

# STATE OF NORTH CAROLINA

## FINANCIAL STATEMENT AUDIT REPORT OF DAVIDSON COUNTY COMMUNITY COLLEGE

LEXINGTON, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2000

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR

**FINANCIAL STATEMENT AUDIT REPORT OF**

**DAVIDSON COUNTY COMMUNITY COLLEGE**

**LEXINGTON, NORTH CAROLINA**

**FOR THE YEAR ENDED JUNE 30, 2000**

**STATE BOARD OF COMMUNITY COLLEGES**

**THE NORTH CAROLINA COMMUNITY COLLEGE SYSTEM**

**H. MARTIN LANCASTER, PRESIDENT**

**BOARD OF TRUSTEES**

**CARL O. BLAKLEY, JR., CHAIRMAN**

**DR. BARBARA LEONARD, VICE CHAIRMAN**

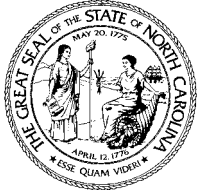
**H. KENT BECK  
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DAVID EDEN  
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GUY P. SMITH  
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**ADMINISTRATIVE OFFICERS**

**DR. J. BRYAN BROOKS, PRESIDENT**

**ROGER WHITE, DEAN FOR FINANCIAL AND ADMINISTRATIVE SERVICES**



Ralph Campbell, Jr.  
State Auditor

STATE OF NORTH CAROLINA  
Office of the State Auditor

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**AUDITOR'S TRANSMITTAL**

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The Honorable Michael F. Easley, Governor  
The General Assembly of North Carolina  
Board of Trustees, Davidson County Community College

This report presents the results of our financial statement audit of Davidson County Community College, a component unit of the State of North Carolina, for the year ended June 30, 2000. Our audit was made by authority of Article 5A of G.S. §147.

The accounts and operations of the College are an integral part of the State's reporting entity represented in the State's *Comprehensive Annual Financial Report (CAFR)* and the State's *Single Audit Report*. In those reports, the State Auditor expresses an opinion on the State's financial statements. In the *Single Audit Report*, the State Auditor also presents the audit results on the State's internal controls and on the State's compliance with laws, regulations, contracts, and grants applicable to the State's financial statements and to its federal financial assistance programs.

As part of the audit work necessary for the *CAFR* and the *Single Audit Report*, the accounts and operations of the College were subject to audit procedures as we considered necessary. In addition, we performed auditing procedures that we considered necessary for us to report on the accompanying financial statements that relate solely to Davidson County Community College. The audit procedures were conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States.

The purpose of this report is to present the results of our audit on the accompanying financial statements that relate solely to Davidson County Community College. A summary of our reporting objectives and audit results are:

**1. Objective** - Express an opinion on the accompanying financial statements.

**Results** - The accompanying financial statements present fairly, in all material respects, the amounts and disclosures made in accordance with generally accepted accounting principles. These matters are described in the Independent Auditor's Report.

**2. Objective** - Present instances of noncompliance, if any, with laws, regulations, contracts, or grants.

**Results** - Our tests disclosed no instances of noncompliance which require disclosure herein under *Government Auditing Standards*.

## AUDITOR'S TRANSMITTAL (CONCLUDED)

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- 3. Objective** - Present significant deficiencies, if any, in internal control over financial reporting which could adversely affect the College's ability to record, process, summarize, and report financial data in the financial statements.

**Results** - Our tests disclosed no material weaknesses in internal control over financial reporting which require disclosure herein 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.

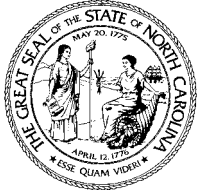


Ralph Campbell, Jr.  
State Auditor

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Ralph Campbell, Jr.  
State Auditor

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**INDEPENDENT AUDITOR'S REPORT**

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Board of Trustees  
Davidson County Community College  
Lexington, North Carolina

We have audited the accompanying Balance Sheet of Davidson County Community College, a component unit of the State of North Carolina, as of June 30, 2000, and the related Statement of Changes in Fund Equity and Statement of Current Funds Revenues, Expenditures, and Other Changes for the year then ended. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Davidson County Community College as of June 30, 2000, and the changes in fund equity and the current funds revenues, expenditures, and other changes for the year then ended in conformity with generally accepted accounting principles.

