



# STATE OF NORTH CAROLINA

## FINANCIAL STATEMENT AUDIT REPORT OF DAVIDSON COUNTY COMMUNITY COLLEGE

LEXINGTON, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2004

OFFICE OF THE STATE AUDITOR

LESLIE W. MERRITT, JR., CPA, CFP

STATE AUDITOR

**FINANCIAL STATEMENT AUDIT REPORT OF**

**DAVIDSON COUNTY COMMUNITY COLLEGE**

**LEXINGTON, NORTH CAROLINA**

**FOR THE YEAR ENDED JUNE 30, 2004**

**STATE BOARD OF COMMUNITY COLLEGES**

**THE NORTH CAROLINA COMMUNITY COLLEGE SYSTEM**

**H. MARTIN LANCASTER, PRESIDENT**

**BOARD OF TRUSTEES**

**DR. BARBARA B. LEONARD, CHAIRPERSON**

**MICHAEL S. ALBERT, VICE CHAIRPERSON**

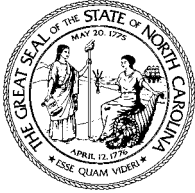
**JACK D. BRIGGS  
JAMES CALVIN CUNNINGHAM, III  
JERRY C. DOCKHAM  
DAVID D. EDEN  
THOM C. HEGE  
VICKIE L. HOLDER**

**THEODORE R. HOLMES, JR.  
BETH B. PARROTT  
DEBORAH B. PULLEN  
GUY P. SMITH  
DANIEL R. TIMBERLAKE  
J. STEPHEN YOKELEY**

**ADMINISTRATIVE OFFICERS**

**DR. MARY E. RITTLING, PRESIDENT**

**ROGER S. WHITE, DEAN, FINANCIAL AND ADMINISTRATIVE SERVICES**



Leslie W. Merritt, Jr., CPA, CFP  
State Auditor

STATE OF NORTH CAROLINA  
Office of the State Auditor

2 S. Salisbury Street  
20601 Mail Service Center  
Raleigh, NC 27699-0601  
Telephone: (919) 807-7500  
Fax: (919) 807-7647  
Internet <http://www.ncauditor.net>

---

**AUDITOR'S TRANSMITTAL**

---

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, 2004. Our audit was made by authority of Article 5A of Chapter 147 of the *North Carolina General Statutes*.

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 subjected 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 auditing standards generally accepted in the United States of America 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 is:

- 1. Objective** - To express an opinion on the accompanying financial statements that relate solely to Davidson County Community College.

**Results** - The accompanying financial statements present fairly, in all material respects, the amounts and disclosures made in accordance with accounting principles generally accepted in the United States of America. These matters are more fully described in the Independent Auditor's Report on the Financial Statements.

## AUDITOR'S TRANSMITTAL (CONCLUDED)

---

2. **Objective** – To 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 and present instances of noncompliance, if any, with laws, regulations, contracts, or grants.

**Results** - Our tests disclosed no significant deficiencies in internal control over financial reporting and no instances of noncompliance, which require disclosure herein under *Government Auditing Standards*. These matters are more fully described in the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters.

*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.

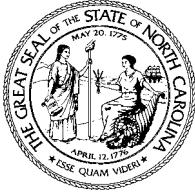
*Leslie W. Merritt, Jr.*

Leslie W. Merritt, Jr., CPA, CFP  
State Auditor

# TABLE OF CONTENTS

---

	PAGE
INDEPENDENT AUDITOR’S REPORT .....	1
MANAGEMENT’S DISCUSSION AND ANALYSIS .....	3
FINANCIAL STATEMENTS	
Exhibits	
A-1 Statement of Net Assets .....	11
A-2 Statement of Revenues, Expenses, and Changes in Net Assets .....	12
A-3 Statement of Cash Flows .....	13
B-1 Statement of Financial Position .....	15
B-2 Statement of Activities .....	16
Notes to the Financial Statements .....	17
SUPPLEMENTARY INFORMATION	
Schedule	
1 Schedule of General Obligation Bond Project Authorizations, Budgets, and Expenditures .....	32
INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i> .....	33
DISTRIBUTION OF AUDIT REPORT .....	35



Leslie W. Merritt, Jr., CPA, CFP  
State Auditor

STATE OF NORTH CAROLINA  
Office of the State Auditor

2 S. Salisbury Street  
20601 Mail Service Center  
Raleigh, NC 27699-0601  
Telephone: (919) 807-7500  
Fax: (919) 807-7647  
Internet <http://www.ncauditor.net>

---

**INDEPENDENT AUDITOR'S REPORT**

---

Board of Trustees  
Davidson County Community College  
Lexington, North Carolina

We have audited the accompanying financial statements of Davidson County Community College, a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 2004, which collectively comprise Davidson County Community College's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the College's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Davidson County Community College Foundation, Inc., which represents 100% of the College's discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component unit, is based 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 of material misstatement. The financial statements of Davidson County Community College Foundation, Inc., were not audited in accordance with *Government Auditing Standards*. 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 and the report of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of Davidson County Community College and its component unit, as of June 30, 2004, and the respective changes in its financial position and its cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

## INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

---

As discussed in Note 14 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, during the year ended June 30, 2004.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 1, 2005, on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of this 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis, as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. Schedule 1 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Leslie W. Merritt, Jr., CPA, CFP  
State Auditor

April 1, 2005

## **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, 2004. 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 Assets**

Shows, at a glance, the financial position of the College. The Statement of Net Assets 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 Assets**

Presents the revenues and expenses for the fiscal year. Revenues and expenses are classified as operating or nonoperating.

### **Statement of Cash Flows**

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 a reconciliation between operating income (loss) and net cash provided (used) by operating activities.



## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

### Financial Highlights

The following chart shows changes between the Statement of Net Assets for fiscal years 2004 and 2003:

<b>ASSETS</b>	<b>FY2003-2004</b>	<b>FY2002-2003</b>	<b>Difference</b>	<b>% Difference</b>
<b>Current Assets:</b>				
Cash and Cash Equivalents	\$ 2,364,588.10	\$ 2,389,648.80	\$ (25,060.70)	(1.05)%
Restricted Cash and Cash Equivalents	615,739.44	319,049.39	296,690.05	93.00%
Receivables	1,048,738.48	501,791.65	546,946.83	109.00%
Due from College Component Units	24,544.83		24,544.83	100.00%
Inventories	48,256.18	32,749.45	15,506.73	47.35%
Total Current Assets	<u>4,101,867.03</u>	<u>3,243,239.29</u>	<u>858,627.74</u>	26.47%
<b>Noncurrent Assets:</b>				
Restricted Cash and Cash Equivalents	549,292.35	1,529,935.33	(980,642.98)	(64.10)%
Restricted Due from Primary Government	921,877.81	625,684.66	296,193.15	47.34%
Capital Assets – Nondepreciable	4,650,959.23	2,338,484.18	2,312,475.05	98.89%
Capital Assets – Depreciable, Net	16,502,345.58	15,533,184.64	969,160.94	6.24%
Total Noncurrent Assets	<u>22,624,474.97</u>	<u>20,027,288.81</u>	<u>2,597,186.16</u>	12.97%
Total Assets	<u>\$ 26,726,342.00</u>	<u>\$ 23,270,528.10</u>	<u>\$ 3,455,813.90</u>	14.85%
<b>LIABILITIES</b>				
<b>Current Liabilities:</b>				
Accounts Payable and Accrued Liabilities	\$ 585,364.78	\$ 582,317.03	\$ 3,047.75	0.52%
Deferred Revenue	579,291.35		579,291.35	100.00%
Funds Held for Others – Current	97,136.99	34,080.00	63,056.99	185.03%
Long-Term Liabilities – Current Portion	233,715.02	171,620.40	62,094.62	36.18%
Total Current Liabilities	<u>1,495,508.14</u>	<u>788,017.43</u>	<u>707,490.71</u>	89.78%
<b>Noncurrent Liabilities:</b>				
Long-Term Liabilities	2,392,293.45	2,362,171.07	30,122.38	1.28%
Total Noncurrent Liabilities	<u>2,392,293.45</u>	<u>2,362,171.07</u>	<u>30,122.38</u>	1.28%
Total Liabilities	<u>3,887,801.59</u>	<u>3,150,188.50</u>	<u>737,613.09</u>	23.41%
<b>NET ASSETS:</b>				
Invested in Capital Assets, Net of Related Debt	19,424,397.94	16,011,851.47	3,412,546.47	21.31%
Restricted for:				
Nonexpendable:				
Scholarships and Fellowships	51,461.99	53,341.89	(1,879.90)	(3.52)%
Expendable:				
Loans	8,963.40	9,744.96	(781.56)	(8.02)%
Capital Projects	1,432,124.80	1,865,515.16	(433,390.36)	(23.23)%
Other	495,962.00	400,202.18	95,759.82	23.93%
Unrestricted	1,425,630.28	1,779,683.94	(354,053.66)	(19.89)%
Total Net Assets	<u>\$ 22,838,540.41</u>	<u>\$ 20,120,339.60</u>	<u>\$ 2,718,200.81</u>	13.51%

Total assets increased \$3,455,813.90 (14.85%) in fiscal year 2004, due primarily to the following:

- 1) Two large construction projects, which began in 2002-2003, were still in progress at June 30, 2004, leading to a much larger balance in construction in progress.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

---

- 2) The College began registering students for the Fall 2004 semester prior to June 30, 2004; however, Fall 2003 semester registration did not start until after June 30, 2003. Therefore, net receivables increased to reflect this difference.
- 3) Restricted amounts due from primary government increased \$296,193.15 due to bond construction project expenditures being incurred, but not yet reimbursed by the State as of June 30, 2004.

Total liabilities increased \$737,613.09 (23.41%) in fiscal year 2004, due primarily to deferred revenue of \$579,291.35. This deferred revenue represents the Fall 2004 semester registration that occurred prior to June 30, 2004. There was no deferred revenue recognized in the prior year due to the Fall 2003 semester registration occurring subsequent to June 30, 2003.

Total net assets represent total assets minus total liabilities. Therefore, the \$2,718,200.81 (13.51%) increase in total net assets is explained by the above discussion.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

The following chart shows changes between the Statement of Revenues, Expenses, and Changes in Net Assets for fiscal years 2004 and 2003:

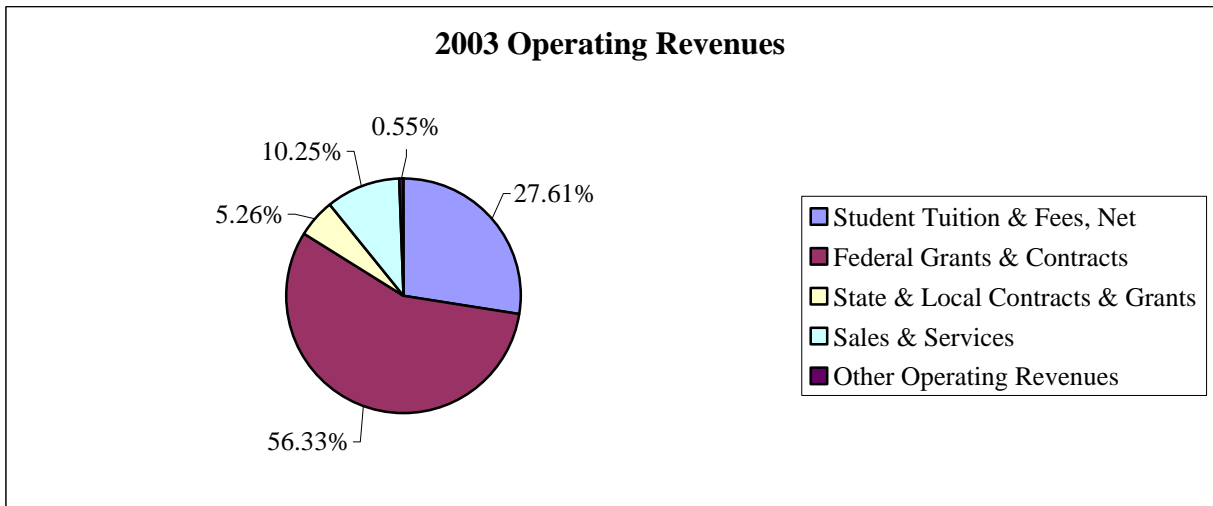
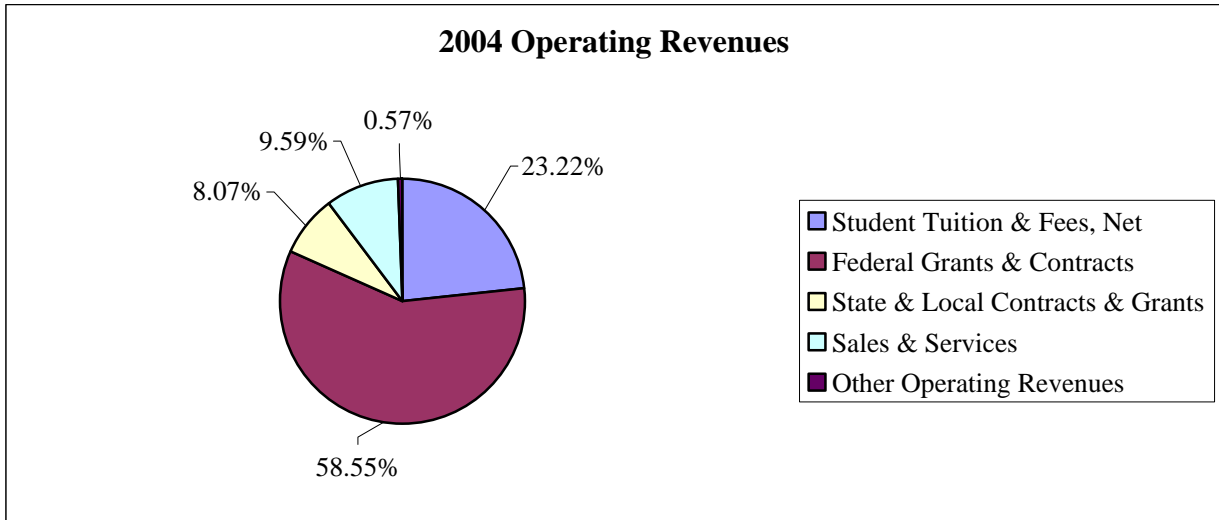
<b>REVENUES</b>	<b>FY2003-2004</b>	<b>FY2002-2003</b>	<b>Difference</b>	<b>%Difference</b>
<b>Operating Revenues:</b>				
Student Tuition and Fees, Net	\$ 1,527,130.86	\$ 1,560,359.53	\$ (33,228.67)	(2.13)%
Federal Grants and Contracts	3,850,146.18	3,183,887.51	666,258.67	20.93%
State and Local Grants and Contracts	530,673.65	297,149.79	233,523.86	78.59%
Sales and Services	630,771.48	579,390.39	51,381.09	8.87%
Other Operating Revenues	37,369.88	31,190.05	6,179.83	19.81%
<b>Total Operating Revenues</b>	<b>6,576,092.05</b>	<b>5,651,977.27</b>	<b>924,114.78</b>	<b>16.35%</b>
<b>EXPENSES</b>				
<b>Operating Expenses:</b>				
Salaries and Benefits	13,770,801.34	12,754,586.98	1,016,214.36	7.97%
Supplies and Materials	1,403,299.15	1,058,485.15	344,814.00	32.58%
Services.	2,150,677.44	1,857,816.08	292,861.36	15.76%
Scholarships and Fellowships	2,915,897.05	2,546,564.56	369,332.49	14.50%
Utilities.	413,152.72	424,857.09	(11,704.37)	(2.75)%
Depreciation	820,002.13	837,582.09	(17,579.96)	(2.10)%
<b>Total Operating Expenses</b>	<b>21,473,829.83</b>	<b>19,479,891.95</b>	<b>1,993,937.88</b>	<b>10.24%</b>
Operating Loss	(14,897,737.78)	(13,827,914.68)	(1,069,823.10)	7.74%
<b>NONOPERATING REVENUES (EXPENSES)</b>				
State Aid	10,132,832.68	9,684,313.75	448,518.93	4.63%
County Appropriations	2,428,685.00	2,563,435.00	(134,750.00)	(5.26)%
Noncapital Grants	253,395.67	294,975.98	(41,580.31)	(14.10)%
Noncapital Gifts	261,878.93	246,389.47	15,489.46	6.29%
Investment Income	120,566.05	171,463.12	(50,897.07)	(29.68)%
Interest and Fees on Capital-Asset Related Debt	(92,990.87)	(99,224.70)	6,233.83	(6.28)%
<b>Net Nonoperating Revenues</b>	<b>13,104,367.46</b>	<b>12,861,352.62</b>	<b>243,014.84</b>	<b>1.89%</b>
Loss Before Other Revenues and Expenses	(1,793,370.32)	(966,562.06)	(826,808.26)	85.54%
State Capital Aid	3,796,571.13	423,394.96	3,373,176.17	796.70%
County Capital Appropriations	715,000.00	609,000.00	106,000.00	17.41%
Capital Grants		1,722,437.52	(1,722,437.52)	(100.00)%
Capital Gifts		5,000.00	(5,000.00)	(100.00)%
<b>Increase in Net Assets</b>	<b>2,718,200.81</b>	<b>1,793,270.42</b>	<b>924,930.39</b>	<b>51.58%</b>
<b>NET ASSETS</b>				
Net Assets - Beginning of Year	20,120,339.60	18,327,069.18	1,793,270.42	9.78%
<b>Net Assets – End of Year</b>	<b>\$ 22,838,540.41</b>	<b>\$ 20,120,339.60</b>	<b>\$ 2,718,200.81</b>	<b>13.51%</b>

