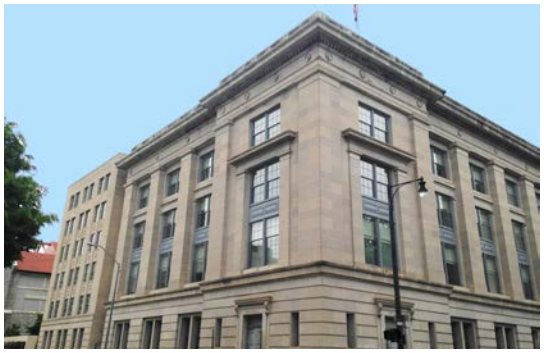
STATE OF NORTH CAROLINA

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, 2017

A COMPONENT UNIT OF THE STATE OF NORTH CAROLINA

NCOSA

The Taxpayers' Watchdog

STATE OF NORTH CAROLINA
Office of the State Auditor

Beth A. Wood, CPA
State Auditor

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Raleigh, NC 27699-0600
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AUDITOR'S TRANSMITTAL

The Honorable Roy Cooper, Governor
The General Assembly of North Carolina
Board of Trustees, Durham Technical Community College

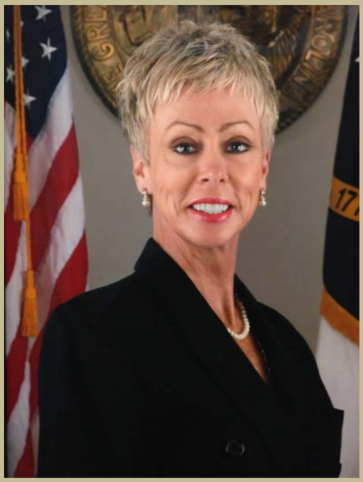
We have completed a financial statement audit of Durham Technical Community College for the year ended June 30, 2017, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material 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 options 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 and any organization that receives public funding. 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

Beth A. Wood, CPA
State Auditor

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Raleigh, NC 27699-0600
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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 (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, 2017, 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, 2017, 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.

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 2, 2018 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 2, 2018

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 Governmental Accounting Standards Board (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, liabilities, deferred outflows of resources, and deferred inflows of resources. The College's net position (the difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources) 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>: This section 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 Statements No. 39 and No. 61, the enclosed report also contains the Statement of Financial Position (Exhibit B-1) and Statement of Activities (Exhibit B-2) for Durham Technical Community College Foundation, Inc., the College's discretely presented component unit. 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.

Financial Highlights

The College's financial condition remains fairly stable, as the College's enrollment and full-time equivalent students (FTE) have stabilized over the last several years. Total operating expenses for the College usually increase slightly from year to year based upon legislative salary increases for faculty and staff. However, as shown in the chart below, operating expenses have increased more significantly this year. This increase is due to the $2,378,657.00 that was recorded as pension expense. Beginning in FY 2014-15, colleges were required to begin recognizing pension expense on their financials due to the implementation of GASB Statement No. 68. During FY 2016-17, pension expense increased by $1,907,795 over the FY 2015-16 amount. A more in depth explanation of pension expense can be found under long-term liabilities. Operating expenses are fairly 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.

As the economic environment changed over the last ten years, there was a significant, but not dramatic, shift away from state support, with more reliance on grants, gifts, and student tuition and fees. For FY 2016-17 and FY 2015-16, state aid was approximately 44.8% and 43.8% of the College's total revenues. The chart presented below shows the overall operating expenses, expenses per FTE, and expenses per FTE net of financial aid for the last five years.

	2016-17	2015-16	2014-15	2013-14	2012-13
Total Operating Expenses	$ 46,983,270	$ 44,524,369	$ 43,491,863	$ 43,362,190	$ 42,251,586
Expense per FTE	9,809	8,815	8,390	8,108	7,631
Expense per FTE (Net of Finanical Aid)	8,459	7,230	6,900	6,793	6,357

Statement of Net Position

The *Statement of Net Position* provides information regarding the College's assets, liabilities, deferred outflows of resources, deferred inflows of resources, and net position as of June 30, 2017. 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. Net position balances are classified as net investment in capital assets, restricted, or unrestricted. In addition, restricted net position is further 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.

Following is a comparative analysis of the condensed balances reported in the *Statement of Net Position* as of June 30, 2017 and 2016:

