



STATE OF NORTH CAROLINA

DAVIDSON COUNTY COMMUNITY COLLEGE

LEXINGTON, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2006

OFFICE OF THE STATE AUDITOR

LESLIE W. MERRITT, JR., CPA, CFP

STATE AUDITOR

DAVIDSON COUNTY COMMUNITY COLLEGE

LEXINGTON, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2006

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THE NORTH CAROLINA COMMUNITY COLLEGE SYSTEM

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STATE OF NORTH CAROLINA
Office of the State Auditor

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AUDITOR'S TRANSMITTAL

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

We have completed a financial statement audit of Davidson County Community College for the year ended June 30, 2006, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

Our consideration of internal control over financial reporting and compliance and other matters based on an audit of the financial statements resulted in no audit findings.

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

April 16, 2007

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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, 2006, which collectively comprise the College's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of Davidson County Community 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 the 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 they relate to the amounts included for this entity, 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 the 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 the 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 discretely presented component unit as of June 30, 2006, and the respective changes in financial position and 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)

In accordance with *Government Auditing Standards*, we have also issued our report dated March 1, 2007, on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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.



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

March 1, 2007

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

This Management's Discussion and Analysis section of Davidson County Community College's Annual Financial Report presents the College's financial activity for the fiscal year ended June 30, 2006. 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

This statement 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

This statement 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.

For the purpose of this discussion, we will address the Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Financial Highlights:

Condensed Statement of Net Assets

The following chart shows changes between the Statement of Net Assets for fiscal years 2006 and 2005:

<u>ASSETS</u>	<u>FY 2005-2006</u>	<u>FY2004-2005</u>	<u>Difference</u>	<u>% Difference</u>
Current Assets	\$ 4,611,878.18	\$ 3,261,186.49	\$ 1,350,691.69	41.42 %
Noncurrent Assets:				
Capital Assets, Net	21,340,586.65	21,369,540.67	(28,954.02)	(0.14) %
Other Noncurrent Assets	819,077.19	1,508,462.11	(689,384.92)	(45.70) %
Total Assets	<u>26,771,542.02</u>	<u>26,139,189.27</u>	<u>632,352.75</u>	2.42 %
<u>LIABILITIES</u>				
Current Liabilities	1,517,269.18	676,515.37	840,753.81	124.28 %
Noncurrent Liabilities	2,144,124.32	2,321,011.72	(176,887.40)	(7.62) %
Total Liabilities	<u>3,661,393.50</u>	<u>2,997,527.09</u>	<u>663,866.41</u>	22.15 %
<u>NET ASSETS</u>				
Invested in Capital Assets, Net of Related Debt	19,893,464.60	19,778,089.81	115,374.79	0.58 %
Restricted	1,683,350.07	2,080,763.24	(397,413.17)	(19.10) %
Unrestricted	1,533,333.85	1,282,809.13	250,524.72	19.53 %
Total Net Assets	<u>\$ 23,110,148.52</u>	<u>\$ 23,141,662.18</u>	<u>\$ (31,513.66)</u>	(0.14) %

Total assets increased \$632,352.75 (2.42%) in fiscal year 2006, due primarily to the following:

- 1) Total receivables increased \$1,016,797.95 for two primary reasons. First, the College began registering students for the Fall 2006 semester prior to June 30, 2006; however, Fall 2005 registration did not begin until after June 30, 2005. This accounted for approximately \$573,069.87 of the increase in receivables, and is also reflected as unearned revenue in the liability section of the Statement of Net Assets. Second, the amount due from Pell increased \$273,067.65 as a result of Pell awards posted to student accounts but for which the College was not reimbursed by Pell until after June 30, 2006.
- 2) Total cash and cash equivalents decreased \$151,522.23 as cash carried forward for construction was expended as the construction projects concluded.
- 3) Restricted due from primary government decreased \$237,387.40 due to construction projects coming to an end at June 30, 2006.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Total liabilities increased \$663,866.41 (22.15%) in fiscal year 2006, due primarily to:

- 1) Unearned revenue increased \$573,069.87 due to the timing of registration for the Fall 2006 semester as compared to the Fall 2005 semester, as relates to the increase in receivables described above.
- 2) In fiscal year 2006, the College began allowing students who qualified for scholarships to charge books to their account in the bookstore. The bookstore then invoices the College for those books. Scholarship funds held by the College that had yet to be invoiced by the bookstore at June 30, 2006, amounted to \$91,713.42.

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

The following chart shows changes between the Statement of Revenues, Expenses, and Changes in Net Assets for fiscal years 2006 and 2005:

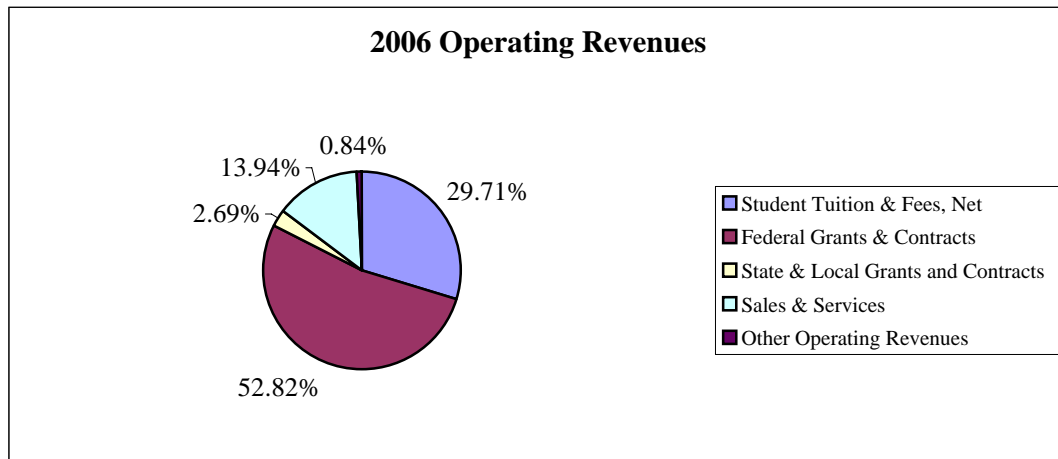
<u>OPERATING REVENUES</u>	<u>FY2005-2006</u>	<u>FY2004-2005</u>	<u>Difference</u>	<u>%Difference</u>
Student Tuition and Fees, Net	\$ 1,983,673.88	\$ 1,501,887.35	\$ 481,786.53	32.08 %
Grants and Contracts	3,706,413.81	4,484,394.28	(777,980.47)	(17.35) %
Sales and Services	930,622.60	780,663.52	149,959.08	19.21 %
Other Operating Revenues	56,217.46	40,571.05	15,646.41	38.57 %
Total Operating Revenues	<u>6,676,927.75</u>	<u>6,807,516.20</u>	<u>(130,588.45)</u>	<u>(1.92) %</u>
<u>OPERATING EXPENSES</u>	<u>25,747,849.47</u>	<u>23,948,436.22</u>	<u>1,799,413.25</u>	<u>7.51 %</u>
Operating Loss	<u>(19,070,921.72)</u>	<u>(17,140,920.02)</u>	<u>(1,930,001.70)</u>	<u>11.26 %</u>
<u>NONOPERATING REVENUES (EXPENSES)</u>				
State Aid	13,490,275.31	12,048,032.39	1,442,242.92	11.97 %
County Appropriations	2,754,502.00	2,646,614.00	107,888.00	4.08 %
Noncapital Grants and Gifts	1,486,214.27	1,033,830.24	452,384.03	43.76 %
Investment Income	123,693.44	89,846.86	33,846.58	37.67 %
Other Nonoperating Expenses	(131,170.09)	(86,445.34)	(44,724.75)	51.74 %
Net Nonoperating Revenues	<u>17,723,514.93</u>	<u>15,731,878.15</u>	<u>1,991,636.78</u>	<u>12.66 %</u>
Loss Before Other Revenues	<u>(1,347,406.79)</u>	<u>(1,409,041.87)</u>	<u>61,635.08</u>	<u>(4.37) %</u>
State Capital Aid	636,249.13	1,157,163.64	(520,914.51)	(45.02) %
County Capital Appropriations	613,000.00	555,000.00	58,000.00	10.45 %
Capital Grants	66,644.00		66,644.00	100.00 %
Total Other Revenues	<u>1,315,893.13</u>	<u>1,712,163.64</u>	<u>(396,270.51)</u>	<u>(23.14) %</u>
Increase (Decrease) in Net Assets	<u>(31,513.66)</u>	<u>303,121.77</u>	<u>(334,635.43)</u>	<u>(110.40) %</u>
<u>NET ASSETS</u>				
Net Assets - Beginning of Year	<u>23,141,662.18</u>	<u>22,838,540.41</u>	<u>303,121.77</u>	<u>1.33 %</u>
Net Assets - End of Year	<u>\$ 23,110,148.52</u>	<u>\$ 23,141,662.18</u>	<u>\$ (31,513.66)</u>	<u>(0.14) %</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

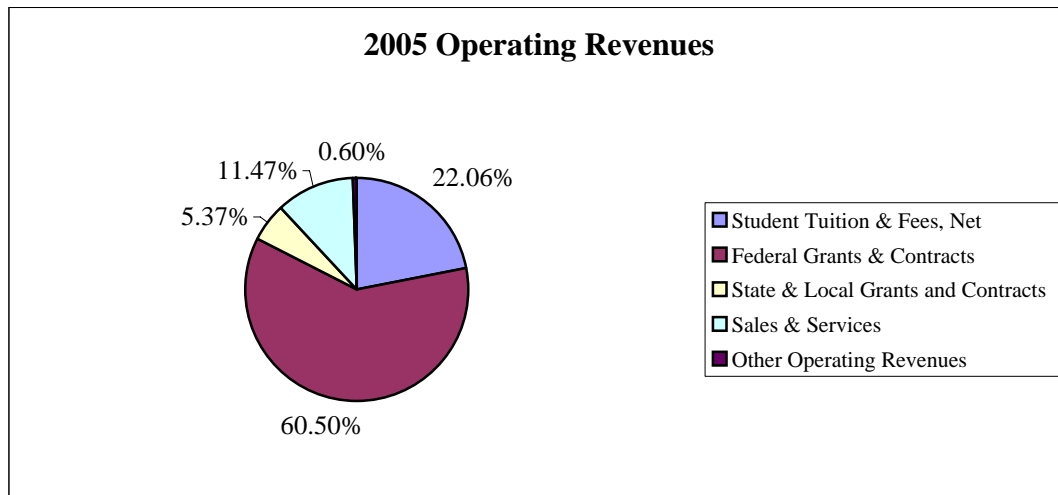
Total net revenues amounted to \$25,716,335.81, which increased \$1,464,777.82 over last year's total net revenues of \$24,251,557.99. Operating revenues decreased \$130,588.45 (1.92%) in fiscal year 2006, due primarily to the following:

- 1) Pell grant awards decreased \$757,777.43, due in large part to an improving economy, which reduces student eligibility for Pell grants.
- 2) Scholarship discounts, which are netted to arrive at student tuition and fees revenue, decreased \$429,516.78, which is directly attributable to the decrease in Pell awards. Therefore, this amount somewhat offsets the reduction in Pell grant awards.
- 3) Revenues from the Title III Enrollment Management Grant increased \$279,178.29 because fiscal year 2006 was the first full year of the grant.
- 4) State and local grants and contracts decreased \$186,015.37, due primarily to the College recognizing \$192,350.00 of revenue from a one-time special allotment for the Davie County campus in fiscal year 2005.
- 5) Sales and services revenue increased \$149,959.08, due to \$82,000.00 in Work Keys revenues and a \$47,161.96 increase in Child Care Center revenues.

The following charts compare the components of operating revenues for fiscal years 2006 and 2005:



MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

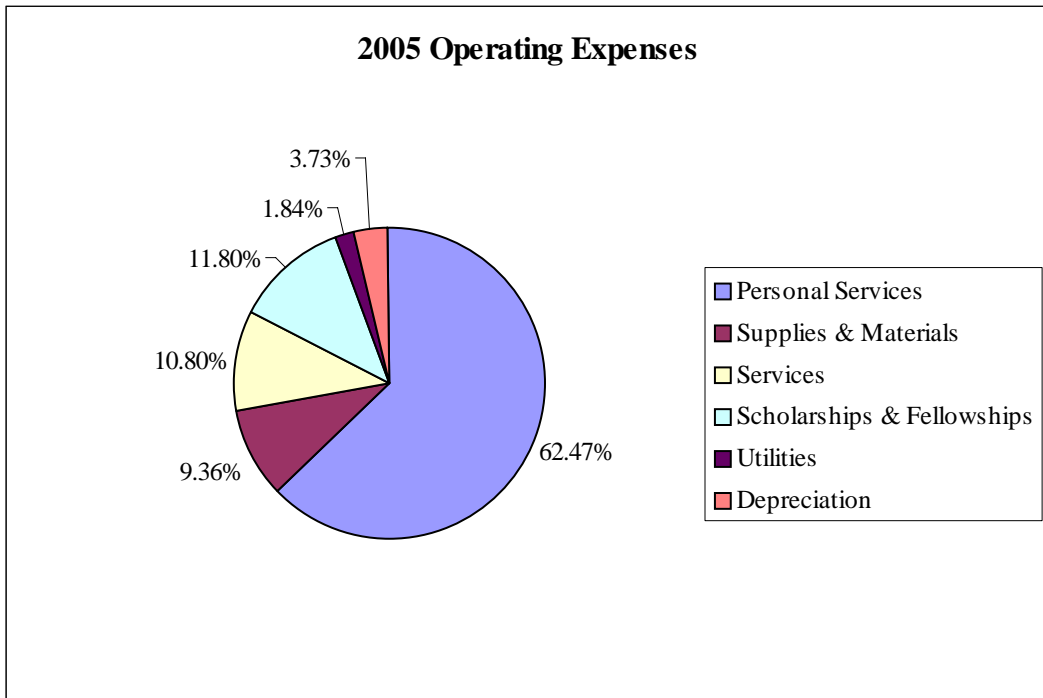
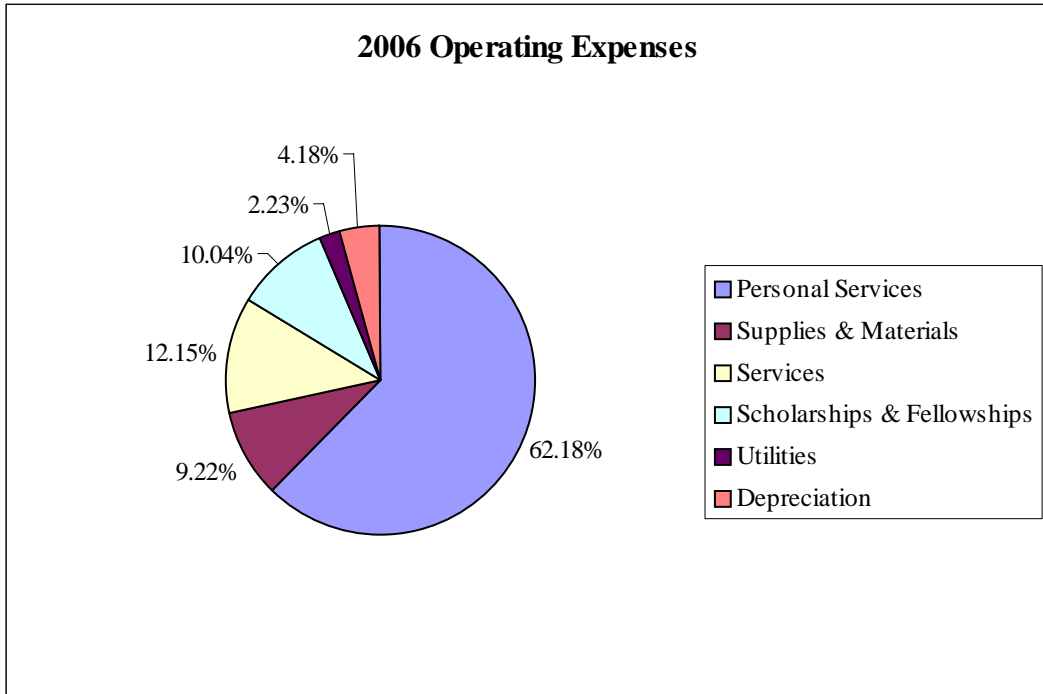


