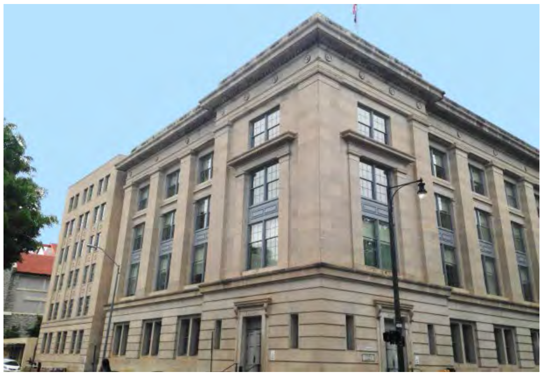
STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA



DURHAM TECHNICAL COMMUNITY COLLEGE

DURHAM, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2015

A COMPONENT UNIT OF THE STATE OF NORTH CAROLINA

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

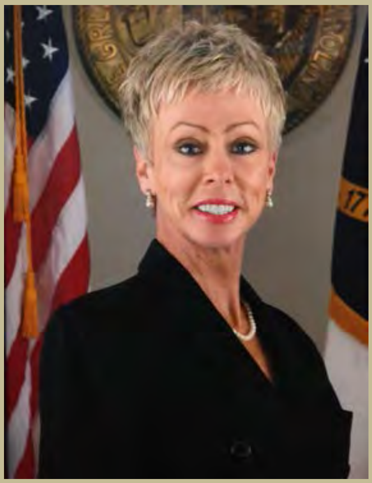
We have completed a financial statement audit of Durham Technical Community College for the year ended June 30, 2015, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

The results of our tests disclosed no deficiencies in internal control over financial reporting that we consider to be material weaknesses in relation to our audit scope or any instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

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 ways listed in the back of this report.

Beth A. Wood

Beth A. Wood, CPA
State Auditor



Beth A. Wood, CPA
State Auditor

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Article V, Chapter 147 of the *North Carolina General Statutes*, gives the Auditor broad powers to examine all books, records, files, papers, documents, and financial affairs of every state agency. The Auditor also has the power to summon people to produce records and to answer questions under oath.

INDEPENDENT AUDITOR'S REPORT

STATE OF NORTH CAROLINA
Office of the State Auditor

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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, 2015, 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 respective financial position of Durham Technical Community College, and its discretely presented component unit, as of June 30, 2015, and the respective 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.

Emphasis of Matter

As discussed in Note 14 to the financial statements, during the year ended June 30, 2015, Durham Technical Community College adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 68. – *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27* and Statement No. 71 – *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*. Our opinion is not modified with respect to this matter.

Other Matters – Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and other required supplementary information, as listed in the table of contents, 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 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 February 25, 2016 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

Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

February 25, 2016

Management's Discussion and Analysis

Introduction

Management's Discussion and Analysis is an introduction and overview to assist the reader in interpreting and understanding the basic financial statements. This overview includes comparative financial analysis with discussion of significant changes from the prior year, as well as a discussion of currently known facts, decisions, and conditions. This information is provided by the College's financial management in conjunction with the issuance of the accompanying financial statements.

The Financial Statements

In accordance with GASB Statements No. 34 and No. 35, the enclosed report focuses on the financial condition of the College, the results of operations, and cash flows of 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. As required, this report contains three basic financial statements and the notes to the financial statements:

> <u>Statement of Net Position</u>: This statement includes all assets, deferred outflows of resources, liabilities, and deferred inflows of resources. The College's net position (the difference between assets plus deferred outflows and liabilities plus deferred inflows) is an indicator of the improvement or erosion of the College's financial health when considered with non-financial facts such as enrollment levels. (Exhibit A-1)
>
> <u>Statement of Revenues, Expenses, and Changes in Net Position</u>: This statement presents the revenues earned and the expenses incurred during the year. Activities are reported as either operating or nonoperating. This approach is intended to summarize and simplify the presentation of the College's services to the students and public. (Exhibit A-2)
>
> <u>Statement of Cash Flows</u>: This statement presents information related to cash inflows and outflows summarized by operating, noncapital financing, capital and related financing, and investing activities, and helps measure the ability of the College to meet financial obligations as they mature. (Exhibit A-3)
>
> <u>Notes to the Financial Statements</u>: The notes 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 additional information that is essential for a complete understanding of the data provided in the statements.

In accordance with GASB Statement No. 39 and No. 61, the enclosed report also contains the Durham Technical Community College Foundation, Inc. "Statement of Financial Position" (Exhibit B-1) and "Statement of Activities" (Exhibit B-2). GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units* and No. 61, *The Financial*

Reporting Entity Omnibus, clarify GASB Statement No. 14, *The Financial Reporting Entity*, as to which organizations affiliated with the College, but separately accountable, should be reported as a component unit based on the organization's nature and significance to the College. The notes to the financial statements do not address the Foundation unless specified.

In June 2012, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* (GASB 68). This statement replaces the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers* as well as the requirements of Statement No. 50, *Pension Disclosures,* as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements that meet certain criteria.

GASB 68 is effective for the fiscal year ending June 30, 2015. The objective of this statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities.

A major change is the reporting of the net pension liability on the statement of net position (i.e., total pension liability for the pension plan, which is actuarially based, less the plan's fiduciary net position). Employers that participate in a cost-sharing multiple-employer defined benefit pension plan, such as the Teachers' and State Employees' Retirement System (TSERS), are required to recognize liabilities for their proportionate share of the collective net pension liability. Also, the auditors of participating employers will require assurances that the pension amounts reported on the statement of net position are accurate and supported by verifiable audit evidence.

GASB 68 establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit pensions, the statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosures and RSI requirements about pensions are also addressed.