Operating revenues increased \$924,114.78 (16.35%) in fiscal year 2004, due primarily to the following:

- 1) Federal grants and contracts increased \$666,258.67 due to a significant increase in Pell funding for qualified students.
- 2) State and local grants and contracts increased \$233,523.86 due to a significant increase in grant funding for the Child Development Center and the newly introduced More at Four Program.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

The following charts compare the components of operating revenues for fiscal years 2004 and 2003:



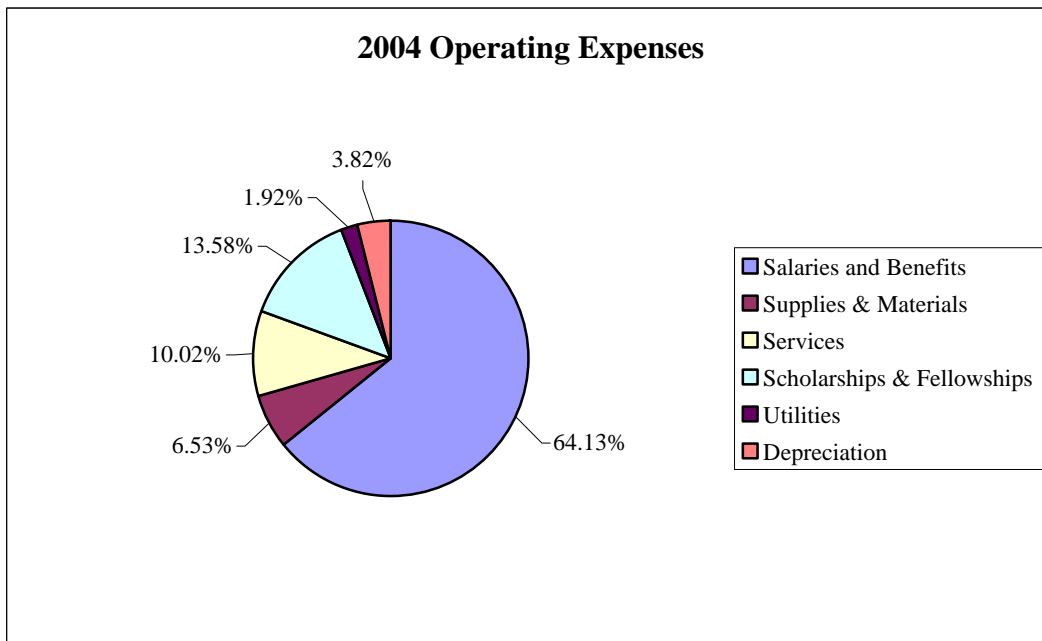
Operating expenses increased \$1,993,937.88 (10.24%) in fiscal year 2004, due primarily to the following:

- 1) Salaries and benefits expense increased \$1,016,214.36 due to the College granting 10 days of bonus annual leave, a 0.5% annual pay increase, and a \$550 bonus to all full-time and permanent part-time employees in fiscal year 2004.

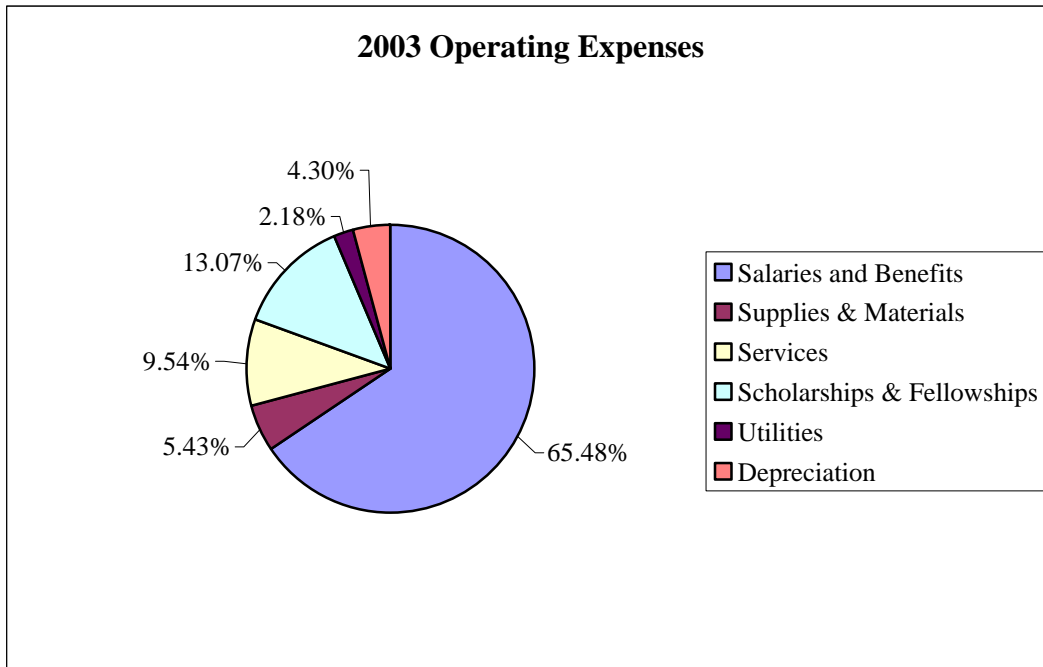
## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

