STATE OF NORTH CAROLINA

DAVIDSON COUNTY COMMUNITY COLLEGE

LEXINGTON, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2008

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR

DAVIDSON COUNTY COMMUNITY COLLEGE

LEXINGTON, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2008

STATE OF NORTH CAROLINA
Office of the State Auditor

Beth A. Wood, CPA
State Auditor

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AUDITOR'S TRANSMITTAL

The Honorable Beverly E. Perdue, 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, 2008, 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 other matters based on an audit of the financial statements disclosed certain deficiencies that are detailed in the Audit Findings and Responses section of this report. The College's response is included following each finding.

North Carolina General Statutes require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.

Beth A. Wood

Beth A. Wood, CPA
State Auditor

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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, 2008, 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., 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 opinions, insofar as they relate to the amounts included for the discretely presented component unit, are 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, 2008, 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.

As discussed in Note 14 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and Statement 50, *Pension Disclosures*, during the year ended June 30, 2008.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 6, 2009, 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.

Beth A. Wood

Beth A. Wood, CPA
State Auditor

April 6, 2009

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, 2008. 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

This statement presents the sources from which the College received its cash and uses for which cash was spent. The Cash Flow Statement is presented using the direct method, with reconciliation between operating income (loss) and net cash provided (used) by operating activities.

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

Financial Highlights:

Condensed Statement of Net Assets

The following chart shows changes between the Statement of Net Assets for fiscal years 2008 and 2007:

	FY 2007-2008	FY 2006-2007	Difference	% Difference
Assets				
Current Assets	$ 6,509,590.34	$ 4,550,128.84	$ 1,959,461.50	43.06 %
Noncurrent Assets:				
Capital Assets, Net	24,236,732.97	21,887,276.50	2,349,456.47	11.73 %
Other Noncurrent Assets	113,116.70	791,285.92	(678,169.22)	(85.70) %
Total Assets	30,859,440.01	27,228,691.26	3,630,748.75	13.33 %
Liabilities				
Current Liabilities	2,620,781.55	1,150,623.43	1,470,158.12	127.77 %
Noncurrent Liabilities	2,121,656.82	2,305,078.64	(183,421.82)	(7.96) %
Total Liabilities	4,742,438.37	3,455,702.07	1,286,736.30	37.24 %
Net Assets				
Invested in Capital Assets, Net of Related Debt	22,494,996.34	20,100,233.42	2,394,762.92	11.91 %
Restricted	2,106,366.04	2,020,277.68	86,088.36	4.26 %
Unrestricted	1,515,639.26	1,652,478.09	(136,838.83)	(8.28) %
Total Net Assets	$ 26,117,001.64	$ 23,772,989.19	$ 2,344,012.45	9.86 %

Total assets increased $3,630,748.75 (13.33%) in fiscal year 2008, due primarily to the following:

1) Current assets increased as a result of the following:

   a. Construction receivables increased $770,747 for new construction on the Conference, Training, and Technology Center, Transportation Technology Center, Davie Early College, Davie Laboratory addition, and the Finch building.

   b. Cash increased primarily as a result of the following:

      1. Interest earnings of $54,327.
      2. Timing of payment of invoices due in June 2008 compared to June 2007.
      3. Total operating surpluses of approximately $360,118 generated from bookstore commissions, Davidson and Davie Early College High School allocations, patron fees, and Work Keys.

2) Capital assets increased as a result of capitalized equipment purchases and the following construction projects:

   a. Davie Campus Laboratory Building renovations and addition;

   b. Davie Early College High School;

   c. Davidson Campus Conference, Training, and Technology Center;

   d. Restatement of $425,402 due to the reevaluation of useful lives of fully-depreciated capital assets as required by governmental accounting standards.

Total liabilities increased $1,286,736.30 (37.24%) in fiscal year 2008, due primarily to:

1) Accounts payable increased $623,481 in construction payables due to the Conference, Training, and Technology Center and the Davie Laboratory addition. Accounts payable also increased $360,058 due to the timing difference in payment of invoices around year end.

2) Noncurrent liabilities decreased $183,422 primarily due a reduction in accrued vacation leave for retirements.

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 2008 and 2007:

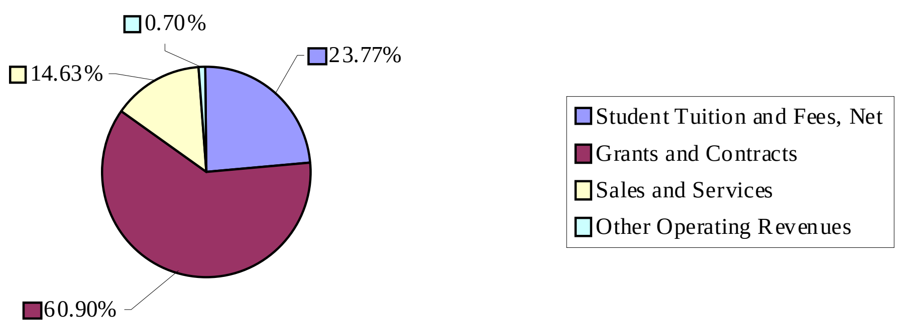
	FY 2007-2008	FY 2007-2006	Difference	% Difference
Operating Revenue				
Student Tuition and Fees, Net	$ 1,593,212.11	$ 1,938,091.31	$ (344,879.20)	(17.79) %
Grants and Contracts	4,082,999.82	3,946,334.67	136,665.15	3.46 %
Sales and Services	980,776.45	854,760.96	126,015.49	14.74 %
Other Operating Revenues	46,852.72	55,753.89	(8,901.17)	(15.97) %
Total Operating Revenues	6,703,841.10	6,794,940.83	(91,099.73)	(1.34) %
Operating Expenses				
Personal Services	18,817,868.23	17,282,931.32	1,534,936.91	8.88 %
Supplies and Materials	2,019,037.05	2,437,768.70	(418,731.65)	(17.18) %
Services	3,580,126.68	3,397,877.87	182,248.81	5.36 %
Scholarships and Fellowships	3,261,827.61	2,740,189.37	521,638.24	19.04 %
Utilities	597,364.03	568,224.48	29,139.55	5.13 %
Depreciation	1,339,754.98	1,193,969.96	145,785.02	12.21 %
Total Operating Expenses	29,615,978.58	27,620,961.70	1,995,016.88	7.22 %
Operating Loss	(22,912,137.48)	(20,826,020.87)	(2,086,116.61)	10.02 %
Nonoperating Revenues (Expenses)				
State Aid	15,974,178.35	14,678,357.29	1,295,821.06	8.83 %
County Appropriations	3,061,000.00	2,897,483.00	163,517.00	5.64 %
Noncapital Grants and Gifts	1,841,556.62	1,280,823.35	560,733.27	43.78 %
Investment Income	209,855.39	172,534.36	37,321.03	21.63 %
Interest and Fees on Debt	(109,827.18)	(83,215.87)	(26,611.31)	31.98 %
Other Nonoperating Revenues		53,767.53	(53,767.53)	(100.00) %
Other Nonoperating Expenses	(3,842.90)		(3,842.90)	100.00 %
Net Nonoperating Revenues	20,972,920.28	18,999,749.66	1,973,170.62	10.39 %
Loss Before Other Revenues	(1,939,217.20)	(1,826,271.21)	(112,945.99)	6.18 %
State Capital Aid	1,073,292.51	1,031,355.00	41,937.51	4.07 %
County Capital Aid	2,708,975.52	1,457,756.88	1,251,218.64	85.83 %
Capital Grants and Gifts	75,559.71		75,559.71	100.00 %
Total Other Revenues	3,857,827.74	2,489,111.88	1,368,715.86	54.99 %
Increase in Net Assets	1,918,610.54	662,840.67	1,255,769.87	189.45 %
Net Assets				
Net Assets - Beginning of Year	23,772,989.19	23,110,148.52	662,840.67	2.87 %
Net Assets - Restatement (Note 15)	425,401.91		425,401.91	100.00 %
Net Assets - End of Year	$ 26,117,001.64	$ 23,772,989.19	$ 2,344,012.45	9.86 %

Operating revenues decreased $91,100 (1.34%) in fiscal year 2008, due primarily to the following:

1) Student tuition and fees decreased $344,879 primarily due to a reduction in this account for the related allowance for uncollectibles.
2) Federal grants increased $101,185 primarily due to an increase in Pell Grant and Academic Competitiveness Grant funding.
3) State and local grants and contracts increased $35,479 primarily due to the addition of the Smart Start Grant.
4) Sales and services increased $126,015 primarily due to new vending and food service contracts and increased revenue in the Child Development Center.

The following chart identifies the components of operating revenues for fiscal year 2008:

2008 Operating Revenues



Operating expenses increased $1,995,017 (7.22%) in fiscal year 2008, primarily due to the following:

1) Personal services expense increased $1,534,937 due to:
   a. A 5% pay raise to faculty and staff.
   b. A one-time bonus of $500 to faculty and staff.
   c. An 8.5% increase in health insurance.
   d. An 1% increase in the retirement rate.
   e. Payout of bonus vacation for retirees and employees moving into new positions.
   f. The addition of new positions resulting from increased enrollment.

2) Supplies and materials expense decreased $418,732 in 2008 due primarily to the following:

   a. A decrease in Title III equipment purchases.

   b. A decrease in Library Services and Technology Act grant equipment purchases.

   c. The completion of the Gantt building renovation.

3) Services expense increased $182,249 primarily due to:

   a. An increase in repairs and maintenance expenses due to additional maintenance agreements on new and expanded equipment and software.

   b. The addition of the Davie Education Center.

   c. The addition of the Davie Campus Resource Officer.