The provisions of GASB Statement 68 apply to the financial statements of all state and local governmental employers whose employees are provided with pensions through pension plans that are administered through trusts. The requirements apply whether the government's financial statements are presented in stand-alone financial reports or are included in the financial reports of another government.

Financial Highlights

The College has successfully weathered the economic downturn of the recent years, and the financial condition of the College remains strong. Enrollment, measured as full-time equivalent students (FTE), has been declining, from a high in FY 2011-12 of 5,838 to 5,184 FTE for FY 2014-15. Budgeted and non-budgeted FTE as shown for the current year is based upon the actual FTE earned in the prior year. The FTE numbers that are shown for each year on the chart below represents the FTE earned in the prior year. The College's FTE earned during FY 2014-15 for FY 2015-16 totals only 5,051, a decline of 133. However, for FY 2015-16 the College's state-budgeted FTE increased from 4,628 to 4,645, an increase of 17 FTE.

Since FY 2011-12, the College's overall operating expenses have remained fairly stable, at $42 to $43 million per year.

As the economic environment has changed, the College has adapted to new funding levels. There has been a significant, but not dramatic, shift away from state support, with more reliance on grants, gifts, and student tuition and fees over the last five years. However, for both the 2013-14 and the 2014-15 year, state aid was approximately 41% of the College's total revenues.

Operating expenses remained almost constant, but because the College operates during the year on a budgetary (or cash) basis, limitations of 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 chart presented below shows the overall FTE (state budgeted and total), operating expenses, expenses per FTE, and expenses per FTE net of financial aid:

	2014-15	2013-14	2012-13	2011-12	2010-11
Budgeted FTE	$ 4,628	$ 4,759	$ 4,924	% 5,219	$ 4,919
Total FTE	5,184	5,348	5,537	5,838	5,601
Total Operating Expenses	43,491,863	43,362,190	42,251,586	42,794,109	46,844,630
Expense per FTE	8,390	8,108	7,631	7,330	8,364
Expense per FTE (net of Financial Aid)	6,900	6,793	6,357	6,183	6,826

Statement of Net Position

The *Statement of Net Position* provides information regarding the College's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position as of June 30, 2015. 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 result from transactions in the current year and that are due or payable in the next fiscal year. The net position balances are classified as invested in capital assets, restricted, or unrestricted. In addition, restricted net position is classified as expendable or nonexpendable. The College does not have a restricted nonexpendable net position. 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.

The following is a comparative analysis of the condensed balances reported in the *Statement of Net Position* as of June 30, 2015 and 2014:

Condensed Statement of Net Position

	2015	2014 (as restated)	Change
ASSETS			
Current Assets	$ 5,133,066.33	$ 5,254,287.32	$ (121,220.99)
Capital Assets, Net	42,468,697.17	44,471,552.94	(2,002,855.77)
Other Noncurrent Assets		56,316.80	(56,316.80)
Total Assets	47,601,763.50	49,782,157.06	(2,180,393.56)
DEFERRED OUTFLOWS OF RESOURCES	1,657,397.21	1,526,013.00	131,384.21
LIABILITIES			
Current Liabilities	1,655,010.09	3,574,313.09	(1,919,303.00)
Noncurrent Liabilities	3,284,666.58	9,198,310.06	(5,913,643.48)
Total Liabilities	4,939,676.67	12,772,623.15	(7,832,946.48)
DEFERRED INFLOWS OF RESOURCES	5,201,619.00		5,201,619.00
NET POSITION			
Investment in Capital Assets	42,468,697.17	44,471,552.94	(2,002,855.77)
Restricted, Expendable	1,138,128.97	1,897,925.01	(759,796.04)
Unrestricted	(4,488,961.10)	(7,833,931.04)	3,344,969.94
Total Net Position	$ 39,117,865.04	$ 38,535,546.91	$ 582,318.13

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

- Current assets in total decreased slightly, but there were some major changes in the composition of current assets. Cash declined by $1,047,729 and net receivables increased by $985,794.44. This is due primarily to outstanding receivables related to federal financial aid funds.
- The $2,002,855.77 decrease in capital assets resulted primarily from depreciation expense ($1,176,584.07) and the write-off of the Allpack building ($1,550,000) that was demolished and is no longer in service. See further discussion of the change in capital assets in the "Capital Assets" section below. Purchased or constructed assets totaling $662,946.63 were added to the fixed asset inventory during the year.
- Liabilities are classified as either current or noncurrent. Current liabilities are those due and payable within one year of the date of the financial statements, while noncurrent liabilities are due and payable one year or more after the date of the financial statements. Current liabilities decreased by $1,919,303.00 and noncurrent liabilities decreased by $5,913,643.48. The current liability decrease is primarily due to the fact that last year the College owed funds to the Department of Education for overdrawn financial aid funds. The decrease in long term liabilities is due primarily to the change in net pension liability. Changes due to the implementation of GASB 68 were discussed in the section labeled Financial Statements.
- Two new captions were added to the *Statement of Net Position*, Deferred Inflows of Resources Related to Pensions and Deferred Outflows of Resources Related to Pensions, due the new GASB 68 requirement.
- Net position totaled $39,117,865.04, an increase of $582,318.13 from the previous year. This increase is due primarily to the change in net pension liability.

