

**FINANCIAL STATEMENT REPORT OF
DAVIDSON COUNTY COMMUNITY COLLEGE**

LEXINGTON, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2013

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FINANCIAL AND ADMINISTRATIVE SERVICES

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Independent Auditors' Report

To the Board of Trustees
Davidson County Community College
Lexington, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of Davidson County Community College (the "College"), a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of Davidson County 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 opinion, insofar as it relates to the amounts included for the discretely presented component unit, is 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 Davidson County 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 auditors' 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 opinion.

Opinion

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We 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 7, 2014, on our consideration of the College's internal control over financial reporting and 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.

Rives & Associates, LLP

Raleigh, North Carolina
February 7, 2014

**DAVIDSON COUNTY COMMUNITY COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS**

This Management's Discussion and Analysis section of Davidson County Community College's annual financial report presents the College's financial activity for the fiscal year ended June 30, 2013. This section should be read in conjunction with the College's basic financial statements and the notes to the financial statements.

The financial statements focus on the College as a whole. As such, 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. The basic financial statements consist of three statements.

Statement of Net Position

This statement shows, at a glance, the financial position of the College. The Statement of Net Position is presented in a "classified" format. This means that assets are classified by current-unrestricted, current-restricted, or noncurrent.

Statement of Revenues, Expenses, and Changes in Net Position

This statement presents the revenues and expenses for the fiscal year. Revenues and expenses are classified as operating or nonoperating.

Statement of Cash Flows

This statement presents the sources from which the College received its cash and uses for which cash was spent. The Cash Flow Statement is presented using the direct method, with reconciliation between operating income (loss) and net cash provided (used) by operating activities. For the purpose of this discussion, we will address the Statement of Net Position, the Statement of Revenues, Expenses, and Changes in Net Position, and the Cash Flow Statement.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Financial Highlights:

Condensed Statement of Net Position

The following chart shows changes between the Statement of Net Position for fiscal years 2013 and 2012:

<u>ASSETS</u>	<u>FY 2013</u>	<u>FY 2012</u>	<u>Difference</u>	<u>% Difference</u>
Current Assets	\$ 6,899,753.42	\$ 7,636,257.63	\$ (736,504.21)	-9.64%
Noncurrent Assets:				
Capital Assets, Net	32,243,598.44	31,395,271.45	848,326.99	2.70%
Other Noncurrent Assets	1,713,174.28	1,713,586.31	(412.03)	-0.02%
Total Assets	<u>40,856,526.14</u>	<u>40,745,115.39</u>	<u>111,410.75</u>	0.27%
 <u>LIABILITIES</u>				
Current Liabilities	2,089,029.65	2,232,331.90	(143,302.25)	-6.42%
Noncurrent Liabilities	771,566.68	933,634.26	(162,067.58)	-17.36%
Total Liabilities	<u>2,860,596.33</u>	<u>3,165,966.16</u>	<u>(305,369.83)</u>	-9.65%
 <u>NET ASSETS</u>				
Invested in Capital Assets, Net of Related Debt	32,030,359.10	30,978,946.98	1,051,412.12	3.39%
Restricted	2,061,241.95	2,511,984.84	(450,742.89)	-17.94%
Unrestricted	3,904,328.76	4,088,217.41	(183,888.65)	-4.50%
Total Net Position	<u>\$ 37,995,929.81</u>	<u>\$ 37,579,149.23</u>	<u>\$ 416,780.58</u>	1.11%

Total net position increased \$416,780.58 (1.11%) in fiscal year 2013, due primarily to ongoing construction projects and capital equipment purchases.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

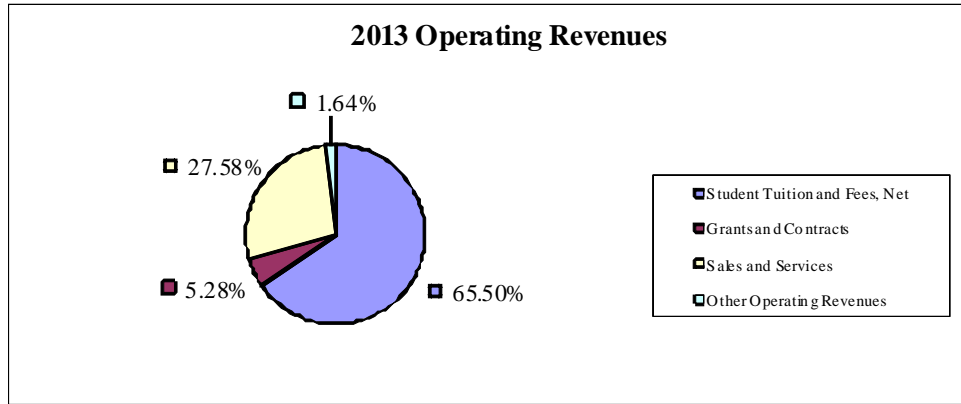
Condensed Statement of Revenues, Expenses, and Changes in Net Position

The following chart shows changes between the Statement of Revenues, Expenses, and Changes in Net Position for fiscal years 2013 and 2012:

<u>OPERATING REVENUES</u>	<u>FY 2013</u>	<u>FY 2012</u>	<u>Difference</u>	<u>% Difference</u>
Student Tuition and Fees, Net	\$ 2,789,408.39	\$ 2,676,601.44	\$ 112,806.95	4.21%
State and Local Grants and Contracts	224,827.71	273,413.57	(48,585.86)	-17.77%
Sales and Services, Net	1,174,650.82	1,241,587.68	(66,936.86)	-5.39%
Other Operating Revenues	69,959.21	75,406.12	(5,446.91)	-7.22%
Total Operating Revenues	<u>4,258,846.13</u>	<u>4,267,008.81</u>	<u>(8,162.68)</u>	-0.19%
 <u>OPERATING EXPENSES</u>				
Salaries & Benefits	24,210,373.23	22,112,964.38	2,097,408.85	9.48%
Supplies and Materials	3,044,250.31	3,327,099.80	(282,849.49)	-8.50%
Services	4,647,403.35	4,611,355.47	36,047.88	0.78%
Scholarships and Fellowships	7,355,041.18	7,482,125.55	(127,084.37)	-1.70%
Utilities	764,043.51	734,952.86	29,090.65	3.96%
Depreciation	1,519,863.43	1,548,300.51	(28,437.08)	-1.84%
Total Operating Expenses	<u>41,540,975.01</u>	<u>39,816,798.57</u>	<u>1,724,176.44</u>	4.33%
Operating Loss	<u>(37,282,128.88)</u>	<u>(35,549,789.76)</u>	<u>(1,732,339.12)</u>	4.87%
 <u>NONOPERATING REVENUES (EXPENSES)</u>				
State Aid	18,313,242.95	17,377,140.14	936,102.81	5.39%
County Appropriations	3,573,362.00	3,538,404.00	34,958.00	0.99%
Noncapital Grants and Gifts	14,176,084.69	13,062,801.49	1,113,283.20	8.52%
Investment Income	26,984.90	49,246.18	(22,261.28)	-45.20%
Interest and Fees on Debt	(14,892.93)	(24,845.69)	9,952.76	40.06%
Other Nonoperating Expenses	(124,122.08)	(55,450.47)	(68,671.61)	-123.84%
Net Nonoperating Revenues	<u>35,950,659.53</u>	<u>33,947,295.65</u>	<u>2,003,363.88</u>	5.90%
Loss Before Other Revenues (Expenses)	<u>(1,331,469.35)</u>	<u>(1,602,494.11)</u>	<u>271,024.76</u>	16.91%
State Capital Aid	928,155.85	1,332,247.15	(404,091.30)	-30.33%
County Capital Aid	820,094.08	1,001,643.02	(181,548.94)	-18.13%
Capital Grants and Gifts	0.00	39,975.98	(39,975.98)	-100.00%
Total Other Revenues	<u>1,748,249.93</u>	<u>2,373,866.15</u>	<u>(625,616.22)</u>	-26.35%
Increase in Net Position	<u>\$ 416,780.58</u>	<u>\$ 771,372.04</u>	<u>\$ (354,591.46)</u>	-45.97%

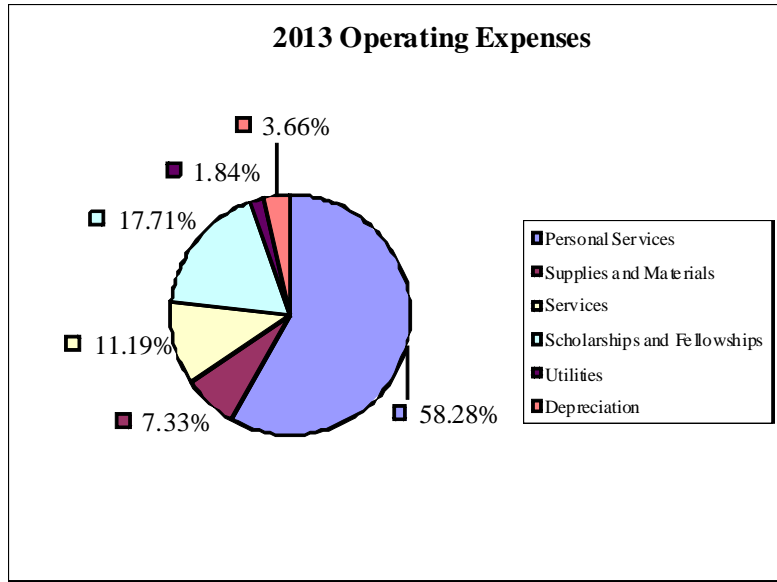
MANAGEMENT’S DISCUSSION AND ANALYSIS (CONTINUED)

The following chart identifies the components of operating revenues for fiscal year 2013:



Total operating expenses increased \$1,724,176.44 (4.33%) in fiscal year 2013, due primarily to the addition of full-time employees, a 1.2% salary increase for all full-time employees, and a 1.11% increase in the employer retirement match.

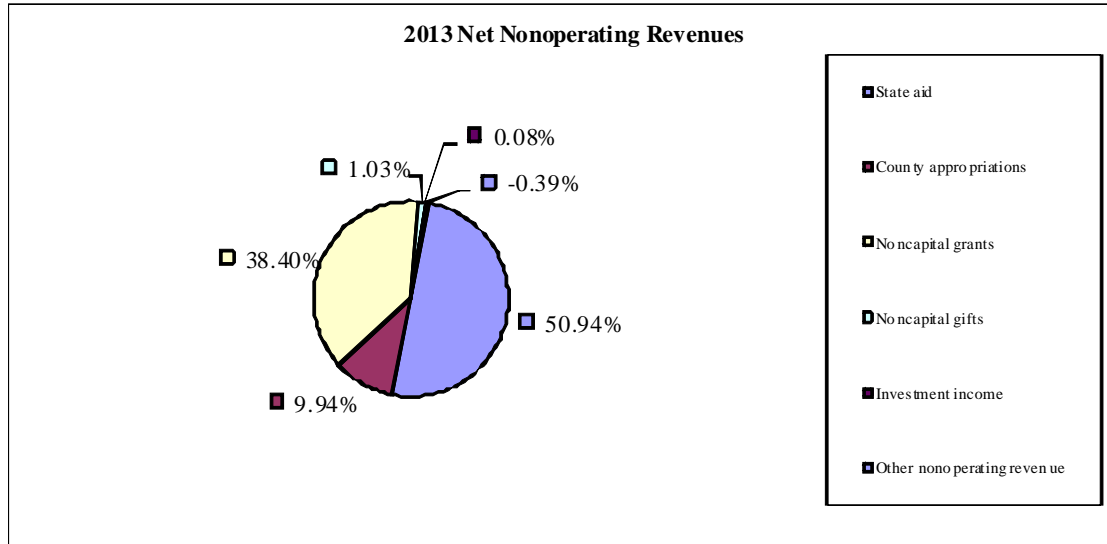
The following chart identifies the components of operating expenses for fiscal year 2013:



Net nonoperating revenues increased \$2,003,363.88 (5.90%) due to an increase in state aid and noncapital grants. State aid increased \$936,102.81 due primarily to new initiatives such as Back to Work and Accelerating Opportunity. Noncapital grants increased \$1,113,283.20 (8.52%) due to the North Carolina Advanced Manufacturing Alliance Grant.

MANAGEMENT’S DISCUSSION AND ANALYSIS (CONTINUED)

The following chart identifies the components of nonoperating revenues for fiscal year 2013:



Total other revenues decreased \$625,616.22 (26.35%) in fiscal year 2013 due to a decrease in state and county capital aid, primarily related to the completion of construction.

Condensed Statement of Cash Flow

	2013	2012	Increase (Decrease)	Percent Change
Cash Provided (Used) by				
Operating Activities	\$ (35,762,380.97)	\$ (34,152,827.45)	\$ 1,609,553.52	4.71%
Noncapital Financing Activities	36,199,515.80	34,068,681.06	2,130,834.74	6.25%
Capital Financing Activities	(633,970.83)	220,345.82	(854,316.65)	-387.72%
Investing Activities	26,984.90	49,246.18	(22,261.28)	-45.20%
Net Change in Cash	(169,851.10)	185,445.61	(355,296.71)	-191.59%
Cash, Beginning of Year	7,501,892.02	7,316,446.41	185,445.61	2.53%
Cash, Ending of Year	\$ 7,332,040.92	\$ 7,501,892.02	\$ (169,851.10)	-2.26%

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

Cash used in operating activities increased by \$1,609,553.52 (4.71%) due primarily to an increase in salaries and benefits.

Cash received in noncapital financing activities increased by \$2,130,834.74 (6.25%) due primarily to an increase in state aid and the North Carolina Manufacturing Alliance Grant.

Cash used in capital financing activities decreased by \$854,316.65 (387.72%) due primarily to ongoing construction projects and capital equipment purchases.

Cash received in investing activities decreased \$22,261.28 (45.2%) due to declining interest rates.

Economic and Other Factors Impacting Future Periods

The economic position of Davidson County Community College is closely tied to that of the State of North Carolina. State appropriations for higher education comprise 45.86% of total revenues and is the largest source of funding. As the national economy remains sluggish, the State economy also lagged. North Carolina's economy, and that of Davidson County Community College, is expected to rebound more slowly than the national economy. Plant closures, layoffs, and changes in textile, furniture, and banking sectors have impacted local revenues. This will most likely result in smaller increases in State and local appropriations for higher education. The specific impact on the College is uncertain.

The biggest challenges facing the College are:

- The level of Federal, State, and Local funding;
- Additional funding needs for equipment purchases and new buildings;
- Additional funding needs for student success initiatives.

Davidson County Community College
Statement of Net Position
June 30, 2013

Exhibit A-1

ASSETS

Current Assets:	
Cash and Cash Equivalents	\$ 5,322,509.00
Restricted Cash and Cash Equivalents	935,357.64
Receivables, Net (Note 3)	572,768.83
Inventories	69,117.95
	<hr/>
Total Current Assets	6,899,753.42
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	1,074,174.28
Restricted Due from Primary Government (Note 3)	607,000.00
Restricted Due from State of North Carolina Component Units (Note 3)	32,000.00
Capital Assets - Nondepreciable (Note 4)	566,650.69
Capital Assets - Depreciable, Net (Note 4)	31,676,947.75
	<hr/>
Total Noncurrent Assets	33,956,772.72
	<hr/>
Total Assets	40,856,526.14

LIABILITIES

Current Liabilities:	
Accounts Payable and Accrued Liabilities (Note 5)	1,161,727.68
Unearned Revenue	301,123.71
Funds Held for Others	263,231.95
Long-Term Liabilities - Current Portion (Note 6)	362,946.31
	<hr/>
Total Current Liabilities	2,089,029.65
Noncurrent Liabilities:	
Long-Term Liabilities (Note 6)	771,566.68
	<hr/>
Total Noncurrent Liabilities	771,566.68
	<hr/>
Total Liabilities	2,860,596.33

NET POSITION

Net Investment in Capital Assets	32,030,359.10
Restricted for:	
Expendable:	
Scholarships and Fellowships	69,797.82
Loans	12,110.20
Capital Projects	1,333,110.83
Student Support	589,605.96
Grants	56,617.14
Unrestricted	3,904,328.76
	<hr/>
Total Net Position	\$ 37,995,929.81

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

Davidson County Community College
Statement of Revenues, Expenses, and
Changes in Net Position
For the Fiscal Year Ended June 30, 2013

Exhibit A-2

REVENUES

Operating Revenues:	
Student Tuition and Fees, Net (Note 8)	\$ 2,789,408.39
State and Local Grants and Contracts	224,827.71
Sales and Services, Net (Note 8)	1,174,650.82
Other Operating Revenues	69,959.21
	<hr/>
Total Operating Revenues	4,258,846.13
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EXPENSES