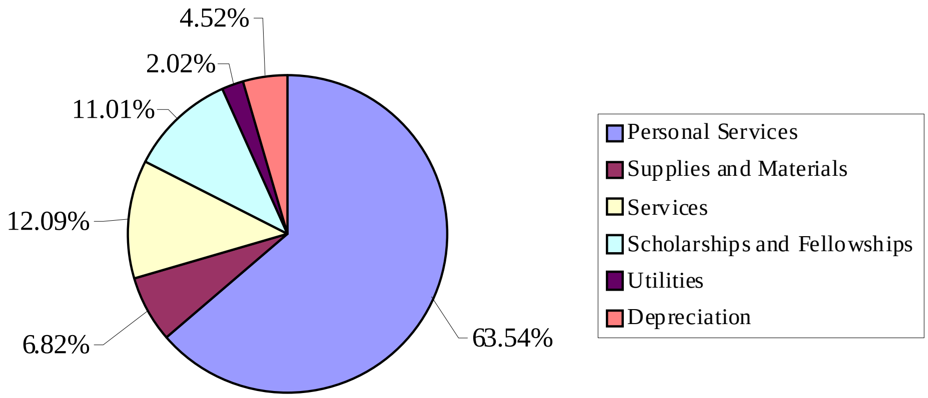
   d. An increase in student placement testing.

4) Scholarships and fellowships increased $521,638 due to additional Pell grant funding and new funding from the North Carolina Education Lottery Scholarship.

5) Depreciation expense increased $145,785 due to additional equipment and buildings placed into service.

The following chart identifies the components of operating expenses for fiscal year 2008:

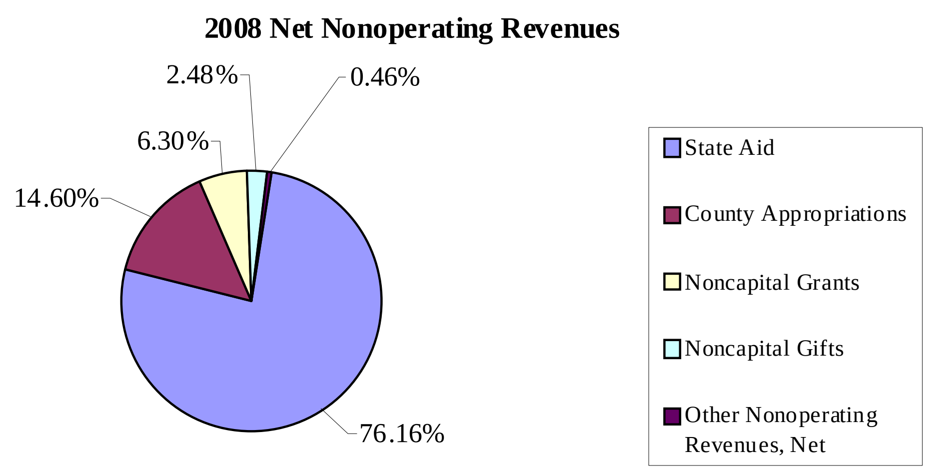
2008 Operating Expenses



Net nonoperating revenues increased $1,973,171 (10.39%) in fiscal year 2008, due primarily to the following:

1) State aid increased in fiscal year 2008 by $1,295,821 due to a 2% increase in enrollment, a 5% pay raise for faculty and staff, and an increase in funding for the Davie campus due to achieving multi-campus status.
2) County appropriations increased $163,517.
3) Noncapital grants increased $452,501 due the North Carolina Education Lottery Scholarship as a new funding source and the grant completion for the simulation lab.
4) Noncapital gifts increased $108,231 primarily due to increased funding from the Foundation.
5) Investment income increased $37,321 due to an increase in interest earnings.
6) Interest and fees of debt and other nonoperating revenues (expenses) increased $84,222 due to an increase in interest expense related to the addition of computers under the master lease agreement and the loss on the sale of equipment in 2008 versus a gain on the sale of equipment in 2007.
7) County capital aid increased $1,251,219 due to increased funding to cover new construction costs.
8) Capital grants and gifts increased $75,560 due to a new grant obtained by the Economic Development Association to build the Transportation Technology Center, and a truck donated to the College.

The following chart identifies the components of net nonoperating revenues for fiscal year 2008:



Economic and Other Factors Impacting Future Periods

The economic position of Davidson County Community College is closely tied to that of the State of North Carolina. State appropriations for higher education comprise 53.9% of total revenues and are the largest source of funding. As the national economy remains sluggish, the State economy also lagged. North Carolina's economy, and that of Davidson County Community College, is expected to rebound more slowly than the national economy. Plant closures, layoffs, and changes in textile, furniture, and banking sectors have impacted local revenues. This will most likely result in smaller increases in State and local appropriations for higher education. The specific impact on the College is uncertain.