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, 2015. 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 and federal financial aid grants are classified as 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 June 30, 2015 and 2014:

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

	2015	2014*	Change
Operating Revenues:			
Student Tuition and Fees, Net	$ 7,117,718.85	$ 6,413,031.34	$ 704,687.51
Grants and Contracts	436,443.86	541,328.93	(104,885.07)
All Other Operating Revenues	1,382,728.38	697,561.86	685,166.52
Total Operating Revenues	8,936,891.09	7,651,922.13	1,284,968.96
Operating Expenses:			
Salaries and Benefits	27,523,580.83	27,745,007.27	(221,426.44)
Supplies and Materials	1,673,645.86	1,606,265.62	67,380.24
Services	4,517,503.76	3,303,621.14	1,213,882.62
Scholarships and Fellowships	7,721,998.57	8,232,012.28	(510,013.71)
Utilities	878,549.96	872,376.82	6,173.14
Depreciation	1,176,584.07	1,602,906.96	(426,322.89)
Total Operating Expenses	43,491,863.05	43,362,190.09	129,672.96
Operating Loss	(34,554,971.96)	(35,710,267.96)	(1,155,296.00)
Nonoperating Revenues:			
State Aid	17,777,888.88	17,229,856.37	548,032.51
County Appropriations	6,855,195.03	6,315,689.04	539,505.99
Noncapital Grants and Gifts	10,173,114.80	11,177,361.50	(1,004,246.70)
Other Nonoperating Revenues (Expenses)	(1,487,791.85)	61,568.18	(1,549,360.03)
Total Nonoperating Revenues	33,318,406.86	34,784,475.09	(1,466,068.23)
Loss Before Other Revenues	(1,236,565.10)	(925,792.87)	310,772.23
Other Revenues (Capital Aid)	1,818,883.23	1,996,281.10	(177,397.87)
Increase in Net Position	582,318.13	1,070,488.23	(488,170.10)
Net Position, July 1	38,535,546.91	44,125,388.30	(5,589,841.39)
Restatement (Note 14)		(6,660,329.62)	6,660,329.62
Net Position, June 30	$ 39,117,865.04	$ 38,535,546.91	$ 582,318.13

*Note: The year ended June 30, 2014 column is not presented "as restated" above for GASB 68 because actuarial calculations performed relative to the implementation of this standard do not provide sufficient information to restate these amounts. Also other restatement amount for 2014 were not applied due to the fact that they were from activities from previous years. (See Note 14)

The *Statement of Revenues, Expenses, and Changes in Net Position* reflects an increase of $582,318.13 in net position at the end of the year before restatements. 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 $34,554,971.96, a decrease of $1,155,296.00 over the prior 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 appropriations, and state and federal financial aid funds that are reported as nonoperating revenue.
- The main source of operating revenues is student tuition and fees (80%), as collections increased by $704,687.51 over the previous year. The increase is due to an increase in tuition rates.
- Nonoperating revenue decreased $1,466,068.23, primarily due to a $1,489,218.33 loss on disposal of a building.
- Salaries and benefits account for 63% of the total operating expenses – 77% when scholarships and fellowships are excluded. Salaries and benefits decreased by $221,426.44 from the prior year inclusive of the net pension liability adjustment. The state legislature gave an increase of $1,000 per full-time employee (pro-rated) for part-time employees). This increase was offset by the GASB 68 requirement to reclassify $1,619,754.21 of current-year retirement contributions to deferred outflows of resources.
- Service expenditures increased by $1,213,882.62. This increase was due to several factors, including a greater need for disability student interpreters, increased services for plant operation and maintenance, offering additional tutoring services for students, provided transportation services on contract for students, and increased advertising and property rental costs.
- Scholarships and fellowships make up 18% of total operating expenditures, and decreased by $510,013.71 over the prior year due to fewer students qualifying for Pell grants.
- Noncapital grants and gifts decreased by $1,004,246.70, primarily due to awarding fewer Pell grant funds to students than in the prior year.
- Not including the restatement due to GASB 68, the beginning 2015 net position balance and the ending 2014 net position balance was restated by $682,563.62 because adjustments were made to accounts receivable and accounts payable balances from prior years due to incorrect reversals/accruals and recognition of cash. The GASB 68 restatement reduced the 2015 beginning net position by $5,977,766.

Capital Assets

As of June 30, 2015, the College's investment in capital assets was $42,468,697.17 which consisted of assets totaling $58,595,663.59 minus accumulated depreciation of $16,126,966.42. The composition of capital assets is detailed in Note 4.

In FY 2012, the College purchased the Allpack Building valued at $1,550,000.00 which the College leased back to the original owners until March 2013. The College explored renovation options during FY 2014, including using the space as a storage facility. However, further cost and legal analyses demonstrated that renovation would not be feasible, and demolishing the building would be most cost effective. During the current year, the College disposed of the building via demolition in order to save operating costs and to wait for funds to become available for future expansion.

In 2007, Durham County authorized the issuance of $8,680,000.00 to provide for capital improvements to Durham Technical Community College. Since bond issuance, the College has expended $5,074,118.36 of the bond appropriation for various projects at its main and satellite campuses, leaving a balance of $3,605,881.64 yet to be expended.

The College does not issue debt to fund capital assets. The primary funding sources for equipment expenditures are state and county appropriations. Construction expenditures are usually funded by either county appropriations or state-issued general obligation bonds. The state general obligation bonds usually have a required matching of local funds.

The College's Financial Position

The ability of the College to fulfill its mission and execute its strategic plan is directly influenced by state, federal, and county support, enrollment, and financial aid available to students. These issues impact the financial and budget planning process each year.

State support is the College's primary funding source of all revenues during the year. To ensure the fiscal stability of community colleges, state support is based on the higher of total budgetary full-time equivalency (FTE) enrollment of the year prior to the budget year or the average of the three prior years' FTE.

The State's appropriation for Durham Technical Community College for Basic Skills, Curriculum, and Occupational Extension is primarily based on the highest of the previous year or the average of the two prior years' FTE. Budget FTE for 2014-15 is 3714 for curriculum, 542 for occupational extension, and 372 for basic skills.

Current appropriations from Durham and Orange Counties are primarily for plant operations and maintenance. However, the College also received from Durham County a special sales tax appropriation of $965,000 that is used for financial aid and student support. For the budget year 2014-15, county appropriations increased by $539,505.99 (9%) over the prior year. This increase is reflected in county appropriations for current expenses.