Condensed Statement of Net Position

			Change	
	2017	2016	Amount	%
ASSETS				
Current Assets	$ 2,507,096.88	$ 3,498,527.05	$ (991,430.17)	(28.34)%
Capital Assets, Net	43,236,499.55	43,059,289.88	177,209.67	0.41%
Total Assets	45,743,596.43	46,557,816.93	(814,220.50)	(1.75)%
Total Deferred Outflows of Resources	8,249,872.21	1,771,070.21	6,478,802.00	365.81%
LIABILITIES				
Current:				
Long-Term Liabilities - Current Portion	955,519.60	388,480.77	567,038.83	145.96%
Other Current Liabilities	1,829,875.88	1,587,091.73	242,784.15	15.30%
Noncurrent:				
Long-Term Liabilities	13,181,901.23	6,381,962.59	6,799,938.64	106.55%
Total Liabilities	15,967,296.71	8,357,535.09	7,609,761.62	91.05%
Total Deferred Inflows of Resources	562,741.00	1,008,432.00	(445,691.00)	(44.20)%
NET POSITION				
Net Investment in Capital Assets	43,038,327.55	43,059,289.88	(20,962.33)	(0.05)%
Restricted, Expendable	409,738.75	621,433.47	(211,694.72)	(34.07)%
Unrestricted	(5,984,635.37)	(4,717,803.30)	(1,266,832.07)	26.85%
Total Net Position	$ 37,463,430.93	$ 38,962,920.05	$ (1,499,489.12)	(3.85)%

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

- Current assets in total decreased by 28.34% from last year. Cash declined by $852,584.99 and net receivables decreased by $252,245.73. Cash declined as the College expended institutional funds to supplement instructional and support services that are normally paid from state funds. Net receivables declined primarily because the College increased the allowance for doubtful accounts to reflect historical collection rates.

- Current liabilities increased by $809,822.98. This is primarily due to a higher percentage of compensated absences being recognized as a current liability this year. The total compensated absences are divided between current and long-term with the current portion based upon the current year's payout of leave. This percentage increased from 17% to 43% due to the higher number of employees paid annual leave upon separation from the College.

- Long-term liabilities increased by $6,799,938.64 (106.55%) due to an increase in net pension liability. The Teachers' and State Employees' Retirement System (TSERS) is an employer cost sharing plan (a pooled pension plan) and each member employer must report a pro rata share of the pension plan's net pension liability. As a result, the performance of the TSERS affects the College's pro rata share of that whole. In implementing GASB 68, the State of North Carolina opted to use the end of the prior fiscal year as the measurement date, which gives the State time to have an actuarial study done and report the results by the following year. Since the measurement date is a year behind, details of what is affecting our net pension liability can be found in the State's FY 2016 *Comprehensive Annual Financial Report* (CAFR).

The FY 2016 CAFR shows that the net pension liability for the TSERS plan nearly tripled from last year, and that is largely a result of the net investment income tumbling from over nine billion dollars in FY 2014 to just under half a billion dollars in FY2016 (a drop of approximately 95% over the two-year span). Meanwhile, the net benefit payments from the pension plan to beneficiaries have risen steadily each year (up about 9% from FY 2014 to FY 2016). In addition, the State decided that it should be more conservative in its estimates so it changed some of the assumptions they used for calculating the pension liability in FY 2016 which added $1.7 billion to the State's net pension liability.

- Deferred outflows increased by 6,478,802.00 or 365.81%, while deferred inflows decreased by $445,691.00 or 44.2%. Both of these changes were a result of the pension plan activity described above and in Note 11.

- Net position totaled $37,463,430.93, a decrease of $1,499,489.12 from the previous year. This change was primarily due to the increase in the College's net pension liability and related amounts as described above and in Note 11.

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, 2017. 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 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 of June 30, 2017 and 2016:

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

	2017	2016	Change Amount	Change %
Operating Revenues:				
Student Tuition and Fees, Net	$ 6,871,667.07	$ 6,087,164.36	$ 784,502.71	12.89%
Grants and Contracts	241,676.45	529,728.58	(288,052.13)	(54.38)%
All Other Operating Revenues, Net	430,739.51	535,723.01	(104,983.50)	(19.60)%
Total Operating Revenues	7,544,083.03	7,152,615.95	391,467.08	5.47%
Operating Expenses:				
Salaries and Benefits	31,366,745.49	28,373,946.40	2,992,799.09	10.55%
Supplies and Materials	2,736,182.63	2,948,859.87	(212,677.24)	(7.21)%
Services	4,289,831.29	4,390,536.72	(100,705.43)	(2.29)%
Scholarships and Fellowships	6,462,327.63	6,720,323.56	(257,995.93)	(3.84)%
Utilities	897,054.16	897,786.61	(732.45)	(0.08)%
Depreciation	1,231,128.62	1,192,915.64	38,212.98	3.20%
Total Operating Expenses	46,983,269.82	44,524,368.80	2,458,901.02	5.52%
Operating Loss	(39,439,186.79)	(37,371,752.85)	(2,067,433.94)	(5.53)%
Nonoperating Revenues (Expenses):				
State Aid	19,663,697.55	18,850,066.14	813,631.41	4.32%
County Appropriations	7,349,990.91	7,251,368.51	98,622.40	1.36%
Noncapital Grants and Gifts	8,104,491.52	8,472,825.40	(368,333.88)	(4.35)%
Other Nonoperating Revenues (Expenses)	615.59	(33,353.27)	33,968.86	101.85%
Total Nonoperating Revenues	35,118,795.57	34,540,906.78	577,888.79	1.67%
Loss Before Other Revenues	(4,320,391.22)	(2,830,846.07)	(1,489,545.15)	(52.62)%
Capital Aid	2,783,833.73	2,606,401.28	177,432.45	6.81%
Capital Grants	37,068.37	69,499.80	(32,431.43)	(46.66)%
Decrease in Net Position	(1,499,489.12)	(154,944.99)	(1,344,544.13)	
Net Position, July 1	38,962,920.05	39,117,865.04	(154,944.99)	
Net Position, June 30	$ 37,463,430.93	$ 38,962,920.05	$ (1,499,489.12)	