Operating Expenses:	
Salaries and Benefits	24,210,373.23
Supplies and Materials	3,044,250.31
Services	4,647,403.35
Scholarships and Fellowships	7,355,041.18
Utilities	764,043.51
Depreciation	1,519,863.43
	<hr/>
Total Operating Expenses	41,540,975.01
	<hr/>
Operating Loss	(37,282,128.88)
	<hr/>

NONOPERATING REVENUES (EXPENSES)

State Aid	18,313,242.95
County Appropriations	3,573,362.00
Noncapital Grants - Student Financial Aid	10,468,984.30
Noncapital Grants	3,337,234.81
Noncapital Gifts, Net	369,865.58
Investment Income, Net	26,984.90
Interest and Fees on Debt	(14,892.93)
Other Nonoperating Expenses	(124,122.08)
	<hr/>
Net Nonoperating Revenues	35,950,659.53
	<hr/>
Loss Before Other Revenues	(1,331,469.35)
	<hr/>
State Capital Aid	928,155.85
County Capital Aid	820,094.08
	<hr/>
Increase in Net Position	416,780.58
	<hr/>

NET POSITION

Net Position, July 1, 2012	<hr/> 37,579,149.23
Net Position, June 30, 2013	<hr/> \$ 37,995,929.81 <hr/>

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

Davidson County Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2013

Exhibit A-3
Page 1 of 2

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 4,199,781.56
Payments to Employees and Fringe Benefits	(24,185,347.14)
Payments to Vendors and Suppliers	(8,431,033.72)
Payments for Scholarships and Fellowships	(7,355,041.18)
Other Receipts	9,259.51
	<hr/>
Net Cash Used by Operating Activities	(35,762,380.97)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Aid Received	18,313,242.95
County Appropriations	3,573,362.00
Noncapital Grants - Student Financial Aid	10,468,984.30
Noncapital Grants Received	3,474,060.97
Noncapital Gifts	369,865.58
William D. Ford Direct Lending Receipts	9,635,947.26
William D. Ford Direct Lending Disbursements	(9,635,947.26)
	<hr/>
Net Cash Provided by Noncapital Financing Activities	36,199,515.80

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

State Capital Aid Received	928,155.85
County Capital Aid	1,096,855.08
Acquisition and Construction of Capital Assets	(2,435,080.41)
Principal Paid on Capital Debt and Leases	(203,085.13)
Interest Paid on Capital Debt and Leases	(20,816.22)
	<hr/>
Net Cash Used by Capital and Related Financing Activities	(633,970.83)

CASH FLOWS FROM INVESTING ACTIVITIES

Investment Income	26,984.90
	<hr/>
Net Cash Provided by Investing Activities	26,984.90

Net Decrease in Cash and Cash Equivalents	(169,851.10)
Cash and Cash Equivalents, July 1, 2012	7,501,892.02
	<hr/>
Cash and Cash Equivalents, June 30, 2013	\$ 7,332,040.92

Davidson County Community College Foundation, Inc.
Statement of Financial Position
For the Fiscal Year Ended June 30, 2013

Exhibit B-1

ASSETS

Cash and Cash Equivalents	\$ 386,433.00
Investments	13,264,761.00
Receivables, Net	8,000.00
Contributions Receivable, Net	16,295.00
Land and Buildings, Net	<u>2,261,116.00</u>
Total Assets	<u>15,936,605.00</u>

LIABILITIES

Grants Payable to Community College	<u>93,673.00</u>
Total Liabilities	<u>93,673.00</u>

NET ASSETS

Unrestricted	6,203,279.00
Temporarily Restricted	246,274.00
Permanently Restricted	<u>9,393,379.00</u>
Total Net Assets	<u>15,842,932.00</u>
Total Liabilities and Net Assets	<u><u>\$ 15,936,605.00</u></u>

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

Davidson County Community College Foundation, Inc.
Statement of Changes in Net Assets
For the Fiscal Year Ended June 30, 2013

Exhibit B-2

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
BALANCE AT JUNE 30, 2012	\$ 2,898,698	\$ 145,462	\$ 9,388,162	\$ 12,432,322
Increase in Net Assets	3,172,137	232,152	6,321	3,410,610
Transfers	<u>132,444</u>	<u>(131,340)</u>	<u>(1,104)</u>	<u>-</u>
BALANCE AT JUNE 30, 2013	<u>\$ 6,203,279</u>	<u>\$ 246,274</u>	<u>\$ 9,393,379</u>	<u>\$ 15,842,932</u>

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

Davidson County Community College Foundation, Inc.
Statement of Activities
For the Fiscal Year Ended June 30, 2013

Exhibit B-3

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
CHANGES IN NET ASSETS				
Revenues and Gains:				
Contributions	\$ 3,195,842	\$ 36,826	\$ 54,875	\$ 3,287,543
Investment Income, Net of Investment Advisory Fees of \$70,680 in 2013	59,453	136,969	55,584	252,006
Realized Gains on Investments	39,938	92,009	37,339	169,286
Net Unrealized Gains on Investments	81,877	188,630	76,549	347,056
Fundraising Income, Net of Fundraising Expenses	15,135	34,869	14,150	64,154
Miscellaneous Income	(33,779)	(77,821)	(31,579)	(143,179)
Net Assets Released from Restrictions:				
Restrictions Satisfied by Payment of Scholarships	379,927	(179,330)	(200,597)	-
Total Revenues, Gains, and Other Support	3,738,393	232,152	6,321	3,976,866
Expenses:				
Program Services				
Scholarships and Student Support	379,927	-	-	379,927
Total Program Services	379,927	-	-	379,927
Support Services				
Foundation Office - Administrative	163,648	-	-	163,648
Management and Professional Fees	22,681	-	-	22,681
Total Support Services	186,329	-	-	186,329
Total Expenses	566,256	-	-	566,256
Increase in Net Assets	\$ 3,172,137	\$ 232,152	\$ 6,321	\$ 3,410,610

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

DAVIDSON COUNTY COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013

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. Davidson County Community College is a component unit of the State of North Carolina and an integral part of the State's *Comprehensive Annual Financial Report*.

