



STATE OF NORTH CAROLINA

DAVIDSON COUNTY COMMUNITY COLLEGE

LEXINGTON, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2010

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, 2010

STATE BOARD OF COMMUNITY COLLEGES

THE NORTH CAROLINA COMMUNITY COLLEGE SYSTEM

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Beth A. Wood, CPA
State Auditor

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Office of the 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, 2010, 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.

The results of our tests disclosed no deficiencies in internal control over financial reporting that we consider to be material weaknesses in relation to our audit scope or any instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

A handwritten signature in cursive script that reads "Beth A. Wood".

Beth A. Wood, CPA
State Auditor

TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITOR’S REPORT	1
MANAGEMENT’S DISCUSSION AND ANALYSIS	3
BASIC FINANCIAL STATEMENTS	
College Exhibits	
A-1 Statement of Net Assets	9
A-2 Statement of Revenues, Expenses, and Changes in Net Assets	10
A-3 Statement of Cash Flows	11
Component Unit Exhibits	
B-1 Statement of Financial Position	13
B-2 Statement of Activities	14
Notes to the Financial Statements	15
INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	31
ORDERING INFORMATION	33



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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, 2010, which collectively comprise the College's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the College's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Davidson County Community College Foundation, Inc., 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 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.

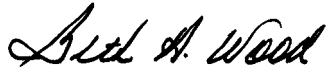
In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of Davidson County Community College and its discretely presented component unit as of June 30, 2010, and the respective 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. 51, *Accounting and Financial Reporting for Intangible Assets* during the year ended June 30, 2010.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

In accordance with *Government Auditing Standards*, we have also issued our report dated May 23, 2011 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, 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, CPA
State Auditor

May 23, 2011

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, 2010. 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, the Statement of Revenues, Expenses, and Changes in Net Assets, and the Cash Flow Statement.

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 2010 and 2009:

	FY 2010	FY 2009 (as restated)	Difference	% Difference
ASSETS				
Current Assets	\$ 6,923,718.27	\$ 7,181,399.37	\$ (257,681.10)	-3.59%
Noncurrent Assets:				
Capital Assets, Net	31,502,381.75	30,042,311.36	1,460,070.39	4.86%
Other Noncurrent Assets	953,154.49	943,901.06	9,253.43	0.98%
Total Assets	<u>39,379,254.51</u>	<u>38,167,611.79</u>	<u>1,211,642.72</u>	3.17%
LIABILITIES				
Current Liabilities	2,069,976.11	2,468,681.24	(398,705.13)	-16.15%
Noncurrent Liabilities	1,344,198.59	1,779,001.20	(434,802.61)	-24.44%
Total Liabilities	<u>3,414,174.70</u>	<u>4,247,682.44</u>	<u>(833,507.74)</u>	-19.62%
NET ASSETS				
Invested in Capital Assets, Net of Related Debt	30,476,004.51	28,651,941.10	1,824,063.41	6.37%
Restricted	1,695,618.70	1,995,426.98	(299,808.28)	-15.02%
Unrestricted	3,793,456.60	3,272,561.25	520,895.35	15.92%
Total Net Assets	<u>\$ 35,965,079.81</u>	<u>\$ 33,919,929.33</u>	<u>\$ 2,045,150.48</u>	6.03%

Total assets increased \$1,211,642.72 (3.17%) in fiscal year 2010, due primarily to the following:

Capital assets increased as a result of capitalized equipment purchases and the completion of the following buildings and repairs:

- a. Transportation and Technology Center addition;
- b. Bookstore addition;
- c. Love Learning Resource Center renovations.

Total liabilities decreased \$833,507.74 (19.62%) in fiscal year 2010, due primarily to the following:

- 1) Reduction in accounts payable at year-end due to completion of construction projects.
- 2) Reductions in accrued vacation leave for retirements and terminations which totaled 17 people.
- 3) Reduction of long-term debt incurred for energy efficiency lease and Dell computer lease by \$363,993.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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 2010 and 2009:

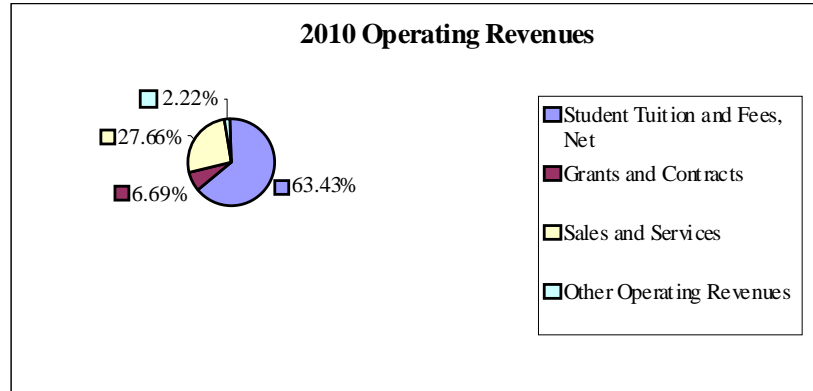
	FY 2010	FY 2009 (as restated)	Difference	% Difference
OPERATING REVENUES				
Student Tuition and Fees, Net	\$ 2,555,548.80	\$ 2,102,654.56	\$ 452,894.24	21.54%
Grants and Contracts	269,832.51	334,132.28	(64,299.77)	-19.24%
Sales and Services	1,114,566.48	1,090,504.19	24,062.29	2.21%
Other Operating Revenues	89,317.93	85,796.82	3,521.11	4.10%
Total Operating Revenues	<u>4,029,265.72</u>	<u>3,613,087.85</u>	<u>416,177.87</u>	11.52%
OPERATING EXPENSES				
Salaries and Benefits	19,768,355.92	19,030,814.03	737,541.89	3.88%
Supplies and Materials	2,756,577.67	2,342,252.06	414,325.61	17.69%
Services	3,775,650.91	3,470,598.79	305,052.12	8.79%
Scholarships and Fellowships	6,638,250.47	4,232,505.54	2,405,744.93	56.84%
Utilities	666,907.92	659,154.12	7,753.80	1.18%
Depreciation	1,503,088.73	1,465,960.68	37,128.05	2.53%
Total Operating Expenses	<u>35,108,831.62</u>	<u>31,201,285.22</u>	<u>3,907,546.40</u>	12.52%
Operating Loss	<u>(31,079,565.90)</u>	<u>(27,588,197.37)</u>	<u>(3,491,368.53)</u>	12.66%
NONOPERATING REVENUES (EXPENSES)				
State Aid	15,833,670.45	15,712,616.99	121,053.46	0.77%
County Appropriations	3,549,395.00	3,532,321.00	17,074.00	0.48%
Noncapital Grants and Gifts	10,653,179.10	7,452,584.66	3,200,594.44	42.95%
Investment Income	71,641.69	140,039.20	(68,397.51)	-48.84%
Interest and Fees on Debt	(66,506.50)	(77,986.73)	(11,480.23)	-14.72%
Other Nonoperating Expenses	(145,839.03)	(94,396.70)	51,442.33	54.50%
Nonoperating Revenues	<u>29,895,540.71</u>	<u>26,665,178.42</u>	<u>3,230,362.29</u>	12.11%
Loss Before Other Revenues	<u>(1,184,025.19)</u>	<u>(923,018.95)</u>	<u>261,006.24</u>	28.28%
State Capital Aid	1,452,392.01	1,788,406.33	(336,014.32)	-18.79%
County Capital Aid	856,529.11	5,896,108.73	(5,039,579.62)	-85.47%
Capital Grants and Gifts	920,254.55	1,041,431.58	(121,177.03)	-11.64%
Total Other Revenues	<u>3,229,175.67</u>	<u>8,725,946.64</u>	<u>(5,496,770.97)</u>	-62.99%
Increase in Net Assets	<u>\$ 2,045,150.48</u>	<u>\$ 7,802,927.69</u>	<u>\$ (5,757,777.21)</u>	-73.79%

Operating revenues increased by \$416,177.87 (11.52%) in fiscal year 2010, due primarily to the following:

- 1) An increase in student tuition rates.
- 2) An increase in enrollment.
- 3) An increase in bookstore commissions due to enrollment growth.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

The following chart identifies the components of operating revenues for fiscal year 2010:

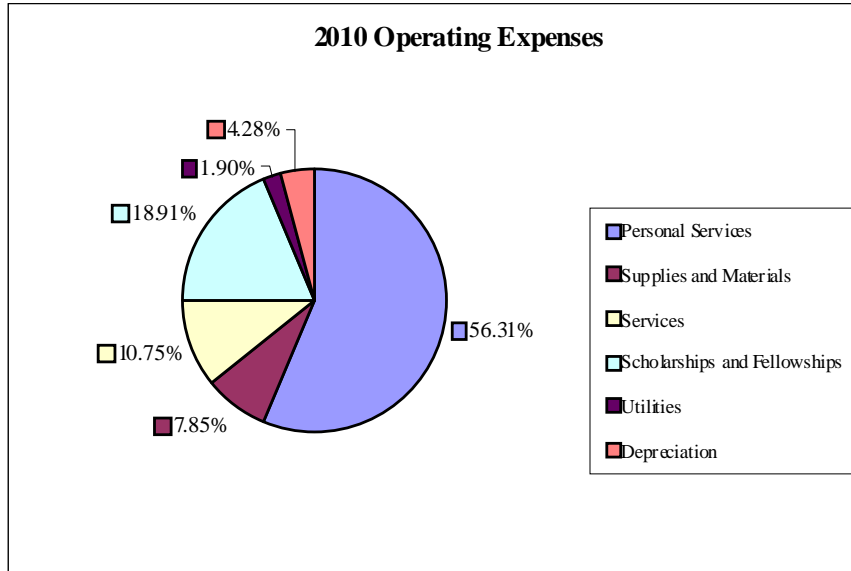


Operating expenses increased \$3,907,546.40 (12.52%) in fiscal year 2010, due primarily to the following:

- 1) Salaries and benefits expense increased due to:
 - a. Increase in number of employees by 50 full time employees, due to enrollment growth. The increase in full time employees includes the hiring of custodial staff personnel.
 - b. 2% salary increase for faculty and staff.
 - c. Increase in retirement and hospitalization insurance rates.
- 2) Supplies and materials expense increased due to:
 - a. Increase in noncapitalized equipment and supplies to support enrollment growth.
 - b. Increase in new grants to fund specific initiatives. The new grants were the Institute of Museum and Library Services Library Grant and ARRA funds.
- 3) Services expense increased due to:
 - a. New initiatives for the College such as Achieving the Dream and the Call Center.
 - b. Contracted services related to the American Recovery Reinvestment Act.
 - c. Utilization of professional contracted services to improve efficiencies, data collection, and services.
- 4) Scholarships and fellowships expense increased due to an increase in the Pell Grant awarded to newly enrolled students and an increase in the Pell Grant award amount. Curriculum full time equivalents increased by 444 as well as the Pell award increased \$310 from \$2,365 to \$2,675 per semester.

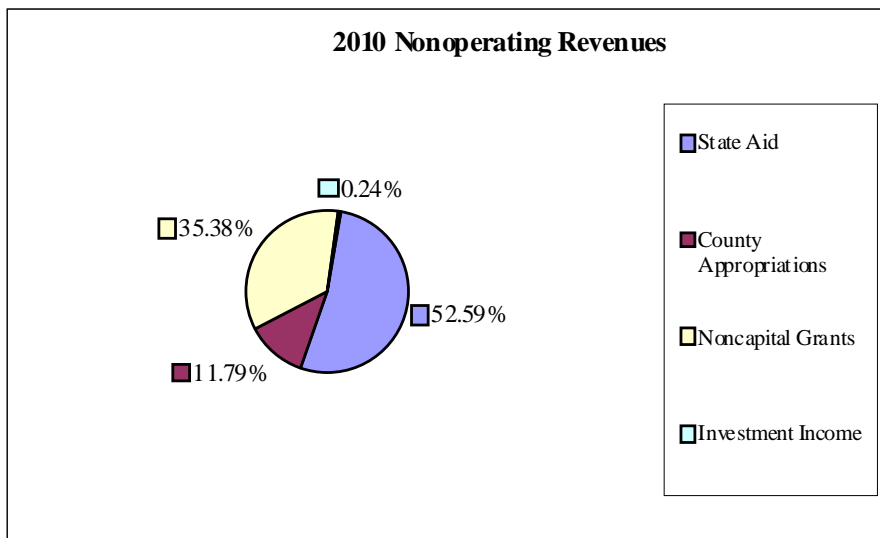
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

The following chart identifies the components of operating expenses for fiscal year 2010:



Net nonoperating revenues increased \$3,230,362.29 (12.11%) in fiscal year 2010, due primarily to an increase in the Pell Grant awarded due to enrollment growth and an increase in the award amount.

The following chart identifies the components of nonoperating revenues for fiscal year 2010:



Total other revenues decreased \$5,496,770.97 (62.99%) in fiscal year 2010 due primarily to the completion of construction projects resulting in a decrease in state and county capital aid.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

Capital Assets

The following projects were completed during the fiscal year; Transportation and Technology Center addition, Bookstore addition, and the Love Learning Resource Center renovations.