The biggest challenges facing the College are:

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

Davidson County Community College
Statement of Net Assets
June 30, 2008 ***Exhibit A-1***

ASSETS		
Current Assets:		
Cash and Cash Equivalents	$	2,728,789.11
Restricted Cash and Cash Equivalents		1,882,537.54
Receivables, Net (Note 3)		1,737,694.03
Due from Community College Component Unit		106,366.48
Inventories		54,203.18
Total Current Assets		6,509,590.34
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		113,116.70
Capital Assets - Nondepreciable (Note 4)		2,487,107.01
Capital Assets - Depreciable, Net (Note 4)		21,749,625.96
Total Noncurrent Assets		24,349,849.67
Total Assets		30,859,440.01
LIABILITIES		
Current Liabilities:		
Accounts Payable and Accrued Liabilities (Note 5)		1,734,628.19
Unearned Revenue		196,425.16
Funds Held for Others		161,150.46
Long-Term Liabilities - Current Portion (Note 6)		528,577.74
Total Current Liabilities		2,620,781.55
Noncurrent Liabilities:		
Long-Term Liabilities (Note 6)		2,121,656.82
Total Liabilities		4,742,438.37
NET ASSETS		
Invested in Capital Assets, Net of Related Debt		22,494,996.34
Restricted for:		
Expendable:		
Scholarships and Fellowships		99,143.50
Loans		10,475.61
Capital Projects		882,423.68
Instructional Programs		304,224.08
Student Support		485,796.40
Grants		259,474.54
Other		64,828.23
Unrestricted		1,515,639.26
Total Net Assets	$	26,117,001.64

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, 2008 — *Exhibit A-2*

REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net (Note 8)	$	1,593,212.11
Federal Grants and Contracts		3,756,849.77
State and Local Grants and Contracts		326,150.05
Sales and Services		980,776.45
Other Operating Revenues		46,852.72
Total Operating Revenues		6,703,841.10
EXPENSES		
Operating Expenses:		
Personal Services		18,817,868.23
Supplies and Materials		2,019,037.05
Services		3,580,126.68
Scholarships and Fellowships		3,261,827.61
Utilities		597,364.03
Depreciation		1,339,754.98
Total Operating Expenses		29,615,978.58
Operating Loss		(22,912,137.48)
NONOPERATING REVENUES (EXPENSES)		
State Aid		15,974,178.35
County Appropriations		3,061,000.00
Noncapital Grants		1,321,552.65
Noncapital Gifts		520,003.97
Investment Income		209,855.39
Interest and Fees on Debt		(109,827.18)
Other Nonoperating Expenses		(3,842.90)
Net Nonoperating Revenues		20,972,920.28
Loss Before Other Revenues		(1,939,217.20)
State Capital Aid		1,073,292.51
County Capital Aid		2,708,975.52
Capital Grants		59,686.41
Capital Gifts		15,873.30
Increase in Net Assets		1,918,610.54
NET ASSETS		
Net Assets, July 1, 2007 as Restated (Note 15)		24,198,391.10
Net Assets, June 30, 2008	$	26,117,001.64

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, 2008 — *Exhibit A-3*

CASH FLOWS FROM OPERATING ACTIVITIES	
Received from Customers	$ 7,036,708.15
Payments to Employees and Fringe Benefits	(18,838,051.84)
Payments to Vendors and Suppliers	(5,789,378.09)
Payments for Scholarships and Fellowships	(3,273,259.47)
Other Receipts	80,689.89
Net Cash Used by Operating Activities	(20,783,291.36)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Aid Received	15,974,178.35
County Appropriations	3,061,000.00
Noncapital Grants Received	1,471,078.18
Noncapital Gifts Received	423,144.49
Cash Provided by Noncapital Financing Activities	20,929,401.02
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
State Capital Aid Received	1,073,292.51
County Capital Aid	1,622,822.17
Capital Grants Received	23,795.17
Capital Gifts Received	15,873.30
Acquisition and Construction of Capital Assets	(2,311,155.62)
Principal Paid on Capital Debt and Leases	(352,642.56)
Interest Paid on Capital Debt and Leases	(75,615.19)
Net Cash Used by Capital and Related Financing Activities	(3,630.22)
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment Income	213,064.23
Net Increase in Cash and Cash Equivalents	355,543.67
Cash and Cash Equivalents, July 1, 2007	4,368,899.68
Cash and Cash Equivalents, June 30, 2008	$ 4,724,443.35
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES	
Operating Loss	$ (22,912,137.48)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	1,339,754.98
Changes in Assets and Liabilities:	
Receivables, Net	1,075,476.53
Inventories	(14,214.51)
Accounts Payable and Accrued Liabilities	451,775.21
Unearned Revenue	(754,041.34)
Funds Held for Others	80,689.89
Compensated Absences	(50,594.64)
Net Cash Used by Operating Activities	$ (20,783,291.36)

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:		
Cash and Cash Equivalents	$	2,728,789.11
Restricted Cash and Cash Equivalents		1,882,537.54
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		113,116.70
Total Cash and Cash Equivalents - June 30, 2008	$	4,724,443.35

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through Assumption of a Liability	$	988,885.90
Increase in Receivables Related to Nonoperating Income		942,893.49
Capital Asset Write-Offs		20,727.21