Fiscal year 2016-2017 total revenues were $45,483,780.70 and total expenses were $46,983,269.82
Fiscal year 2015-2016 total revenues were $44,403,456.95 and total expenses were $44,558,401.94

The *Statement of Revenues, Expenses, and Changes in Net Position* reflects a decrease of $1,499,489.12 in net position at the end of the year. The change in net position is the difference between total revenues and total expenses. Highlights of the information presented on the *Statement of Revenues, Expenses, and Changes in Net Position* are as follows:

- The College reported an operating loss of $39,439,186.79, an increase of $2,067,433.94 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 aid and county appropriations, as well as state and federal financial aid funds that are reported as nonoperating revenue.

- The main source of operating revenues is net student tuition and fees (91%) which increased by $784,502.71 over the previous year. This change was due to students enrolling in more credit hours and an increase in student fees.

- Total nonoperating revenues increased by $577,888.79 due to increases in state aid and county appropriations. The College had an increase in state aid despite a decline in budgeted FTE due to funds received for legislatively-mandated salary and benefit increases.

- Salaries and benefits account for 67% of the total operating expenses (77% when scholarships and fellowships are excluded). Salaries and benefits increased by $2,992,799.09 or 10.55% from the prior year. The primary cause of this increase was an increase of $1,907,795 in pension expense, from $470,862.00 to $2,378,657.00. The remaining increase was due to legislative salary increases and bonuses, as well as an increase in the employer contribution rate for retirement and health insurance.

- The 7.21% decrease in expenses for supplies and materials was due to the allocation of more funds for capitalized assets and less funds to supplies as compared to the prior year.

- Scholarships and fellowships comprise 13.75% of total operating expenses, and decreased by $257,995.93 (3.84%) over the prior year due to fewer students receiving financial aid. The reduction in students receiving financial aid also caused a decrease in
- noncapital grants and gifts of $368,333.88.

Capital Assets

As of June 30, 2017, the College recorded $61,695,992.65 in capital assets, $18,459,493.10 in accumulated depreciation, and $198,172.00 in construction payables which resulted in net investment in capital assets of $43,038,327.55. The composition of capital assets and current year activity is further detailed in Note 5.

In November 2016, Durham County authorized the issuance of a $20,000,000 bond to provide for capital improvements to Durham Technical Community College. In March of 2016, North Carolina voters approved the $2 billion Connect NC Bond referendum. The College's share of that bond was $4,362,997.00. The College has designated $2,000,000 of the NC Connect Bond and $18,000,000 of the county bond to the Newton Renovation and New Addition Capital Improvement Project. The College also designated $2,000,000 of the county bond to the construction of a new Facilities Building. The remaining $2,362,997 of the state bond has not yet been designated for a specific capital improvement project. As of June 30, 2017, the College has expended $161,035.00 of the county bond for the Newton and Facilities projects, leaving a balance of $19,838,965.00 yet to be expended. None of the $4,362,997.00 NC Connect funds were expended as of June 30, 2017.

The College does not issue debt to fund capital assets. The primary funding sources for equipment expenditures are state aid and county appropriations. Construction expenditures are usually funded by either county appropriations or state aid, with state aid typically requiring a matching of funds from other sources.

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 two prior years' FTE.

Current appropriations from Durham and Orange counties are primarily for plant operations and maintenance. During FY 2016-17, the College also received special sales tax appropriation of $1,273,740 from Durham County and $50,000 from Orange County that is used for financial aid and student support. For the current year, overall county appropriations increased by $98,622.40 (1.36%).

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 44.8% of the College's operating and nonoperating revenues for fiscal year 16-17 (53.6% 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, 2017, those reductions totaled $949,023.48 which was 5% of the state aid the College received. For the 2017-18 fiscal year, the College's "management flexibility" reduction is $1,069,589.00.

While the College's financial position remains stable, 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 in order to meet public expectations and remain financially sound.