As discussed in Note 13 to the financial statements, the College changed its accounting for state-required tuition and fees during the year ended June 30, 2000.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 25, 2001 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 grants. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with the independent auditor's report in considering the results of our audit.

A handwritten signature in black ink that reads "Ralph Campbell, Jr." in a cursive script.

Ralph Campbell, Jr.  
State Auditor

July 25, 2001

**Davidson County Community College**  
**Balance Sheet**  
**June 30, 2000**

**Exhibit A**

	Current Funds			Fiduciary	Plant Funds	
	Unrestricted			Funds	Unexpended	Investment in Plant
	General	Proprietary	Restricted	Agency		
<b>ASSETS</b>						
Cash and Cash Equivalents	\$ 924,270.62	\$ 1,007,103.24	\$ 128,854.11	\$ 14,041.29	\$ 659,665.73	\$ 0.00
Receivables:						
Accounts Receivable	144,187.86	51,422.12	9,964.15	21,220.08	38,456.85	
Intergovernmental Receivables			9,576.10			
Interest Receivable	4,564.00	4,847.19	527.54		3,376.10	
Due from Other Funds	441.62					
Due from Primary Government			33,152.47		454,715.28	
Inventories	53,856.92	9,331.65				
Fixed Assets (Note 4)						22,316,505.24
State Treasurer's Securities Lending Collateral	456,559.10	532,584.46	57,867.16	5,844.18	370,340.30	
<b>Total Assets</b>	<b>\$ 1,583,880.12</b>	<b>\$ 1,605,288.66</b>	<b>\$ 239,941.53</b>	<b>\$ 41,105.55</b>	<b>\$ 1,526,554.26</b>	<b>\$ 22,316,505.24</b>

**Davidson County Community College**  
**Balance Sheet**  
**June 30, 2000**

**Exhibit A**  
**Page 2**

	Current Funds			Fiduciary Funds	Plant Funds	
	Unrestricted			Agency	Unexpended	Investment in Plant
	General	Proprietary	Restricted			
<b>LIABILITIES AND FUND EQUITY</b>						
<b>Liabilities:</b>						
Accounts Payable and Accrued Liabilities:						
Accounts Payable	\$ 119,705.79	\$ 2,545.57	\$ 12,153.29	\$ 19,173.60	\$ 37,064.49	\$ 0.00
Accrued Payroll	140,187.28	748.97	2,804.05			
Due to Other Funds			441.62			
Notes Payable					2,169.20	56,688.50
Capital Leases Payable						85,618.10
Accrued Vacation Leave	360,266.47	11,853.94	1,657.23			
Obligations Under State Treasurer's Securities Lending Agreements	456,559.10	532,584.46	57,867.16	5,844.18	370,340.30	
Funds Held for Others				16,087.77		
<b>Total Liabilities</b>	<b>1,076,718.64</b>	<b>547,732.94</b>	<b>74,923.35</b>	<b>41,105.55</b>	<b>409,573.99</b>	<b>142,306.60</b>
<b>Fund Equity:</b>						
Net Investment in Plant						22,174,198.64
Fund Balances:						
Other Restricted Funds			165,018.18		1,116,980.27	
Other Unrestricted Funds	507,161.48	1,057,555.72				
<b>Total Fund Equity</b>	<b>507,161.48</b>	<b>1,057,555.72</b>	<b>165,018.18</b>		<b>1,116,980.27</b>	<b>22,174,198.64</b>
<b>Total Liabilities and Fund Equity</b>	<b>\$ 1,583,880.12</b>	<b>\$ 1,605,288.66</b>	<b>\$ 239,941.53</b>	<b>\$ 41,105.55</b>	<b>\$ 1,526,554.26</b>	<b>\$ 22,316,505.24</b>