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

Discretely Presented Component Unit – Davidson County Community College Foundation, Inc. is a legally separate not-for-profit corporation and is reported as a discretely presented component unit based on the nature and significance of their relationship to the College. The Foundation is a legally separate, tax-exempt component unit of the College. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the College in support of its programs. The Foundation Board consists of 39 members. 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 Davidson County Community College Foundation, Inc. is a private not-for-profit organization that reports its financial results under Financial Accounting Standards Board (FASB) Statements. As

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 2013, the Foundation distributed \$292,837.89 to the College for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from Davidson County Community College Foundation, Inc., Post Office Box 1287, Lexington, NC 27293-1287.

- B. Basis of Presentation** - The accompanying financial statements are presented in accordance with accounting principles generally accepted in the United States of America as prescribed by the GASB.

Pursuant to the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended by GASB Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities*, the full scope of the College's activities is considered to be a single business-type activity and accordingly, is reported within a single column in the basic financial statements.

- C. Basis of Accounting** - The financial statements of the College have been prepared using the economic resource measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred, regardless of the timing of the cash flows.

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

- D. Cash and Cash Equivalents** - This classification includes undeposited receipts, petty cash, cash on deposit with private bank accounts, savings accounts, money market accounts, overnight repurchase agreements, and deposits held by the State Treasurer in the short-term investment fund (STIF). The STIF maintained by the State Treasurer has the general characteristics of a demand deposit

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

account in that participants may deposit and withdraw cash at any time without prior notice or penalty.

- E. 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, private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants, and pledges that are verifiable, measurable, and expected to be collected and available for expenditures for which the resource provider's conditions have been satisfied. Receivables are recorded net of estimated uncollectible amounts.
- F. Inventories** - Inventories, consisting of expendable supplies, fuel oil held for consumption, food for food services and postage are valued at cost using either first-in, first-out, last invoice cost, or average cost method. Merchandise for resale is valued at the lower of cost or market using the retail inventory method.
- G. Capital Assets** - Capital assets are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. The value of assets constructed includes all material direct and indirect construction costs. Interest costs incurred are capitalized during the period of construction.

The College capitalizes assets that have a value or cost of \$5,000 or greater at the date of acquisition and an estimated useful life of more than one year. Library books are generally not considered to have a useful life of more than one year unless part of a collection and are expensed in the year of acquisition.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 15 to 50 years for general infrastructure, 25 to 50 years for buildings, and 5 to 25 years for equipment.

The College does not capitalize the art collection. This collection adheres to the College's policy to maintain for public exhibition, education, or research; protect, keep unencumbered, care for, and preserve; and require proceeds from their sale to be used to acquire other collection items. Accounting principles generally accepted in the United States of America permit collections maintained in this manner to be charged to operations at time of purchase rather than be capitalized.

- H. Restricted Assets** - Certain resources are reported as restricted assets because restrictions on asset use change the nature or normal

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

understanding of the availability of the asset. Resources that are not available for current operations and are reported as restricted include resources restricted for the acquisition or construction of capital assets, resources whose use is limited by external parties or statute, and endowment and other restricted investments.

- I. **Noncurrent Long-Term Liabilities** - Noncurrent long-term liabilities include notes payable, and compensated absences that will not be paid within the next fiscal year.
- J. **Compensated Absences** - The College's policy is to record the cost of vacation leave when earned. The policy provides for a maximum accumulation of unused vacation leave of 30 days which can be carried forward each July 1 or for which an employee can be paid upon termination of employment. When classifying compensated absences into current and noncurrent, leave is considered taken using a last-in, first-out (LIFO) method. Also, any accumulated vacation leave in excess of 30 days at year-end is converted to sick leave. Under this policy, the accumulated vacation leave for each employee at June 30 equals the leave carried forward at the previous June 30 plus the leave earned, less the leave taken between July 1 and June 30.

In addition to the vacation leave described above, compensated absences include the accumulated unused portion of the special annual leave bonuses awarded by the North Carolina General Assembly. The bonus leave balance on June 30 is retained by employees and transferred into the next calendar 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.

- K. **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 debt obligations 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

L. 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.

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

activities. Capital contributions are presented separately after nonoperating revenues and expenses.

- N. County Appropriations** - County appropriations are provided to the College primarily to fund its plant operation and maintenance function and to fund construction projects, motor vehicle purchases, and maintenance of equipment. Unexpended county current appropriation and county capital appropriation do not revert and are available for future use by the College.

NOTE 2 - DEPOSITS AND INVESTMENTS

- A. Deposits** – 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. The amount shown on the Statement of Net Position as cash and cash equivalents includes cash on hand totaling \$5,104.00, and deposits in private financial institutions with a carrying value of \$1,799,454.35 and a bank balance of \$2,506,497.70.

The North Carolina Administrative Code (20 NCAC 7) requires all depositories to collateralize public deposits in excess of federal depository insurance coverage by using one of two methods, dedicated or pooled. Under the dedicated method, a separate escrow account is established by each depository in the name of each local governmental unit and the responsibility of monitoring collateralization rests with the local unit. Under the pooling method, each depository establishes an escrow account in the name of the State Treasurer to secure all of its public deposits. This method shifts the monitoring responsibility from the local unit to the State Treasurer.

Custodial credit risk is the risk that in the event of a bank failure, the College's deposits may not be returned to it. As of June 30, 2013, the College's bank balance in excess of federal depository insurance coverage was covered under the pooling method.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

B. Investments - The College is authorized to invest idle funds as provided by G.S. 115D-58.6. In accordance with this statute, the College and the Board of Trustees manage investments to ensure they can be converted into cash when needed.