Economic Factors That Will Affect the Future

The largest single source of funding for the College is aid 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 40% of the College's total revenues for fiscal year 14-15 – 51% if financial aid is excluded.

Most of the state funding the College receives is based on enrollment. There are a variety of formulas that are used to allocate funds per full-time equivalent student (FTE). While those formulas have changed only a little over the past few years, reductions from the level of funding established by the formulas have become routine. In the year ended June 30, 2015, those reductions total $1,121,900 – 6.3% of the state aid shown on the *Statement of Revenues, Expenses, and Changes in Net Position*. In addition to the management flexibility reduction of $1,121,900 that is built into the state budget, the System Office called back an additional $246,225 (1.4% of the state aid amount shown on the *Statement of Revenues, Expenses, and Changes in Net Position*) in February 2015. For the 2015-16 fiscal year, the College is expecting a "management flexibility" reduction of approximately $1.15 million.

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. However, the College remains confident in its ability to maintain its fiscal stability and to attract citizens into higher education. The College's Board of Trustees and administrators are dedicated in their efforts toward program assessment; cost containment; continuous improvement; expansion of curriculum, occupational training, and continuing education programs; and increased distance learning opportunities. These efforts are geared toward assessing the College's performance related to institutional goals, freeing up resources to support change, and growing new programs and opportunities. As a result, Durham Technical Community College is positioned to increase enrollment strategically, and when appropriate, eliminate obsolete programs. The College also intends to continue to partner with the State and the community in economic development, meet public expectations, and remain financially sound.

FINANCIAL STATEMENTS

Durham Technical Community College
Statement of Net Position — *Exhibit A-1*
June 30, 2015 — *Page 1 of 2*

ASSETS		
Current Assets:		
Cash and Cash Equivalents	$	1,340,383.20
Restricted Cash and Cash Equivalents		1,053,099.80
Short-Term Investments		11,071.72
Receivables, Net (Note 3)		2,512,100.14
Inventories		91,806.15
Prepaid Items		124,605.32
Total Current Assets		5,133,066.33
Noncurrent Assets:		
Capital Assets - Nondepreciable (Note 4)		2,958,198.63
Capital Assets - Depreciable, Net (Note 4)		39,510,498.54
Total Noncurrent Assets		42,468,697.17
Total Assets		47,601,763.50
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Outflows Related to Pensions		1,657,397.21
Total Deferred Outflows of Resources		1,657,397.21
LIABILITIES		
Current Liabilities:		
Accounts Payable and Accrued Liabilities (Note 5)		929,014.50
Unearned Revenue		251,837.10
Funds Held for Others		142,520.45
Long-Term Liabilities - Current Portion (Note 6)		331,638.04
Total Current Liabilities		1,655,010.09
Noncurrent Liabilities:		
Long-Term Liabilities (Note 6)		3,284,666.58
Total Noncurrent Liabilities		3,284,666.58
Total Liabilities		4,939,676.67
DEFERRED INFLOWS OF RESOURCES		
Deferred Inflows Related to Pensions		5,201,619.00
Total Deferred Inflows of Resources		5,201,619.00

NET POSITION	
Investment in Capital Assets	42,468,697.17
Restricted for:	
Expendable:	
Scholarships and Fellowships	612,476.35
Specific Programs	525,652.62
Unrestricted	(4,488,961.10)
Total Net Position	$ 39,117,865.04

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 Position
For the Fiscal Year Ended June 30, 2015

Exhibit A-2

REVENUES	
Operating Revenues:	
Student Tuition and Fees, Net (Note 8)	$ 7,117,718.85
Federal Grants and Contracts	160,375.10
State and Local Grants and Contracts	22,123.59
Nongovernmental Grants and Contracts	253,945.17
Sales and Services, Net (Note 8)	823,953.50
Other Operating Revenues	558,774.88
Total Operating Revenues	8,936,891.09
EXPENSES	
Operating Expenses:	
Salaries and Benefits	27,523,580.83
Supplies and Materials	1,673,645.86
Services	4,517,503.76
Scholarships and Fellowships	7,721,998.57
Utilities	878,549.96
Depreciation	1,176,584.07
Total Operating Expenses	43,491,863.05
Operating Loss	(34,554,971.96)
NONOPERATING REVENUES (EXPENSES)	
State Aid	17,777,888.88
County Appropriations	6,855,195.03
Noncapital Grants - Student Financial Aid	9,538,883.11
Noncapital Grants	465,573.84
Noncapital Gifts	168,657.85
Investment Income	1,426.48
Other Nonoperating Expenses	(1,489,218.33)
Net Nonoperating Revenues	33,318,406.86
Loss Before Other Revenues	(1,236,565.10)
State Capital Aid	617,523.59
County Capital Aid	1,201,359.64
Increase in Net Position	582,318.13
NET POSITION	
Net Position, July 1, 2014 as Restated (Note 14)	38,535,546.91
Net Position, June 30, 2015	$ 39,117,865.04

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

Durham Technical Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2015

CASH FLOWS FROM OPERATING ACTIVITIES	
Received from Customers	$ 8,803,709.44
Payments to Employees and Fringe Benefits	(28,248,106.06)
Payments to Vendors and Suppliers	(7,569,929.71)
Payments for Scholarships and Fellowships	(6,988,368.21)
Other Payments	(53,564.44)
Net Cash Used by Operating Activities	(34,056,258.98)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Aid Received	17,777,888.88
County Appropriations	6,855,195.03
Noncapital Grants - Student Financial Aid	6,977,404.89
Noncapital Grants	56,266.50
Noncapital Gifts and Endowments	168,657.85
William D. Ford Direct Lending Receipts	7,865,431.53
William D. Ford Direct Lending Disbursements	(7,865,431.53)
Net Cash Provided by Noncapital Financing Activities	31,835,413.15
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
State Capital Aid Received	673,840.39
County Capital Aid	1,087,214.70
Acquisition and Construction of Capital Assets	(806,035.01)
Net Cash Provided by Capital and Related Financing Activities	955,020.08
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment Income	1,426.48
Purchase of Investments and Related Fees	(15.37)
Net Cash Provided by Investing Activities	1,411.11
Net Decrease in Cash and Cash Equivalents	(1,264,414.64)
Cash and Cash Equivalents, July 1, 2014 (As Restated)	3,657,897.64
Cash and Cash Equivalents, June 30, 2015	$ 2,393,483.00