Condensed Statement of Cash Flows

Condensed Statement of Cash Flows				
	2010	2009	Increase (Decrease)	Percent Change
Cash Provided (Used) by				
Operating Activities	\$ (29,693,675.25)	\$ (26,176,893.75)	\$ 3,516,781.50	13.43%
Noncapital Financing Activities	29,891,488.54	26,547,623.46	3,343,865.08	12.60%
Capital Financing Activities	368,537.72	332,489.07	36,048.65	10.84%
Investing Activities	76,091.15	140,039.20	(63,948.05)	-45.66%
Net Change in Cash	642,442.16	843,257.98	(200,815.82)	-23.81%
Cash, Beginning of Year	5,567,701.32	4,724,443.34	843,257.98	17.85%
Cash, Ending of Year	\$ 6,210,143.48	\$ 5,567,701.32	\$ 642,442.16	11.54%

Cash used in operating activities increased by \$3,516,781.50 (13.43%) due primarily to an increase in scholarships and fellowships and a decrease in accounts payable.

Cash received in noncapital financing activities increased by \$3,343,865.08 (12.60%) due primarily to an increase in Pell funding in federal financial aid.

Cash received in capital financing activities increased by \$36,048.65 (10.84%) due primarily to an increase in state capital aid.

Cash received in investing activities decreased \$63,948.05 (45.66%) due to declining interest rates and less cash available to invest due to construction commitments.

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. The state appropriations for higher education comprise 46.3% 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 funding;
- Additional funding needs for equipment purchases;
- Additional funding needs for new buildings.

Davidson County Community College
Statement of Net Assets
June 30, 2010

Exhibit A-1

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 4,498,658.50
Restricted Cash and Cash Equivalents	877,536.70
Receivables, Net (Note 3)	1,229,953.72
Due from Community College Component Units	109,379.98
Inventories	120,979.37
Prepaid Items	87,210.00

Total Current Assets	6,923,718.27
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Noncurrent Assets:

Restricted Cash and Cash Equivalents	833,948.28
Restricted Due from Primary Government	9,206.21
Restricted Due from State of North Carolina Component Units	110,000.00
Capital Assets - Nondepreciable (Note 4)	584,154.71
Capital Assets - Depreciable, Net (Note 4)	30,918,227.04

Total Noncurrent Assets	32,455,536.24
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Total Assets	39,379,254.51
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LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 5)	978,150.97
Unearned Revenue	208,798.13
Funds Held for Others	381,283.59
Long-Term Liabilities - Current Portion (Note 6)	501,743.42

Total Current Liabilities	2,069,976.11
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Noncurrent Liabilities:

Long-Term Liabilities (Note 6)	1,344,198.59
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Total Noncurrent Liabilities	1,344,198.59
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Total Liabilities	3,414,174.70
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NET ASSETS

Invested in Capital Assets, Net of Related Debt	30,476,004.51
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Restricted for:

Expendable:

Scholarships and Fellowships	83,245.27
Loans	10,853.14
Capital Projects	883,788.41
Student Support	419,913.71
Grants	268,519.23
Other	29,298.94

Unrestricted	3,793,456.60
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Total Net Assets	\$ 35,965,079.81
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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, 2010***

Exhibit A-2

REVENUES

Operating Revenues:

Student Tuition and Fees, Net (Note 8)	\$ 2,555,548.80
State and Local Grants and Contracts	269,832.51
Sales and Services	1,114,566.48
Other Operating Revenues	89,317.93

Total Operating Revenues	4,029,265.72
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EXPENSES

Operating Expenses:

Salaries and Benefits	19,768,355.92
Supplies and Materials	2,756,577.67
Services	3,775,650.91
Scholarships and Fellowships	6,638,250.47
Utilities	666,907.92
Depreciation	1,503,088.73

Total Operating Expenses	35,108,831.62
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Operating Loss	(31,079,565.90)
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NONOPERATING REVENUES (EXPENSES)

State Aid	15,833,670.45
County Appropriations	3,549,395.00
Noncapital Grants - Federal Student Financial Aid	7,718,132.60
Noncapital Grants	2,705,069.05
Noncapital Gifts	229,977.45
Investment Income	71,641.69
Interest and Fees on Debt	(66,506.50)
Other Nonoperating Expenses	(145,839.03)