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



**Davidson County Community College**  
**Statement of Changes in Fund Equity**  
**Year Ended June 30, 2000**

**Exhibit B**

	Current Funds			Plant Funds	
	Unrestricted			Unexpended	Investment in Plant
	General	Proprietary	Restricted		
<b>Revenues and Other Additions:</b>					
Tuition and Fees	\$ 2,029,115.65	\$ 54,283.21	\$ 0.00	\$ 0.00	\$ 0.00
County Appropriations	2,137,192.13			655,950.00	
Federal Contracts and Grants	243,561.24		1,648,977.35		
State Contracts and Grants	9,356,144.89		322,759.26	1,040,233.83	
Nongovernmental Contracts and Grants		13,735.00	56,805.00	22,500.00	
Gifts	36,028.64		334,869.79	91,740.17	
Investment Income	59,412.29	48,982.08	5,419.75	34,849.79	
Sales and Services	26,036.54	302,583.77			
Expended for Plant Facilities					857,437.72
Retirement of Indebtedness					76,742.81
Other Revenues and Additions	1,826.51	98,375.24		4,546.49	
<b>Total Revenues and Other Additions</b>	<b>13,889,317.89</b>	<b>517,959.30</b>	<b>2,368,831.15</b>	<b>1,849,820.28</b>	<b>934,180.53</b>
<b>Expenditures and Other Deductions:</b>					
Educational and General	14,053,176.72	46,504.69	2,322,067.29		
Auxiliary Enterprises		287,301.03			
Indirect Costs Recovered			6,205.24		
Expended for Plant Facilities				1,289,776.38	
Disposal of Plant Facilities					459,110.51
<b>Total Expenditures and Other Deductions</b>	<b>14,053,176.72</b>	<b>333,805.72</b>	<b>2,328,272.53</b>	<b>1,289,776.38</b>	<b>459,110.51</b>
<b>Transfers:</b>					
Non-Mandatory Transfers In (Out)	20,000.00	(20,000.00)			
<b>Net Increase (Decrease) for the Year</b>	<b>(143,858.83)</b>	<b>164,153.58</b>	<b>40,558.62</b>	<b>560,043.90</b>	<b>475,070.02</b>
<b>Fund Equity July 1, 1999</b>	<b>600,031.34</b>	<b>893,402.14</b>	<b>124,459.56</b>	<b>556,936.37</b>	<b>21,699,128.62</b>
<b>Prior Period Adjustment (Note 14)</b>	<b>50,988.97</b>				
<b>Fund Equity June 30, 2000</b>	<b>\$ 507,161.48</b>	<b>\$ 1,057,555.72</b>	<b>\$ 165,018.18</b>	<b>\$ 1,116,980.27</b>	<b>\$ 22,174,198.64</b>

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

**Davidson County Community College**  
**Statement of Current Funds Revenues, Expenditures, and Other Changes**  
**Year Ended June 30, 2000, with comparative totals for 1999**

**Exhibit C**

	Unrestricted			Restricted	Year Ended June 30,	
	General	Proprietary	Total		2000	1999
<b>Revenues:</b>						
Tuition and Fees	\$ 2,029,115.65	\$ 54,283.21	\$ 2,083,398.86	\$ 0.00	\$ 2,083,398.86	\$ 1,599,408.76
County Appropriations	2,137,192.13		2,137,192.13		2,137,192.13	2,000,492.87
Federal Contracts and Grants	243,561.24		243,561.24	1,642,772.11	1,886,333.35	1,553,603.17
State Contracts and Grants	9,356,144.89		9,356,144.89	319,505.34	9,675,650.23	9,548,551.42
Nongovernmental Contracts and Grants		13,735.00	13,735.00	73,075.75	86,810.75	45,200.67
Gifts	36,028.64		36,028.64	286,714.09	322,742.73	253,083.33
Investment Income	59,412.29	48,982.08	108,394.37		108,394.37	141,656.63
Sales and Services	26,036.54	302,583.77	328,620.31		328,620.31	330,691.49
Other Sources	1,826.51	98,375.24	100,201.75		100,201.75	103,776.50
<b>Total Revenues</b>	<b>13,889,317.89</b>	<b>517,959.30</b>	<b>14,407,277.19</b>	<b>2,322,067.29</b>	<b>16,729,344.48</b>	<b>15,576,464.84</b>
<b>Expenditures:</b>						
Educational and General:						
Instruction	7,898,313.33		7,898,313.33	651,167.25	8,549,480.58	8,019,918.43
Academic Support	663,029.76		663,029.76		663,029.76	676,515.30
Student Services	732,817.65	46,504.69	779,322.34		779,322.34	773,738.50
Institutional Support	2,462,964.35		2,462,964.35	113,916.38	2,576,880.73	2,346,430.31
Plant Maintenance and Operations	1,705,791.55		1,705,791.55		1,705,791.55	1,430,165.39
Student Financial Aid	590,260.08		590,260.08	1,556,983.66	2,147,243.74	1,810,963.00
Auxiliary Enterprises		287,301.03	287,301.03		287,301.03	278,453.67
<b>Total Expenditures</b>	<b>14,053,176.72</b>	<b>333,805.72</b>	<b>14,386,982.44</b>	<b>2,322,067.29</b>	<b>16,709,049.73</b>	<b>15,336,184.60</b>
<b>Transfers and Additions/(Deductions):</b>						
Restricted Receipts Over Revenue Earned				40,558.62	40,558.62	12,299.78
Non-Mandatory Transfers In (Out)	20,000.00	(20,000.00)				
<b>Net Increase (Decrease) in Fund Equity</b>	<b>\$ (143,858.83)</b>	<b>\$ 164,153.58</b>	<b>\$ 20,294.75</b>	<b>\$ 40,558.62</b>	<b>\$ 60,853.37</b>	<b>\$ 252,580.02</b>