- 2) Scholarships and fellowships increased as a direct result of the increased Pell grant funding.
- 3) Supplies and materials expense increased \$344,814.00 as a result of increased enrollment, and due to the purchase of supplies and materials needed to support the completion of Phase I of the Kirk construction project.

The following charts compare the components of operating expenses for fiscal years 2004 and 2003:



**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

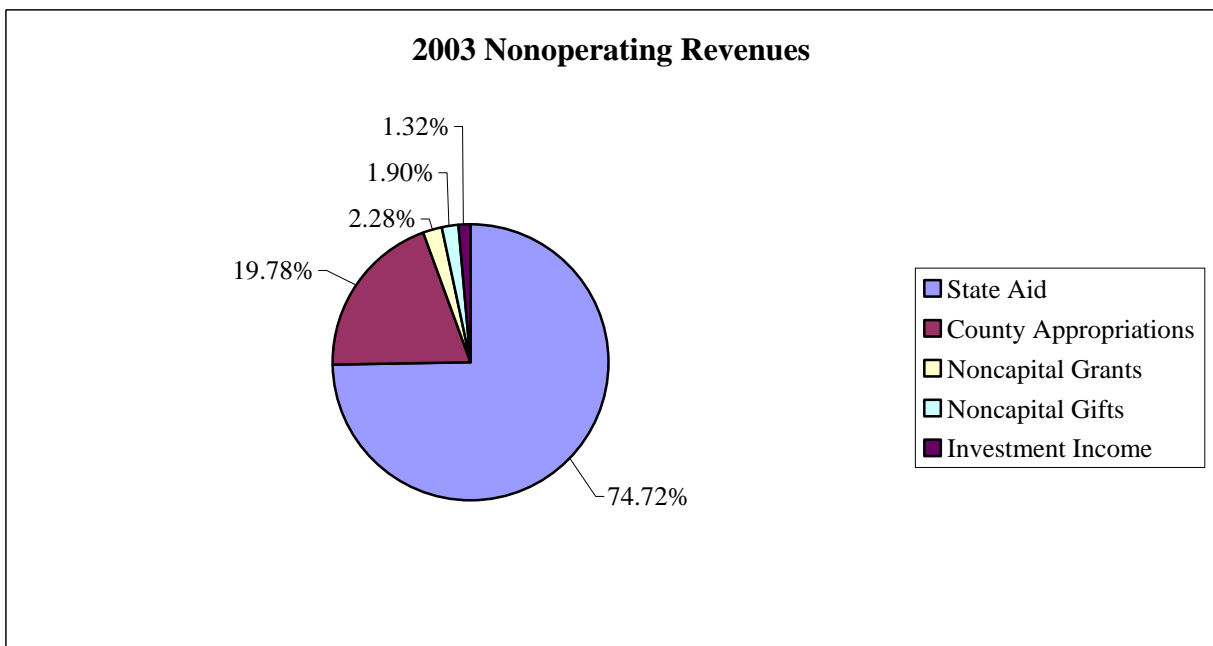
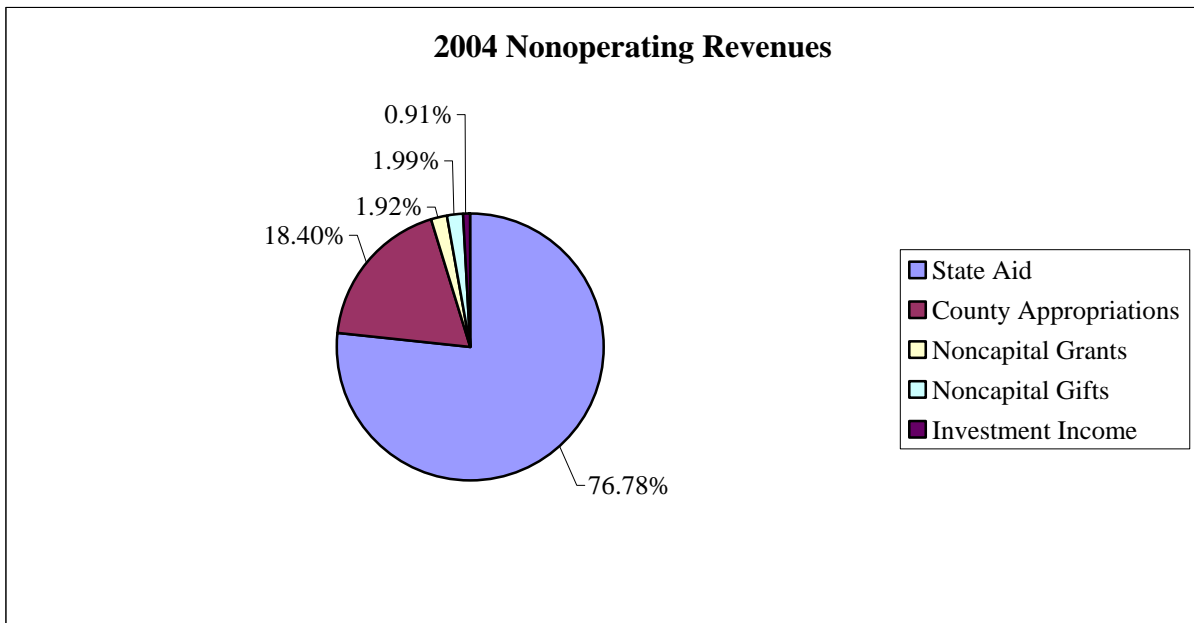


Nonoperating revenues and expenses increased \$243,014.84 (1.89%) in fiscal year 2004, due primarily to the following:

- 1) State Aid increased in 2004 by \$448,518.93, due to the increase in FTE.
- 2) County noncapital appropriations decreased \$134,750.00 in order to redirect the funds to additional capital appropriations in fiscal year 2004.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

The following charts compare the components of nonoperating revenues for fiscal years 2004 and 2003:



Another significant change between fiscal years 2004 and 2003 was that State capital aid increased \$3,373,176.17. This is due directly to increased funding on the two State bond projects. Both bond projects completed significant phases of the construction, which were reimbursed to the College as State capital aid.

