- Noncurrent liabilities consist entirely of the long-term portion of compensated absences.
- Net position totaled \$44,125,388, an increase of \$448,988 from the previous year.

Statement of Revenues, Expenses, and Changes in Net Position

The *Statement of Revenues, Expenses, and Changes in Net Position* provides information regarding the College's activities for the year ended June 30, 2013. Revenues and expenses are classified as operating, nonoperating, or other. Overall, the *Statement of Revenues, Expenses, and Changes in Net Position* provides information to evaluate the College's management of operations and maintenance of financial strength.

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. Virtually all expenses of the College are considered operating expenses while many revenues are classified as nonoperating revenues. State and county appropriations, federal financial aid grants, are among the nonoperating revenues. Consequently, it is expected that operating expenses will exceed operating revenues every year, resulting in an operating loss which is largely offset by nonoperating revenues.

Following is a comparative analysis of the condensed balances reported on the *Statement of Revenues, Expenses, and Changes in Net Position* for the fiscal years of June 30, 2013 and 2012:

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

	2013	2012 (as restated)	Change
Operating Revenues:			
Student Tuition and Fees, Net	$ 4,913,987.61	$ 5,382,325.39	$ (468,337.78)
Grants and Contracts	340,242.90	1,017,218.20	(676,975.30)
All Other Operating Revenues	765,564.11	812,597.42	(47,033.31)
Total Operating Revenues	6,019,794.62	7,212,141.01	(1,192,346.39)
Operating Expenses:			
Salaries and Benefits	28,120,922.18	28,072,335.77	48,586.41
Supplies and Materials	1,813,860.35	2,225,018.03	(411,157.68)
Services	3,416,133.32	4,116,186.73	(700,053.41)
Scholarships and Fellowships	7,050,504.52	6,696,921.00	353,583.52
Other Operating Expenses	1,850,165.91	1,683,647.06	166,518.85
Total Operating Expenses	42,251,586.28	42,794,108.59	(542,522.31)
Operating Loss	(36,231,791.66)	(35,581,967.58)	(649,824.08)
Nonoperating Revenues:			
State Aid	18,535,011.05	19,322,559.25	(787,548.20)
County Appropriations	5,007,108.96	4,680,268.04	326,840.92
Noncapital Grants	12,198,328.09	10,029,738.50	2,168,589.59
Other Nonoperating Revenues	1,395.26	18,143.69	(16,748.43)
Total Nonoperating Revenues	35,741,843.36	34,050,709.48	1,691,133.88
Loss Before Other Revenues	(489,948.30)	(1,531,258.10)	1,041,309.80
Other Revenues (Capital Aid)	938,936.70	3,077,650.96	(2,138,714.26)
Increase in Net Position	448,988.40	1,546,392.86	(1,097,404.46)
Net Position, July 1 as Restated	43,676,399.90	42,130,007.04	1,546,392.86
Net Position, June 30	$ 44,125,388.30	$ 43,676,399.90	$ 448,988.40

The *Statement of Revenues, Expenses, and Changes in Net Position* reflects an increase of $448,988 in net position at the end of the year. Some highlights of the information presented on the *Statement of Revenues, Expenses, and Changes in Net Position* are as follows:

- The College shows an operating loss of $36,231,792, an increase in loss of $649,824 over the previous year. As noted above, an operating loss is an expected outcome for a publicly supported educational institution and it is largely offset by state and county aid, and state and federal financial aid funds that are reported as nonoperating revenue.

- The $649,824 increase in the operating loss reflects a decrease in state and local grants and contracts due to less funding available.

- The main source of operating revenues is student tuition and fees (81.6%), which decreased due to a larger scholarship discount resulting from more students receiving financial aid.

Nonoperating revenue increased $1,691,134, primarily due to the increase in financial aid (noncapital grants) offset by the decrease in state aid. Other revenues decreased $2,138,714 due to only receiving $302,500 in county capital aid reimbursements compared to $2,443,085 received in prior year.