Durham Technical Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2015

RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES

Operating Loss	$	(34,554,971.96)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation/ Amortization Expense		1,176,584.07
Pension Expense		626,412.00
Changes in Assets, Liabilities, and Deferred Outflows of Resources:		
Receivables, Net		649,037.42
Inventories		(59,749.02)
Prepaid Items		(97,634.82)
Accounts Payable and Accrued Liabilities		(297,940.62)
Due to Primary Government		(983.12)
Unearned Revenue		(48,588.71)
Funds Held for Others		(53,564.44)
Deferred Outflows - Contributions After the Measurement Date		(1,619,754.21)
Compensated Absences		224,894.43
Net Cash Used by Operating Activities	$	(34,056,258.98)

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:		
Cash and Cash Equivalents	$	1,340,383.20
Restricted Cash and Cash Equivalents		1,053,099.80
Total Cash and Cash Equivalents - June 30, 2015	$	2,393,483.00

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through Assumption of a Liability	$	12,022.79
Increase in Receivables Related to Nonoperating Income		1,666,032.88
Loss on Disposal of Capital Assets		(1,489,218.33)

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, 2015 — *Exhibit B-1*

ASSETS		
Cash and Cash Equivalents	$	887,387
Investments		2,396,077
Receivables, Net		14,550
Pledges Receivable/Promises		116,546
Inventories		6,800
Property and Equipment, Net		3,039
Total Assets		3,424,399
LIABILITIES		
Due to Community College and Other Foundations		5,488
Total Liabilities		5,488
NET ASSETS		
Unrestricted		277,974
Temporarily Restricted		2,135,880
Permanently Restricted		1,005,057
Total Net Assets	$	3,418,911

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, 2015 — Exhibit B-2

CHANGES IN UNRESTRICTED NET ASSETS		
Revenues and Gains:		
Contributions	$	501,982
Income on Long-Term Investments		2,391
Net Unrealized and Realized Gains on Long-Term Investments		566
Other		949
Total Unrestricted Revenues and Gains		505,888
Net Assets Released from Restrictions:		
Satisfaction of Program Restrictions		595,404
Total Net Assets Released from Restrictions		595,404
Total Unrestricted Revenues, Gains, and Other Support		1,101,292
Expenses and Losses:		
Scholarships		109,533
Grants		724,560
Management and General		208,469
Fund Raising		42,419
Total Expenses		1,084,981
Total Expenses and Losses		1,084,981
Increase in Unrestricted Net Assets		16,311
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS		
Contributions		448,101
Income on Long-Term Investments		52,979
Net Unrealized and Realized Gains on Long-Term Investments		25,778
Satisfaction of Program Restrictions		(595,404)
Decrease in Temporarily Restricted Net Assets		(68,546)
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS		
Contributions		14,414
Increase in Permanently Restricted Net Assets		14,414
Decrease in Net Assets		(37,821)
Net Assets at Beginning of Year		3,456,732
Net Assets at End of Year	$	3,418,911

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

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity - The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their constituents for their actions. As required by accounting principles generally accepted in the United States of America (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 (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. See below for further discussion of the College's component unit.

Financial statements for the College and its discretely presented component unit are presented as of and for the fiscal year ended June 30, 2015.

Discretely Presented Component Unit – Durham Technical Community College Foundation, Inc. (Foundation) is a legally separate nonprofit 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 nonprofit 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.

During the year ended June 30, 2015, the Foundation distributed $367,920.00 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 E. 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 banks.

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 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.

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 in the following manner:

Asset Class	Estimated Useful Life
Buildings	10-100 years
Machinery & Equipment	2-30 years
General Infrastructure	10-75 years

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, resources whose use is limited by external parties or statute.

J. **Noncurrent Long-Term Liabilities** - Noncurrent long-term liabilities include net pension liability and compensated absences that will not be paid within the next fiscal year.

The net pension liability represents the College's proportionate share of the collective net pension liability reported in the State of North Carolina's 2014 *Comprehensive Annual Financial Report.* This liability represents the College's portion of the collective total pension liability less the fiduciary net position of the Teachers' and State Employees' Retirement System. See Note 10 for further information regarding the College's policies for recognizing liabilities, expenses, and deferred outflows and inflows related to pensions.

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:

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. Both restricted and unrestricted net position include consideration of deferred outflows and inflows of resources.

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 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, 2015 was $2,500.00. The carrying amount of the College's deposits not with the State Treasurer was $2,390,983.00, and the bank balance was $2,635,458.13.

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, 2015, the College's bank balance in excess of federal depository insurance coverage was covered under the pooling method.

B. Investments

College - 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, 2015, the College's investment consisted of money market mutual funds with a fair market value of $11,071.72, 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 has an average maturity of less than one year at June 30, 2015.

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, 2015, the College's investment in The North Carolina Capital Management Trust was rated AAA by Standard and Poor's.

