



# STATE OF NORTH CAROLINA

**DAVIDSON COUNTY COMMUNITY COLLEGE**

**LEXINGTON, NORTH CAROLINA**

**FINANCIAL STATEMENT AUDIT REPORT**

**FOR THE YEAR ENDED JUNE 30, 2011**

**OFFICE OF THE STATE AUDITOR**

**BETH A. WOOD, CPA**

**STATE AUDITOR**

A Component Unit of the State of North Carolina

**DAVIDSON COUNTY COMMUNITY COLLEGE**

**LEXINGTON, NORTH CAROLINA**

**FINANCIAL STATEMENT AUDIT REPORT**

**FOR THE YEAR ENDED JUNE 30, 2011**

**STATE BOARD OF COMMUNITY COLLEGES**

**THE NORTH CAROLINA COMMUNITY COLLEGE SYSTEM**

**DR. R. SCOTT RALLS, PRESIDENT**

**BOARD OF TRUSTEES**

**BETH PARROTT, CHAIRMAN**

**ADMINISTRATIVE OFFICERS**

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

**RUSTY HUNT, VICE PRESIDENT FOR FINANCIAL AND ADMINISTRATIVE  
SERVICES**



**Beth A. Wood, CPA**  
State Auditor

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

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

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**AUDITOR'S TRANSMITTAL**

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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, 2011, 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

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**INDEPENDENT AUDITOR'S REPORT**

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Board of Trustees  
Davidson County Community College  
Lexington, North Carolina

We have audited the accompanying 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, 2011, 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.

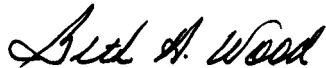
In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of Davidson County Community College and its discretely presented component unit as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

## INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

---

In accordance with *Government Auditing Standards*, we have also issued our report dated January 27, 2012 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 required supplementary information. However, we did not audit the information and express no opinion on it.



Beth A. Wood, CPA  
State Auditor

January 27, 2012

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

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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, 2011. 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.

**Financial Highlights:**

**Condensed Statement of Net Assets**

The following chart shows changes between the Statement of Net Assets for fiscal years 2011 and 2010:

<b>ASSETS</b>	<b>FY 2011</b>	<b>FY 2010</b>	<b>Difference</b>	<b>% Difference</b>
Current Assets	\$ 7,007,341.39	\$ 6,923,718.27	\$ 83,623.12	1.21%
Noncurrent Assets:				
Capital Assets, Net	31,466,722.99	31,502,381.75	(35,658.76)	-0.11%
Other Noncurrent Assets	1,480,456.92	953,154.49	527,302.43	55.32%
<b>Total Assets</b>	<b>39,954,521.30</b>	<b>39,379,254.51</b>	<b>575,266.79</b>	<b>1.46%</b>
<b>LIABILITIES</b>				
Current Liabilities	2,035,753.16	2,069,976.11	(34,222.95)	-1.65%
Noncurrent Liabilities	1,110,990.95	1,344,198.59	(233,207.64)	-17.35%
<b>Total Liabilities</b>	<b>3,146,744.11</b>	<b>3,414,174.70</b>	<b>(267,430.59)</b>	<b>-7.83%</b>
<b>NET ASSETS</b>				
Invested in Capital Assets, Net of Related Debt	30,856,984.11	30,476,004.51	380,979.60	1.25%
Restricted	2,189,226.04	1,679,070.83	510,155.21	30.38%
Unrestricted	3,761,567.04	3,810,004.47	(48,437.43)	-1.27%
<b>Total Net Assets</b>	<b>\$ 36,807,777.19</b>	<b>\$ 35,965,079.81</b>	<b>\$ 842,697.38</b>	<b>2.34%</b>

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Total assets increased \$575,266.79 (1.46%) in fiscal year 2011, due primarily to the cash collected from construction projects.

Total liabilities decreased \$267,430.59 (7.83%) in fiscal year 2011, due primarily to the pay-down of principal on long-term debt in the amount of \$232,434.16.

Restricted Net Assets increased \$510,155.21 (30.38%) due primarily to the transfer of unrestricted cash of \$300,762.00 to cover the College's portion for five construction projects. The remaining change was due to increases in funding for state equipment, county capital aid, and the energy efficiency programs.