Operating expenses increased \$1,799,413.25 (7.51%) in fiscal year 2006, due primarily to the following:

- 1) Personal Services expense increased \$1,051,399.38 due to:
 - a. A 4% pay increase to all faculty and staff.
 - b. A \$79,814.32 payout of bonus vacation to convert 12-month faculty to 10-month faculty.
 - c. The addition of new positions resulting from increased enrollments and increased grant funding in fiscal year 2006.
- 2) Services expense increased \$542,230.69 due to:
 - a. Advertising expenses increased \$41,703.35 in an effort to attract students.
 - b. Communication expenses increased \$91,203.39, primarily related to the expansion of bandwidth on campus.
 - c. Contracted services expenses increased \$195,474.41, primarily due to additional building space on the campus.
 - d. Repairs and maintenance expenses increased \$55,673.77, primarily due to additional maintenance agreements on new and expanded equipment and software.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

The following charts compare the components of operating expenses for fiscal years 2006 and 2005:

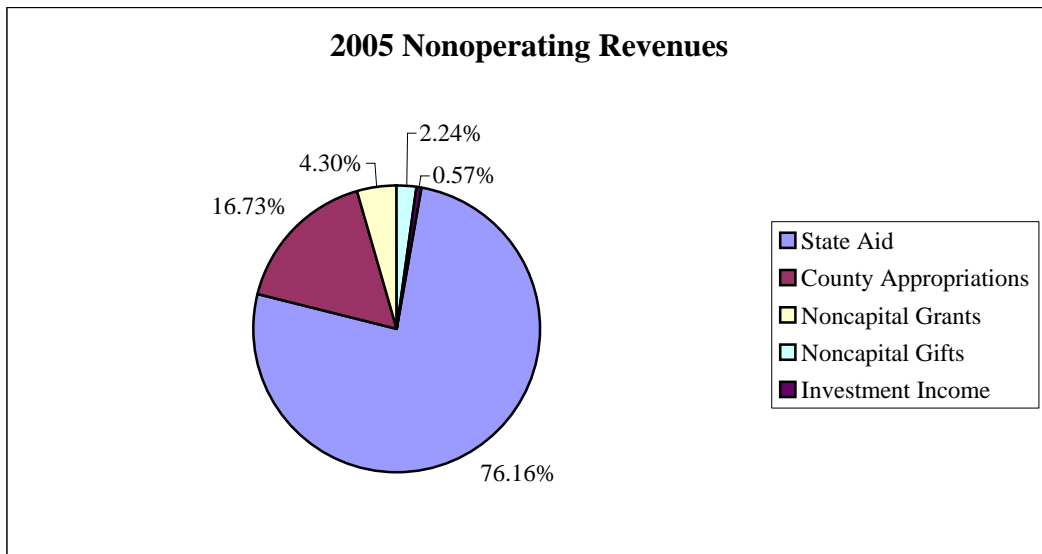
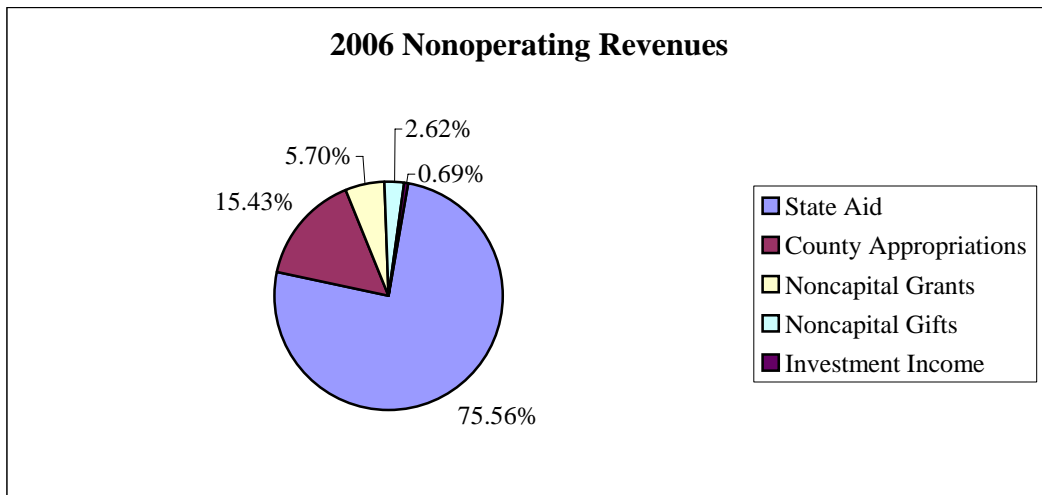


MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Nonoperating revenues and expenses increased \$1,991,636.78 (12.66%) in fiscal year 2006, due primarily to the following:

- 1) State aid increased in fiscal year 2006 by \$1,442,242.92, due to a 4% increase in enrollment, and a 4% increase to fund faculty and staff raises. The College also received a \$130,487.00 increase in funding for the Davie campus because it achieved a multi-campus status in fiscal year 2006.
- 2) Noncapital grants increased \$338,413.83, due to the College obtaining a \$248,745.00 private grant to develop an automation lab and a \$20,160.54 professional development grant.

The following charts compare the components of nonoperating revenues for fiscal years 2006 and 2005:



Economic and Other Factors Impacting Future Periods

The economic position of Davidson Community College is closely tied to that of the State of North Carolina. State appropriations for higher education comprise 55.3% of total revenues and is the largest source of funding. As the national economy remains sluggish, the State economy also lagged. North Carolina's economy and that of Davidson County is expected to rebound more slowly than the national economy. Plant closures and layoffs and changes in the textile and furniture sectors have impacted local revenues. This will most likely result in smaller increases in State and local appropriations for higher education. The specific impact on the College is uncertain.

The biggest challenges facing the College are:

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

Davidson County Community College
Statement of Net Assets
June 30, 2006

Exhibit A-1

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 1,730,283.35
Restricted Cash and Cash Equivalents	1,102,055.76
Receivables (Note 3)	1,692,702.61
Due from Community College Component Unit	29,895.20
Inventories	56,941.26
	<hr/>
Total Current Assets	4,611,878.18

Noncurrent Assets:

Restricted Cash and Cash Equivalents	770,863.86
Restricted Due from Primary Government	48,213.33
Capital Assets - Nondepreciable (Note 4)	351,077.59
Capital Assets - Depreciable, Net (Note 4)	20,989,509.06
	<hr/>
Total Noncurrent Assets	22,159,663.84

Total Assets	<hr/> <hr/> 26,771,542.02
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LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 5)	480,573.98
Unearned Revenue	611,329.00
Funds Held for Others	128,403.95
Long-Term Liabilities - Current Portion (Note 6)	296,962.25
	<hr/>
Total Current Liabilities	1,517,269.18

Noncurrent Liabilities:

Long-Term Liabilities (Note 6)	2,144,124.32
	<hr/>

Total Liabilities	<hr/> <hr/> 3,661,393.50
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NET ASSETS

Invested in Capital Assets, Net of Related Debt	19,893,464.60
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Restricted for:

Expendable:

Scholarships and Fellowships	91,394.04
Loans	9,869.11
Capital Projects	906,582.63
Other	675,504.29

Unrestricted	1,533,333.85
	<hr/>

Total Net Assets	<hr/> <hr/> <hr/> \$ 23,110,148.52
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The accompanying notes to the financial statements are an integral part of this statement.

Davidson County Community College
Statement of Revenues, Expenses, and
Changes in Net Assets
For the Fiscal Year Ended June 30, 2006

Exhibit A-2

REVENUES

Operating Revenues:	
Student Tuition and Fees, Net (Note 8)	\$ 1,983,673.88
Federal Grants and Contracts	3,526,850.52
State and Local Grants and Contracts	179,563.29
Sales and Services	930,622.60
Other Operating Revenues	56,217.46
	<hr/>
Total Operating Revenues	6,676,927.75
	<hr/>

EXPENSES

Operating Expenses:	
Personal Services	16,011,992.26
Supplies and Materials	2,374,104.11
Services	3,127,684.49
Scholarships and Fellowships	2,584,536.00
Utilities	573,615.85
Depreciation	1,075,916.76
	<hr/>
Total Operating Expenses	25,747,849.47
	<hr/>
Operating Loss	(19,070,921.72)
	<hr/>

NONOPERATING REVENUES (EXPENSES)

State Aid	13,490,275.31
County Appropriations	2,754,502.00
Noncapital Grants	1,017,975.16
Noncapital Gifts	468,239.11
Investment Income	123,693.44
Interest and Fees on Debt	(79,572.54)
Other Nonoperating Expenses	(51,597.55)
	<hr/>
Net Nonoperating Revenues	17,723,514.93
	<hr/>
Loss Before Other Revenues	(1,347,406.79)
	<hr/>
State Capital Aid	636,249.13
County Capital Appropriations	613,000.00
Capital Grants	66,644.00
	<hr/>
Decrease in Net Assets	(31,513.66)
	<hr/>

NET ASSETS

Net Assets, July 1, 2005	<hr/>
	23,141,662.18
Net Assets, June 30, 2006	<hr/>
	\$ 23,110,148.52
	<hr/>