**Davidson County Community College****Statement of Net Assets****June 30, 2004****Exhibit A-1****ASSETS**

## Current Assets:

Cash and Cash Equivalents	\$ 2,364,588.10
Restricted Cash and Cash Equivalents	615,739.44
Receivables (Note 3)	1,048,738.48
Due from Community College Component Units	24,544.83
Inventories	48,256.18
<b>Total Current Assets</b>	<b>4,101,867.03</b>

## Noncurrent Assets:

Restricted Cash and Cash Equivalents	549,292.35
Restricted Due from Primary Government	921,877.81
Capital Assets - Nondepreciable (Note 4)	4,650,959.23
Capital Assets - Depreciable, Net (Note 4)	16,502,345.58
<b>Total Noncurrent Assets</b>	<b>22,624,474.97</b>
<b>Total Assets</b>	<b>26,726,342.00</b>

**LIABILITIES**

## Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 5)	585,364.78
Deferred Revenue	579,291.35
Funds Held for Others	97,136.99
Long-Term Liabilities - Current Portion (Note 6)	233,715.02
<b>Total Current Liabilities</b>	<b>1,495,508.14</b>

## Noncurrent Liabilities:

Long-Term Liabilities (Note 6)	2,392,293.45
<b>Total Liabilities</b>	<b>3,887,801.59</b>

**NET ASSETS**

Invested in Capital Assets, Net of Related Debt	19,424,397.94
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	51,461.99
Expendable:	
Loans	8,963.40
Capital Projects	1,432,124.80
Other	495,962.00
Unrestricted	1,425,630.28
<b>Total Net Assets</b>	<b>\$ 22,838,540.41</b>

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



<b>Davidson County Community College</b>		
<b>Statement of Revenues, Expenses, and</b>		
<b>Changes in Net Assets</b>		
<b>For the Fiscal Year Ended June 30, 2004</b>		<b>Exhibit A-2</b>
<b>REVENUES</b>		
Operating Revenues:		
Student Tuition and Fees, Net (Note 8)	\$	1,527,130.86
Federal Grants and Contracts		3,850,146.18
State and Local Grants and Contracts		530,673.65
Sales and Services		630,771.48
Other Operating Revenues		37,369.88
Total Operating Revenues		6,576,092.05
<b>EXPENSES</b>		
Operating Expenses:		
Salaries and Benefits		13,770,801.34
Supplies and Materials		1,403,299.15
Services		2,150,677.44
Scholarships and Fellowships		2,915,897.05
Utilities		413,152.72
Depreciation		820,002.13
Total Operating Expenses		21,473,829.83
Operating Loss		(14,897,737.78)
<b>NONOPERATING REVENUES (EXPENSES)</b>		
State Aid		10,132,832.68
County Appropriations		2,428,685.00
Noncapital Grants		253,395.67
Noncapital Gifts		261,878.93
Investment Income		120,566.05
Interest and Fees on Capital Asset-Related Debt		(92,990.87)
Net Nonoperating Revenues		13,104,367.46
Loss Before Other Revenues and Expenses		(1,793,370.32)
State Capital Aid		3,796,571.13
County Capital Appropriations		715,000.00
Increase in Net Assets		2,718,200.81
<b>NET ASSETS</b>		
Net Assets, July 1, 2003		20,120,339.60
Net Assets, June 30, 2004	\$	22,838,540.41
The accompanying notes to the financial statements are an integral part of this statement.		

<b>Davidson County Community College</b>		
<b>Statement of Cash Flows</b>		
<b>For the Fiscal Year Ended June 30, 2004</b>		<b>Exhibit A-3</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Received from Customers		\$ 6,527,547.19
Payments to Employees and Fringe Benefits		(13,451,558.43)
Payments to Vendors and Suppliers		(3,967,148.31)
Payments for Scholarships and Fellowships		(2,967,751.33)
Other Receipts		63,056.99
Net Cash Used by Operating Activities		(13,795,853.89)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
State Aid Received		10,132,832.68
County Appropriations		2,428,685.00
Noncapital Grants Received		304,311.42
Noncapital Gifts Received		237,334.10
Net Cash Provided by Noncapital Financing Activities		13,103,163.20
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
State Capital Aid Received		3,500,377.98
County Capital Appropriations		715,000.00
Capital Grants Received		77,730.04
Acquisition and Construction of Capital Assets		(4,210,193.53)
Principal Paid on Capital Debt and Leases		(130,910.48)
Interest Paid on Capital Debt and Leases		(92,990.87)
Net Cash Used by Capital and Related Financing Activities		(140,986.86)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Investment Income		124,663.92
Net Cash Provided by Investing Activities		124,663.92
Net Decrease in Cash and Cash Equivalents		(709,013.63)
Cash and Cash Equivalents, July 1, 2003		4,238,633.52
Cash and Cash Equivalents, June 30, 2004		\$ 3,529,619.89
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES</b>		
Operating Loss		\$ (14,897,737.78)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense		820,002.13
Changes in Assets and Liabilities:		
Receivables		(679,690.49)
Inventories		(15,506.73)
Accounts Payable and Accrued Liabilities		111,603.16
Deferred Revenue		579,291.35
Funds Held for Others		63,056.99
Compensated Absences		223,127.48
Net Cash Used by Operating Activities		\$ (13,795,853.89)

<b>Davidson County Community College</b>		
<b>Statement of Cash Flows</b>		<b>Exhibit A-3</b>
<b>For the Fiscal Year Ended June 30, 2004</b>		<b>Page 2</b>
<b>RECONCILIATION OF CASH AND CASH EQUIVALENTS</b>		
Current Assets:		
Cash and Cash Equivalents		\$ 2,364,588.10
Restricted Cash and Cash Equivalents		615,739.44
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		549,292.35
Total Cash and Cash Equivalents - June 30, 2004		<u>\$ 3,529,619.89</u>
<b>NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES</b>		
Capital Asset Write-Offs		\$ 23,440.39
Increase in Receivables Related to Nonoperating Income		296,193.15
The accompanying notes to the financial statements are an integral part of this statement.		

**Davidson County Community College Foundation, Inc.**

**Statement of Financial Position**

**June 30, 2004**

**Exhibit B-1**

<b>ASSETS</b>		
Cash and Cash Equivalents		\$ 238,671
Contributions Receivable, Net		44,751
Investments in Securities, at Fair Value		6,995,181
Land Held for Sale		28,000
Foyell P. Smith Charitable Remainder Unitrust, at Fair Value (Cost - \$31,810 in 2004)		23,469
Total Assets		7,330,072
<b>LIABILITIES AND NET ASSETS</b>		
Accounts Payable		24,545
<b>NET ASSETS</b>		
Unrestricted:		
Undesignated		343,720
Board-Designated		61,881
Temporarily Restricted		152,313
Permanently Restricted		6,747,613
Net Assets		\$ 7,305,527
See Note 1 in the Notes to the Financial Statements		