FINANCIAL STATEMENTS

Durham Technical Community College
Statement of Net Position
June 30, 2017 — *Exhibit A-1*

ASSETS	
Current Assets:	
Cash and Cash Equivalents	$ 436,109.87
Restricted Cash and Cash Equivalents	424,253.92
Short-Term Investments	11,143.18
Receivables, Net (Note 4)	1,374,445.23
Inventories	69,293.42
Prepaid Items	191,851.26
Total Current Assets	2,507,096.88
Noncurrent Assets:	
Capital Assets - Nondepreciable (Note 5)	3,002,261.91
Capital Assets - Depreciable, Net (Note 5)	40,234,237.64
Total Noncurrent Assets	43,236,499.55
Total Assets	45,743,596.43
DEFERRED OUTFLOWS OF RESOURCES	
Deferred Outflows Related to Pensions	8,249,872.21
LIABILITIES	
Current Liabilities:	
Accounts Payable and Accrued Liabilities (Note 6)	1,369,565.05
Unearned Revenue	268,700.25
Funds Held for Others	191,610.58
Long-Term Liabilities - Current Portion (Note 7)	955,519.60
Total Current Liabilities	2,785,395.48
Noncurrent Liabilities:	
Long-Term Liabilities (Note 7)	13,181,901.23
Total Liabilities	15,967,296.71
DEFERRED INFLOWS OF RESOURCES	
Deferred Inflows Related to Pensions	562,741.00
NET POSITION	
Net Investment in Capital Assets	43,038,327.55
Restricted for:	
Expendable:	
Scholarships and Fellowships	403,690.64
Other	6,048.11
Unrestricted	(5,984,635.37)
Total Net Position	$ 37,463,430.93

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, 2017 — *Exhibit A-2*

REVENUES	
Operating Revenues:	
Student Tuition and Fees, Net (Note 9)	$ 6,871,667.07
Federal Grants and Contracts	114,948.39
State and Local Grants and Contracts	126,728.06
Sales and Services, Net (Note 9)	126,200.57
Other Operating Revenues	304,538.94
Total Operating Revenues	7,544,083.03
EXPENSES	
Operating Expenses:	
Salaries and Benefits	31,366,745.49
Supplies and Materials	2,736,182.63
Services	4,289,831.29
Scholarships and Fellowships	6,462,327.63
Utilities	897,054.16
Depreciation	1,231,128.62
Total Operating Expenses	46,983,269.82
Operating Loss	(39,439,186.79)
NONOPERATING REVENUES	
State Aid	19,663,697.55
County Appropriations	7,349,990.91
Noncapital Grants - Student Financial Aid	7,488,849.28
Noncapital Grants	420,826.52
Noncapital Gifts	194,815.72
Investment Income	615.59
Total Nonoperating Revenues	35,118,795.57
Loss Before Other Revenues	(4,320,391.22)
State Capital Aid	715,596.03
County Capital Aid	2,068,237.70
Capital Grants	37,068.37
Decrease in Net Position	(1,499,489.12)
NET POSITION	
Net Position, July 1, 2016	38,962,920.05
Net Position, June 30, 2017	$ 37,463,430.93

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, 2017 — *Page 1 of 2*

CASH FLOWS FROM OPERATING ACTIVITIES	
Received from Customers	$ 7,821,508.56
Payments to Employees and Fringe Benefits	(30,851,122.43)
Payments to Vendors and Suppliers	(7,979,642.23)
Payments for Scholarships and Fellowships	(6,462,327.63)
Other Receipts	64,757.68
Net Cash Used by Operating Activities	(37,406,826.05)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Aid Received	19,663,697.55
County Appropriations	7,349,990.91
Noncapital Grants - Student Financial Aid	7,757,198.38
Noncapital Grants	160,149.40
Noncapital Gifts	200,738.00
William D. Ford Direct Lending Receipts	5,756,726.00
William D. Ford Direct Lending Disbursements	(5,756,726.00)
Net Cash Provided by Noncapital Financing Activities	35,131,774.24
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
State Capital Aid Received	715,596.03
County Capital Aid	2,068,237.70
Capital Grants	9,042.60
Acquisition and Construction of Capital Assets	(1,370,977.97)
Net Cash Provided by Capital and Related Financing Activities	1,421,898.36
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment Income	615.59
Purchase of Investments and Related Fees	(47.13)
Net Cash Provided by Investing Activities	568.46
Net Decrease in Cash and Cash Equivalents	(852,584.99)
Cash and Cash Equivalents, July 1, 2016	1,712,948.78
Cash and Cash Equivalents, June 30, 2017	$ 860,363.79

RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES

Operating Loss	$ (39,439,186.79)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	1,231,128.62
Changes in Assets and Deferred Outflows of Resources:	
Receivables, Net	272,599.52
Inventories	(20,751.16)
Prepaid Items	(98,524.54)
Deferred Outflows for Pensions	(6,478,802.00)
Changes in Liabilities and Deferred Inflows of Resources:	
Accounts Payable and Accrued Liabilities	135,840.14
Unearned Revenue	4,826.01
Net Pension Liability	7,365,345.00
Funds Held for Others	64,757.68
Deferred Inflows for Pensions	(445,691.00)
Compensated Absences	1,632.47
Net Cash Used by Operating Activities	$ (37,406,826.05)

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	$ 436,109.87
Restricted Cash and Cash Equivalents	424,253.92
Total Cash and Cash Equivalents - June 30, 2017	$ 860,363.79

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through Assumption of a Liability	$ 198,172.00
Increase in Receivables Related to Nonoperating Income	20,353.79