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, 2000**

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**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 generally accepted accounting principles, 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 North Carolina Community College System which is a part of the primary government 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 for which the College's Board of Trustees is financially accountable. Related foundations and similar non-profit corporations for which the College is not financially accountable are not part of the accompanying financial statements. These entities are not included because they are separately incorporated and there are neither common directors nor other evidence of common control.

- B. Basis of Presentation** - The accompanying financial statements are presented in accordance with generally accepted accounting principles applicable to governmental colleges and universities as promulgated by the Governmental Accounting Standards Board (GASB). In accordance with GASB statement #15 *Governmental College and University Accounting and Financial Reporting Models*, the College has elected to follow the fund accounting and reporting guidelines set forth by the American Institute of Certified Public Accountants in its Industry Audit Guide, *Audits of Colleges and Universities*.

- C. Fund Structure** - The accompanying financial statements are structured into three categories of funds: Current, Fiduciary, and Plant Funds.

The **Current Funds** are used to account for the revenues and expenditures resulting from operations, with the Unrestricted Funds and Restricted Fund shown separately. The Restricted Fund represents resources that are restricted to use by either an outside donor or grantor.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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Current funds that are internally designated for specific purposes by the governing board or management having delegated authority are reported as Unrestricted Funds. The Unrestricted Proprietary Fund reflecting the contracted operations of the bookstore and student activity funds is shown separately from the Unrestricted General Fund.

The **Fiduciary Funds** are used to account for funds of students and organizations held by the College as custodian in the Agency Fund. The transactions of the Agency Fund increase and decrease assets and liabilities but do not effect fund equity. As a result, the Agency Fund is not reflected in the Statement of Changes in Fund Equity.

The **Plant Funds** are used to account for additions and deductions from fund equity of the Unexpended Plant Fund and the Investment in Plant Fund.

- D. Basis of Accounting** - The financial statements of the College have been prepared on the accrual basis except that, in accordance with accounting practices customarily followed by public educational institutions, no provision is made for depreciation of physical plant assets. Otherwise, revenues are reported in the accounting period when they are earned and become measurable and expenditures are reported in the accounting period when materials or services are received or when incurred, if measurable.

The Statement of Current Funds Revenues, Expenditures, and Other Changes is a statement of financial activities of current funds related to the current reporting period. It does not purport to present the results of operations or the net income or loss for the period as would a statement of income or a statement of revenues and expenses.

- E. Cash and Cash Equivalents** - In addition to cash on deposit with private bank accounts and petty cash, this classification includes short-term investments with the State Treasurer's Cash and Investment Pool (a governmental external investment pool).
- F. State Treasurer's Securities Lending Collateral** - While the College does not directly engage in securities lending transactions, it deposits certain funds with the State Treasurer's Cash and Investment Pool which participates in securities lending activities. Based on the State Treasurer's allocation of these transactions, the College recognizes its allocable share of the assets and liabilities related to these transactions on the accompanying financial statements as "State Treasurer's Securities

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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Lending Collateral” and “Obligations Under State Treasurer’s Securities Lending Agreements”. The allocable share of the income and costs arising from these transactions is immaterial to the College and, as a result, is not reported on the accompanying financial statements.