### 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 2011 and 2010:

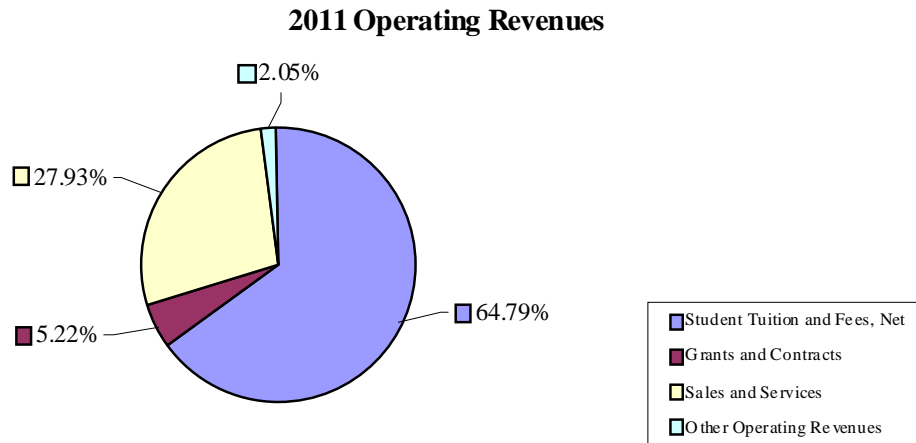
<u>OPERATING REVENUES</u>	<u>FY 2011</u>	<u>FY 2010</u>	<u>Difference</u>	<u>% Difference</u>
Student Tuition and Fees, Net	\$ 2,577,367.66	\$ 2,555,548.80	\$ 21,818.86	0.85%
Grants and Contracts	207,667.29	269,832.51	(62,165.22)	-23.04%
Sales and Services	1,111,154.11	1,114,566.48	(3,412.37)	-0.31%
Other Operating Revenues	81,586.70	89,317.93	(7,731.23)	-8.66%
<b>Total Operating Revenues</b>	<b>3,977,775.76</b>	<b>4,029,265.72</b>	<b>(51,489.96)</b>	<b>-1.28%</b>
<u>OPERATING EXPENSES</u>				
Salaries & Benefits	21,396,834.66	19,768,355.92	1,628,478.74	8.24%
Supplies and Materials	3,757,034.95	2,756,577.67	1,000,457.28	36.29%
Services	4,086,546.75	3,775,650.91	310,895.84	8.23%
Scholarships and Fellowships	8,993,114.24	6,638,250.47	2,354,863.77	35.47%
Utilities	674,097.56	666,907.92	7,189.64	1.08%
Depreciation	1,583,265.67	1,503,088.73	80,176.94	5.33%
<b>Total Operating Expenses</b>	<b>40,490,893.83</b>	<b>35,108,831.62</b>	<b>5,382,062.21</b>	<b>15.33%</b>
Operating Loss	(36,513,118.07)	(31,079,565.90)	(5,433,552.17)	17.48%
<u>NONOPERATING REVENUES (EXPENSES)</u>				
State Aid	17,249,849.08	15,833,670.45	1,416,178.63	8.94%
County Appropriations	3,556,875.40	3,549,395.00	7,480.40	0.21%
Noncapital Grants and Gifts	13,959,805.08	10,653,179.10	3,306,625.98	31.04%
Investment Income	64,363.06	71,641.69	(7,278.63)	-10.16%
Interest and Fees on Debt	(18,967.82)	(66,506.50)	47,538.68	71.48%
Other Nonoperating Expenses	(130,724.50)	(145,839.03)	15,114.53	10.36%
<b>Net Nonoperating Revenues</b>	<b>34,681,200.30</b>	<b>29,895,540.71</b>	<b>4,785,659.59</b>	<b>16.01%</b>
Loss Before Other Revenues (Expenses)	(1,831,917.77)	(1,184,025.19)	(647,892.58)	-54.72%
State Capital Aid	2,338,215.73	1,452,392.01	885,823.72	60.99%
County Capital Aid	528,766.37	856,529.11	(327,762.74)	-38.27%
Capital Grants and Gifts	159,856.02	920,254.55	(760,398.53)	-82.63%
Capital Asset Impairment Loss	(352,222.97)	-	(352,222.97)	-
<b>Net Other Revenues</b>	<b>2,674,615.15</b>	<b>3,229,175.67</b>	<b>(554,560.52)</b>	<b>-17.17%</b>
<b>Increase in Net Assets</b>	<b>\$ 842,697.38</b>	<b>\$ 2,045,150.48</b>	<b>\$ (1,202,453.10)</b>	<b>-58.80%</b>

Operating revenues decreased \$51,489.96 (1.28%) in fiscal year 2011, due primarily to the fact that Davidson Early College revenues were less than the prior year. Davidson Early College is an educational partnership among Davidson County Community College, Davidson County Schools, Lexington City Schools and Thomasville City Schools.



## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

The following chart identifies the components of operating revenues for fiscal year 2011:



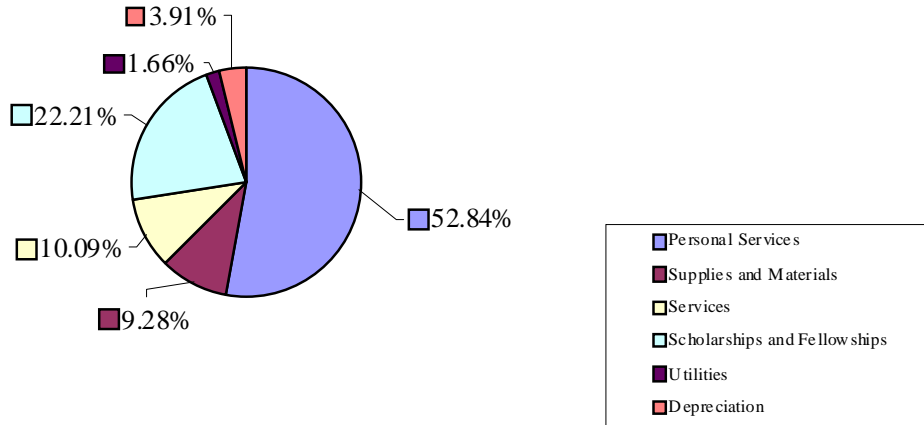
Operating expenses increased \$5,382,062.21 (15.33%) in fiscal year 2011, due primarily to the following:

- 1) Salary and benefits expense increased due to:
  - a. Increase in number of employees by 25.5 full time employees.
  - b. 1.76% increase in retirement rate.
  - c. 1.0% raise/overload stipend to faculty and staff.
- 2) Supplies and materials expense increased due to:
  - a. Increase in non-capitalized equipment and supplies to support enrollment growth.
  - b. Increase in information technology software such as Moodle, Informer, and Citrix.
- 3) Services expense increased due to:
  - a. Increased volume of the Call Center.
  - b. An increase in bandwidth to accommodate wireless usage.
  - c. Training and implementation of Blackboard Transaction System.
- 4) Scholarships and Fellowships expense increased due to an increase in the amount of Pell Grants awarded, including an increase in the maximum Pell Grant award of \$200 per year and year-round Pell. An increased percentage of students were eligible for Pell which resulted in an increase in the Pell disbursement amount and therefore noncapital grants increased.

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

The following chart identifies the components of operating expenses for fiscal year 2011:

**2011 Operating Expenses**

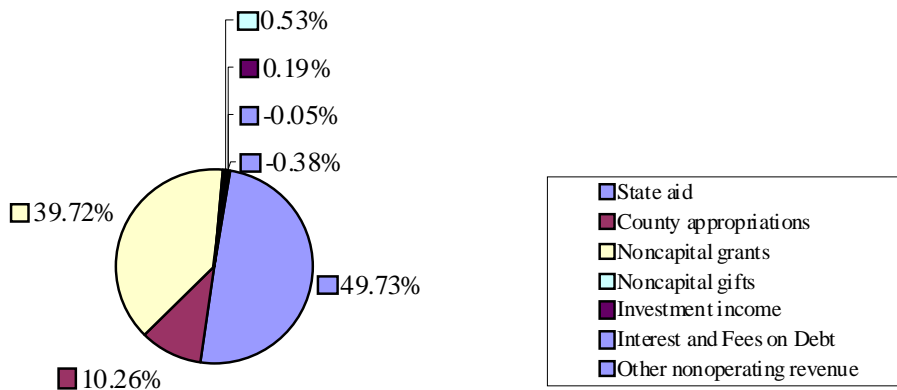


Net Nonoperating revenues increased \$4,785,659.59 (16.01%) in fiscal year 2011, due primarily to the following:

- a. An increase in state aid
- b. An increase in the amount of Pell awarded.

The following chart identifies the components of nonoperating revenues for fiscal year 2011:

**2011 Net Nonoperating Revenues**



Other revenues decreased (\$554,560.52) (17.17%) in fiscal year 2011 due primarily to the completion of construction projects and a capital asset impairment loss.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

The Capital Asset Impairment loss of \$352,222.97 was due to the construction stoppage of the Mebane Hall building project. The project was terminated by the Board of Trustees after the funding for the project was rescinded.