**Davidson County Community College Foundation, Inc.**

**Statement of Activities**

**Year Ended June 30, 2004**

**Exhibit B-2**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>REVENUES, GAINS, AND OTHER SUPPORT</b>				
Contributions	\$ 189,984	\$ 47,753	\$ 160,309	\$ 398,046
Interest and Dividends, Net of Investment Advisory Fees of \$21,612 in 2004	(4,753)	141,947	1,783	138,977
Realized Gains (Losses) on Investments	(278)	8,315	104	8,141
Decrease in Fair Value of Assets Held in Foyell P. Smith Charitable Remainder Unitrust		(2,392)		(2,392)
Net Unrealized Gains on Investments	491,732	71,759	7,322	570,813
Miscellaneous Income (Expense)	(42)	1,262	16	1,236
Net Assets Released from Restrictions:				
Restrictions Satisfied by Payment of Scholarships	209,296	(209,296)		
<b>Total Revenues, Gains, and Other Support</b>	<b>885,939</b>	<b>59,348</b>	<b>169,534</b>	<b>1,114,821</b>
<b>EXPENSES</b>				
Program Services				
Scholarships	262,481			262,481
<b>Total Program Services</b>	<b>262,481</b>			<b>262,481</b>
Support Services				
Administrative and Fund Raising	50,529			50,529
Management and Professional Fees	14,960			14,960
<b>Total Support Services</b>	<b>65,489</b>			<b>65,489</b>
Loss on Return of Restricted Donation			8,000	8,000
<b>Total Expenses</b>	<b>327,970</b>		<b>8,000</b>	<b>335,970</b>
Increase in Net Assets	557,969	59,348	161,534	778,851
Balance at June 30, 2003	(151,289)	91,866	6,586,079	6,526,676
Reclassification of Net Assets Based on Restrictions from Donors	(1,099)	1,099		
<b>Balance at June 30, 2004</b>	<b>\$ 405,601</b>	<b>\$ 152,313</b>	<b>\$ 6,747,613</b>	<b>\$ 7,305,527</b>
See Note 1 in the Notes to the Financial Statements				

**DAVIDSON COUNTY COMMUNITY COLLEGE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2004**

---

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

**Discretely Presented Component Unit** - 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 its relationship to the College.

The Davidson County Community College Foundation, Inc., 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 not less than 15 persons and no more than 40 persons. At June 30, 2004, the board consisted of 30 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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

---

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 such, certain revenue recognition criteria and presentation features are different from 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, 2004, the Foundation distributed \$260,141.22 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, North Carolina 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 Governmental Accounting Standards Board (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 (BTA) and accordingly, is reported within a single column in the basic financial statements.

In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the College does not apply Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, for proprietary activities, unless the GASB amends its pronouncements to specifically adopt FASB pronouncements issued after that date.

- 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. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.
- D. Cash and Cash Equivalents** - This classification includes undeposited receipts, petty cash, cash on deposit with private bank accounts, and deposits held by the State Treasurer in the short-term investment

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

---

portfolio. The short-term investment portfolio maintained by the State Treasurer has the general characteristics of a demand deposit 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 charges to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from the federal government, State and local governments, and private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants. Receivables are recorded at book value with no provision for doubtful accounts considered necessary.
- F. Inventories** - Inventories, consisting of expendable supplies, are valued at cost using the last invoice cost 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 College capitalizes assets that have a value or cost in excess of \$5,000 at the date of acquisition and an expected 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 25 years for general infrastructure, 40 years for buildings, and 3 to 15 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 requires 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** - Unexpended capital contributions are classified as restricted assets because their use is limited by donor/grantor agreements. Certain other assets are classified as restricted because their use is limited by external parties or statute.
- 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.



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

---

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

In addition to the vacation leave described above, compensated absences includes the accumulated unused portion of the special annual leave bonuses awarded by the College to all full-time permanent employees as of December 1, 2002, and as of July 1, 2003. The unused portion of this leave remains available until used, notwithstanding the limitation on annual leave carried forward described above.

When classifying compensated absences into current and noncurrent, leave is considered taken using a last-in, first-out method.

- K. Net Assets** - The College's net assets are classified as follows:

**Invested in Capital Assets, Net of Related Debt** - This represents the College's total investment in capital assets, net of outstanding debt obligations related to those capital assets.

**Restricted Net Assets - Nonexpendable** - Nonexpendable restricted net assets include endowments and similar type assets whose use is limited by donors or other outside sources, and, as a condition of the gift, the principal is to be maintained in perpetuity.

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

**Unrestricted Net Assets** - Unrestricted net assets include 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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

---

- 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 Assets. 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 either operating or nonoperating revenues in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. 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 Assets. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the College's principal ongoing operations. Operating revenues include activities that have characteristics of exchange transactions, such as (1) student tuition and fees, (2) sales and services of auxiliary enterprises, and (3) certain federal, State and local grants and contracts. Operating expenses are all expense transactions incurred other than those related to capital and noncapital financing or investing activities as defined by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*.
- Nonoperating revenues include activities that have the characteristics of nonexchange transactions. Revenues from nonexchange transactions and State aid that represent subsidies or gifts to the College, as well as investment income, are considered nonoperating since these are either investing, capital or noncapital financing activities. Capital contributions are presented separately after nonoperating revenues and expenses.
- 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.

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

---

**NOTE 2 - DEPOSITS**

All funds of the College are deposited in board-designated official depositories and are required to be collateralized in accordance with 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 or with the State Treasurer’s Investment Pool. Also, the College may establish time deposit accounts, money market accounts, and certificates of deposit. At year-end, cash on hand was \$5,226.78. The carrying amount of cash on deposit was \$3,524,393.11 and the bank balance was \$3,686,497.22.

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:

	Book Balance	Bank Balance
Cash on Deposit with State Treasurer	\$ 3,301,219.18	\$ 3,249,476.90
Cash on Deposit with Private Financial Institutions	223,173.93	437,020.32
	\$ 3,524,393.11	\$ 3,686,497.22

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 Investment Pool. These moneys are invested in accordance with General Statutes 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 Department of State Treasurer or 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 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/> and clicking on “Financial Reports”, or by calling the State Controller’s Financial Reporting Section at (919) 981-5454.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Of the cash on deposit with private financial institutions at June 30, 2004, \$101,208.70 of the bank balance was covered by federal depository insurance, and \$335,811.62 was covered by collateral held by an authorized escrow agent in the name of the State Treasurer (pooling method).

### NOTE 3 - RECEIVABLES

Receivables at June 30, 2004, were as follows:

	Amount
<b>Current Receivables:</b>	
Students	\$ 911,844.35
Accounts	63,868.01
Intergovernmental	64,404.62
Investment Earnings	8,257.72
Other	363.78
	\$ 1,048,738.48
<b>Total Current Receivables</b>	

### NOTE 4 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2004, is presented as follows:

	Balance July 1, 2003	Adjustments	Increases	Decreases	Balance June 30, 2004
Capital Assets, Nondepreciable:					
Land	\$ 264,141.31	\$ 0.00	\$ 0.00	\$ 0.00	\$ 264,141.31
Construction in Progress	2,074,342.87	(1,659,930.99)	3,972,406.04		4,386,817.92
<b>Total Capital Assets, Nondepreciable</b>	2,338,484.18	(1,659,930.99)	3,972,406.04		4,650,959.23
Capital Assets, Depreciable:					
Buildings	21,256,943.66	1,659,930.99	30,463.23		22,947,337.88
Machinery and Equipment	2,207,545.15		87,864.80	23,440.39	2,271,969.56
General Infrastructure	604,793.19		10,904.05		615,697.24
<b>Total Capital Assets, Depreciable</b>	24,069,282.00	1,659,930.99	129,232.08	23,440.39	25,835,004.68
Less Accumulated Depreciation:					
Buildings	7,004,915.32		604,603.80		7,609,519.12
Machinery and Equipment	1,194,798.95		187,684.41	23,440.39	1,359,042.97
General Infrastructure	336,383.09		27,713.92		364,097.01
<b>Total Accumulated Depreciation</b>	8,536,097.36		820,002.13	23,440.39	9,332,659.10
<b>Total Capital Assets, Depreciable, Net</b>	15,533,184.64	1,659,930.99	(690,770.05)		16,502,345.58
<b>Capital Assets, Net</b>	\$ 17,871,668.82	\$ 0.00	\$ 3,281,635.99	\$ 0.00	\$ 21,153,304.81