Salaries and benefits account for 66.6% of the total operating expenses – 79.9% when scholarships and fellowships are excluded. Total salary and benefits expense varied less than other expense captions.

Supplies and materials expenditures decreased by $411,158 and service expenditures decreased $700,053. This is mostly due to the decreases in availability of funds – particularly state aid.

Scholarships and Fellowships, which make up 16.7% of total operating expenditures, increased due to a higher percentage of students receiving financial aid and the addition of the new Durham County supported work-study funds.

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 44.9% of the College's total revenues for fiscal year 2012-13 – 61.6% excluding financial aid (noncapital grants).

Most of the state funding the College receives is based on enrollment. There are a variety of formulas to allocated funds per FTE, and those have changed only a little over the past few years. Reductions from the formula levels of funding have increased dramatically, however. In the year ended June 30, 2013, those reductions total $1.54 million in the form of a "management flexibility" reduction – about 8.0% of the state aid shown on the *Statement of Revenues, Expenses, and Changes in Net Position*. For the 2013-14 fiscal year, the "management flexibility" reduction at the beginning of the year was $1.41 million, and the possibility of an additional reversion later in the year still exists.

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 Position
June 30, 2013 ***Exhibit A-1***

ASSETS		
Current Assets:		
Cash and Cash Equivalents	$	222,311.46
Restricted Cash and Cash Equivalents		1,162,774.07
Short-Term Investments		11,055.05
Receivables, Net (Note 3)		966,232.21
Inventories		48,760.08
Prepaid Items		26,882.00
Total Current Assets		2,438,014.87
Noncurrent Assets:		
Restricted Due from Primary Government		95,695.87
Capital Assets - Nondepreciable (Note 4)		2,720,170.91
Capital Assets - Depreciable, Net (Note 4)		42,132,211.85
Total Noncurrent Assets		44,948,078.63
Total Assets		47,386,093.50
LIABILITIES		
Current Liabilities:		
Accounts Payable and Accrued Liabilities (Note 5)		691,858.56
Unearned Revenue		463,854.62
Funds Held for Others		167,404.57
Long-Term Liabilities - Current Portion (Note 6)		314,470.44
Total Current Liabilities		1,637,588.19
Noncurrent Liabilities:		
Long-Term Liabilities (Note 6)		1,623,117.01
Total Liabilities		3,260,705.20
NET POSITION		
Net Investment in Capital Assets		44,852,382.76
Restricted for Expendable:		
Scholarships and Fellowships		549,835.99
Loans		1,182.80
Other		434,049.86
Unrestricted		(1,712,063.11)
Total Net Position	$	44,125,388.30

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 Position
For the Fiscal Year Ended June 30, 2013

Exhibit A-2

REVENUES	
Operating Revenues:	
Student Tuition and Fees, Net (Note 8)	$ 4,913,987.61
Federal Grants and Contracts	75,672.04
State and Local Grants and Contracts	181,323.95
Nongovernmental Grants and Contracts	83,246.91
Sales and Services	406,688.69
Other Operating Revenues	358,875.42
Total Operating Revenues	6,019,794.62
EXPENSES	
Operating Expenses:	
Salaries and Benefits	28,120,922.18
Supplies and Materials	1,813,860.35
Services	3,416,133.32
Scholarships and Fellowships	7,050,504.52
Utilities	835,300.14
Depreciation	1,014,865.77
Total Operating Expenses	42,251,586.28
Operating Loss	(36,231,791.66)
NONOPERATING REVENUES	
State Aid	18,535,011.05
County Appropriations	5,007,108.96
Noncapital Grants - Student Financial Aid	11,566,058.01
Noncapital Grants	632,270.08
Investment Income	1,395.26
Total Nonoperating Revenues	35,741,843.36
Loss Before Other Revenues	(489,948.30)
State Capital Aid	636,436.74
County Capital Aid	302,499.96
Increase in Net Position	448,988.40
NET POSITION	
Net Position, July 1, 2012 as Restated (Note 14)	43,676,399.90
Net Position, June 30, 2013	$ 44,125,388.30