Generally, funds belonging to the College may be invested in any form of investment established or managed by certain investment advisors pursuant to G.S. 115D-58.6 (d1) or in the form of investments pursuant to G.S. 159-30(c), as follows: a commingled investment pool established and administered by the State Treasurer pursuant to G.S. 147-69.3, obligations of or fully guaranteed by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain nonguaranteed federal agencies; prime quality commercial paper bearing specified ratings; specified bills of exchange; certain savings certificates; The North Carolina Capital Management Trust, an SEC registered mutual fund; repurchase agreements; and evidences of ownership of, or fractional undivided interests in, future interest and principal payments on either direct obligations of or fully guaranteed by the United States government, which are held by a specified bank or trust company or any state in the capacity of custodian.

At June 30, 2013, the amount shown on the Statement of Net Position as cash and cash equivalents includes \$5,527,482.57 which represents the College's equity position in the State Treasurer's Short-Term Investment Fund (STIF). The STIF (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission and does not have a credit rating) had a weighted average maturity of 1.6 years as of June 30, 2013. Assets and shares of the STIF are valued at amortized cost, which approximates fair value. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's STIF) are included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.nc.gov/> and clicking on "Reports" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

Component Unit - Investments of the College's discretely presented component unit, Davidson County Community College Foundation, Inc. are subject to and restricted by G.S. 36E "Uniform Prudent Management of Institutional Funds Act" (UPMIFA) and any requirements placed on them by contract or donor agreements. Because the Davidson County Community College Foundation, Inc. reports under the FASB reporting model, disclosures of the various

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

investment risks are not required. The following is an analysis of investments by type:

<u>Investment</u>	<u>Fair Value</u>
Cash and Temporary Investments	\$ 386,686.43
Fixed Income Fund	4,584,381.35
Common Stock Fund	<u>8,680,126.73</u>
Total	<u>\$ 13,651,194.51</u>

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

Cash on Hand	\$ 5,104.00
Carrying Value of Deposits with Private Institutions	1,799,454.35
Investments in the Short-Term Investment Fund	<u>5,527,482.57</u>
Total Deposits and Investments	<u>\$ 7,332,040.92</u>
Current:	
Cash and Cash Equivalents	\$ 5,322,509.00
Restricted Cash and Cash Equivalents	935,357.64
Noncurrent:	
Restricted Cash and Cash Equivalents	<u>1,074,174.28</u>
Total Deposits and Investments	<u>\$ 7,332,040.92</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 3 - RECEIVABLES

Receivables at June 30, 2013, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	\$ 791,718.64	\$ 601,752.61	\$ 189,966.03
Student Sponsors	57,539.89		57,539.89
Accounts	64,969.28		64,969.28
Intergovernmental	260,293.63		260,293.63
Total Current Receivables	\$ 1,174,521.44	\$ 601,752.61	\$ 572,768.83
Noncurrent Receivables:			
Restricted Due From Primary Government	\$ 607,000.00	\$	\$ 607,000.00
Restricted Due From Primary Government	\$ 32,000.00	\$	\$ 32,000.00

NOTE 4 - CAPITAL ASSETS

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

	Balance July 1, 2012	Increases	Decreases	Balance June 30, 2013
Capital Assets, Nondepreciable:				
Land and Permanent Easements	\$ 264,141.31	\$	\$ 5,447.10	\$ 258,694.21
Construction in Progress	335,285.10	958,133.71	985,462.33	307,956.48
Total Capital Assets, Nondepreciable	599,426.41	958,133.71	990,909.43	566,650.69
Capital Assets, Depreciable:				
Buildings	40,162,192.92	985,462.33		41,147,655.25
Machinery and Equipment	7,217,507.15	1,534,178.79	142,054.83	8,609,631.11
General Infrastructure	1,821,742.76		84,655.94	1,737,086.82
Total Capital Assets, Depreciable	49,201,442.83	2,519,641.12	226,710.77	51,494,373.18
Less Accumulated Depreciation for:				
Buildings	14,094,845.24	965,540.40		15,060,385.64
Machinery and Equipment	3,754,081.83	509,373.23	102,533.91	4,160,921.15
General Infrastructure	556,670.72	44,949.81	5,501.89	596,118.64
Total Accumulated Depreciation	18,405,597.79	1,519,863.44	108,035.80	19,817,425.43
Total Capital Assets, Depreciable, Net	30,795,845.04	999,777.68	118,674.97	31,676,947.75
Capital Assets, Net	\$ 31,395,271.45	\$ 1,957,911.39	\$ 1,109,584.40	\$ 32,243,598.44

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	<u>Amount</u>
Current Accounts Payable and Accrued Liabilities:	
Accounts Payable	\$ 396,615.84
Accrued Payroll	731,248.02
Other	<u>33,863.82</u>
Total	<u><u>\$ 1,161,727.68</u></u>

NOTE 6 - LONG-TERM LIABILITIES

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

	<u>Balance July 1, 2012</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2013</u>	<u>Current Portion</u>
Notes Payable	\$ 416,324.47	\$	\$ 203,085.13	\$ 213,239.34	\$ 213,239.34
Compensated Absences	867,736.59	765,984.58	712,447.52	921,273.65	149,706.97
Total Long-Term Liabilities	<u><u>\$ 1,284,061.06</u></u>	<u><u>\$ 765,984.58</u></u>	<u><u>\$ 915,532.65</u></u>	<u><u>\$ 1,134,512.99</u></u>	<u><u>\$ 362,946.31</u></u>