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

Davidson County Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2006

Exhibit A-3

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 6,377,600.31
Payments to Employees and Fringe Benefits	(15,914,451.23)
Payments to Vendors and Suppliers	(6,025,376.05)
Payments for Scholarships and Fellowships	(2,578,315.35)
Other Receipts	106,956.60
	<hr/>
Net Cash Used by Operating Activities	(18,033,585.72)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Aid Received	13,490,275.31
County Appropriations	2,754,502.00
Noncapital Grants Received	871,188.17
Noncapital Gifts Received	442,766.09
	<hr/>
Cash Provided by Noncapital Financing Activities	17,558,731.57

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

State Capital Aid Received	873,636.53
County Capital Appropriations	613,000.00
Capital Grants Received	66,644.00
Proceeds from Sale of Capital Assets	15,723.45
Acquisition and Construction of Capital Assets	(1,141,629.85)
Principal Paid on Capital Debt	(144,328.81)
Interest Paid on Capital Debt	(79,572.54)
	<hr/>
Net Cash Provided by Capital and Related Financing Activities	203,472.78

CASH FLOWS FROM INVESTING ACTIVITIES

Investment Income	119,859.14
	<hr/>
Net Decrease in Cash and Cash Equivalents	(151,522.23)
Cash and Cash Equivalents, July 1, 2005	3,754,725.20
	<hr/>
Cash and Cash Equivalents, June 30, 2006	\$ 3,603,202.97

RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES

Operating Loss	\$ (19,070,921.72)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	1,075,916.76
Changes in Assets and Liabilities:	
Receivables	(866,176.66)
Inventories	(7,945.43)
Accounts Payable and Accrued Liabilities	91,022.40
Unearned Revenue	573,069.87
Funds Held for Others	106,956.60
Compensated Absences	64,492.46
	<hr/>
Net Cash Used by Operating Activities	\$ (18,033,585.72)

***Davidson County Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2006***

***Exhibit A-3
Page 2***

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	\$ 1,730,283.35
Restricted Cash and Cash Equivalents	1,102,055.76
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	<u>770,863.86</u>
Total Cash and Cash Equivalents - June 30, 2006	<u><u>\$ 3,603,202.97</u></u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Increase in Receivables Related to Nonoperating Income	\$ 89,635.41
Capital Asset Write-Offs	150,621.29

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, 2006

Exhibit B-1

ASSETS

Cash and Cash Equivalents	\$ 28,984
Contributions Receivable, Net	22,554
Investments in Securities, at Fair Value	8,034,947
Land Held for Sale	28,000
Land and Building	177,978
Foyell P. Smith Charitable Remainder Unitrust, at Fair Value (Cost - \$31,810 in 2006)	<u>24,051</u>
Total Assets	<u>8,316,514</u>

LIABILITIES

Accounts Payable	<u>29,895</u>
------------------	---------------

NET ASSETS

Unrestricted:	
Undesignated	410,152
Temporarily Restricted	637,563
Permanently Restricted	<u>7,238,904</u>
Total Net Assets	<u>\$ 8,286,619</u>

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

Davidson County Community College Foundation, Inc.
Statement of Activities
Year Ended June 30, 2006

Exhibit B-2

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, GAINS, AND OTHER SUPPORT				
Contributions	\$ 247,689	\$ 77,310	\$ 197,696	\$ 522,695
Interest and Dividends, Net of Investment Advisory Fees of \$45,089 in 2006	11,533	124,055	169,337	304,925
Realized Gains on Investments	3,640	38,774	52,880	95,294
Decrease in Fair Value of Assets Held in Foyell P. Smith Charitable Remainder Unitrust		(936)		(936)
Net Unrealized Gains on Investments	5,675	61,046	83,330	150,051
Miscellaneous Income	122	1,310	1,788	3,220
Net Assets Released from Restrictions: Restrictions Satisfied by Payment of Scholarships	679,504	(378,518)	(300,986)	
Total Revenues, Gains, and Other Support	<u>948,163</u>	<u>(76,959)</u>	<u>204,045</u>	<u>1,075,249</u>
EXPENSES				
Program Services				
Scholarships and Student Support	<u>679,033</u>			<u>679,033</u>
Support Services				
Administrative and Fund Raising	167,847			167,847
Management and Professional Fees	11,000			11,000
Total Support Services	<u>178,847</u>			<u>178,847</u>
Total Expenses	<u>857,880</u>			<u>857,880</u>
Increase (Decrease) in Net Assets	90,283	(76,959)	204,045	217,369
NET ASSETS				
Net Assets, July 1, 2005	350,287	657,958	7,061,005	8,069,250
Reclassification of Net Assets Based on Restrictions from Donors	<u>(30,418)</u>	<u>56,564</u>	<u>(26,146)</u>	
Net Assets, June 30, 2006	<u>\$ 410,152</u>	<u>\$ 637,563</u>	<u>\$ 7,238,904</u>	<u>\$ 8,286,619</u>

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, 2006

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 its 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 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 not more than 40 persons. At June 30, 2006, the board consisted of 33 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 Governmental Accounting Standards Board (GASB) revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information in the College's financial reporting entity for these differences.