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, 2013

CASH FLOWS FROM OPERATING ACTIVITIES	
Received from Customers	$ 6,061,388.30
Payments to Employees and Fringe Benefits	(28,287,009.88)
Payments to Vendors and Suppliers	(6,508,997.11)
Payments for Scholarships and Fellowships	(7,102,333.25)
Other Receipts	3,153.43
Net Cash Used by Operating Activities	(35,833,798.51)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Aid Received	18,535,011.05
County Appropriations	5,007,108.96
Noncapital Grants - Student Financial Aid	11,564,703.24
Noncapital Grants Received	550,783.65
William D. Ford Direct Lending Receipts	7,407,509.00
William D. Ford Direct Lending Disbursements	(7,407,509.00)
Net Cash Provided by Noncapital Financing Activities	35,657,606.90
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
State Capital Aid Received	636,436.74
County Capital Aid	302,499.96
Acquisition and Construction of Capital Assets	(250,922.57)
Net Cash Provided by Capital and Related Financing Activities	688,014.13
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment Income	1,390.52
Cash Provided by Investing Activities	1,390.52
Net Increase in Cash and Cash Equivalents	513,213.04
Cash and Cash Equivalents, July 1, 2012	871,872.49
Cash and Cash Equivalents, June 30, 2013	$ 1,385,085.53

RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES

Operating Loss	$	(36,231,791.66)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense		1,014,865.77
Changes in Assets and Liabilities:		
Receivables, Net		(105,191.48)
Inventories		(34,280.16)
Prepaid Items		(26,882.00)
Accounts Payable and Accrued Liabilities		(514,170.22)
Unearned Revenue		94,956.43
Funds Held for Others		3,153.43
Compensated Absences		(34,458.62)
Net Cash Used by Operating Activities	$	(35,833,798.51)

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:		
Cash and Cash Equivalents	$	222,311.46
Restricted Cash and Cash Equivalents		1,162,774.07
Total Cash and Cash Equivalents - June 30, 2013	$	1,385,085.53

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through Assumption of a Liability	$	135,537.83
Change in Fair Value of Investments		4.74
Increase in Receivables Related to Nonoperating Income		142,083.21

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, 2013

Exhibit B-1

ASSETS		
Cash and Cash Equivalents	$	893,135
Investments		1,959,329
Pledges Receivable/Promises		28,057
Property and Equipment, Net		7,092
Total Assets		2,887,613
LIABILITIES		
Accounts Payable		59,050
NET ASSETS		
Unrestricted		225,348
Temporarily Restricted		1,639,973
Permanently Restricted		963,242
Total Net Assets	$	2,828,563

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, 2013 — ***Exhibit B-2***

CHANGES IN UNRESTRICTED NET ASSETS		
Revenues and Gains:		
Contributions	$	282,482
Income on Long-Term Investments		4,708
Net Unrealized and Realized Gains on Long-Term Investments		17,836
Total Unrestricted Revenues and Gains		305,026
Net Assets Released from Restrictions		332,020
Total Unrestricted Revenues, Gains, and Other Support		637,046
Expenses:		
Program Services		322,126
Management and General		290,694
Total Expenses		612,820
Increase in Unrestricted Net Assets		24,226
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS		
Contributions		382,600
Income on Long-Term Investments		48,286
Net Unrealized and Realized Gains on Long-Term Investments		104,415
Net Assets Released from Restrictions:		
Satisfaction of Program Restrictions		(332,020)
Increase in Temporarily Restricted Net Assets		203,281
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS		
Contributions		21,324
Increase in Net Assets		248,831
Net Assets at Beginning of Year		2,579,732
Net Assets at End of Year	$	2,828,563

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 fund-raising organization to supplement the resources that are available to the College in support of its programs. The Foundation board consists of community, educational, and business leaders from Durham and Orange Counties. Although the College does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, that the Foundation holds and invests are restricted to the activities of the College by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of the College, the Foundation is considered a component unit of the College and is reported in separate financial statements because of the difference in its reporting model, as described below.