Component Unit - Investments of the College's discretely presented component unit, Durham Technical Community College Foundation, Inc., is 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 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, 2015		Fair Value
Asset Description		
Equity Securities	$	1,353,154
U.S. Treasury Securities		214,129
Mutual Funds		440,724
Mortgage Backed Securities		63,273
Corporate Bonds		314,321
Other		10,476
Total	$	2,396,077

C. **Reconciliation of Deposits and Investments** - A reconciliation of deposits and investments for the College to the basic financial statements as of June 30, 2015, is as follows:

Cash on Hand	$	2,500.00
Carrying Amount of Deposits with Private Financial Institutions		2,390,983.00
Investments		11,071.72
Total Deposits and Investments	$	2,404,554.72
Deposits		
Current:		
Cash and Cash Equivalents	$	1,340,383.20
Restricted Cash and Cash Equivalents		1,053,099.80
Total Deposits		2,393,483.00
Investments		
Current:		
Short-Term Investments		11,071.72
Total Investments		11,071.72
Total Deposits and Investments	$	2,404,554.72

NOTE 3 - RECEIVABLES

Receivables at June 30, 2015, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	$ 3,043,543.49	$ 1,380,408.05	$ 1,663,135.44
Student Sponsors	414,916.99	270,738.52	144,178.47
Intergovernmental	604,687.41		604,687.41
Other	100,098.82		100,098.82
Total Current Receivables	$ 4,163,246.71	$ 1,651,146.57	$ 2,512,100.14

NOTE 4 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2015 is presented as follows:

	Balance July 1, 2014	Increases	Decreases	Balance June 30, 2015
Capital Assets, Nondepreciable:				
Land	$ 2,774,026.91	$ 0.00	$ 0.00	$ 2,774,026.91
Construction in Progress	111,444.63	109,851.09	37,124.00	184,171.72
Total Capital Assets, Nondepreciable	2,885,471.54	109,851.09	37,124.00	2,958,198.63
Capital Assets, Depreciable:				
Buildings	50,566,810.85	199,235.43	1,550,000.00	49,216,046.28
Machinery and Equipment	4,839,241.91	327,924.94		5,167,166.85
General Infrastructure	1,208,431.38	63,059.17	17,238.72	1,254,251.83
Total Capital Assets, Depreciable	56,614,484.14	590,219.54	1,567,238.72	55,637,464.96
Less Accumulated Depreciation for:				
Buildings	12,148,101.40	916,408.47	61,999.92	13,002,509.95
Machinery and Equipment	2,414,722.62	234,546.91		2,649,269.53
General Infrastructure	465,578.72	25,628.69	16,020.47	475,186.94
Total Accumulated Depreciation	15,028,402.74	1,176,584.07	78,020.39	16,126,966.42
Total Capital Assets, Depreciable, Net	41,586,081.40	(586,364.53)	1,489,218.33	39,510,498.54
Capital Assets, Net	$ 44,471,552.94	$ (476,513.44)	$ 1,526,342.33	$ 42,468,697.17

Other nonoperating expenses include a loss of $1,488,000.08 related to the decrease in buildings shown above. The loss was caused by the College's decision to demolish the Allpack building. This decision was made to save operating costs after analyses of renovation proposals demonstrated that demolishing the building was the most cost effective option.

NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2015, were as follows:

	Amount
Current Accounts Payable and Accrued Liabilities:	
Accounts Payable	$ 450,019.13
Accrued Payroll	478,995.37
Total Current Accounts Payable and Accrued Liabilities	$ 929,014.50

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, 2015, is presented as follows:

	Balance July 1, 2014 (As Restated)	Additions	Reductions	Balance June 30, 2015	Current Portion
Net Pension Liability	$ 7,503,779.00	$ 0.00	$ 6,063,577.00	$ 1,440,202.00	$ 0.00
Compensated Absences	1,951,208.19	2,040,197.04	1,815,302.61	2,176,102.62	331,638.04
Total Long-Term Liabilities	$ 9,454,987.19	$ 2,040,197.04	$ 7,878,879.61	$ 3,616,304.62	$ 331,638.04

Additional information regarding the net pension liability is included in Note 10.

NOTE 7 - OPERATING LEASE OBLIGATIONS

The College entered into operating leases for classrooms, office space, and copiers. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2015:

Fiscal Year	Amount
2016	$ 211,123.06
2017	103,430.00
2018	103,430.00
Total Minimum Lease Payments	$ 417,983.06

Rental expense for all operating leases during the year was $389,065.93.

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	$ 10,495,039.45	$ 3,412,839.44	$ (35,518.84)	$ 7,117,718.85
Sales and Services:				
Sales and Services of Auxiliary Enterprises:				
Bookstore	$ 981,138.12	$ 221,357.61	$ 0.00	$ 759,780.51
Dining	22,256.56			22,256.56
Other	41,916.43			41,916.43
Total Sales and Services	$ 1,045,311.11	$ 221,357.61	$ 0.00	$ 823,953.50

NOTE 9 - OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Equipment	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	$ 14,063,930.48	$ 681,295.57	$ 589,331.37	$ 0.00	$ 1,465.00	$ 0.00	$ 15,336,022.42
Public Service	66,582.14	16.81	3,229.76				69,828.71
Academic Support	3,695,711.53	93,683.39	39,589.80				3,828,984.72
Student Services	2,374,168.79	39,159.49	310,168.86				2,723,497.14
Institutional Support	4,309,910.75	354,920.12	1,757,144.64				6,421,975.51
Operations and Maintenance of Plant	1,894,630.75	490,588.24	1,500,433.35		877,084.96		4,762,737.30
Student Financial Aid	492,234.39		25,530.87	7,721,998.57			8,239,763.83
Auxiliary Enterprises		13,982.24	292,075.11				306,057.35
Depreciation						1,176,584.07	1,176,584.07
Pension Expense	626,412.00						626,412.00
Total Operating Expenses	$ 27,523,580.83	$ 1,673,645.86	$ 4,517,503.76	$ 7,721,998.57	$ 878,549.96	$ 1,176,584.07	$ 43,491,863.05

NOTE 10 - PENSION PLAN

Defined Benefit Plan

Plan Administration: The State of North Carolina administers the Teachers' and State Employees' Retirement System (TSERS) plan. This plan is a cost-sharing, multiple-employer, defined benefit plan established by the State to provide pension benefits for general employees and law enforcement officers (LEOs) of the State, general employees and LEOs of its component units, and employees of Local Education Agencies (LEAs) and charter schools not in the reporting entity. Membership is comprised of employees of the State (state agencies and institutions), universities, community colleges, and certain proprietary component units along with the LEAs and charter schools. Benefit provisions are established by General Statute 135-5 and may be amended only by the North Carolina General Assembly.