Based on the authority provided in G.S. 147-69.3(e), the State Treasurer lends securities from its investment pools to broker-dealers and other entities (borrowers) for collateral that will be returned for the same securities in the future. The Treasurer’s securities custodian manages the securities lending program. During the year, the custodian lent U.S. government securities, corporate bonds, notes, and common stock for collateral. The custodian is permitted to receive cash, U.S. government securities, or irrevocable letters of credit as collateral for the securities lent. The collateral is initially pledged at 102 percent of the market value of the securities lent, and additional collateral is required if its value falls to less than 100 percent of the market value of the securities lent. There are no restrictions on the amount of loans that can be made. Substantially all security loans can be terminated on demand by either the State Treasurer or the borrower.

The College’s allocable portion of securities lent at year-end for cash collateral amounted to \$1,423,195.20 and is not subject to categorization of custodial credit risk. Securities received as collateral are not recorded in either the Treasurer’s or the College’s financial statements because the State Treasurer cannot pledge or sell the collateral securities unless the borrower defaults.

The cash collateral received is invested by the custodian agent and held in a separate account in the name of the State Treasurer. The average maturities of the cash collateral investments do not differ materially from the average maturity of the securities lent. While cash can be invested in securities ranging from overnight up to two years, the custodian agent is not permitted to make investments where the weighted average maturity of all investments exceeds 90 days. At year-end, the weighted average maturity of unmatched investments was less than one month.

At year-end, the State Treasurer has no credit risk exposure to borrowers and incurred no losses during the year related to these transactions. The securities custodian is contractually obligated to the Treasurer for certain conditions, including indemnity on a default by the borrowers to return securities and on a failure by the borrowers to maintain collateral with the securities custodian agent equal to 100% of the market value of the securities lent.

- G. Receivables and Allowance for Doubtful Accounts** - Accounts and notes receivables are shown at book value with no provision for doubtful accounts considered necessary.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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**H. Inventories** - Inventories held by the College are priced at cost using the last invoice cost. Inventories for the Unrestricted General Fund consist of expendable supplies, postage and fuel oil held for consumption. Inventories for the Unrestricted Proprietary Fund consist of expendable supplies held for consumption.

**I. Fixed Assets and Depreciation** – Fixed Assets are stated at cost at date of acquisition or fair market value at date of donation in the case of gifts. The College capitalizes fixed assets that have a value or cost in excess of \$5,000 at the date of acquisition and an expected useful life of one or more years. Depreciation is not recorded.

To the extent that current funds are used to finance plant assets, the amounts provided are accounted for as expenditures, in the case of normal replacement of furniture and movable equipment, and transfers of a non-mandatory nature for all other cases.

Public domain (“infrastructure”) fixed assets consisting of roads, parking lots, and sidewalks are capitalized as other structures and improvements.

**J. Vacation and Sick Leave** - 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 1st or for which an employee can be paid upon termination of employment. Also, any accumulated vacation leave in excess of 30 days at fiscal year-end is converted to sick leave.

The College has the policy of recording the cost of sick leave when taken and paid rather than when the leave is earned. The policy provides for unlimited accumulation of sick leave, but the employee cannot be compensated for any unused sick leave upon termination of employment.

**K. Revenue Recognition** - Current funds revenues, as reflected on Exhibit C, include (1) all unrestricted gifts, grants, and other resources earned during the reporting period and (2) restricted resources to the extent that such funds were expended. Current funds revenues do not include restricted current funds received but not expended or resources that are restricted by external persons or agencies to funds other than current funds.

Tuition remission and waivers are recorded as “Tuition and Fees” revenue and as “Student Financial Aid” expenditures on the accompanying financial statements.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

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**L. County Appropriations** - County Appropriations are provided to the College primarily to fund its plant operation and maintenance function (county current fund) and to fund construction projects, motor vehicles and maintenance equipment (county plant fund). Unexpended county current funds and county plant funds do not revert and are available for future use by the College.

**NOTE 2 - DEPOSITS**

All funds of the College are deposited in board-designated official depositories and are required to be collateralized in accordance with G.S. § 115D-58.7. Official depositories may be established with any bank or savings and loan association whose principal office is located in North Carolina or with the State Treasurer’s Cash and Investment Pool. Also, the College may establish time deposit accounts, money market accounts, and certificates of deposit. At year-end, cash on hand was \$1,484.00. The carrying amount of cash on deposit was \$2,732,450.99 and the bank balance was \$2,836,532.59.