The Foundation is a private not-for-profit organization that reports its financial results under the Financial Accounting Standards Board (FASB) Codification. 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.

Financial statements for the College and its discretely presented component unit are presented as of and for the fiscal year ended June 30, 2013.

During the year ended June 30, 2013, the Foundation distributed $322,126 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.

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, include 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. Investments in the Trust are recorded at cost, which approximates market value.

F. Receivables - Receivables consist of tuition and fees charged to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from the federal government, state and local governments, 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 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.

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. Under this policy, the accumulated vacation leave for each employee at June 30 equals the leave carried forward at the previous June 30 plus the leave earned, less the leave taken between July 1 and June 30.

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 Position** - The College's net position is classified as follows:

Net Investment in Capital Assets - This represents the College's total investment in capital assets.

Restricted Net Position - **Expendable** - Expendable restricted net position includes resources for which the College is legally or contractually obligated to spend in accordance with restrictions imposed by external parties.

Unrestricted Net Position - Unrestricted net position includes resources derived from student tuition and fees, sales and services, unrestricted gifts, and interest income.

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

M. **Scholarship Discounts** - Student tuition and fees revenues and certain other revenues from College charges are reported net of scholarship discounts in the accompanying Statement of Revenues, Expenses, and Changes in Net Position. 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 Position. 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 Position. 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 appropriations and county capital appropriations do not revert and are available for future use by the College.

NOTE 2 - DEPOSITS AND INVESTMENTS

A. Deposits - The College is required by *North Carolina General Statute* 147-77 to deposit any funds collected or received that belong to the State of North Carolina with the State Treasurer or with a depository institution in the name of the State Treasurer. All funds of the College, other than those required to be deposited with the State Treasurer, 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, 2013 was $2,800.00. The carrying amount of the College's deposits not with the State Treasurer was $1,382,285.53, and the bank balance was $1,896,647.32.

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, 2013, 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 any form of investment established or managed by certain investment advisors pursuant to G.S. 115D-58.6 (d1) or 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, 2013, the College's investment consisted of money market mutual funds with a fair value of $11,055.05, 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, 2013.

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, 2013, the College's investment in The North Carolina Capital Management Trust was rated AAAm by Standards and Poor's.

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, 2013	Fair Value
Asset Description	
Equity Securities	$ 1,277,283
U.S. Treasury Securities	388,081
Mutual Funds	293,965
Total	$ 1,959,329

C. Reconciliation of Deposits and Investments - A reconciliation of deposits and investments for the College to the basic financial statements as of June 30, 2013, is as follows:

Cash on Hand	$ 2,800.00
Carrying Amount of Deposits with Private Financial Institutions	1,382,285.53
Investments	11,055.05
Total Deposits and Investments	$ 1,396,140.58
Current:	
Cash and Cash Equivalents	$ 222,311.46
Restricted Cash and Cash Equivalents	1,162,774.07
Short-Term Investments	11,055.05
Total Deposits and Investments	$ 1,396,140.58

NOTE 3 - RECEIVABLES

Receivables at June 30, 2013 were as follows:

	Gross Receivables	Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	$ 1,447,180.59	$ 1,259,847.16	$ 187,333.43
Student Sponsors	230,226.29	145,711.60	84,514.69
Intergovernmental	685,237.11		685,237.11
Other	84,913.81	75,766.83	9,146.98
Total Current Receivables	$ 2,447,557.80	$ 1,481,325.59	$ 966,232.21

NOTE 4 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2013, is presented as follows:

	Balance July 1, 2012 (as restated)	Increases	Decreases	Balance June 30, 2013
Capital Assets, Nondepreciable:				
Land	$ 2,661,526.91	$ 0.00	$ 0.00	$ 2,661,526.91
Construction in Progress	6,102,340.92	58,643.80	6,102,340.72	58,644.00
Total Capital Assets, Nondepreciable	8,763,867.83	58,643.80	6,102,340.72	2,720,170.91
Capital Assets, Depreciable:				
Buildings	44,796,056.56	6,102,340.72		50,898,397.28
Machinery and Equipment	4,450,735.51	192,278.77	15,564.80	4,627,449.48
General Infrastructure	960,413.29			960,413.29
Total Capital Assets, Depreciable	50,207,205.36	6,294,619.49	15,564.80	56,486,260.05
Less Accumulated Depreciation for:				
Buildings	10,118,109.59	824,165.76		10,942,275.35
Machinery and Equipment	2,541,078.70	160,909.92	15,564.80	2,686,423.82
General Infrastructure	695,558.94	29,790.09		725,349.03
Total Accumulated Depreciation	13,354,747.23	1,014,865.77	15,564.80	14,354,048.20
Total Capital Assets, Depreciable, Net	36,852,458.13	5,279,753.72		42,132,211.85
Capital Assets, Net	$ 45,616,325.96	$ 5,338,397.52	$ 6,102,340.72	$ 44,852,382.76

NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2013, were as follows:

	Amount
Current Accounts Payable and Accrued Liabilities:	
Accounts Payable	$ 58,568.09
Accrued Payroll	423,028.58
Contract Retainage	135,537.83
Intergovernmental Payables	74,724.06
Total	$ 691,858.56

NOTE 6 - LONG-TERM LIABILITIES

Changes in Long-Term Liabilities - A summary of changes in the long-term liabilities for the year ended June 30, 2013, is presented as follows:

	Balance July 1, 2012	Additions	Reductions	Balance June 30, 2013	Current Portion
Compensated Absences	$ 1,972,046.07	$ 1,476,897.32	$ 1,511,355.94	$ 1,937,587.45	$ 314,470.44

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, 2013:

Fiscal Year	Amount
2014	$ 169,489.50
2015	213,135.84
2016	107,289.00
Total Minimum Lease Payments	$ 489,914.34

Rental expense for all operating leases during the year was $245,693.14

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	$ 8,775,785.04	$ 3,691,504.45	$ 170,292.98	$ 4,913,987.61

* Note: The Allowance for Uncollectibles is equivalent to the change in the Allowance for Doubtful Accounts, excluding items such as direct write-offs.

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	$ 15,969,422.53	$ 674,108.56	$ 443,719.52	$ 0.00	$ 1,294.72	$ 0.00	$ 17,088,545.33
Public Service	61,572.49	978.97	2,448.25				64,999.71
Academic Support	3,122,914.64	142,057.84	49,640.81				3,314,613.29
Student Services	2,397,714.07	73,598.48	299,551.43	32,977.00			2,803,840.98
Institutional Support	4,508,688.24	302,692.61	1,090,758.74	1,600.00			5,903,739.59
Operations and Maintenance of Plant	1,702,303.75	589,039.75	1,284,251.40		834,005.42		4,409,600.32
Student Financial Aid	350,429.36		9,936.44	6,990,710.22			7,351,076.02
Auxiliary Enterprises	7,877.10	31,384.14	235,826.73	25,217.30			300,305.27
Depreciation						1,014,865.77	1,014,865.77
Total Operating Expenses	$ 28,120,922.18	$ 1,813,860.35	$ 3,416,133.32	$ 7,050,504.52	$ 835,300.14	$ 1,014,865.77	$ 42,251,586.28

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 (TSERS) 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 a 14-member Board of Trustees, with the State Treasurer serving as Chairman of the Board.