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, 2008 — *Exhibit B-1*

ASSETS		
Cash and Cash Equivalents	$	3,981,847
Contributions Receivable, Net		41,732
Investments in Securities, at Fair Value		4,105,799
Land and Building		784,948
Foyell P. Smith Charitable Remainder Unitrust, at Fair Value (Cost - $31,810 in 2008)		22,285
Total Assets		8,936,611
LIABILITIES		
Accounts Payable		107,173
NET ASSETS		
Unrestricted:		
Undesignated		451,134
Temporarily Restricted		630,942
Permanently Restricted		7,747,362
Total Net Assets		8,829,438
Total Liabilities and Net Assets	$	8,936,611

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, 2008 — *Exhibit B-2*

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, GAINS, AND OTHER SUPPORT				
Contributions	$ 166,255	$ 328,480	$ 227,536	$ 722,271
Interest and Dividends, Net of Investment Advisory Fees of $45,750 in 2008	50,926	97,712	608,706	757,344
Realized Losses on Investments	(7,349)	(14,101)	(87,846)	(109,296)
Decrease in Fair Value of Assets Held in Foyell P. Smith Charitable Remainder Unitrust		(2,077)		(2,077)
Net Unrealized Losses on Investments	(86,188)	(165,371)	(1,030,185)	(1,281,744)
Miscellaneous Income	272	522	3,253	4,047
Net Assets Released from Restrictions:				
Restrictions Satisfied by Payment of Scholarships	625,059	(280,034)	(345,025)	
Total Revenues, Gains, and Other Support	748,975	(34,869)	(623,561)	90,545
EXPENSES				
Program Services				
Scholarships and Student Support	625,059			625,059
Support Services				
Administrative and Fund Raising	185,058			185,058
Management and Professional Fees	17,358			17,358
Depreciation	5,604			5,604
Total Support Services	208,020			208,020
Total Expenses	833,079			833,079
Decrease in Net Assets	(84,104)	(34,869)	(623,561)	(742,534)
NET ASSETS				
Net Assets, July 1, 2007	568,543	1,443,740	7,559,689	9,571,972
Reclassification of Net Assets Based on Restrictions from Donors	(33,305)	(777,929)	811,234	
Net Assets, June 30, 2008	$ 451,134	$ 630,942	$ 7,747,362	$ 8,829,438

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

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity - The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their constituents for their actions. As required by accounting principles generally accepted in the United States of America (GAAP), the financial reporting entity includes both the primary government and all of its component units. An organization other than a primary government serves as a nucleus for a reporting entity when it issues separate financial statements. Davidson County Community College is a component unit of the State of North Carolina and an integral part of the State's *Comprehensive Annual Financial Report*.

The accompanying financial statements present all funds of the College and the 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 a different GAAP reporting model 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, 2008, the board consisted of 37 members. Although the College does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, that the Foundation holds and invests, are restricted to the activities of the College by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of the College, the Foundation is considered a component unit of the College and is reported in separate financial statements because of the difference in its reporting model, as described below.

The Davidson County Community College Foundation, Inc. is a private not-for-profit organization that reports its financial results under Financial

Accounting Standards Board (FASB) Statements. As 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, 2008, the Foundation distributed $520,639.63 to the College for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from Davidson County Community College Foundation, Inc., Post Office Box 1287, Lexington, NC 27293-1287.

B. **Basis of Presentation** - The accompanying financial statements are presented in accordance with accounting principles generally accepted in the United States of America as prescribed by the 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 petty cash, cash on deposit with private bank accounts, and 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 net of estimated uncollectible amounts.

F. **Inventories** - Inventories, consisting of expendable supplies, fuel oil held for consumption, food for food services, and postage, are valued at cost using 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 50 years for general infrastructure, 25 to 50 years for buildings, and 5 to 25 years for equipment.

The College does not capitalize the art collection. This collection adheres to the College's policy to maintain for public exhibition, education or research; protect, keep unencumbered, care for and preserve; and 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** - Certain resources are reported as restricted assets because restrictions on asset use change the nature or normal understanding of the availability of the asset. Resources that are not available for current operations and are reported as restricted include resources restricted or designated for the acquisition or construction of capital assets and resources whose use is limited by external parties or statute. Unexpended capital contributions are classified as restricted assets because their use is limited by donor/grantor agreements.

I. **Noncurrent Long-Term Liabilities** - Noncurrent long-term liabilities include notes payable, capital lease obligations, 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 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 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 $4,204.00, and deposits in private financial institutions with a carrying value of $924,643.42 and a bank balance of $1,293,646.53.