Benefits Provided: TSERS provides retirement and survivor benefits. Retirement benefits are determined as 1.82% of the member's average final compensation times the member's years of creditable service. A member's average final compensation is calculated as the average of a member's four highest consecutive years of compensation. General employee plan members are eligible to retire with full retirement benefits at age 65 with five years of creditable service, at age 60 with 25 years of creditable service, or at any age with 30 years of creditable service. General employee plan members are eligible to retire with partial retirement benefits at age 50 with 20 years of creditable service or at age 60 with five years of creditable service. Survivor benefits are available to eligible beneficiaries of general members who die while in active service or within 180 days of their last day of service and who also have either completed 20 years of creditable service regardless of age, or have completed five years of service and have reached age 60. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions. The plan does not provide for automatic post-retirement benefit increases. Increases are contingent upon actuarial gains of the plan.

Contributions: Contribution provisions are established by General Statute 135-8 and may be amended only by the North Carolina General Assembly. Employees are required to contribute 6% of their compensation. The contribution rate for employers is set each year by the NC General Assembly in the Appropriations Act based on the actuarially-determined rate recommended by the actuary. The College's contractually-required contribution rate for the year ended June 30, 2015 was 9.15% of covered payroll. The College's contributions to the pension plan were $1,619,754.21, and employee contributions were $1,062,133.91 for the year ended June 30, 2015.

The TSERS Plan's financial information, including all information about the plan's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fiduciary net position, is included in the State of North Carolina's fiscal year 2014 *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.

TSERS Basis of Accounting: The financial statements of the TSERS plan were prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has a legal requirement to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan. The plan's fiduciary net position was determined on the same basis used by the pension plan.

Methods Used to Value TSERS Investment: Pursuant to *North Carolina General Statutes*, the State Treasurer is the custodian and administrator of the retirement systems. The State Treasurer maintains various investment portfolios in its Investment Pool. The pension trust funds are the primary participants in the Long-term Investment portfolio and the sole participants in the External Fixed Income Investment, Equity Investment, Real Estate Investment, Alternative Investment, Credit Investment, and Inflation Protection Investment portfolios. The investment balance of each pension trust fund represents its share of the fair market value of the net position of the various portfolios within the pool. Detailed descriptions of the methods and significant assumptions regarding investments of the State Treasurer are provided in the 2014 *Comprehensive Annual Financial Report*.

Net Pension Liability: At June 30, 2015, the College reported a liability of $1,440,202 for its proportionate share of the collective net pension liability. The net pension liability was measured as of June 30, 2014. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2013, and update procedures were used to roll forward the total pension liability to June 30, 2014. The College's proportion of the net pension liability was based on the present value of future salaries for the College relative to the present value of future salaries for all participating employers, actuarially-determined. As of June 30, 2014, the College's proportion was .12284%, which was a decrease of .61489% from its proportion measured as of June 30, 2013.

Actuarial Assumptions: The following table presents the actuarial assumptions used to determine the total pension liability for the TSERS plan at the actuarial valuation date:

Valuation Date	12/31/2013
Inflation	3%
Salary Increases*	4.25% - 9.10%
Investment Rate of Return**	7.25%

* Salary increases include 3.5% inflation and productivity factor.
** Investment rate of return is net of pension plan investment expense, including inflation.

TSERS currently uses mortality tables that vary by age, gender, employee group (i.e. teacher, general, law enforcement officer) and health status (i.e. disabled and healthy). The current mortality rates are based on published tables and based on studies that cover significant portions of the U.S. population. The healthy mortality rates also contain a provision to reflect future mortality improvements.

The actuarial assumptions used in the December 31, 2013 valuations were based on the results of an actuarial experience study for the period January 1, 2005 through December 31, 2009.

Future ad hoc Cost of Living Adjustment (COLA) amounts are not considered to be substantively automatic and are therefore not included in the measurement.

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2014 (the valuation date) are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return
Fixed Income	2.5%
Global Equity	6.1%
Real Estate	5.7%
Alternatives	10.5%
Credit	6.8%
Inflation Protection	3.7%

The information above is based on 30-year expectations developed with the consulting actuary for the 2013 asset, liability and investment policy study for the North Carolina Retirement Systems. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.19%. All rates of return and inflation are annualized.

Discount Rate: The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate: The following presents the net pension liability of the plan calculated using the discount rate of 7.25%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.25%) or 1-percentage point higher (8.25%) than the current rate:

1% Decrease (6.25%)	Net Pension Liability (Asset) Rate (7.25%)	1% Increase (8.25%)
$ 10,338,768.00	$ 1,440,202.00	$ (6,073,341.00)

Deferred Inflows of Resources and Deferred Outflows of Resources Related to Pensions: For the year ended June 30, 2015, the College recognized pension expense of $626,412. At June 30, 2015, the College reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Employer Balances of Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions by Classification:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Actual and Expected Experience	$ 0.00	$ 335,703.00
Changes of Assumptions		
Net Difference Between Projected and Actual Earnings on Pension Plan Investments		4,865,916.00
Change in Proportion and Differences Between Agency's Contributions and Proportionate Share of Contributions	37,643.00	
Contributions Subsequent to the Measurement Date	1,619,754.21	
Total	$ 1,657,397.21	$ 5,201,619.00