Benefit and contribution provisions for the TSERS 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, 2013, these rates were set at 8.33% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the College had a total payroll of $22,187,841.26, of which $17,767,352.99 was covered under the TSERS. Total employer and employee contributions for pension benefits for the year were $1,480,020.50 and $1,066,041.18, respectively.

Required employer contribution rates for the years ended June 30, 2012, and 2011, were 7.44% and 4.93%, respectively, while employee contributions were 6% each year. The College made 100% of its annual required contributions for the years ended June 30, 2013, 2012, and 2011, which were $1,480,020.50, $1,345,345.69, and $895,052.16, respectively.

The TSERS 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) 707-0500.

B. **Deferred Compensation and Supplemental Retirement Income Plans -** Internal Revenue Code Section 457 Plan - The State of North Carolina offers its permanent employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 through the North Carolina Public Employee Deferred Compensation Plan (the Plan). The Plan permits each participating employee to defer a portion of his or her salary until future years. The deferred compensation is available to employees upon separation from service, death, disability, retirement, or financial hardships if approved by the Board of Trustees of the Plan. The Board, a part of the North Carolina Department of Administration, maintains a separate fund for the exclusive benefit of the participating employees and their beneficiaries, *the North Carolina Public Employee Deferred Compensation Trust Fund*. The Board also contracts with an external third party to perform certain administrative requirements and to manage the trust fund's assets. All costs of administering and funding the Plan are the responsibility of the Plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to $60,428.00 for the year ended June 30, 2013.

Internal Revenue Code 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, 2013, were $13,438.16. The voluntary contributions by employees amounted to $384,601.00 for the year ended June 30, 2013.

Internal Revenue Code 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. The plan administrator is the Variable Annuity Life Insurance Company (VALIC). No costs are incurred by the College. The voluntary contributions by employees amounted to $124,032.68 for the year ended June 30, 2013.

NOTE 11 - OTHER POSTEMPLOYMENT BENEFITS

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

The Plan's benefit and contribution provisions are established by Chapter 135, Article 3B, 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 established by the General Assembly.

For the current fiscal year the College contributed 5.30% of the covered payroll under the Teachers' and State Employees' Retirement System to the Fund. Required contribution rates for the years ended June 30, 2012, and 2011, were 5.0% and 4.9%, respectively. The College made 100% of its annual required contributions to the Plan for the years ended June 30, 2013, 2012, and 2011, which were \$941,669.71, \$904,130.17, and \$889,605.60, 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) 707-0500.

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, 2013, the College made a statutory contribution of 0.44% of covered payroll under the Teachers' and State Employees' Retirement System to the DIPNC. Required contribution rates for the years ended June 30, 2012, and 2011, were 0.52% and 0.52%, respectively. The College made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2013, 2012, and 2011, which were $78,176.35, $94,029.54, and $94,407.12, 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 is protected for losses from employee dishonesty for employees paid from county and institutional funds. This coverage is with a private insurance company. The College is charged a premium by the private insurance company. Coverage limit is $75,000 per occurrence.

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 a clinical setting. 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 0.16% 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 purchases. Outstanding commitments on purchases were $236,101.64 at June 30, 2013.

NOTE 14 - NET POSITION RESTATEMENT

As of July 1, 2012, net position as previously reported was restated as follows:

		Amount
July 1, 2012 Net Position as Previously Reported	$	43,504,631.90
Restatement:		
To correct prior period capital assets error		171,768.00
July 1, 2012 Net Position as Restated	$	43,676,399.90

For fiscal year 2012, the College incorrectly expensed construction expenses that should have been capitalized. The resulting effect on the change in net position for fiscal year 2012 is an increase of $171,768.00.

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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, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of 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, 2013, and the related notes to the financial statements, which collectively comprise the College's basic financial statements, and have issued our report thereon dated May 23, 2014. Our report includes a reference to other auditors who audited the financial statements of Durham Technical Community College Foundation, Inc., as described in our report on the College's financial statements. The financial statements of Durham Technical Community College Foundation, Inc. were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with Durham Technical Community College Foundation, Inc.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the College's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control. Accordingly, we do not express an opinion on the effectiveness of the College's internal control.