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

<u>Purpose</u>	<u>Financial Institution</u>	<u>Interest Rate/ Ranges</u>	<u>Final Maturity Date</u>	<u>Original Amount of Issue</u>	<u>Principal Paid Through June 30, 2013</u>	<u>Principal Outstanding June 30, 2013</u>
Guaranteed Energy Savings Contract	Crews & Associates	5.06%	12/17/2013	<u>\$ 1,984,494.00</u>	<u>\$ 1,771,254.66</u>	<u>\$ 213,239.34</u>

The annual requirements to pay principal and interest on notes payable at June 30, 2013, are as follows:

<u>Fiscal Year</u>	<u>Annual Requirements</u>	
	<u>Notes Payable</u>	
	<u>Principal</u>	<u>Interest</u>
2014	<u>\$ 213,239.34</u>	<u>\$ 10,662.01</u>
Total Requirements	<u><u>\$ 213,239.34</u></u>	<u><u>\$ 10,662.01</u></u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 7 - LEASE OBLIGATIONS

A. Operating Lease Obligations - The College entered into operating leases for copiers, rental properties, and postage machines. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2013:

<u>Fiscal Year</u>	<u>Amount</u>
2014	\$ 158,616.55
2015	73,616.55
2016	73,232.91
2017	73,232.91
2018	73,232.91
Total Minimum Lease Payments	\$ 451,931.83

Rental expense for all operating leases during the year was \$221,334.38.

NOTE 8 - REVENUES

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

	<u>Gross Revenues</u>	<u>Less Scholarship Discounts</u>	<u>Less Allowance for Uncollectibles</u>	<u>Net Revenues</u>
Operating Revenues:				
Student Tuition and Fees	\$ 6,511,743.54	\$ 3,704,079.98	\$ 18,255.17	\$ 2,789,408.39
Sales and Services:				
Sales and Services of Auxiliary Enterprises:				
Dining	\$ 248,966.31	\$	\$	\$ 248,966.31
Bookstore	189,568.85			189,568.85
Vending	70,521.97			70,521.97
Child Development Center	522,335.41			522,335.41
Patron Fees	49,201.39			49,201.39
Facilities Rental	33,771.00			33,771.00
Other	60,285.89			60,285.89
Total Sales and Services	<u>\$ 1,174,650.82</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 1,174,650.82</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 9 - OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	\$ 13,905,572.74	\$ 1,362,148.35	\$ 1,107,288.08	\$	\$	\$	\$ 16,375,009.17
Academic Support	2,136,011.15	89,407.08	212,149.68				2,437,567.91
Student Services	2,874,966.54	78,427.43	643,852.08				3,597,246.05
Institutional Support	3,824,744.73	762,282.76	1,105,067.09				5,692,094.58
Operations and Maintenance of Plant	944,967.43	500,168.01	1,511,803.99		764,043.51		3,720,982.94
Student Financial Aid			10,594.26	7,355,041.18			7,365,635.44
Auxiliary Enterprises	524,110.64	251,816.68	56,648.17				832,575.49
Depreciation						1,519,863.43	1,519,863.43
Total Operating Expenses	\$ 24,210,373.23	\$ 3,044,250.31	\$ 4,647,403.35	\$ 7,355,041.18	\$ 764,043.51	\$ 1,519,863.43	\$ 41,540,975.01

NOTE 10 - PENSION PLANS

A. Retirement Plans - Each permanent full-time employee, as a condition of employment, is a member of the Teachers' and State Employees' Retirement System. The Teachers' and State Employees' Retirement System (TSERS) is a cost-sharing multiple-employer defined benefit pension plan established by the State to provide pension benefits for employees of the State, its component units and local boards of education. The Plan is administered by a 14-member Board of Trustees, with the State Treasurer serving as Chairman of the Board.

Benefit and contribution provisions for the TSERS are established by *North Carolina General Statutes* 135-5 and 135-8 and may be amended only by the North Carolina General Assembly. Employer and member contribution rates are set each year by the North Carolina General Assembly based on annual actuarial valuations. For the year ended June 30, 2013, these rates were set at 8.33% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the College had a total payroll of \$20,409,794.44, of which \$14,464,533.29 was covered under the TSERS. Total employer and employee contributions for pension benefits for the year were \$1,205,043.79 and \$866,286.09, respectively.

Required employer contribution rates for the years ended June 30, 2012, and 2011, were 7.44% and 4.93%, respectively, while employee contributions were 6% each year. The College made 100% of its annual required contributions for the years ended June 30, 2013,

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2012, and 2011, which were \$1,205,43.79, \$997,598.24, and \$637,584.39, respectively.

The TSERS financial information is included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.nc.gov/> and clicking on "Reports" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

B. Deferred Compensation and Supplemental Retirement Income Plans

Internal Revenue Code Section 457 Plan - The State of North Carolina offers its permanent employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 through the North Carolina Public Employee Deferred Compensation Plan (the Plan). The Plan permits each participating employee to defer a portion of his or her salary until future years. The deferred compensation is available to employees upon separation from service, death, disability, retirement, or financial hardships if approved by the Board of Trustees of the Plan. The Board, a part of the North Carolina Department of Administration, maintains a separate fund for the exclusive benefit of the participating employees and their beneficiaries, *the North Carolina Public Employee Deferred Compensation Trust Fund*. The Board also contracts with an external third party to perform certain administrative requirements and to manage the trust fund's assets. All costs of administering and funding the Plan are the responsibility of the Plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to \$5,320.00 for the year ended June 30, 2013.

Internal Revenue Code Section 401(k) Plan - All members of the Teachers' and State Employees' Retirement System are eligible to enroll in the Supplemental Retirement Income Plan, a defined contribution plan, created under Internal Revenue Code Section 401(k). All costs of administering the Plan are the responsibility of the Plan participants. The voluntary contributions by employees amounted to \$215,403.00 for the year ended June 30, 2013.