During the year ended June 30, 2006, the Foundation distributed \$706,004.07 to the College for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from the Davidson County Community College Foundation, Inc., Post Office Box 1287, Lexington, NC 27293-1287.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

deposits held by the State Treasurer in the short-term investment fund. The short-term investment fund 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 charged to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from the federal government, State and local governments, and private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants. Receivables are recorded at book value with no provision for doubtful accounts considered necessary.
- F. Inventories** – Inventories, consisting of expendable supplies, fuel oil held for consumption, and postage, 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 years for general infrastructure, 25 to 40 years for buildings, and 5 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- I. Noncurrent Long-Term Liabilities** – Noncurrent long-term liabilities include notes payable and compensated absences that will not be paid within the next fiscal year.
- J. Compensated Absences** – The College’s policy is to record the cost of vacation leave when earned. The policy provides for a maximum accumulation of unused vacation leave of 30 days which can be carried forward each July 1 or for which an employee can be paid upon termination of employment. 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 include the accumulated unused portion of the special annual leave bonuses awarded by the North Carolina General Assembly. The bonus leave balance on June 30 is retained by employees and transferred into the next fiscal year. It is not subject to the limitation on annual leave carried forward described above and is not subject to conversion to sick leave.

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 – 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.

- L. Scholarship Discounts** – Student tuition and fees revenues and certain other revenues from College charges are reported net of scholarship

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

NOTE 2 - DEPOSITS AND INVESTMENTS

College - All funds of the College are deposited in board-designated official depositories and are required to be collateralized in accordance with *North Carolina General Statute 115D-58.7*. Official depositories may be established

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

with any bank or savings and loan association whose principal office is located in North Carolina. Also, the College may establish time deposit accounts, money market accounts, and certificates of deposit. The amount shown on the Statement of Net Assets as cash and cash equivalents includes cash on hand totaling \$4,387.90, and deposits in private financial institutions with a carrying value of \$19,690.94 and a bank balance of \$233,530.59.

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.

Custodial credit risk is the risk that in the event of a bank failure, the College's deposits may not be returned to it. As of June 30, 2006, the College's bank balance in excess of federal depository insurance coverage was covered under the pooling method.

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

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

At June 30, 2006, the amount shown on the Statement of Net Assets as cash and cash equivalents includes \$3,579,124.13, which represents the College's equity position in the State Treasurer's Short-Term Investment Fund. The Short-Term Investment Fund (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Securities and Exchange Commission and does not have a credit rating) had a weighted average maturity of 1.18 years as of June 30, 2006. Assets and shares of the Short-Term Investment Fund are valued at amortized cost, which approximates fair value. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's Short-Term Investment Fund) 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.ncosc.net/> and clicking on "Financial Reports," or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

Component Unit – Investments of the College's discretely presented component unit, the Davidson County Community College Foundation, Inc., are subject to and restricted by G.S. 36B "Uniform Management of Institutional Funds Act" (UMIFA) and any requirements placed on them by contract or donor agreements. Because the Foundation reports under the FASB reporting model, disclosures of the various investment risks are not required. The following is an analysis of investments by type:

	Fair Value
Investment Type	
Cash and Temporary Investments	\$ 65.00
Fixed Income Fund	847,145.00
Common Stock Fund	4,843,264.00
Bond Fund	2,307,680.00
Life Insurance Annuities	36,793.00
Total Investments	\$ 8,034,947.00

NOTE 3 - RECEIVABLES

Receivables at June 30, 2006, were as follows:

	Amount
Current Receivables:	
Students	\$ 1,055,396.61
Accounts	61,606.00
Intergovernmental	562,912.02
Investment Earnings	12,264.95
Other	523.03
Total Current Receivables	\$ 1,692,702.61

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 4 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2006, is presented as follows:

	Balance July 1, 2005	Increases	Decreases	Balance June 30, 2006
Capital Assets, Nondepreciable:				
Land	\$ 264,141.31	\$ 0.00	\$ 0.00	\$ 264,141.31
Construction in Progress	790,425.06	422,491.59	1,125,980.37	86,936.28
Total Capital Assets, Nondepreciable	1,054,566.37	422,491.59	1,125,980.37	351,077.59
Capital Assets, Depreciable:				
Buildings	27,438,987.82	1,131,075.37		28,570,063.19
Machinery and Equipment	2,425,459.30	686,697.15	217,650.08	2,894,506.37
General Infrastructure	615,697.24			615,697.24
Total Capital Assets, Depreciable	30,480,144.36	1,817,772.52	217,650.08	32,080,266.80
Less Accumulated Depreciation:				
Buildings	8,293,621.09	755,330.43		9,048,951.52
Machinery and Equipment	1,479,041.39	292,175.76	150,329.08	1,620,888.07
General Infrastructure	392,507.58	28,410.57		420,918.15
Total Accumulated Depreciation	10,165,170.06	1,075,916.76	150,329.08	11,090,757.74
Total Capital Assets, Depreciable, Net	20,314,974.30	741,855.76	67,321.00	20,989,509.06
Capital Assets, Net	\$ 21,369,540.67	\$ 1,164,347.35	\$ 1,193,301.37	\$ 21,340,586.65

NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2006, were as follows:

	Amount
Accounts Payable	\$ 178,980.84
Accrued Payroll	301,593.14
Total Accounts Payable and Accrued Liabilities	\$ 480,573.98

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, 2005	Additions	Reductions	Balance June 30, 2006	Current Portion
Notes Payable	\$ 1,591,450.86	\$ 0.00	\$ 144,328.81	\$ 1,447,122.05	\$ 151,545.25
Compensated Absences	929,472.06	673,857.80	609,365.34	993,964.52	145,417.00
Total Long-Term Liabilities	\$ 2,520,922.92	\$ 673,857.80	\$ 753,694.15	\$ 2,441,086.57	\$ 296,962.25

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 06/30/2006	Principal Outstanding 06/30/2006
Guaranteed Energy Savings Contract	Crews & Associates	5.06%	12/17/2013	\$ 1,984,494.00	\$ 537,371.95	\$ 1,447,122.05

The annual requirements to pay principal and interest on the notes payable at June 30, 2006, are as follows:

Fiscal Year	Annual Requirements	
	Notes Payable	
	Principal	Interest
2007	\$ 151,545.25	\$ 72,356.10
2008	159,122.51	64,778.84
2009	167,078.64	56,822.71
2010	175,432.57	48,468.78
2011	184,204.20	39,697.15
2012-2013	609,738.88	61,965.17
Total Requirements	\$ 1,447,122.05	\$ 344,088.75

NOTE 7 - OPERATING LEASE OBLIGATIONS

Future minimum lease payments under noncancelable operating leases for buildings and equipment consist of the following at June 30, 2006:

Fiscal Year	Amount
2007	\$ 277,071.63
2008	149,605.78
2009	53,402.35
2010	31,140.86
Total Minimum Lease Payments	\$ 511,220.62

Rental expense for all operating leases during the year was \$240,605.27.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 8 - REVENUES

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

	Gross Revenues	Less Scholarship Discounts	Net Revenues
Operating Revenues:			
Student Tuition and Fees	\$ 2,918,650.25	\$ 934,976.37	\$ 1,983,673.88

NOTE 9 - OPERATING EXPENSES BY FUNCTION

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

	Personal Services	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	\$ 9,684,648.86	\$ 1,388,105.20	\$ 592,552.27	\$ 0.00	\$ 0.00	\$ 0.00	\$ 11,665,306.33
Public Service	15,847.13	59,234.21	2,492.59				77,573.93
Academic Support	1,231,979.94	92,517.29	147,098.14				1,471,595.37
Student Services	1,603,112.19	236,955.93	165,813.07				2,005,881.19
Institutional Support	2,713,640.51	262,773.46	945,738.52				3,922,152.49
Operations and Maintenance of Plant	399,998.80	259,165.07	1,212,715.23		573,615.85		2,445,494.95
Student Financial Aid				2,584,536.00			2,584,536.00
Auxiliary Enterprises	362,764.83	75,352.95	61,274.67				499,392.45
Depreciation						1,075,916.76	1,075,916.76
Total Operating Expenses	\$ 16,011,992.26	\$ 2,374,104.11	\$ 3,127,684.49	\$ 2,584,536.00	\$ 573,615.85	\$ 1,075,916.76	\$ 25,747,849.47

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, 2006, these rates were set at 2.34% of covered payroll for employers and 6% of covered payroll for members.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended June 30, 2006, the College had a total payroll of \$13,325,417.12, of which \$9,932,208.73 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were \$595,933.93 and \$232,413.68, respectively. The College made 100% of its annual required contributions for the years ended June 30, 2006, 2005, and 2004, which were \$232,413.68, \$200,849.83, and \$18,896.07, 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/> 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 \$42,169.96 for the year ended June 30, 2006.

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 \$144,647.40 for the year ended June 30, 2006.

IRC Section 403(b) and 403(b)(7) Plans – Eligible College employees can participate in tax sheltered annuity plans created under Internal Revenue

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 \$103,189.96 for the year ended June 30, 2006.

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 3.8% of the covered payroll under the Teachers' and State Employees' Retirement System for these health care benefits. For the fiscal year ended June 30, 2006, the College's total contribution to the Plan was \$377,423.93. 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. The College contributes .52% of covered payroll under the Teachers' and State Employees' Retirement System to the DIPNC. For the year ended June 30, 2006, the College's total contribution to the DIPNC was \$51,647.46. 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*.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, and can include participation in State-administered insurance programs, purchase of commercial insurance, and self-retention of certain risks. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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. The employer contribution rate was .16% for the current fiscal year.

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

NOTE 13 - COMMITMENTS AND CONTINGENCIES

The College has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were \$257,756.00 and on other purchases were \$151,335.75 at June 30, 2006.



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

Board of Trustees
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, 2006, which collectively comprise the College's basic financial statements and have issued our report thereon dated March 1, 2007. Our report was modified to include a reference to 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. Other auditors audited the financial statements of the discretely presented component unit, as described in our report on the College's financial statements. The financial statements of the discretely presented component unit were not audited in accordance with *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 opinions 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 that might be material weaknesses. A material weakness is a reportable 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 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.

**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)**

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, the State Board of Community Colleges, management of the College, the Governor, the State Controller, and the General Assembly, 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

March 1, 2007

ORDERING INFORMATION

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