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, 2017 — *Exhibit B-1*

ASSETS		
Cash and Cash Equivalents	$	507,559
Contributions Receivable		196,021
Inventory		775
Investments, at Market		3,093,090
Total Assets	$	3,797,445
LIABILITIES		
Accounts Payable	$	5,002
Total Liabilities		5,002
NET ASSETS		
Unrestricted:		
Undesignated		149,303
Board Designated		255,107
Temporarily Restricted		2,324,958
Permanently Restricted		1,063,075
Total Net Assets		3,792,443
Total Liabilities and Net Assets	$	3,797,445

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, 2017

Exhibit B-2

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, GAINS, AND OTHER SUPPORT				
Contributions	$ 475,434	$ 349,631	$ 45,418	$ 870,483
Interest and Dividends	22,977	59,972		82,949
Realized Gains on Investments	951	4,581		5,532
Unrealized Gains on Investments	60,837	139,700		200,537
Miscellaneous	909			909
Net Assets Released from Restrictions	342,160	(342,160)		
Total Revenues, Gains, and Other Support	903,268	211,724	45,418	1,160,410
EXPENSES				
Program Services:				
Scholarships	155,764			155,764
Grants	359,260			359,260
Supporting Services:				
Management and General	213,218			213,218
Fundraising	89,687			89,687
Total Expenses	817,929			817,929
Changes in Net Assets	85,339	211,724	45,418	342,481
NET ASSETS				
Net Assets - Beginning of Year	319,071	2,113,234	1,017,657	3,449,962
Net Assets - End of Year	$ 404,410	$ 2,324,958	$ 1,063,075	$ 3,792,443

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. Other related foundations and similar nonprofit corporations for which the College is not financially accountable are not part of the accompanying financial statements.

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

The Foundation is a private 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, 2017, the Foundation distributed $194,815.72 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 aid, 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. Additional information regarding the fair value measurement of investments is disclosed in Note 3.

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 acquisition value at date of donation in the case of gifts. Donated capital assets acquired prior to July 1, 2015 are stated at fair value as of the date of donation. 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 in the following manner:

Asset Class	Estimated Useful Life
Buildings	10-100 years
Machinery and 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 whose use is limited by external parties or statutes.

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 2016 *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 11 for further information regarding the College's policies for recognizing liabilities, expenses, and deferred outflows of resources and deferred inflows of resources 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 June 30, 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. **Deferred Outflows/Inflows of Resources** - In addition to assets, the Statement of Net Position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. Deferred outflows for pensions qualifies for reporting in this category.

In addition to liabilities, the Statement of Net Position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until then. Deferred inflows for pensions qualifies for reporting in this category.

M. **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, net of outstanding liabilities related to those 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 of resources and deferred inflows of resources.

N. **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.

O. **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.

P. **County Appropriations** - County appropriations are provided to the College primarily to fund its plant operation and maintenance function and to fund construction projects, motor vehicle purchases, and maintenance of equipment. Unexpended county current 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, 2017 was $600.00. The carrying amount of the College's deposits not with the State Treasurer was $859,763.79, and the bank balance was $1,059,512.07.

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, 2017, 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, 2017, the College's investments consisted of $11,143.18 in the North Carolina Capital Management Trust. This investment is subject to the following risks:

Interest Rate Risk: Interest rate risk is defined by GASB Statement No. 40, *Deposit and Investment Risk Disclosures – An Amendment of GASB Statement No.3*, as the risk a government may face should interest rate variances affect the fair value of the 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, 2017.

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, 2017, the North Carolina Capital Management Trust carried a rating of AAA by Standard and Poor's.

Component Unit - Investments of the College's discretely presented component unit, the Foundation, 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 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:

Investment Type		Amount
Equity Securities	$	1,695,041
U.S. Treasury Securities		338,351
Mutual Funds		654,883
Mortgage Backed Securities		39,519
Corporate Bonds		337,894
Other		27,402
Total	$	3,093,090

C. Reconciliation of Deposits and Investments - A reconciliation of deposits and investments for the College to the basic financial statements as of June 30, 2017, is as follows:

Cash on Hand	$	600.00
Carrying Amount of Deposits with Private Financial Institutions		859,763.79
Investments		11,143.18
Total Deposits and Investments	$	871,506.97
Deposits		
Current:		
Cash and Cash Equivalents	$	436,109.87
Restricted Cash and Cash Equivalents		424,253.92
Total Deposits		860,363.79
Investments		
Current:		
Short-Term Investments		11,143.18
Total Investments		11,143.18
Total Deposits and Investments	$	871,506.97

NOTE 3 - FAIR VALUE MEASUREMENTS

College - To the extent available, the College's investments are recorded at fair value as of June 30, 2017. GASB Statement No. 72, *Fair Value Measurement and Application*, defines fair value as the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. This statement establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Inputs are used in applying the various valuation techniques and take into account the assumptions that market participants use to make valuation decisions. Inputs may include price information, credit data, interest and yield curve data, and other factors specific to the financial instrument. Observable inputs reflect market data obtained from independent sources. In contrast, unobservable inputs reflect the entity's assumptions about how market participants would value the financial instrument. Valuation techniques should maximize the use of observable inputs to the extent available.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used for financial instruments measured at fair value on a recurring basis:

Level 1	Investments whose values are based on quoted prices (unadjusted) for identical assets in active markets that a government can access at the measurement date.
Level 2	Investments with inputs – other than quoted prices included within Level 1 – that are observable for an asset, either directly or indirectly.
Level 3	Investments classified as Level 3 have unobservable inputs and may require a degree of professional judgment.