Net Nonoperating Revenues	29,895,540.71
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Loss Before Other Revenues	(1,184,025.19)
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State Capital Aid	1,452,392.01
County Capital Aid	856,529.11
Capital Grants	406,382.01
Capital Gifts	513,872.54

Increase in Net Assets	2,045,150.48
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NET ASSETS

Net Assets, July 1, 2009 as Restated (Note 15)	33,919,929.33
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Net Assets, June 30, 2010	\$ 35,965,079.81
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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, 2010

Exhibit A-3

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 3,740,471.90
Payments to Employees and Fringe Benefits	(19,731,821.87)
Payments to Vendors and Suppliers	(7,239,455.20)
Payments for Scholarships and Fellowships	(6,643,694.38)
Other Receipts	180,824.30
	<hr/>
Net Cash Used by Operating Activities	(29,693,675.25)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Aid Received	15,833,670.45
County Appropriations	3,549,395.00
Noncapital Grants - Federal Student Financial Aid	7,545,164.35
Noncapital Grants Received	2,733,281.29
Noncapital Gifts	229,977.45
	<hr/>
Cash Provided by Noncapital Financing Activities	29,891,488.54

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

State Capital Aid Received	1,970,701.40
County Capital Aid	847,394.11
Capital Grants Received	1,439,511.11
Capital Gifts Received	404,492.56
Acquisition and Construction of Capital Assets	(3,868,576.50)
Principal Paid on Capital Debt and Leases	(363,993.00)
Interest Paid on Capital Debt and Leases	(60,991.96)
	<hr/>
Net Cash Provided by Capital and Related Financing Activities	368,537.72

CASH FLOWS FROM INVESTING ACTIVITIES

Investment Income	76,091.15
	<hr/>
Cash Provided by Investing Activities	76,091.15

Net Increase in Cash and Cash Equivalents	642,442.16
Cash and Cash Equivalents, July 1, 2009	5,567,701.32
	<hr/>
Cash and Cash Equivalents, June 30, 2010	\$ 6,210,143.48

Davidson County Community College Foundation, Inc.
Statement of Financial Position
June 30, 2010

Exhibit B-1

ASSETS

Cash and Cash Equivalents	\$ 796,658
Cash and Cash Equivalents - Restricted	3,705,507
Contributions Receivable, Net	31,440
Investments in Securities, at Fair Value	6,302,449
Investment in Real Estate	13,760
Land and Building	2,027,942
Foyell P. Smith Charitable Remainder Unitrust, at Fair Value (Cost - \$31,810 in 2010)	26,347
	<hr/>
Total Assets	12,904,103
	<hr/>

LIABILITIES

Grants Payable	3,705,508
	<hr/>

NET ASSETS

Unrestricted:	
Undesignated	141,036
Board - Designated	245,929
Temporarily Restricted	(349,744)
Permanently Restricted	9,161,374
	<hr/>
Total Net Assets	9,198,595
	<hr/>
Total Liabilities and Net Assets	\$ 12,904,103
	<hr/> <hr/>

Davidson County Community College Foundation, Inc.
Statement of Activities
Year Ended June 30, 2010

Exhibit B-2

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, GAINS, AND OTHER SUPPORT				
Contributions	\$ 172,178	48,704	1,302,230	\$ 1,523,112
Investment Income, Net of Investment Advisory Fees of \$44,814 in 2010	9,163	205,682	33,922	248,767
Realized Gain on Investments	126	2,838	468	3,432
Increase in Fair Value of Assets Held in Foyell P. Smith Charitable Remainder Unitrust		3,978		3,978
Net Unrealized Gain on Investments	25,044	562,146	92,711	679,901
Miscellaneous Income	201	4,527	747	5,475
Net Assets Released from Restrictions:				
Restrictions Satisfied by Payment of Scholarships	248,210	(123,227)	(124,983)	
Total Revenues, Gains, and Other Support	<u>454,922</u>	<u>704,648</u>	<u>1,305,095</u>	<u>2,464,665</u>
EXPENSES				
Program Services				
Scholarships and Student Support	248,210			248,210
Total Program Services	<u>248,210</u>			<u>248,210</u>
Support Services				
Administrative and Fund Raising	236,756			236,756
Conference Center Furnishings	10,000			10,000
Management and Professional Fees	14,897			14,897
Depreciation	14,355			14,355
Total Support Services	<u>276,008</u>			<u>276,008</u>
Total Expenses	<u>524,218</u>			<u>524,218</u>
Increase (Decrease) in Net Assets	<u>\$ (69,296)</u>	<u>\$ 704,648</u>	<u>\$ 1,305,095</u>	<u>\$ 1,940,447</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, 2010