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, 2008, 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, 2008, the amount shown on the Statement of Net Assets as cash and cash equivalents includes $3,795,595.93 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

Securities and Exchange Commission and does not have a credit rating) had a weighted average maturity of 2.9 years as of June 30, 2008. 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 investments risks are not required. The following is an analysis of investments by type:

	Fair Value
Investment Type	
Cash and Temporary Investments	$ 71.00
Fixed Income Fund	808,832.00
Common Stock Fund	3,296,896.00
Total Investments	$ 4,105,799.00

NOTE 3 - RECEIVABLES

Receivables at June 30, 2008, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	$ 540,095.31	$ 200,000.00	$ 340,095.31
Accounts	64,922.00		64,922.00
Intergovernmental	1,318,390.23		1,318,390.23
Investment Earnings	14,286.49		14,286.49
Total Current Receivables	$ 1,937,694.03	$ 200,000.00	$ 1,737,694.03

NOTE 4 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2008, is presented as follows:

	Balance July 1, 2007 (as restated)	Increases	Decreases	Balance June 30, 2008
Capital Assets, Nondepreciable:				
Land	$ 264,141.31	$ 0.00	$ 0.00	$ 264,141.31
Construction in Progress	405,663.04	2,396,580.01	579,277.35	2,222,965.70
Total Capital Assets, Nondepreciable	669,804.35	2,396,580.01	579,277.35	2,487,107.01
Capital Assets, Depreciable:				
Buildings	28,967,780.31	146,231.01		29,114,011.32
Machinery and Equipment	3,598,894.86	871,072.43	20,727.21	4,449,240.08
General Infrastructure	615,697.24	433,046.34		1,048,743.58
Total Capital Assets, Depreciable	33,182,372.41	1,450,349.78	20,727.21	34,611,994.98
Less Accumulated Depreciation:				
Buildings	9,814,505.41	762,908.04		10,577,413.45
Machinery and Equipment	1,374,657.07	540,346.42	16,884.31	1,898,119.18
General Infrastructure	350,335.87	36,500.52		386,836.39
Total Accumulated Depreciation	11,539,498.35	1,339,754.98	16,884.31	12,862,369.02
Total Capital Assets, Depreciable, Net	21,642,874.06	110,594.80	3,842.90	21,749,625.96
Capital Assets, Net	$ 22,312,678.41	$ 2,507,174.81	$ 583,120.25	$ 24,236,732.97

NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2008, were as follows:

	Amount
Accounts Payable	$ 1,088,690.38
Accrued Payroll	518,475.23
Contract Retainage	76,125.15
Intergovernmental Payables	6,265.67
Other	45,071.76
Total Accounts Payable and Accrued Liabilities	$ 1,734,628.19

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, 2007	Additions	Reductions	Balance June 30, 2008	Current Portion
Notes Payable	$ 1,295,576.00	$ 0.00	$ 159,121.71	$ 1,136,454.29	$ 167,078.64
Capital Leases Payable	480,606.51	318,196.68	193,520.85	605,282.34	184,287.75
Compensated Absences	959,092.57	688,447.84	739,042.48	908,497.93	177,211.35
Total Long-Term Liabilities	$ 2,735,275.08	$ 1,006,644.52	$ 1,091,685.04	$ 2,650,234.56	$ 528,577.74

Additional information regarding capital lease obligations is included in Note 7.

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 06/30/2008	Principal Outstanding 06/30/2008
Guaranteed Energy Savings Contract	Crews & Associates	5.06%	12/17/2013	$ 1,984,494.00	$ 848,039.71	$ 1,136,454.29

The annual requirements to pay principal and interest on the notes payable at June 30, 2008, are as follows:

	Annual Requirements Notes Payable	
Fiscal Year	Principal	Interest
2009	$ 167,078.64	$ 56,822.71
2010	175,432.57	48,468.78
2011	184,204.20	39,697.15
2012	193,414.41	30,486.94
2013	203,085.13	20,816.22
2014	213,239.34	10,662.01
Total Requirements	$ 1,136,454.29	$ 206,953.81

NOTE 7 - LEASE OBLIGATIONS

A. Capital Lease Obligations - Capital lease obligations relating to computer equipment are recorded at the present value of the minimum lease payments. Future minimum lease payments under capital lease obligations consist of the following at June 30, 2008:

Fiscal Year	Amount
2009	$ 204,357.20
2010	204,357.20
2011	181,222.48
2012	67,638.19
Total Minimum Lease Payments	657,575.07
Amount Representing Interest (4.49% Rate of Interest)	52,292.73
Present Value of Future Lease Payments	$ 605,282.34

Machinery and equipment acquired under capital lease amounted to $994,799.76 at June 30, 2008.

B. Operating Lease Obligations - Future minimum lease payments under noncancelable operating leases for buildings and equipment consist of the following at June 30, 2008:

Fiscal Year	Amount
2009	$ 176,766.97
2010	134,767.68
2011	102,087.48
2012	100,545.52
2013	40,398.15
Total Minimum Lease Payments	$ 554,565.80

Rental expense for all operating leases during the year was $246,401.13.