North Carolina Capital Management Trust - At year-end, all of the College's investments valued at $11,143.18 were held in the North Carolina Capital Management Trust which is measured at the Net Asset Value (NAV) per share (or its equivalent). This fund seeks to obtain as high a level of current income as is consistent with the preservation of capital and liquidity and to maintain a constant NAV of $1.00 per share. Management of the fund normally invests at least 99.5% of the fund's total in cash, U.S. government securities, and/or repurchase agreements that are fully collateralized.

Component Unit - FASB ASC 820-10, *Fair Value Measurements and Disclosures*, provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair-value hierarchy are described as below:

Level 1	Financial instruments with unadjusted, quoted prices listed on an active market exchange.
Level 2	Financial instruments determined using prices for recently traded financial instruments with similar underlying terms as well as directly or indirectly observable inputs, such as

interest rates and yield curves that are observable at commonly quoted intervals.

Level 3 Financial instruments that are not actively traded on an active exchange. This category includes situations where there is little, if any, market activity for the financial instrument. The prices are determined using significant unobservable inputs or valuation techniques.

The following table summarizes the Foundation's investments within the fair value hierarchy at June 30, 2017:

		Fair Value Measurements		
Type	Fair Value	Level I	Level II	Level III
Equity Securities	$ 1,695,041	$ 1,695,041	$ 0	$ 0
U.S. Treasury Securities	338,351	338,351		
Mutual Funds	654,883	654,883		
Other	27,402	27,402		
Mortgage Backed Securities	39,519	39,519		
Corporate Bonds	337,894	337,894		
Total	$ 3,093,090	$ 3,093,090	$ 0	$ 0

NOTE 4 - RECEIVABLES

Receivables at June 30, 2017, were as follows:

	Gross Receivables	Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	$ 3,423,217.21	$ 2,820,175.88	$ 603,041.33
Student Sponsors	520,777.65	343,330.67	177,446.98
Intergovernmental	590,467.50		590,467.50
Other	3,489.42		3,489.42
Total Current Receivables	$ 4,537,951.78	$ 3,163,506.55	$ 1,374,445.23

NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2017, is presented as follows:

	Balance July 1, 2016	Increases	Decreases	Balance June 30, 2017
Capital Assets, Nondepreciable:				
Land	$ 2,774,026.91	$ 0.00	$ 0.00	$ 2,774,026.91
Construction in Progress	1,830,435.22	228,235.00	1,830,435.22	228,235.00
Total Capital Assets, Nondepreciable	4,604,462.13	228,235.00	1,830,435.22	3,002,261.91
Capital Assets, Depreciable:				
Buildings	49,243,773.28	2,055,769.87		51,299,543.15
Machinery and Equipment	5,185,167.12	191,600.39		5,376,767.51
General Infrastructure	1,254,251.83	763,168.25		2,017,420.08
Total Capital Assets, Depreciable	55,683,192.23	3,010,538.51		58,693,730.74
Less Accumulated Depreciation for:				
Buildings	13,922,953.97	942,243.73		14,865,197.70
Machinery and Equipment	2,803,483.85	263,560.31		3,067,044.16
General Infrastructure	501,926.66	25,324.58		527,251.24
Total Accumulated Depreciation	17,228,364.48	1,231,128.62		18,459,493.10
Total Capital Assets, Depreciable, Net	38,454,827.75	1,779,409.89		40,234,237.64
Capital Assets, Net	$ 43,059,289.88	$ 2,007,644.89	$ 1,830,435.22	$ 43,236,499.55

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2017, were as follows:

	Amount
Accounts Payable and Accrued Liabilities:	
Accounts Payable	$ 562,303.12
Accrued Payroll	588,460.40
Construction Payable	198,172.00
Other	20,629.53
Total Accounts Payable and Accrued Liabilities	$ 1,369,565.05

NOTE 7 - LONG-TERM LIABILITIES

Changes in Long-Term Liabilities - A summary of changes in the long-term liabilities for the year ended June 30, 2017, is presented as follows:

	Balance July 1, 2016	Additions	Reductions	Balance June 30, 2017	Current Portion
Net Pension Liability	$ 4,541,638.00	$ 7,365,345.00	$ 0.00	$ 11,906,983.00	$ 0.00
Compensated Absences	2,228,805.36	2,503,460.75	2,501,828.28	2,230,437.83	955,519.60
Total Long-Term Liabilities	$ 6,770,443.36	$ 9,868,805.75	$ 2,501,828.28	$ 14,137,420.83	$ 955,519.60

Additional information regarding the net pension liability is included in Note 11.