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a deficiency in internal control, described in the accompanying Audit Findings and Responses section, that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the College's financial statements are free from 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*.

College's Response to Findings

The College's response to the finding identified in our audit is described in the accompanying Audit Findings and Responses section. The College's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the College's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Beth A. Wood

Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

May 23, 2014

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Matters Related to Financial Reporting

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

Deficiencies in Financial Reporting

The financial statements and related notes to the financial statements prepared by the College contained misstatements that were corrected as a result of our audit. The misstatements indicate that the College's internal control over financial reporting was not effective, and without these corrections, the financial statements could be misleading to users. Misstatements noted during our audit included:

- The College did not make adjustments for financial aid applied to student fees. As a result, student tuition and fees and scholarships and fellowships were both overstated by $479,508.72.
- The College reported externally restricted funds as unrestricted. As a result, restricted net position was understated by $397,988.87 and unrestricted net position was overstated by the same amount.
- The College recorded vacation leave for terminated employees. This error resulted in an overstatement of total long-term liabilities and salaries and benefits by $153,706.04.
- Several misstatements were noted in the capital assets disclosure, including:
    1) The College completed two projects during the prior year that were not reclassified from construction in progress to buildings until the current year. This error resulted in an overstatement of prior year construction in progress and an understatement of prior year buildings by $267,228.65.
    2) The College expensed items in the prior year that should have been recorded as capital assets. As a result, prior year capital assets was understated by $183,255.91 and accounts payable was overstated by $8,408.00. A restatement to beginning net position of $191,663.91was also necessary to correct this error.
    3) The College incorrectly adjusted capital assets and receivables for construction expenses previously recorded. As a result, capital assets was understated by $135,537.83 and receivables was overstated by the same amount.
- The College did not reconcile the capital assets subsidiary ledger to the general ledger, resulting in a $3,585,333 variance.
- The College's prior year net position did not agree to total assets less total liabilities, resulting in a restatement to beginning net position of $8,568.49.

- The Statement of Cash Flows required multiple adjustments to correctly present the College's activities.

The College's management is responsible for the fair presentation of the financial statements and related notes to the financial statements in conformity with accounting principles generally accepted in the United States. Best practices for financial statement preparation include adequate review to ensure no material misstatements or errors occur.

Significant aspects of this finding were also reported in the College's last audit.

Recommendation: The College should place greater emphasis on the year-end financial reporting process and strengthen internal controls to ensure the financial statements and related notes to the financial statements are complete and accurate.

College's Response: The College acknowledges that it is responsible for the fair presentation of the financial statements and related notes to the financial statements, and will endeavor to continue improvements in financial reporting.

With regard to financial aid applied to student fees, reporting externally restricted funds, recording vacation leave, and preparing the statement of cash flows, each of which resulted in reporting errors in the audited year, the College will make appropriate modifications in its year-end processes to ensure improved reporting in future years. Further changes in the year-end processes will be made to assure the proper reconciliation of net position which was misstated in the prior fiscal year.

With regard to misstatements in capital assets in the prior year and the adjustment of those assets and receivables balances in the audited year, the College has already modified its procedures and will continue to monitor these accounts carefully to assure that such errors do not recur.

With regard to the variance in the capital assets subsidiary ledger, which did not result in a misstatement on the financial statements, the College will extend the procedures it undertakes at year-end to include a more complete item by item reconciliation. We would note that the incorrect balances in the subsidiary ledger result from errors in the initial implementation of the fixed assets module of the College's enterprise software several years ago, and we have not found a mechanism to adjust the balances of individual items without generating transactions in the current year. For that reason, this reconciliation may be with us for years to come.

ORDERING INFORMATION

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For additional information contact:
Bill Holmes
Director of External Affairs

This audit required 610 audit hours at an approximate cost of $46,360.