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

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

The accompanying financial statements present all funds of the College and its component unit for which the College's Board of Trustees is financially accountable. The College's component unit is discretely presented in the College's financial statements. The discretely presented component unit's financial data is reported in separate financial statements because of its use of a different GAAP reporting model and to emphasize their 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, 2010, the board consisted of 36 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

revenue recognition criteria and presentation features are different from the Governmental Accounting Standards Board (GASB) revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information in the College's financial reporting entity for these differences.

During the year ended June 30, 2010, the Foundation distributed \$234,240.80 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, 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, regardless of the timing of the cash flows.

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

- D. Cash and Cash Equivalents** - This classification includes petty cash, cash on deposit with private bank accounts, and deposits held by the State

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 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 value of assets constructed includes all material direct and indirect construction costs. Interest costs incurred are capitalized during the period of construction.

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

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

The College does not capitalize the art collection. This collection adheres to the College's policy to maintain for public exhibition, education, or research; protect, keep unencumbered, care for, and preserve; and 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

statute. Unexpended capital contributions are classified as restricted 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. When classifying compensated absences into current and noncurrent, leave is considered taken using a last-in, first-out (LIFO) method. Also, any accumulated vacation leave in excess of 30 days at year-end is converted to sick leave.

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.

There is no liability for unpaid accumulated sick leave because the College has no obligation to pay sick leave upon termination or retirement. However, additional service credit for retirement pension benefits is given for accumulated sick leave upon retirement.

- K. **Net 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 \$4,404.00, and deposits in private financial institutions with a carrying value of \$427,048.28 and a bank balance of \$1,472,705.39.

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, 2010, 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, 2010, the amount shown on the Statement of Net Assets as cash and cash equivalents includes \$5,778,691.20 which represents the College's

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 1.6 years as of June 30, 2010. 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.osc.nc.gov/> and clicking on "Proceed directly to OSC's index page," then "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., is subject to and restricted by G.S. 36E "Uniform Prudent Management of Institutional Funds Act" (UPMIFA) and any requirements placed on them by contract or donor agreements. Because the 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:

Investment Type	Fair Value
Cash and Temporary Investments	\$ 15,967
Fixed Income Fund	2,324,916
Common Stock Fund	3,961,566
Total Investments	\$ 6,302,449

NOTE 3 - RECEIVABLES

Receivables at June 30, 2010, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	\$ 980,238.99	\$ 453,587.67	\$ 526,651.32
Accounts	51,679.62		51,679.62
Intergovernmental	651,622.78		651,622.78
Total Current Receivables	\$ 1,683,541.39	\$ 453,587.67	\$ 1,229,953.72

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 4 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2010, is presented as follows:

	Balance July 1, 2009 (as restated)	Increases	Decreases	Balance June 30, 2010
Capital Assets, Nondepreciable:				
Land	\$ 264,141.31	\$ 0.00	\$ 0.00	\$ 264,141.31
Construction in Progress	1,696,846.66	2,321,661.77	3,698,495.03	320,013.40
Total Capital Assets, Nondepreciable	1,960,987.97	2,321,661.77	3,698,495.03	584,154.71
Capital Assets, Depreciable:				
Buildings	36,405,661.50	3,149,644.00	227,000.00	39,328,305.50
Machinery and Equipment	4,829,030.37	787,336.38	170,640.61	5,445,726.14
General Infrastructure	1,048,743.58	548,851.03		1,597,594.61
Total Capital Assets, Depreciable	42,283,435.45	4,485,831.41	397,640.61	46,371,626.25
Less Accumulated Depreciation/Amortization for:				
Buildings	11,405,606.20	905,218.94	124,850.00	12,185,975.14
Machinery and Equipment	2,371,302.20	559,304.86	126,951.58	2,803,655.48
General Infrastructure	425,203.66	38,564.93		463,768.59
Total Accumulated Depreciation	14,202,112.06	1,503,088.73	251,801.58	15,453,399.21
Total Capital Assets, Depreciable, Net	28,081,323.39	2,982,742.68	145,839.03	30,918,227.04
Capital Assets, Net	\$ 30,042,311.36	\$ 5,304,404.45	\$ 3,844,334.06	\$ 31,502,381.75

NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2010, were as follows:

	Amount
Accounts Payable	\$ 276,991.59
Accrued Payroll	649,539.18
Intergovernmental Payables	2,341.66
Other	49,278.54
Total Accounts Payable and Accrued Liabilities	\$ 978,150.97

NOTE 6 - LONG-TERM LIABILITIES

A. Changes in Long-Term Liabilities - A summary of changes in the long-term liabilities for the year ended June 30, 2010, is presented as follows:

	Balance July 1, 2009	Additions	Reductions	Balance June 30, 2010	Current Portion
Notes Payable	\$ 969,375.65	\$ 0.00	\$ 175,432.57	\$ 793,943.08	\$ 184,204.20
Capital Leases Payable	420,994.59		188,560.43	232,434.16	167,596.96
Compensated Absences	877,111.73	638,689.12	696,236.08	819,564.77	149,942.26
Total Long-Term Liabilities	\$ 2,267,481.97	\$ 638,689.12	\$ 1,060,229.08	\$ 1,845,942.01	\$ 501,743.42

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/ Ranges	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2010	Principal Outstanding June 30, 2010
Guaranteed Energy Savings Contract	Crews & Associates	5.06%	12/17/2013	\$ 1,984,494.00	\$ 1,190,550.92	\$ 793,943.08

The annual requirements to pay principal and interest on notes payable at June 30, 2010, are as follows:

Fiscal Year	Annual Requirements	
	Notes Payable	
	Principal	Interest
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	\$ 793,943.08	\$ 101,662.32

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, 2010:

Fiscal Year	Amount
2011	\$ 177,963.47
2012	67,638.19
Total Minimum Lease Payments	245,601.66
Amount Representing Interest (4.49% Rate of Interest)	13,167.50
Present Value of Future Lease Payments	\$ 232,434.16

Machinery and equipment acquired under capital lease amounted to \$982,297.87 at June 30, 2010.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

B. Operating Lease Obligations - The College entered into operating leases for buildings and equipment. Future minimum lease payments under non-cancelable operating leases consist of the following at June 30, 2010:

Fiscal Year	Amount
2011	\$ 197,886.81
2012	184,550.29
2013	125,430.12
2014	85,031.97
Total Minimum Lease Payments	\$ 592,899.19

Rental expense for all operating leases during the year was \$139,450.41.

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	\$ 5,094,174.86	\$ 2,285,038.39	\$ 253,587.67	\$ 2,555,548.80

NOTE 9 - OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	\$ 12,452,178.47	\$ 1,905,244.45	\$ 757,795.02	\$ 0.00	\$ 0.00	\$ 0.00	\$ 15,115,217.94
Academic Support	946,407.75	73,070.93	62,620.67				1,082,099.35
Student Services	1,822,298.84	93,943.64	479,869.07				2,396,111.55
Institutional Support	3,468,537.36	357,521.93	1,271,128.65				5,097,187.94
Operations and Maintenance of Plant	668,685.11	199,473.19	1,183,121.02		666,907.92		2,718,187.24
Student Financial Aid		529.85	1,738.34	6,638,250.47			6,640,518.66
Auxiliary Enterprises	410,248.39	126,793.68	19,378.14				556,420.21
Depreciation						1,503,088.73	1,503,088.73
Total Operating Expenses	\$ 19,768,355.92	\$ 2,756,577.67	\$ 3,775,650.91	\$ 6,638,250.47	\$ 666,907.92	\$ 1,503,088.73	\$ 35,108,831.62

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 is a cost-sharing multiple-employer defined benefit pension plan established by the State to provide pension benefits for employees of the

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

State, its component units and local boards of education. The plan is 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, 2010, these rates were set at 3.57% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the College had a total payroll of \$17,417,644.14, of which \$12,331,045.27 was covered under the Teachers' and State Employees' Retirement System. Total employer and employee contributions for pension benefits for the year were \$440,218.32 and \$739,862.72, respectively.

Required employer contribution rates for the years ended June 30, 2009, and 2008, were 3.36% and 3.05%, respectively, while employee contributions were 6% each year. The College made 100% of its annual required contributions for the years ended June 30, 2010, 2009, and 2008, which were \$440,218.32, \$403,714.07, and \$361,423.11, 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.nc.gov/> and clicking on "Proceed directly to OSC's index page," then "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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

the responsibility of the Plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to \$7,400.00 for the year ended June 30, 2010.