NOTE 8 - OPERATING LEASE OBLIGATIONS

The College entered into operating leases for building and equipment. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2017:

Fiscal Year	Amount
2018	$ 243,044.14
2019	370,245.58
2020	343,436.18
2021	346,253.98
2022	354,910.34
2023-2027	1,912,163.28
2028-2032	341,556.10
Total Minimum Lease Payments	$ 3,911,609.60

Rental expense for all operating leases during the year was $471,127.70.

NOTE 9 - 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, Net	$ 10,768,745.04	$ 3,319,794.84	$ 577,283.13	$ 6,871,667.07
Sales and Services:				
Sales and Services of Auxiliary Enterprises:				
Dining	$ 36,308.16	$ 0.00	$ 0.00	$ 36,308.16
Bookstore	217,854.15	174,437.66		43,416.49
Other	46,475.92			46,475.92
Total Sales and Services, Net	$ 300,638.23	$ 174,437.66	$ 0.00	$ 126,200.57

NOTE 10 - 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	$ 17,092,852.89	$ 1,236,506.19	$ 663,592.46	$ 0.00	$ 1,250.00	$ 0.00	$ 18,994,201.54
Public Service	82,199.88	1,195.06	15,133.85				98,528.79
Academic Support	3,931,651.69	89,400.46	74,453.98				4,095,506.13
Student Services	3,485,075.27	45,105.23	293,838.49				3,824,018.99
Institutional Support	4,516,088.13	326,821.50	1229379.74				6,072,289.37
Operations and Maintenance of Plant	2,109,121.58	957,635.58	1,688,560.85		895,804.16		5,651,122.17
Student Financial Aid				6,462,327.63			6,462,327.63
Auxiliary Enterprises	149,756.05	79,518.61	324,871.92				554,146.58
Depreciation						1,231,128.62	1,231,128.62
Total Operating Expenses	$ 31,366,745.49	$ 2,736,182.63	$ 4,289,831.29	$ 6,462,327.63	$ 897,054.16	$ 1,231,128.62	$ 46,983,269.82

NOTE 11 - PENSION PLANS

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 pension 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 that elect to join the Retirement System. 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 annual pay. The contribution rate for employers is set each year by the North Carolina 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, 2017 was 9.98% of covered payroll. Employee contributions to the pension plan were $1,166,603.73, and the College's contributions were $1,940,450.86 for the year ended June 30, 2017.

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 2016 *Comprehensive Annual Financial Report*. An electronic version of this report is available on the North Carolina Office of the State Controller's website at http://www.osc.nc.gov/ 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 Fixed Income Asset Class includes the Long-Term Investment and External Fixed Income Investment Portfolios. The Global Equity Asset Class includes the Equity Investment Portfolio. 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 2016 *Comprehensive Annual Financial Report*.

Net Pension Liability: At June 30, 2017, the College reported a liability of $11,906,983.00 for its proportionate share of the collective net pension liability. The net pension liability was measured as of June 30, 2016. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2015, and update procedures were used to roll forward the total pension liability to June 30, 2016. 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, 2016, the College's proportion was .12955%, which was an increase of .00631 from its proportion measured as of June 30, 2015.

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	12/31/2015
Inflation	3%
Salary Increases*	3.50% - 8.10%
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, 2015 valuations were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014.

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, 2016 (the valuation date) are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return
Fixed Income	1.4%
Global Equity	5.3%
Real Estate	4.3%
Alternatives	8.9%
Credit	6.0%
Inflation Protection	4.0%

The information in the preceding table is based on 30-year expectations developed with the consulting actuary and is part of the asset, liability, and investment policy of 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 3.05%. Return projections do not include any excess return expectations over benchmark averages. 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 at June 30, 2016 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:

Net Pension Liability		
1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
$ 22,394,735.00	$ 11,906,983.00	$ 3,088,222.00

Deferred Outflows *of Resources and Deferred Inflows of Resources Related to Pensions:* For the year ended June 30, 2017, the College recognized pension expense of $2,378,657.00. At June 30, 2017, 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	$ 562,741.00
Changes of Assumptions	1,755,991.35	
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	4,246,412.00	
Change in Proportion and Differences Between Agency's Contributions and Proportionate Share of Contributions	307,018.00	
Contributions Subsequent to the Measurement Date	1,940,450.86	
Total	$ 8,249,872.21	$ 562,741.00

The amount of $1,940,450.86 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, 2018. 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
2018	$	1,002,499.35
2019		1,020,033.00
2020		2,392,223.00
2021		1,331,925.00
Total	$	5,746,680.35

NOTE 12 - 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 period July 1, 2016 through December 31, 2016, the College contributed 5.60% of the covered payroll under TSERS to the Fund, and for the period January 1, 2017 through June 30, 2017, the College contributed 6.02% of the covered payroll under TSERS to the Fund. Required contribution rates for the years ended June 30, 2016, and 2015, were 5.60% and 5.49%, respectively. The College made 100% of its annual required contributions to the Plan for the years ended June 30, 2017, 2016, and 2015, which were $1,129,661.27, $1,026,333.94, and $971,852.52, 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 on the North Carolina Office of the State Controller's website at http://www.osc.nc.gov/ 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, 2017, the College made a statutory contribution of .38% of covered payroll under TSERS to the DIPNC. Required contribution rates for the years ended June 30, 2016, and 2015, were .41% in both years. The College made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2017, 2016, and 2015, which were $73,884.90, $75,142.31, and $72,579.15, 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 13 - 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 $100,000 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 and the 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 14 - COMMITMENTS

The College has established an encumbrance system to track its outstanding commitments. Outstanding commitments on purchases were $57,036.00 at June 30, 2017.