### Condensed Statement of Cash Flow

	2011	2010	Increase (Decrease)	Percent Change
<b>Cash Provided (Used) by</b>				
Operating Activities	\$ (34,959,832.02)	\$ (29,693,675.25)	\$ 5,266,156.77	17.73 %
Noncapital Financing Activities	35,102,016.73	29,891,488.54	5,210,528.19	17.43 %
Capital Financing Activities	899,755.16	368,537.72	531,217.44	144.14 %
Investing Activities	64,363.06	76,091.15	(11,728.09)	-15.41 %
<b>Net Change in Cash</b>	1,106,302.93	642,442.16	463,860.77	72.20 %
<b>Cash, Beginning of Year</b>	6,210,143.48	5,567,701.32	642,442.16	11.54 %
<b>Cash, Ending of Year</b>	\$ 7,316,446.41	\$ 6,210,143.48	\$ 1,106,302.93	17.81 %

Cash used in operating activities increased by \$5,266,156.77 (17.73%) due primarily to an increase in scholarships and fellowships, and salaries and benefits.

Cash received in noncapital financing activities increased by \$5,210,528.19 (17.43%) due primarily to an increase in state aid, as well as an increase in Pell funding in federal financial aid.

Cash received in capital financing activities increased by \$531,217.44 (144.14%) due primarily to an increase in capital grants received and a decrease in the acquisition and construction of capital assets.

Cash received in investing activities decreased \$11,728.09 (15.41%) due to declining interest rates.

### 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 represent 47.4% of total revenues. 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 and new buildings;
- Additional funding needs for student success initiatives.

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**Davidson County Community College**  
**Statement of Net Assets**  
**June 30, 2011**

**Exhibit A-1**

**ASSETS**

Current Assets:

Cash and Cash Equivalents	\$ 5,176,490.76
Restricted Cash and Cash Equivalents	878,704.94
Receivables, Net (Note 3)	601,970.97
Due from Community College Component Units	90,335.43
Inventories	80,081.54
Prepaid Items	179,757.75
	<hr/>
Total Current Assets	7,007,341.39

Noncurrent Assets:

Restricted Cash and Cash Equivalents	1,261,250.71
Restricted Due from Primary Government	9,206.21
Restricted Due from State of North Carolina Component Units	210,000.00
Capital Assets - Nondepreciable (Note 4)	432,385.00
Capital Assets - Depreciable, Net (Note 4)	31,034,337.99
	<hr/>
Total Noncurrent Assets	32,947,179.91

Total Assets	<hr/> <hr/> 39,954,521.30
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**LIABILITIES**

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 5)	961,213.08
Unearned Revenue	348,646.64
Funds Held for Others	387,241.85
Long-Term Liabilities - Current Portion (Note 6)	338,651.59
	<hr/>
Total Current Liabilities	2,035,753.16

Noncurrent Liabilities:

Long-Term Liabilities (Note 6)	1,110,990.95
	<hr/>
Total Noncurrent Liabilities	1,110,990.95

Total Liabilities	<hr/> <hr/> 3,146,744.11
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**NET ASSETS**

Invested in Capital Assets, Net of Related Debt	30,856,984.11
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Restricted for:

Expendable:

Scholarships and Fellowships	82,189.87
Loans	10,938.86
Capital Projects	1,368,842.55
Student Support	493,877.10
Grants	233,377.66

Unrestricted	3,761,567.04
	<hr/>

Total Net Assets	<hr/> <hr/> \$ 36,807,777.19
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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, 2011***

***Exhibit A-2***

**REVENUES**

Operating Revenues:	
Student Tuition and Fees, Net (Note 8)	\$ 2,577,367.66
State and Local Grants and Contracts	207,667.29
Sales and Services	1,111,154.11
Other Operating Revenues	81,586.70
	<hr/>
Total Operating Revenues	3,977,775.76
	<hr/>

**EXPENSES**

Operating Expenses:	
Salaries and Benefits	21,396,834.66
Supplies and Materials	3,757,034.95
Services	4,086,546.75
Scholarships and Fellowships	8,993,114.24
Utilities	674,097.56
Depreciation	1,583,265.67
	<hr/>
Total Operating Expenses	40,490,893.83
	<hr/>
Operating Loss	(36,513,118.07)
	<hr/>