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.

Cash on deposit at year-end consisted of the following:

	<u>Book Balance</u>	<u>Bank Balance</u>
Cash on Deposit with State Treasurer	\$ 2,435,433.68	\$ 2,435,433.68
Cash on Deposit with Private Financial Institutions	<u>297,017.31</u>	<u>401,098.91</u>
	<u>\$ 2,732,450.99</u>	<u>\$ 2,836,532.59</u>

The cash on deposit with the State Treasurer is pooled with state agencies and similar institutions in short-term investments with the State Treasurer’s Cash and Investment Pool. These moneys are invested in accordance with G.S. § 147-69.1(c) and 147-69.2, and as required by law are “readily convertible into cash.” All investments of the fund are held either by the

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

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Department of State Treasurer or its agent in the State's name. The fund's uninvested cash is either covered by federal depository insurance or, pursuant to 20 NCAC 7, is collateralized under either the dedicated or pooling method.

The financial statements and disclosures for the State Treasurer's Cash and Investment Pool 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.state.nc.us/OSC> and clicking on "Financial Reports", or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

Of the cash on deposit with private financial institutions at June 30, 2000, \$100,256.25 of the bank balance was covered by federal depository insurance and \$300,842.66 was covered by collateral held by an authorized escrow agent in the name of the State Treasurer (pooling method).

**NOTE 3 - INTER-FUND RECEIVABLES AND PAYABLES**

At year-end, the Restricted Fund owed the General Fund \$441.62. These inter-fund receivables and payables are expected to be paid back during the next fiscal year at no interest.

In addition, other inter-fund borrowings of a temporary nature have occurred where one bank account is maintained for more than one fund. Because the fund making the temporary loan has not been determined by the College, these inter-fund borrowings are not reported as an asset of the fund making the advance or as a liability of the fund receiving the advance.

**NOTE 4 - CHANGES IN FIXED ASSETS**

A summary of changes in the fixed assets is presented as follows:

	Balance July 1, 1999	Additions	Deletions	Balance June 30, 2000
Land	\$ 264,141.31	\$ 0.00	\$ 0.00	\$ 264,141.31
Buildings	17,328,080.02	193,371.72		17,521,451.74
Other Structures and Improvements	528,668.50	(5,020.00)		523,648.50
Furniture, Machinery and Equipment	1,751,306.14	533,860.35	334,735.10	1,950,431.39
Artwork, Artifacts and Literature	1,946,554.56	38,970.23	124,375.41	1,861,149.38
Construction in Progress		195,682.92		195,682.92
<b>Total Fixed Assets</b>	<b>\$ 21,818,750.53</b>	<b>\$ 956,865.22</b>	<b>\$ 459,110.51</b>	<b>\$ 22,316,505.24</b>



**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

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**NOTE 5 - NOTES PAYABLE**

A summary of changes in notes payable is presented as follows:

Balance July 1, 1999	Deletions	Balance June 30, 2000
\$ 121,791.11	\$ 62,933.41	\$ 58,857.70

The annual requirements to pay principal and interest on the notes payable at June 30, 2000 are presented as follows:

Fiscal Year	A m o u n t
2 0 0 1	\$ 5 8 , 8 5 7 . 7 0

The above non-interest note is payable to an electric power company that advanced \$230,000.00 to the College to purchase and install a generator on campus to control the College's peak load usage. The note is being retired monthly through varying load control credits that are issued by the electric company.

**NOTE 6 - CAPITAL LEASES**

Capital lease obligations relating to CISCO equipment are recorded at the present value of the minimum lease payments. Future minimum lease payments under capital lease obligations consist of the following at June 30, 2000:

Fiscal Year	A m o u n t
2001	\$ 49,829.04
2002	35,173.44
2003	5,862.24
<b>Total Minimum Lease Payments</b>	<b>\$ 90,864.72</b>
Amount Representing Interest (6.2% Rate of Interest)	5,246.62
<b>Present Value of Future Lease Payments</b>	<b>\$ 85,618.10</b>