NOTE 15 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2017, the College implemented the following pronouncement issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 82, *Pension Issues – An amendment of GASB Statement No. 67, No. 68, and No. 73*

GASB Statement No. 82 addresses certain issues with respect to Statements No. 67, *Financial Reporting for Pension Plans* , No. 68, *Accounting and Financial Reporting for Pensions,* and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68.* Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

Required Supplementary Information

Durham Technical Community College
Required Supplementary Information
Schedule of the Proportionate Net Pension Liability
Teachers' and State Employees' Retirement System
Last Four Fiscal Years ***Exhibit C-1***

	2016	2015	2014	2013
Proportionate Share Percentage of Collective Net Pension Liability	0.12955%	0.12324%	0.12284%	0.12360%
Proportionate Share of TSERS Collective Net Pension Liability	$ 11,906,983.00	$ 4,541,638.00	$ 1,440,202.00	$ 7,503,779.48
Covered Payroll	$ 18,327,391.72	$ 17,702,231.73	$ 17,564,182.39	$ 17,767,352.99
Net Pension Liability as a Percentage of Covered Payroll	64.97%	25.66%	8.20%	42.23%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	87.32%	94.64%	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

	2017	2016	2015	2014	2013
Contractually Required Contribution	$ 1,940,450.86	$ 1,676,956.34	$ 1,619,754.21	$ 1,526,327.45	$ 1,480,020.50
Contributions in Relation to the Contractually Determined Contribution	1,940,450.86	1,676,956.34	1,619,754.21	1,526,327.45	1,480,020.50
Contribution Deficiency (Excess)	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Covered Payroll	$ 19,443,395.42	$ 18,327,391.72	$ 17,702,231.73	$ 17,564,182.39	$ 17,767,352.99
Contributions as a Percentage of Covered Payroll	9.98%	9.15%	9.15%	8.69%	8.33%

	2012	2011	2010	2009	2008
Contractually Required Contribution	$ 1,345,345.69	$ 895,052.16	$ 603,497.95	$ 565,500.28	$ 494,288.72
Contributions in Relation to the Contractually Determined Contribution	1,345,345.69	895,052.16	603,497.95	565,500.28	494,288.72
Contribution Deficiency (Excess)	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Covered Payroll	$ 18,082,603.33	$ 18,155,216.29	$ 16,904,704.55	$ 16,830,365.37	$ 16,206,187.62
Contributions as a Percentage of Covered Payroll	7.44%	4.93%	3.57%	3.36%	3.05%

Note: Changes in benefit terms, methods, and assumptions are presented in the Notes to Required Supplementary Information (RSI) schedule following the pension RSI tables.

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

Changes of Benefit Terms:

Cost of Living Increase

2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
N/A	N/A	1.00%	N/A	N/A	N/A	2.20%	2.20%	3.00%	2.00%

Changes of assumptions. In 2008, 2012, and 2015, the actuarial assumptions were updated to more closely reflect actual experience. In 2015, the North Carolina Retirement Systems' consulting actuaries performed the quinquennial investigation of each retirement systems' actual demographic and economic experience (known as the "Experience Review"). The Experience Review provides the basis for selecting the actuarial assumptions and methods used to determine plan liabilities and funding requirements. The most recent Experience Review examined each plan's experience during the period between January 1, 2010, and December 31, 2014. Based on the findings, the Board of Trustees of the Teachers' and State Employees' Retirement System adopted a number of new actuarial assumptions and methods. The most notable changes to the assumptions include updates to the mortality tables and the mortality improvement projection scales to reflect reduced rates of mortality and significant increases in mortality improvements. These assumptions were adjusted to reflect the mortality projection scale MP-2015, released by the Society of Actuaries in 2015. In addition, the assumed rates of retirement, salary increases, and rates of termination from active employment were reduced to more closely reflect actual experience.

The Notes to Required Supplementary Information reflects information included in the State of North Carolina's 2016 *Comprehensive Annual Financial Report* .

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 (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, 2017, 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 2, 2018. Our report includes a reference to other auditors who audited the financial statements of the Durham Technical Community College Foundation, Inc. (Foundation), as described in our report on the College's financial statements. The financial statements of the Foundation 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 the Foundation.

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.

<u>Compliance and Other Matters</u>

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.*

<u>Purpose of this Report</u>

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, CPA
State Auditor

Raleigh, North Carolina

February 2, 2018

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NC OSA
The Taxpayers' Watchdog

This audit required 420 hours at an approximate cost of $43,260.