**NONOPERATING REVENUES (EXPENSES)**

State Aid	17,249,849.08
County Appropriations	3,556,875.40
Noncapital Grants - Federal Student Financial Aid	11,413,999.44
Noncapital Grants	2,361,275.62
Noncapital Gifts	184,530.02
Investment Income	64,363.06
Interest and Fees on Debt	(18,967.82)
Other Nonoperating Expenses	(130,724.50)
	<hr/>
Net Nonoperating Revenues	34,681,200.30
	<hr/>
Loss Before Other Revenues	(1,831,917.77)
	<hr/>

State Capital Aid	2,338,215.73
County Capital Aid	528,766.37
Capital Grants	149,856.02
Capital Gifts	10,000.00
Capital Asset Impairment Loss (Note 4)	(352,222.97)
	<hr/>
Increase in Net Assets	842,697.38
	<hr/>

**NET ASSETS**

Net Assets, July 1, 2010	35,965,079.81
	<hr/>
Net Assets, June 30, 2011	\$ 36,807,777.19
	<hr/> <hr/>

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

**Davidson County Community College**  
**Statement of Cash Flows**  
**For the Fiscal Year Ended June 30, 2011**

**Exhibit A-3**  
**Page 1 of 2**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Received from Customers	\$ 4,309,839.96
Payments to Employees and Fringe Benefits	(21,252,127.91)
Payments to Vendors and Suppliers	(8,642,723.87)
Payments for Scholarships and Fellowships	(8,938,630.60)
Other Payments	(436,189.60)
	<hr/>
Net Cash Used by Operating Activities	(34,959,832.02)

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

State Aid Received	17,249,849.08
County Appropriations	3,556,875.40
Noncapital Grants - Federal Student Financial Aid	11,618,232.65
Noncapital Grants Received	2,473,485.03
Noncapital Gifts Received	203,574.57
William D. Ford Direct Lending Receipts	2,180,883.87
William D. Ford Direct Lending Disbursements	(2,180,883.87)
	<hr/>
Net Cash Provided by Noncapital Financing Activities	35,102,016.73

**CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES**

State Capital Aid Received	2,338,215.73
County Capital Aid	464,288.28
Capital Grants Received	270,360.46
Capital Gifts Received	10,000.00
Acquisition and Construction of Capital Assets	(1,713,606.30)
Principal Paid on Capital Debt and Leases	(416,638.36)
Interest Paid on Capital Debt and Leases	(52,864.65)
	<hr/>
Net Cash Provided by Capital and Related Financing Activities	899,755.16

**CASH FLOWS FROM INVESTING ACTIVITIES**

Investment Income	64,363.06
	<hr/>
Net Cash Provided by Investing Activities	64,363.06

Net Increase in Cash and Cash Equivalents	1,106,302.93
Cash and Cash Equivalents, July 1, 2010	6,210,143.48
	<hr/>
Cash and Cash Equivalents, June 30, 2011	\$ 7,316,446.41

**Davidson County Community College**  
**Statement of Cash Flows**  
**For the Fiscal Year Ended June 30, 2011**

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

**RECONCILIATION OF OPERATING LOSS  
TO NET CASH USED BY OPERATING ACTIVITIES**

Operating Loss	\$ (36,513,118.07)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	1,583,265.67
Miscellaneous Nonoperating Income	(352,222.97)
Changes in Assets and Liabilities:	
Receivables, Net	156,774.44
Inventories	40,897.83
Prepaid Items	(92,547.75)
Accounts Payable and Accrued Liabilities	50,973.17
Unearned Revenue	139,848.51
Funds Held for Others	5,958.26
Compensated Absences	20,338.89
	<u>20,338.89</u>
Net Cash Used by Operating Activities	<u>\$ (34,959,832.02)</u>

**RECONCILIATION OF CASH AND CASH EQUIVALENTS**

Current Assets:	
Cash and Cash Equivalents	\$ 5,176,490.76
Restricted Cash and Cash Equivalents	878,704.94
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	<u>1,261,250.71</u>
Total Cash and Cash Equivalents - June 30, 2011	<u>\$ 7,316,446.41</u>

**NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES**

Assets Acquired through Assumption of a Liability	\$ 24,512.24
Increase in Receivables Related to Nonoperating Income	100,000.00
Loss on Disposal of Capital Assets	131,779.50

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, 2011**

**Exhibit B-1**

**ASSETS**

Cash and Cash Equivalents	\$ 504,400
Cash and Cash Equivalents- Restricted	5,857
Contributions Receivable, Net	20,368
Investments in Securities at Fair Value	7,914,951
Investment in Real Estate	13,760
Land and Buildings	2,113,639
Foyell P. Smith Charitable Remainder Unitrust at Fair Value (cost - \$31,810)	<u>23,921</u>
Total Assets	<u>10,596,896</u>