Leased assets included in Plant Funds amounted to \$99,247.50 at June 30, 2000.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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### NOTE 7 - OPERATING LEASES

Future minimum lease payments under non-cancelable operating leases consist of the following at June 30, 2000:

<u>Fiscal Year</u>	<u>Amount</u>
2001	\$ 87,867.66
2002	64,242.72
2003	22,269.28
2004	<u>4,716.00</u>
<b>Total Minimum Lease Payments</b>	<b><u>\$ 179,095.66</u></b>

The following schedule presents the composition of total rental expense for all operating leases except those with terms of a month or less that were not renewed:

Minimum Rentals	\$ 121,730.86
Contingent Rentals	<u>36,689.33</u>
<b>Total Rental Expense</b>	<b><u>\$ 158,420.19</u></b>

### NOTE 8 - 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 \$185,036.69 and on other purchases were \$143,226.81 at June 30, 2000.

### NOTE 9 - RISK MANAGEMENT

The College is exposed to various risks of loss related to torts; theft of, damage to, and the 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.

## NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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Tort claims of up to \$150,000 are self insured under the authority of the State Tort Claims Act. In addition, the State provides an additional \$11,000,000 public officers' and employees' liability insurance via contract with a private insurance company. The premium, based on a composite rate, is paid by the North Carolina Community College System Office directly to the 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 used for instructional purposes are covered by liability insurance handled by the State Department of Insurance. Other college-owned vehicles are covered by liability insurance 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. The blanket honesty bond is with a private insurance company and is handled by the State Department of Insurance with coverage of \$5,000,000 per occurrence and a \$10,000 deductible. As of January 6, 2000, the deductible increased to \$50,000. Losses from County and Institutional Fund paid employees are covered by contracts with private insurance companies.

Employees and retirees are provided health care coverage by the Comprehensive Major Medical Plan, a component unit of the State. The Plan is funded by employer and employee contributions and is administered by a third party contractor. Health care coverage is optionally available through contractual agreements with several HMO plans.

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.

Term life insurance of \$25,000 to \$50,000 is provided to eligible workers. The death benefit program is administered by the State Treasurer's Office and funded via employer contributions.

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.

## NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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### 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 (System) is a multiple-employer cost sharing defined benefit pension plan administered by the North Carolina State Treasurer.

After five years of creditable service, employees qualify for a vested deferred benefit. Employees who retire on or after age 65 and complete 5 years of membership service (age 55 and 5 years of creditable service for law enforcement officers), reach age 60 with 25 years of membership service, or complete 30 years of creditable service receive a retirement allowance of 1.80% of an average final compensation (based on the 4 consecutive years that produce the highest average) multiplied by the number of years of creditable service. Employees may retire with reduced benefits if they reach age 50 with 20 years of creditable service or reach age 60 with 5 years of creditable service (age 50 with 15 years creditable service for law enforcement officers).

The funding policy for the Teachers' and State Employees' Retirement System provides for periodic employer and member contributions at actuarially determined rates that expressed as percentages of annual covered payroll are sufficient to accumulate assets needed to pay benefits when due. The system is funded by member contributions of 6% of compensation and by employer contributions of 8.15% of covered payroll for the year ended June 30, 2000. Benefit and contribution provisions are established by North Carolina General Statute 135-5 and 135-8 and may be amended only by the North Carolina General Assembly.

For the year ended June 30, 2000, the College had a total payroll of \$9,189,761.84 of which \$6,980,914.21 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were \$418,854.84 and \$568,944.59, respectively. The College made one hundred percent of its annual required contributions to the retirement plans for the years ended June 30, 2000, 1999, and 1998, which were \$568,944.59, \$500,505.56, and \$504,481.29, respectively.

The Teachers' and State Employees' Retirement System's financial information is included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.state.nc.us/OSC> and clicking on "Financial Reports", or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

## NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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### **B. Deferred Compensation and Supplemental Retirement Income Plans**

IRC Section 401(k) Plan - All members of the Teachers' and State Employees' Retirement System are eligible to enroll in the Supplemental Retirement Income Plan, a defined contribution plan, created under Internal Revenue Code Section 401(k). All costs of administering the plan are the responsibility of the plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to \$120,153.00 for the year ended June 30, 2000.