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2004, were as follows:

	Amount
Accounts Payable	\$ 336,712.50
Accrued Payroll	247,914.28
Intergovernmental Payables	738.00
<b>Total Accounts Payable and Accrued Liabilities</b>	<b>\$ 585,364.78</b>

### NOTE 6 - LONG-TERM LIABILITIES

**A. Changes in Long-Term Liabilities** - A summary of changes in the long-term liabilities is presented as follows:

	Balance July 1, 2003	Additions	Reductions	Balance June 30, 2004	Current Portion
Notes Payable	\$ 1,859,817.35	\$ 0.00	\$ 130,910.48	\$ 1,728,906.87	\$ 137,456.01
Compensated Absences	673,974.12	659,565.16	436,437.68	897,101.60	96,259.01
<b>Total Long-Term Liabilities</b>	<b>\$ 2,533,791.47</b>	<b>\$ 659,565.16</b>	<b>\$ 567,348.16</b>	<b>\$ 2,626,008.47</b>	<b>\$ 233,715.02</b>

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

Purpose	Financial Institution	Interest Rate	Final Maturity Date	Original Amount of Issue	Principal Paid Through 06/30/2004	Principal Outstanding 06/30/2004
Guaranteed Energy Savings Contract	Crews & Associates	5.06%	12/17/2013	\$ 1,984,494.00	\$ 255,587.13	\$ 1,728,906.87

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

**C. Annual Requirements** - The annual requirements to pay principal and interest on the notes payable at June 30, 2004, are as follows:

<u>Fiscal Year</u>	Annual Requirements	
	Notes Payable	
	Principal	Interest
2005	\$ 137,456.01	\$ 86,445.34
2006	144,328.81	79,572.54
2007	151,545.25	72,356.10
2008	159,122.51	64,778.84
2009	167,078.64	56,822.71
2010-2013	969,375.65	150,131.10
Total Requirements	\$ 1,728,906.87	\$ 510,106.63

**NOTE 7 - OPERATING LEASE OBLIGATIONS**

Future minimum lease payments under noncancelable operating leases for equipment consist of the following at June 30, 2004:

<u>Fiscal Year</u>	<u>Amount</u>
2005	\$ 116,592.36
2006	116,592.36
2007	105,050.66
2008	58,151.22
2009	1,442.00
Total Minimum Lease Payments	\$ 397,828.60

Rental expense for all operating leases during the year was \$169,438.34.

**NOTE 8 - REVENUES**

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

	Gross Revenues	Less Scholarship Discounts	Net Revenues
<b>Operating Revenues:</b>			
Student Tuition and Fees	\$ 2,619,987.22	\$ 1,092,856.36	\$ 1,527,130.86

## 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	\$ 7,845,345.03	\$ 380,955.59	\$ 374,791.57	\$ 0.00	\$ 658.84	\$ 0.00	\$ 8,601,751.03
Academic Support	1,604,723.65	27,286.94	43,117.98				1,675,128.57
Student Services	973,182.19	11,347.11	107,542.83				1,092,072.13
Institutional Support	2,297,196.80	176,577.67	686,241.22				3,160,015.69
Operations and Maintenance of Plant	389,947.58	761,480.79	898,335.30		412,493.88		2,462,257.55
Student Financial Aid	3,014.20	4,574.21	9,007.62	2,915,897.05			2,932,493.08
Auxiliary Enterprises	657,391.89	41,076.84	31,640.92				730,109.65
Depreciation						820,002.13	820,002.13
<b>Total Operating Expenses</b>	<b>\$ 13,770,801.34</b>	<b>\$ 1,403,299.15</b>	<b>\$ 2,150,677.44</b>	<b>\$ 2,915,897.05</b>	<b>\$ 413,152.72</b>	<b>\$ 820,002.13</b>	<b>\$ 21,473,829.83</b>

### 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 cost sharing multiple-employer defined benefit pension plan administered by the North Carolina State Treasurer.

Benefit and contribution provisions for the Teachers' and State Employees' Retirement System 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, 2004, these rates were set at .22% of covered payroll for employers and 6% of covered payroll for members.

For the year ended June 30, 2004, the College had a total payroll of \$11,524,273.14, of which \$8,589,338.49 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were \$515,360.58 and \$18,896.07, respectively. The College made one hundred percent of its annual required contributions for the years ended June 30, 2004, 2003, and 2002, which were \$18,896.07, \$0.00, and \$162,643.99, 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

---

home page <http://www.osc.state.nc.us/> and clicking on “Financial Reports”, or by calling the State Controller’s Financial Reporting Section at (919) 981-5454.

- B. Deferred Compensation and Supplemental Retirement Income Plans** - IRC 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 \$37,599.98 for the year ended June 30, 2004.

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 \$116,633.62 for the year ended June 30, 2004.

IRC Section 403(b) and 403(b)(7) Plans - Eligible College employees can participate in tax sheltered annuity plans created under Internal Revenue Code Sections 403(b) and 403(b)(7). The employee’s eligible contributions, made through salary reduction agreements, are exempt from federal and State income taxes until the annuity is received or the contributions are withdrawn. These plans are exclusively for employees of colleges and certain charitable and other nonprofit institutions. All costs of administering and funding these plans are the responsibility of the Plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to \$107,411.98 for the year ended June 30, 2004.



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

---

### 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 Employees' 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. The College contributed 3.2% of the covered payroll under the Teachers' and State Employees' Retirement System for these health care benefits. For the fiscal year ended June 30, 2004, the College's total contribution to the Plan was \$274,851.88. 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. Long-term disability income benefits are advance funded on an actuarially determined basis using the one-year term cost method. Employer contributions are established in the Appropriations Bill by the General Assembly. The College was not required to contribute to the DIPNC for the fiscal year ended June 30, 2004. 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. Except for a reduction in the public officers' and employees' liability insurance from \$11,000,000 to \$5,000,000, there have been no significant reductions in

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

---

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

Tort claims of up to \$500,000 are self-insured under the authority of the State Tort Claims Act. In addition, the State provides excess public officers' and employees' liability insurance up to \$5,000,000 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 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 used for instructional purposes are covered by liability insurance handled by the State Department of Insurance. 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. The blanket honesty bond is with a private insurance company and is handled by the North Carolina Department of Insurance with coverage of \$5,000,000 per occurrence and a \$50,000 deductible. 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 (Plan), a component unit of the State. The Plan is funded by employer and employee contributions and is administered by a third-party contractor.