**LIABILITIES**

Accounts Payable	90,336
Grants Payable	<u>10,857</u>
Total Liabilities	<u>101,193</u>

**NET ASSETS**

Unrestricted	552,902
Undesignated	
Temporarily Restricted	583,056
Permanently Restricted	<u>9,359,745</u>
Total Net Assets	10,495,703
Total Liabilities and Net Assets	<u><u>\$ 10,596,896</u></u>

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

***Davidson County Community College Foundation, Inc.***  
***Statement of Changes In Net Assets***  
***For The Fiscal Year Ended June 30, 2011***

***Exhibit B-2***

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
BALANCE AT JUNE 30, 2010	\$ 386,965	\$ (349,744)	\$ 9,161,374	\$ 9,198,595
Increase in Net Assets	8,364	1,093,159	195,585	1,297,108
Transfers	<u>157,573</u>	<u>(160,359)</u>	<u>2,786</u>	
BALANCE AT JUNE 30, 2011	<u>\$ 552,902</u>	<u>\$ 583,056</u>	<u>\$ 9,359,745</u>	<u>\$ 10,495,703</u>

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

**Davidson County Community College Foundation, Inc.**  
**Statement of Activities**  
**For the Fiscal Year Ended June 30, 2011**

**Exhibit B-3**

CHANGES IN UNRESTRICTED NET ASSETS	Unrestricted	Temporarily	Permanently	Total
		Restricted	Restricted	
<b>REVENUES and GAINS</b>				
Contributions	\$ 160,797	\$ 59,957	\$ 190,447	\$ 411,201
Investment Income, net of investment advisory fees of \$ 44,034	9,192	199,372	18,235	226,799
Realized Gain on Investments	3,092	67,070	6,134	76,296
Increase in Fair Value of Assets held in Foyell P. Smith Charitable Remainder Unitrust		(2,425)		(2,425)
Net Unrealized Gains on Investments	40,267	873,441	79,888	993,596
Miscellaneous Income	68	1,456	133	1,657
Net Assets Released from Restrictions:				
Restrictions Satisfied by Payment of Scholarships	204,963	(105,711)	(99,252)	
<b>Total Revenues, Gains, and Other Support</b>	<b>418,379</b>	<b>1,093,160</b>	<b>195,585</b>	<b>1,707,124</b>
<b>EXPENSES</b>				
Program Services				
Scholarships and Student Support	204,963			204,963
<b>Total Program Services</b>	<b>204,963</b>			<b>204,963</b>
<b>SUPPORT SERVICES</b>				
Administrative and Fund Raising	159,995			159,995
Conference Center Furnishings	10,000			10,000
Management and Professional Fees	20,940			20,940
Depreciation	14,117			14,117
<b>Total Support Expenses</b>	<b>205,052</b>			<b>205,052</b>
<b>Total Expenses</b>	<b>410,015</b>			<b>410,015</b>
Increase in Net Assets	\$ 8,364	\$ 1,093,160	\$ 195,585	\$ 1,297,109

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

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**DAVIDSON COUNTY COMMUNITY COLLEGE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES**

- A. Financial Reporting Entity** - The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their constituents for their actions. As required by 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, 2011, the board consisted of 40 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)

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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, 2011, the Foundation distributed \$291,104.94 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. 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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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- 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 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 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 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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.

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.

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



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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totaling \$4,404.00, and deposits in private financial institutions with a carrying value of \$1,354,528.08 and a bank balance of \$2,244,573.91.

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, 2011, 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, 2011, the amount shown on the Statement of Net Assets as cash and cash equivalents includes \$5,957,514.33 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 1.9 years as of June 30, 2011. 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

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

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*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 “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., 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 FASB reporting model, disclosures of the various investments risks are not required. The following is an analysis of investments by type:

<u>Investment</u>	<u>Fair Value</u>
Cash and Temporary Investments	\$ 8,114.00
Fixed Income Fund	3,265,932.70
Common Stock Fund	<u>4,640,904.87</u>
 Total	 <u>\$ 7,914,951.57</u>

**NOTE 3 - RECEIVABLES**

Receivables at June 30, 2011, were as follows:

	<u>Gross Receivables</u>	<u>Less Allowance for Doubtful Accounts</u>	<u>Net Receivables</u>
<b>Current Receivables:</b>			
Students	\$ 736,261.42	\$ 458,051.43	\$ 278,209.99
Accounts	141,784.51		141,784.51
Intergovernmental	<u>181,976.47</u>		<u>181,976.47</u>
 <b>Total Current Receivables</b>	 <u>\$ 1,060,022.40</u>	 <u>\$ 458,051.43</u>	 <u>\$ 601,970.97</u>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 4 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2011, is presented as follows:

	Balance July 1, 2010	Increases	Decreases	Balance June 30, 2011
Capital Assets, Nondepreciable:				
Land	\$ 264,141.31	\$ 0.00	\$ 0.00	\$ 264,141.31
Construction in Progress	320,013.40	694,848.76	846,618.47	168,243.69
<b>Total Capital Assets, Nondepreciable</b>	<u>584,154.71</u>	<u>694,848.76</u>	<u>846,618.47</u>	<u>432,385.00</u>
Capital Assets, Depreciable:				
Buildings	39,328,305.50	351,381.35		39,679,686.85
Machinery and Equipment	5,445,726.14	1,336,760.62	244,980.44	6,537,506.32
General Infrastructure	1,597,594.61	143,014.15		1,740,608.76
<b>Total Capital Assets, Depreciable</b>	<u>46,371,626.25</u>	<u>1,831,156.12</u>	<u>244,980.44</u>	<u>47,957,801.93</u>
Less Accumulated Depreciation/Amortization for:				
Buildings	12,185,975.14	952,846.89		13,138,822.03
Machinery and Equipment	2,803,655.48	582,193.01	113,200.94	3,272,647.55
General Infrastructure	463,768.59	48,225.77		511,994.36
<b>Total Accumulated Depreciation</b>	<u>15,453,399.21</u>	<u>1,583,265.67</u>	<u>113,200.94</u>	<u>16,923,463.94</u>
<b>Total Capital Assets, Depreciable, Net</b>	<u>30,918,227.04</u>	<u>247,890.45</u>	<u>131,779.50</u>	<u>31,034,337.99</u>
<b>Capital Assets, Net</b>	<u>\$ 31,502,381.75</u>	<u>\$ 942,739.21</u>	<u>\$ 978,397.97</u>	<u>\$ 31,466,722.99</u>

The Statement of Revenues, Expenses, and Changes in Net Assets, contains a nonoperating expense, related to a capital asset impairment loss of \$352,222.97. The amount is included in the decrease in the construction in progress caption. This impairment was caused by the revocation of financing for the Mebane Hall building project by the Mebane Charitable Foundation. The Mebane Charitable Foundation initially pledged \$3.8 million dollars in funding for the project; however, the pledge was contingent upon the construction of a new high school building in Davie County. The County was denied the Certificates of Participation needed to ensure funding for the high school. The inability of the County to provide funding for the project violated the condition of the Foundation's gift, and the Foundation withdrew their pledge. The Davidson County Community College Board terminated the project in April 2011 after the funding was withdrawn.

### NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2011, were as follows:

	Amount
Accounts Payable	\$ 176,372.76
Accrued Payroll	773,907.04
Intergovernmental Payables	1,260.66
Other	9,672.62
<b>Total Accounts Payable and Accrued Liabilities</b>	<u>\$ 961,213.08</u>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 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, 2011, is presented as follows:

	Balance July 1, 2010	Additions	Reductions	Balance June 30, 2011	Current Portion
Notes Payable	\$ 793,943.08	\$ 0.00	\$ 184,204.20	\$ 609,738.88	\$ 193,414.41
Capital Leases Payable	232,434.16		232,434.16	-	
Compensated Absences	819,564.77	695,134.05	674,795.16	839,903.66	145,237.18
<b>Total Long-Term Liabilities</b>	<b>\$ 1,845,942.01</b>	<b>\$ 695,134.05</b>	<b>\$ 1,091,433.52</b>	<b>\$ 1,449,642.54</b>	<b>\$ 338,651.59</b>

**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, 2011	Principal Outstanding June 30, 2011
Guaranteed Energy Savings Contract	Crews & Associates	5.06%	12/17/2013	\$ 1,984,494.00	\$ 1,374,755.12	\$ 609,738.88

The annual requirements to pay principal and interest on notes payable at June 30, 2011, are as follows:

Fiscal Year	Amount Requirements	
	Notes Payable	
	Principal	Interest
2012	\$ 193,414.41	\$ 30,486.94
2013	203,085.13	20,816.22
2014	213,239.34	10,662.01
Total Requirements	<b>\$ 609,738.88</b>	<b>\$ 61,965.17</b>