NOTE 8 - REVENUES

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

	Gross Revenues	Less Scholarship Discounts	Less Allowance for Uncollectibles	Net Revenues
Operating Revenues:				
Student Tuition and Fees	$ 3,019,287.64	$ 1,226,075.53	$ 200,000.00	$ 1,593,212.11

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	$ 11,443,103.54	$ 1,230,218.81	$ 573,982.80	$ 0.00	$ 0.00	$ 0.00	$ 13,247,305.15
Academic Support	1,519,899.64	93,409.71	157,166.36				1,770,475.71
Student Services	1,705,815.90	100,548.93	214,634.55				2,020,999.38
Institutional Support	3,224,259.91	262,526.00	965,654.07				4,452,439.98
Operations and Maintenance of Plant	448,948.34	220,780.47	1,593,115.42		597,364.03		2,860,208.26
Student Financial Aid		4,322.94	1,545.42	3,261,827.61			3,267,695.97
Auxiliary Enterprises	475,840.90	107,230.19	74,028.06				657,099.15
Depreciation						1,339,754.98	1,339,754.98
Total Operating Expenses	$ 18,817,868.23	$ 2,019,037.05	$ 3,580,126.68	$ 3,261,827.61	$ 597,364.03	$ 1,339,754.98	$ 29,615,978.58

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, 2008, these rates were set at 3.05% of covered payroll for employers and 6% of covered payroll for members

For the current fiscal year, the College had a total payroll of $15,673,455.35, of which $11,849,938.19 was covered under the Teachers' and State Employees' Retirement System. Total employer and employee contributions for pension benefits for the year were $361,423.11 and $710,997.43, respectively.

Required employer contribution rates for the years ended June 30, 2007, and 2006, were 2.66% and 2.34%, respectively, while employee contributions were 6% each year. The College made 100% of its annual required contributions for the years ended June 30, 2008, 2007, and 2006, which were $361,423.11, $288,495.32, and $232,413.68, 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.ncosc.net/ 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 $34,940.00 for the year ended June 30, 2008.

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. The voluntary contributions by employees amounted to $227,471.00 for the year ended June 30, 2008.

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 $72,535.00 for the year ended June 30, 2008.

NOTE 11 - OTHER POSTEMPLOYMENT BENEFITS

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

The Plan's benefit and contribution provisions are established by Chapter 135-7, Article 1, and Chapter 135, Article 3, of the General Statutes and may be amended only by the North Carolina General Assembly. The Plan does not provide for automatic post-retirement benefit increases.

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

For the current fiscal year the College contributed 4.1% of the covered payroll under the Teachers' and State Employees' Retirement System to the Fund. Required contribution rates for the years ended June 30, 2007, and 2006, were 3.8% and 3.8%, respectively. The College made 100% of its annual required contributions to the Plan for the years ended June 30, 2008, 2007, and 2006, which were $485,847.47, $412,136.17, and $377,423.93, respectively. The College assumes no liability for retiree health care benefits provided by the programs other than its required contribution.

Additional detailed information about these programs can be located in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page http://www.ncosc.net/ and clicking on "Financial Reports," or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

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

Disability income benefits are funded by actuarially determined employer contributions that are established in the Appropriations Bill by the General Assembly. For the fiscal year ended June 30, 2008, the College made a statutory contribution of .52% of covered payroll under the Teachers' and State Employees' Retirement System to the DIPNC. Required contribution rates for the years ended June 30, 2007, and 2006, were .52% and .52%, respectively. The College made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2008, 2007, and 2006, which were $61,619.69, $56,397.57, and $51,647.46, respectively. The College assumes no liability for long-term disability benefits under the Plan other than its contribution.

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

NOTE 12 - RISK MANAGEMENT

The College is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These exposures to loss are handled via a combination of methods, 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 $1,000,000 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. This coverage is with a private insurance company and is handled by the North Carolina Department of Insurance with coverage of $5,000,000 per occurrence with a $75,000 deductible and a 10% participation in each loss above the 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. 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

The College has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were $4,807,721.02 and on other purchases were $381,867.19 at June 30, 2008.

NOTE 14 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2008, the College implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.*

GASB Statement No. 50, *Pension Disclosures.*

GASB Statement No. 45, requires cost-sharing employers to recognize OPEB expense for their contractually required contributions to the plan generally consistent with the approach adopted in GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers, with modifications to reflect differences between pension benefits and OPEB.*

GASB Statement No. 50, aligns financial reporting requirements for pensions with those of other postemployment benefits, to conform with GASB Statement No. 45. This Statement amends GASB Statement No. 27 to require note disclosure of the employer contribution rates and percentage of the amount contributed for the current and preceding two years and to disclose how the required contribution rates are established.

NOTE 15 - NET ASSET RESTATEMENT

As of July 1, 2007, net assets as previously reported were restated as follows:

	Amount
July 1, 2007 Net Assets as Previously Reported	$ 23,772,989.19
Correct Error in Establishing Useful Lives of Capital Assets	425,401.91
July 1, 2007 Net Assets as Restated	$ 24,198,391.10

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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, 2008, which collectively comprise the College's basic financial statements and have issued our report thereon dated April 6, 2009. Our report was modified to include a reference to other auditors.