Internal Revenue Code Section 403(b) and 403(b)(7) Plans - Eligible College employees can participate in tax sheltered annuity plans created under Internal Revenue Code Sections 403(b) and 403(b)(7). The employee's eligible contributions, made through salary reduction agreements, are exempt from federal and state income taxes until the annuity is received or the contributions are withdrawn. These plans

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

are exclusively for employees of colleges and certain charitable and other nonprofit institutions. All costs of administering and funding these plans are the responsibility of the Plan participants. The plan administrator is Valic. No costs are incurred by the College. The voluntary contributions by employees amounted to \$49,460.00 for the year ended June 30, 2013.

NOTE 11 - OTHER POSTEMPLOYMENT BENEFITS

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

The Plan's benefit and contribution provisions are established by the State Treasurer and the Board of Trustees of the State Health Plan for Teachers and State Employees as authorized by Chapter 135, Article 3B, of the General Statutes. The Plan does not provide for automatic post-retirement benefit increases.

By General Statute, a Retiree Health Benefit Fund (the Fund) has been established as a fund in which accumulated contributions from employers and any earnings on those contributions shall be used to provide health benefits to retired and disabled employees and applicable beneficiaries. By statute, the Fund is administered by the Board of Trustees of the Teachers' and State Employees' Retirement System and contributions to the Fund are irrevocable. Also by law, Fund assets are dedicated to providing benefits to retired and disabled employees and applicable beneficiaries and are not subject to the claims of creditors of the employers making contributions to the Fund. Contribution rates to the Fund, which are intended to finance benefits and administrative expenses on a pay-as-you-go basis, are determined by the State Treasurer and the Board of Trustees of the State Health Plan for Teachers and State Employees.

For the current fiscal year the College contributed 5.30% of the covered payroll under the Teachers' and State Employees' Retirement System to the Fund. Required contribution rates for the years ended June 30, 2012, and 2011, were 5.0% and 4.9%, respectively. The College made 100% of its annual required

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

contributions to the Plan for the years ended June 30, 2013, 2012, and 2011, which were \$766,714.54, \$670,428.92, and \$633,704.57, respectively. The College assumes no liability for retiree health care benefits provided by the programs other than its required contribution.

Additional detailed information about these programs can be located in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.nc.gov/> and clicking on "Reports" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

- B. Disability Income** - The College participates in the Disability Income Plan of North Carolina (DIPNC), a cost-sharing, multiple-employer defined benefit plan, to provide short-term and long-term disability benefits to eligible members of the Teachers' and State Employees' Retirement System. Benefit and contribution provisions are established by Chapter 135, Article 6, of the General Statutes, and may be amended only by the North Carolina General Assembly. The Plan does not provide for automatic post-retirement benefit increases.

Disability income benefits are funded by actuarially determined employer contributions that are established by the General Assembly. For the fiscal year ended June 30, 2013, the College made a statutory contribution of .44% of covered payroll under the Teachers' and State Employees' Retirement System to the DIPNC. Required contribution rates for the years ended June 30, 2012, and 2011, were .52% and .52%, respectively. The College made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2013, 2012, and 2011, which were \$63,651.77, \$69,724.61, and \$67,250.28, respectively. The College assumes no liability for long-term disability benefits under the Plan other than its contribution.

Additional detailed information about the DIPNC is disclosed in the State of North Carolina's *Comprehensive Annual Financial Report*.

NOTE 12 - RISK MANAGEMENT

The College is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These exposures to loss are handled via a combination of methods, including participation in state-administered insurance programs, purchase of commercial insurance, and self-retention of certain risks. There have been no significant reductions in insurance

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

insurance for employees whose salaries or wages are paid by the Board entirely from county or institutional funds.

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

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

NOTE 13 - COMMITMENTS AND CONTINGENCIES

A. Commitments - The College has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were \$758,429.49 and on other purchases were \$648,180.91 at June 30, 2013.

B. Pending Litigation and Claims - The College is a party to litigation and claims in the ordinary course of its operations. Since it is not possible to predict the ultimate outcome of these matters, no provision for any liability has been made in the financial statements. College management is of the opinion that the liability, if any, for any of these matters will not have a material adverse effect on the financial position of the College.

NOTE 14 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2013, the College implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 61, *The Financial Reporting Entity – Omnibus – An Amendment of GASB Statements No. 14 and No. 34*

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

GASB Statement No. 61 sets forth additional requirements for identifying component units, blending identified component units, presenting condensed combining information for blended component units, and accounting for certain equity interests.

GASB Statement No. 62 does not propose any new guidance. The purpose of this statement is to incorporate into the GASB's authoritative literature certain guidance from Pre-November 1989 FASB Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins from the AICPA Committee on Accounting Procedure.

GASB Statement No. 63 provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related disclosures.



Rives & Associates, LLP
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Member:
American Institute of
Certified Public Accountants

Member:
North Carolina Association of
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**Independent Auditors' 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***

To the Board of Trustees
Davidson County Community College
Lexington, North Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Davidson County Community College (the "College"), a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the College's basic financial statements, and have issued our report thereon dated February 7, 2014. Our report includes a reference to other auditors who audited the financial statements of Davidson County Community College Foundation, Inc., as described in our report on the College's financial statements. The financial statements of Davidson County Community College Foundation, Inc. were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with Davidson County Community College, Inc.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the College's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion 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 e financial statements.

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 describe in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the College's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

This report is intended 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.

Rives & Associates, LLP

Raleigh, North Carolina
February 7, 2014

**DAVIDSON COUNTY COMMUNITY COLLEGE
COST OF CPA AUDIT REPORT PUBLISHED
JUNE 30, 2013**

In accordance with North Carolina General Statute 147-64.6D, the audit of Davidson County Community College for the year ended June 30, 2013, required approximately 494 audit hours and cost the College \$20,300.