### NOTE 7 - LEASE OBLIGATIONS

**A. Operating Lease Obligations** - Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2011:

Fiscal Year	Amount
2012	\$ 196,550.29
2013	125,430.12
2014	85,031.97
Total Minimum Lease Payments	<b>\$ 407,012.38</b>

Rental expense for all operating leases during the year was \$184,372.28.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 8 - REVENUES

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

	Gross Revenues	Less Scholarship Discounts	Less Allowance for Uncollectibles	Net Revenues
<b>Operating Revenues:</b>				
<b>Student Tuition and Fees</b>	\$ 5,975,265.70	\$ 3,393,434.28	\$ 4,463.76	\$ 2,577,367.66

### NOTE 9 - OPERATING EXPENSES BY FUNCTION

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

	Salary & Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	\$ 13,319,116.11	\$ 2,147,877.87	\$ 891,794.30	\$	\$	\$	\$ 16,358,788.28
Academic Support	1,327,636.12	123,527.02	148,548.32				1,599,711.46
Student Services	2,061,120.39	135,653.46	638,687.27				2,835,461.12
Institutional Support	3,537,220.55	795,046.57	1,342,238.46				5,674,505.58
Operations and Maintenance of Plant	785,195.17	417,437.20	1,023,018.01		674,097.56		2,899,747.94
Student Financial Aid			2,624.03	8,993,114.24			8,995,738.27
Auxiliary Enterprises	366,546.32	137,492.83	39,636.36				543,675.51
Depreciation						1,583,265.67	1,583,265.67
Total Operating Expenses	\$ 21,396,834.66	\$ 3,757,034.95	\$ 4,086,546.75	\$ 8,993,114.24	\$ 674,097.56	\$ 1,583,265.67	\$ 40,490,893.83

### 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 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, 2011, these rates were set at 4.93% of covered payroll for employers and 6% of covered payroll for members.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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For the current fiscal year, the College had a total payroll of \$18,426,216.59, of which \$12,932,746.30 was covered under the Teachers' and State Employees' Retirement System. Total employer and employee contributions for pension benefits for the year were \$637,584.40 and \$775,964.78, respectively.

Required employer contribution rates for the years ended June 30, 2010, and 2009, were 3.57% and 3.36%, respectively, while employee contributions were 6% each year. The College made 100% of its annual required contributions for the years ended June 30, 2011, 2010, and 2009, which were \$637,584.40, \$440,218.32, and \$403,714.07, respectively.

The Teachers' and State Employees' Retirement System's financial information is included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.ncosc.net/> 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 the responsibility of the Plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to \$5,400.00 for the year ended June 30, 2011.

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 \$171,668.00 for the year ended June 30, 2011.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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 \$69,206.00 for the year ended June 30, 2011.

### 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. 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 in the Appropriations Bill.

For the current fiscal year the College contributed 4.9% of the covered payroll under the Teachers' and State Employees' Retirement System to



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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the Fund. Required contribution rates for the years ended June 30, 2010, and 2009, were 4.5% and 4.1%, respectively. The College made 100% of its annual required contributions to the Plan for the years ended June 30, 2011, 2010, and 2009, which were \$633,704.57, \$554,897.04, and \$492,627.29, 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 "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 in the Appropriations Bill by the General Assembly. For the fiscal year ended June 30, 2011, 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, 2010, and 2009, were .52% and .52%, respectively. The College made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2011, 2010, and 2009, which were \$67,250.28, \$64,121.44, and \$62,479.56, 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*.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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### 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.

The risk of tort claims of up to \$1,000,000 per claimant is 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 Carolina. The Plan is funded by employer and employee contributions. The Plan has contracted with third parties to process claims.

## NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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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 \$514,391.27 at June 30, 2011.
- 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.

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Beth A. Wood, CPA  
State Auditor

STATE OF NORTH CAROLINA  
Office of the State Auditor

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

**INDEPENDENT AUDITOR'S REPORT  
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**

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Board of Trustees  
Davidson County Community College  
Lexington, North Carolina

We have audited the financial statements of Davidson County Community College, a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 2011, which collectively comprise the College's basic financial statements and have issued our report thereon dated January 27, 2012. Our report was modified to include a reference to other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the discretely presented component unit, as described in our report on the College's financial statements. The financial statements of the discretely presented component unit were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the College's internal control over financial reporting 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.

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 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.

**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)**


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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 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

January 27, 2012

## **ORDERING INFORMATION**

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Audit reports issued by the Office of the State Auditor can be obtained from the web site at [www.ncauditor.net](http://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:

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

Telephone: 919/807-7500

Facsimile: 919/807-7647