IRC Section 403(b) and 403(b)(7) Plans - All College employees can participate in tax sheltered annuity plans created under Internal Revenue Code Sections 403(b) and 403(b)(7). The employee's eligible contributions, made through salary reduction agreements, are exempt from federal and state income taxes until the annuity is received or the contributions are withdrawn. These plans are exclusively for employees of colleges and certain charitable and other non-profit institutions. All costs of administering and funding these plans are the responsibility of the Plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to \$194,316.00 for the year ended June 30, 2000.

### **NOTE 11 - OTHER POSTEMPLOYMENT BENEFITS**

**A. Health Care for Long-Term Disability Beneficiaries and Retirees** - The College participates in state administered programs which provide 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 Employee's Retirement System. These benefits were established by Chapter 135, Article 3, Part 3, of the General Statutes and may be amended only by the North Carolina General Assembly. Funding for the health care benefit for long-term disability beneficiaries and retirees is financed on a pay-as-you-go basis. For the fiscal year ended June 30, 2000, contributions to the plan were not required. 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*.

**B. Long-Term Disability** - The College participates in the Disability Income Plan of North Carolina (DIPNC). Established by Chapter 135, Article 6, of the General Statutes, DIPNC provides short-term and long-term disability benefits to eligible members of the Teachers' and State Employees' Retirement System. The Plan provides disability income to eligible

## NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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participants. Long-term disability income benefits are advance funded on an actuarially determined basis using the one-year term cost method. The College contributes .52% of covered payroll under the Teachers' and State Employees' Retirement System to the DIPNC. For the fiscal year ended June 30, 2000, the College's total contribution to the DIPNC was \$36,300.76. 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 - DAVIDSON COUNTY COMMUNITY COLLEGE FOUNDATION, INC.

The Davidson County Community College Foundation, Inc. is a separately incorporated non-profit foundation associated with the College. This organization serves as the primary fundraising arm of the College through which individuals, corporations and other organizations support College programs by providing scholarships, fellowships, faculty salary supplements, and unrestricted funds to specific departments and the College's overall academic environment. The College's financial statements do not include the assets, liabilities, net assets or operational transactions of the Foundation, except for the distributions made and benefits provided by the Foundation. The distributions received and/or benefits provided approximated \$323,564.58 for the year ended June 30, 2000.

### NOTE 13 - ACCOUNTING CHANGE

**Accounting for State Required Tuition and Fees** – During the fiscal year 2000, the College changed its method of accounting for state required tuition and fees to report them as an offset to state funded revenues. Prior to this change, the college accounted for state required tuition and fees as “Due to the State” and recorded funds received from the state as state funded revenues. As a result of this accounting change, state required tuition and fees received during the year are reported as a reduction to state funded revenues and as an increase to tuition and fee revenues. At year-end, student receivables related to state required tuition and fees is reported as tuition and fee revenues. The effect of this change on beginning fund equity represents the July 1, 1999, student receivables for state required tuition and fees and is identified in the prior period adjustment(s) note to the financial statements.

### NOTE 14 - PRIOR PERIOD ADJUSTMENT

As of July 1, 1999, fund equity of the Unrestricted General Fund was restated by \$50,988.97 as a result of the Accounting Change for State Required Tuition and Fees as noted above.

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Ralph Campbell, Jr.  
State Auditor

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Office of the State Auditor

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

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Board of Trustees  
Davidson County Community College  
Lexington, North Carolina

We have audited the financial statements of Davidson County Community College, a component unit of the State of North Carolina, as of and for the year ended June 30, 2000, and have issued our report thereon dated July 25, 2001. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Compliance

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 grants, 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 that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the College's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by



**INDEPENDENT AUDITOR'S REPORT  
ON COMPLIANCE AND ON INTERNAL CONTROL  
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GOVERNMENT AUDITING STANDARDS (CONCLUDED)**

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employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Board of Trustees and the State Board of Community Colleges, management and staff of the College, the Governor, the State Controller, the General Assembly, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.



Ralph Campbell, Jr.  
State Auditor

July 25, 2001

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In accordance with G.S. § 147-64.5 and G.S. § 147-64.6(c)(14), copies of this report have been distributed to the public officials listed below. Additional copies are provided to other legislators, state officials, the press, and the general public upon request.

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N. C. House Speaker Pro-Tem  
Director, Fiscal Research Division

September 18, 2001

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