As discussed in Note 14 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and Statement 50, *Pension Disclosures*, during the year ended June 30, 2008.

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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the College's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the College's financial statements that is more than inconsequential will not be prevented or detected by the College's internal control. We consider the deficiencies described in findings 1 and 2 in the Audit Findings and Responses section of this report to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the College's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider Finding 1 to be a material weakness.

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*.

The College's responses to the findings identified in our audit are described in the Audit Findings and Responses section of this report. We did not audit the College's response and, accordingly, we express no opinion on it.

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)

This report is intended solely for the information and use of management of the College, the Board of Trustees, others within the entity, the State Board of Community Colleges, 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.

Beth A. Wood

Beth A. Wood, CPA
State Auditor

April 6, 2009

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Matters Related to Financial Reporting

The following findings were identified during the current audit and describe conditions that represent significant deficiencies in internal control.

1. DEFICIENCIES IN FINANCIAL REPORTING

The June 30, 2008, financial statements prepared by Davidson County Community College contained material misstatements that were corrected as a result of our audit. Without these corrections, the financial statements could have been misleading to readers. Misstatements noted in our audit included:

a. The College did not record the effect of borrowing unrestricted cash to cover deficit balances in restricted funds. This resulted in an $112,822 overstatement of current unrestricted cash and an understatement of noncurrent restricted cash by the same amount.

b. The College did not properly report $622,719 of current cash equal to the amount of current plant fund liabilities. This resulted in a $622,719 understatement of current restricted cash and an overstatement of noncurrent restricted cash by the same amount.

c. The College did not properly report student accounts receivable and unearned revenue at year end. This resulted in a $942,730 overstatement of unearned revenue and student accounts receivable.

Recommendation: The College should place greater emphasis on the year-end financial reporting process and implement effective internal controls to ensure the completeness and accuracy of the financial statements.

College Response: The College agrees with the reclassifications between unrestricted cash and restricted cash described in "a" and "b" above. Although there were sufficient current accounts receivable balances available to cover the amount of current plant fund liabilities described in "b" above, we recognize that it is necessary to reclassify cash from noncurrent restricted cash to current restricted cash to properly reflect restrictions on cash balances to cover the amount of current plant fund liabilities at year-end.

In regards to the reporting of student accounts receivable and unearned revenue described in "c" above; the College included $942,730 in accounts receivable and an offsetting $942,730 in unearned revenue related to student registrations for the Fall 2008 semester that occurred on or before June 30, 2008. The College did so based on the fact that 23 NCAC 02D .0201(b) of the North Carolina Administrative Code stipulates that "tuition, registration fees and required academic fees are due and payable at the time of the student's registration. The college shall, with approval of the board of trustees, prescribe written procedures to permit short-term deferred payment or payment in installments; provided, however, that no student shall be permitted to graduate or to register for a new semester unless payment of such outstanding balance has been guaranteed in writing by a financially responsible person or organization". The College originally recorded it in this way in order to reflect how much students owed the College at June 30, 2008 for courses that begin in the next fiscal year. However, the College agrees to the audit adjustment and will abide by this ruling in the future.

Immediately after these items were made known to the College, we implemented new and effective internal controls to ensure the completeness and accuracy of the financial statements and we will place greater emphasis on the year-end financial reporting process.

2. INAPPROPRIATE INFORMATION SYSTEM ACCESS

The College allowed information system access rights inconsistent with adequate internal controls to prevent error or detect fraud.

We identified two employees and one work-study student who continued to have system access after their termination and seven employees who had system access rights inconsistent with their job duties.

Prudent internal control principles require that users be given access to the specific computer resources needed for their job duties, and upon termination, such access be revoked to prevent unauthorized access to College data.

Recommendation: The College should improve internal control over computer system access to ensure only authorized personnel are granted the necessary system access to perform their job duties, and such access is revoked in a timely manner upon employee termination.

College Response: Immediately after these items were made known to the College, we corrected the noted system access exceptions. We also improved our process of granting and terminating access rights to the computer system, as well as verifying that personnel are only granted the necessary system access to perform their job duties. We changed from a manual paper based authorization form to an electronic based authorization form that improves accuracy and tracking of the process. In addition, we run periodic system access reports to verify that existing users are current employees and that system access rights for terminated employees have been revoked.

One of the terminated employees was hired by the North Carolina Community College System as a subject matter expert in the field in which she was working for the College. The North Carolina Community College System graciously allowed her to return to the College to train her successor. Therefore, the College maintained her system access in order to provide this training. The other two terminated employees that had system access were part-time employees with very limited access.

Four of the seven employees who had system access inconsistent with their duties were employees that were in departments that were consolidated into different departments.

While some existing system access rights properly transferred with the employees to their new roles, some system access rights should have been terminated upon the transfer. The remaining three employees were given access to a small portion of the system due to access being granted to a group of employees rather than a single employee. None of these employees actually accessed that portion of the system, nor were they aware that it had been granted to them.

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