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 \$204,306.33 for the year ended June 30, 2010.

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 \$71,908.00 for the year ended June 30, 2010.

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 *North Carolina General Statute 135-7* and Chapter 135, Article 3A, 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

By statute, the Fund is administered by the Board of Trustees of the Teachers' and State Employees' Retirement System and contributions to the fund are irrevocable. Also by law, Fund assets are dedicated to providing benefits to retired and disabled employees and applicable beneficiaries and are not subject to the claims of creditors of the employers making contributions to the Fund. Contribution rates to the Fund, which are intended to finance benefits and administrative expenses on a pay-as-you-go basis, are determined by the General Assembly.

For the current fiscal year the College contributed 4.5% of the covered payroll under the Teachers' and State Employees' Retirement System to the Fund. Required contribution rates for the years ended June 30, 2009, and 2008, were 4.1% and 4.1%, respectively. The College made 100% of its annual required contributions to the Plan for the years ended June 30, 2010, 2009, and 2008, which were \$554,897.04, \$492,627.29, and \$485,847.74, respectively. The College assumes no liability for retiree health care benefits provided by the programs other than its required contribution.

Additional detailed information about these programs can be located in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.nc.gov/> and clicking on "Proceed directly to OSC's index page," then "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 by the General Assembly. For the fiscal year ended June 30, 2010, 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, 2009, and 2008, were .52% and .52%, respectively. The College made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2010, 2009, and 2008, which were \$64,121.44, \$62,479.56, and \$61,619.69, respectively. The College assumes no liability for long-term disability benefits under the Plan other than its contribution.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

NOTE 12 - RISK MANAGEMENT

The College is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These exposures to loss are handled via a combination of methods, including participation in State-administered insurance programs, purchase of commercial insurance, and self-retention of certain risks. There have been no significant reductions in insurance 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 retained under the authority of the State Tort Claims Act. In addition, the State provides excess public officers' and employees' liability insurance up to \$10,000,000 via contract with a private insurance company. The North Carolina Community College System Office pays the premium, based on a composite rate, directly to the private insurer.

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

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

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

College employees and retirees are provided comprehensive major medical care benefits. Coverage is funded by contributions to the State Health Plan (Plan), a pension and other employee benefit trust fund of the State of North

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Carolina. The Plan is funded by employer and employee contributions. The Plan has contracted with third parties to process claims.

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

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

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

NOTE 13 - COMMITMENTS AND CONTINGENCIES

- A. Commitments** - The College has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on other purchases were \$133,994.25 at June 30, 2010.
- B. Pending Litigation and Claims** - The College is a party to litigation and claims in the ordinary course of its operations. Since it is not possible to predict the ultimate outcome of these matters, no provision for any liability has been made in the financial statements. College management is of the opinion that the liability, if any, for any of these matters will not have a material adverse effect on the financial position of the College.

NOTE 14 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2010, the College implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*.

GASB Statement No. 51, requires reporting certain intangible assets as capital assets.

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

NOTE 15 - NET ASSET RESTATEMENT

As of July 1, 2009, net assets as previously reported were restated as follows:

	<u>Amount</u>
July 1, 2009 Net Assets as Previously Reported	\$ 34,080,353.26
Correct Error for Roof Replacement and Other Projects that were Incorrectly Capitalized.	<u>(160,423.93)</u>
July 1, 2009 Net Assets as Restated	<u>\$ 33,919,929.33</u>



Beth A. Wood, CPA
State Auditor

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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, 2010, which collectively comprise the College's basic financial statements and have issued our report thereon dated May 23, 2011. 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. 51, *Accounting and Financial Reporting for Intangible Assets* during the year ended June 30, 2010.

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 opinions 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.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a

**INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
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GOVERNMENT AUDITING STANDARDS (CONCLUDED)**

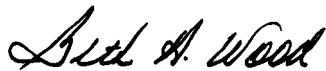
deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the College's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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 management of the College, the College Board of Trustees, others within the entity, the State Board of Community Colleges, the Governor, the General Assembly, and the State Controller, and is not intended to be and should not be used by anyone other than these specified parties.



Beth A. Wood, CPA
State Auditor

May 23, 2011

ORDERING INFORMATION

Audit reports issued by the Office of the State Auditor can be obtained from the web site at www.ncauditor.net. Also, parties may register on the web site to receive automatic email notification whenever reports of interest are issued. Otherwise, copies of audit reports may be obtained by contacting the:

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