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. This self-insured death benefit program is administered by the State Treasurer and funded via employer contributions. There were no employer contributions required for the current fiscal year.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

---

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 \$1,239,065.08 and on other purchases were \$72,770.57 at June 30, 2004.
- B. Community College General Obligation Bonds** - The 1999-2000 Session of the General Assembly of North Carolina authorized the issuance of six hundred million dollars of general obligation bonds of the State, as subsequently approved by a vote of qualified voters of the State, to provide funds for capital improvements for the North Carolina Community College System. The funds authorized are to be used solely to construct new buildings and to renovate and modernize existing buildings on the North Carolina Community College System campuses. The bond legislation specifies the amount of bond funding for each College campus as well as the intended amount for new construction and repair and replacement. The legislation further provides that the State Board of Community Colleges shall be responsible for the approval of projects in accordance with provisions of the legislation. The bonds were authorized for issuance over a six-year period beginning in 2001 at a level not to exceed amounts provided in the legislation. Using a cash flow financing approach, The Community College System's Office (CCSO) establishes annual amounts not to exceed for each approved project. The amounts not to exceed are subject to change due to actual cash availability and needs during the year. Subsequent to the bond sales and the availability of bond proceeds, CCSO notifies the Office of State Budget and Management (OSBM) of the amount not to exceed for the total of the approved projects. Within this amount, based on an official request of cash needs from the State Board of Community Colleges, OSBM authorizes allotments. These allotments are then recorded to specific community college allotment accounts by the CCSO. The College records the allotments as revenue on the accompanying financial statements. The College's remaining authorization of \$398,754.00 is contingent on future bond sales and CCSO allotment approval. Because of uncertainty and time restrictions the remaining authorization is not recorded as an asset or revenue on the accompanying financial statements.

## NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

---

### NOTE 14 - CHANGE IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2004, the College implemented Governmental Accounting Standards Board Statement No. 39, *Determining Whether Certain Organizations are Component Units*. This Statement amends GASB Statement No. 14, *The Financial Reporting Entity*, to provide additional guidance to determine whether certain organizations for which the College is not financially accountable should be reported as component units based on the nature and significance of their relationship to the College.

*Schedule of General Obligation Bond Project Authorizations,  
Budgets, and Expenditures  
For Project-to-Date as of June 30, 2004*

*Schedule 1*

	Original Projected Start Date	Revised/ Actual Start Date	General Obligation Bonds Authorized	Other Sources	Total Project Budget	Amount Expended	Percent Completed	Original Expected Completion Date	Revised/ Actual Completion Date
<i>Projects Approved by the State Board</i>									
Classrooms/Laboratories/Renovations - 1101	Oct 2000	Oct 2000	\$ 5,795,467.00	\$ 1,700,000.00	\$ 7,495,467.00	\$ 6,256,401.92	83.47%	Apr 2004	May 2005
Fire Services Laboratory - 1180	Oct 2000	Oct 2000	325,000.00	16,473.00	341,473.00	341,473.00	100.00%	Apr 2002	Aug 2002
<b>Total All Projects</b>			<u>\$ 6,120,467.00</u>	<u>\$ 1,716,473.00</u>	<u>\$ 7,836,940.00</u>	<u>\$ 6,597,874.92</u>			

Note: The 1999-2000 Session of the General Assembly of North Carolina authorized the issuance of \$600 million of general obligation bonds of the State, as subsequently approved by a vote of qualified voters of the State, to provide funds for capital improvements for the North Carolina Community College System. The projects listed on this schedule are those funded or to be funded by bond proceeds from the general obligation bonds authorized by Senate Bill 912.



STATE OF NORTH CAROLINA  
**Office of the State Auditor**

**Leslie W. Merritt, Jr., CPA, CFP**  
State Auditor

2 S. Salisbury Street  
20601 Mail Service Center  
Raleigh, NC 27699-0601  
Telephone: (919) 807-7500  
Fax: (919) 807-7647  
Internet <http://www.ncauditor.net>

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

---

Board of Trustees  
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, and its discretely presented component unit, as of and for the year ended June 30, 2004, which collectively comprise the Davidson County Community College's basic financial statements, and have issued our report thereon dated April 1, 2005. We did not audit the financial statements of Davidson County Community College Foundation, Inc., which represents 100% of the College's discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component unit, is based on the report of the other auditors.

As discussed in Note 14 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, during the year ended June 30, 2004.

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. The financial statements of the discretely presented component unit were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not extend to the discretely presented component unit.

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 an opinion 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 reportable condition in which the

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

---

design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud 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 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.

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*.

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.

*Leslie W. Merritt, Jr.*

Leslie W. Merritt, Jr., CPA, CFP  
State Auditor

April 1, 2005

## DISTRIBUTION OF AUDIT REPORT

---

In accordance with General Statutes 147-64.5 and 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.

### EXECUTIVE BRANCH

The Honorable Michael F. Easley  
The Honorable Beverly M. Perdue  
The Honorable Richard H. Moore  
The Honorable Roy A. Cooper, III  
Mr. David T. McCoy  
Mr. Robert L. Powell  
Mr. H. Martin Lancaster  
Dr. Mary E. Rittling  
Mr. Roger S. White

Dr. Barbara B. Leonard

Governor of North Carolina  
Lieutenant Governor of North Carolina  
State Treasurer  
Attorney General  
State Budget Officer  
State Controller  
President, North Carolina Community College System  
President, Davidson County Community College  
Dean, Financial and Administrative Services  
Davidson County Community College  
Chairperson, Board of Trustees  
Davidson County Community College

### LEGISLATIVE BRANCH

Appointees to the Joint Legislative Commission on Governmental Operations

President Pro Tempore  
Senator Marc Basnight, Co-Chair  
Senator Charles W. Albertson  
Senator Thomas M. Apodaca  
Senator Daniel G. Clodfelter  
Senator Walter H. Dalton  
Senator Charlie S. Dannelly  
Senator James Forrester  
Senator Linda Garrou  
Senator Kay R. Hagan  
Senator Fletcher L. Hartsell, Jr.  
Senator David W. Hoyle  
Senator John H. Kerr, III  
Senator Ellie Kinnaird  
Senator Jeanne H. Lucas  
Senator Anthony E. Rand  
Senator R. C. Soles, Jr.  
Senator Richard Y. Stevens  
Senator A. B. Swindell, IV  
Senator Scott Thomas

Speaker of the House  
Representative James B. Black, Co-Chair  
Representative Alma S. Adams  
Representative Martha B. Alexander  
Representative Harold J. Brubaker  
Representative Lorene T. Coates  
Representative E. Nelson Cole  
Representative James W. Crawford, Jr.  
Representative William T. Culpepper, III  
Representative W. Pete Cunningham  
Representative Beverly M. Earle  
Representative Pryor A. Gibson, III  
Representative Joe Hackney  
Representative R. Phillip Haire  
Representative Dewey L. Hill  
Representative Lindsey H. Holliman  
Representative Julia C. Howard  
Representative Howard J. Hunter, Jr.  
Representative Margaret M. Jeffus  
Representative Daniel F. McComas  
Representative Charles L. McLawhorn  
Representative Henry M. Michaux, Jr.  
Representative Richard T. Morgan  
Representative Edd Nye  
Representative William C. Owens, Jr.  
Representative Deborah K. Ross  
Representative Drew P. Saunders  
Representative Wilma M. Sherrill  
Representative Joe P. Tolson  
Representative Edith D. Warren  
Representative Thomas E. Wright  
Representative Douglas Y. Yongue

### Other Legislative Officials

Mr. James D. Johnson

Director, Fiscal Research Division

May 18, 2005



## ORDERING INFORMATION

---

Copies of this report may be obtained by contacting the:

Office of the State Auditor  
State of North Carolina  
2 South Salisbury Street  
20601 Mail Service Center  
Raleigh, North Carolina 27699-0601

Internet: <http://www.ncauditor.net>

Telephone: 919/807-7500

Facsimile: 919/807-7647