$1,619,754.21 of the amount reported as deferred outflows of resources related to pensions will be included as a reduction of the net pension liability in the fiscal year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Schedule of the Net Amount of the Employer's Balances of Deferred Outflows of Resources and Deferred Inflows of Resources That will be Recognized in Pension Expense:

Year ended June 30:	Amount
2016	$ (1,295,124.00)
2017	(1,295,124.00)
2018	(1,295,124.00)
2019	(1,278,604.00)
Total	$ (5,163,976.00)

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

(TSERS). 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 TSERS 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 5.49% of the covered payroll under TSERS to the Fund. Required contribution rates for the years ended June 30, 2014, and 2013, were 5.4% and 5.3%, respectively. The College made 100% of its annual required contributions to the Plan for the years ended June 30, 2015, 2014, and 2013, which were $971,852.52, $948,465.85, and $941,669.71, 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 TSERS. 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, 2015, the College made a statutory contribution of .41% of covered payroll under TSERS to the DIPNC. Required contribution rates for the years ended June 30, 2014, and 2013, were .44% in both years. The College made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2015, 2014, and 2013, which were $72,579.15, $77,282.40, and $78,176.35, 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.

A. Employee Benefit Plans

1. State Health Plan

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.

2. Death Benefit Plan of North Carolina

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.

B. Other Risk Management and Insurance Activities

1. Automobile, Fire, and Other Property Losses

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.

2. Public Officers' and Employees' Liability Insurance

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.

3. Employee Dishonesty and Computer Fraud

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.

4. Statewide Workers' Compensation Program

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.

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.

5. Other Insurance Held by the College

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.

NOTE 13 - COMMITMENTS AND CONTINGENCIES

The College has established an encumbrance system to track its outstanding commitments on purchases. Outstanding commitments on purchases were $212,672.60 at June 30, 2015.

NOTE 14 - NET POSITION RESTATEMENTS

As of July 1, 2014, net position as previously reported was restated as follows:

		Amount
July 1, 2014 Net Position as Previously Reported	$	45,195,876.53
Restatements:		
Adjustment for Incorrect Accruals/Reversals and Correction of Cash Understatment Due to System Constraints.		(682,563.62)
Record the College's Net Pension Liability and Pension Related Deferred Outflows of Resources Per GASB 68 Requirements		(5,977,766.00)
July 1, 2014 Net Position as Restated	$	38,535,546.91

REQUIRED SUPPLEMENTARY INFORMATION

Durham Technical Community College
Required Supplementary Information
Schedule of the Proportionate Net Pension Liability
Teachers' and State Employees' Retirement System
Last Two Fiscal Years

Exhibit C-1

	2014	2013
Proportionate Share Percentage of Collective Net Pension Liability	0.12284%	0.12360%
Proportionate Share of TSERS Collective Net Pension Liability	$ 1,440,202.00	$ 7,503,779.48
Covered-Employee Payroll	$ 17,564,182.39	$ 17,767,352.99
Net Pension Liability as a Percentage of Covered-Employee Payroll	8.20%	42.23%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	98.24%	90.60%

Durham Technical Community College
Required Supplementary Information
Schedule of College Contributions
Teachers' and State Employees' Retirement System
Last Ten Fiscal Years

Exhibit C-2

	2015	2014	2013	2012	2011
Contractually Required Contribution	$ 1,619,754.21	$ 1,526,327.45	$ 1,480,020.50	$ 1,345,345.69	$ 895,052.16
Contributions in Relation to the Contractually Determined Contribution	1,619,754.21	1,526,327.45	1,480,020.50	1,345,345.69	895,052.16
Contribution Deficiency (Excess)	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Covered-Employee Payroll	$ 17,702,231.76	$ 17,564,182.39	$ 17,767,352.99	$ 18,082,603.33	$ 18,155,216.29
Contributions as a Percentage of Covered-Employee Payroll	9.15%	8.69%	8.33%	7.44%	4.93%

	2010	2009	2008	2007	2006
Contractually Required Contribution	$ 603,497.95	$ 565,500.28	$ 494,288.72	$ 401,015.53	$ 323,208.83
Contributions in Relation to the Contractually Determined Contribution	603,497.95	565,500.28	494,288.72	401,015.53	323,208.83
Contribution Deficiency (Excess)	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Covered-Employee Payroll	$ 16,904,704.55	$ 16,830,365.37	$ 16,206,187.62	$ 15,075,771.85	$ 13,812,343.30
Contributions as a Percentage of Covered-Employee Payroll	3.57%	3.36%	3.05%	2.66%	2.34%

Durham Technical Community College
Notes to Required Supplementary Information
Schedule of College Contributions
Teachers' and State Employees' Retirement System
For the Fiscal Year Ended June 30, 2015

Changes of Benefit Terms:

Cost of Living Increase

2014	2013	2012	2011	2010	2009	2008	2007	2006
N/A	1.00%	N/A	N/A	N/A	2.20%	2.20%	3.00%	2.00%

Changes of assumptions. In 2008, and again in 2012, the rates of withdrawal, mortality, service retirement and salary increase for active members and the rates of mortality for beneficiaries were adjusted to more closely reflect actual experience. Assumptions for leave conversions and loads were also revised in 2012.

INDEPENDENT AUDITOR’S REPORT

STATE OF NORTH CAROLINA
Office of the State Auditor

Beth A. Wood, CPA
State Auditor

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Trustees
Durham Technical Community College
Durham, North Carolina

We have audited, 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, 2015, and the related notes to the financial statements, which collectively comprise the College's basic financial statements, and have issued our report thereon dated February 25, 2016. 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. 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.

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.*

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 results 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 College'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

February 25, 2016

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For additional information contact:
Bill Holmes
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NC OSA
The Taxpayers' Watchdog

This audit required 424 audit hours at an approximate cost of $41,976.