



STATE OF NORTH CAROLINA

FINANCIAL STATEMENT REVIEW REPORT OF

LENOIR COMMUNITY COLLEGE

KINSTON, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2003

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR

FINANCIAL STATEMENT REVIEW REPORT OF

LENOIR COMMUNITY COLLEGE

KINSTON, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2003

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Ralph Campbell, Jr.
State Auditor

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Office of the State Auditor

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REVIEWER'S TRANSMITTAL

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

This report presents the results of our financial statement review of Lenoir Community College, a component unit of the State of North Carolina, for the year ended June 30, 2003. Our review was made by authority of Article 5A of Chapter 147 of the *North Carolina General Statutes*.

The accounts and operations of the College are an integral part of the State's reporting entity represented in the State's *Comprehensive Annual Financial Report (CAFR)* and the State's *Single Audit Report*. In those reports, the State Auditor expresses an opinion on the State's financial statements. In the *Single Audit Report*, the State Auditor also presents the audit results on the State's internal controls and on the State's compliance with laws, regulations, contracts, and grants applicable to the State's financial statements and to its federal financial assistance programs.

As part of the work necessary for the CAFR and the *Single Audit Report*, the accounts and operations of the College were subjected to review procedures as we considered necessary. In addition, we performed review procedures that we considered necessary for us to report on the accompanying financial statements that relate solely to Lenoir Community College. The review procedures were conducted in accordance with *Statements on Standards for Accounting and Review Services* issued by the American Institute of Certified Public Accountants.

The purpose of this report is to present the results of our review of the accompanying financial statements that relate solely to Lenoir Community College. Our reporting objectives and review results are:

- 1. Objective** - To disclose any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

Results - We are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America. These matters are more fully described in the Independent Accountant's Review Report on the financial statements.

REVIEWER'S TRANSMITTAL (CONCLUDED)

2. **Objective** – To present significant deficiencies, if any, in internal control over financial reporting which could adversely affect the College's ability to record, process, summarize, and report financial data in the financial statements and present instances of noncompliance, if any, with laws, regulations, contracts, or grants that came to our attention during our review of the financial statements.

Results - Our review disclosed no material weaknesses in internal control over financial reporting and no instances of noncompliance which require disclosure herein under *Government Auditing Standards*.

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



Ralph Campbell, Jr.
State Auditor

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INDEPENDENT ACCOUNTANT'S REVIEW REPORT

Board of Trustees
Lenoir Community College
Kinston, North Carolina

We have reviewed the accompanying Statement of Net Assets of Lenoir Community College, a component unit of the State of North Carolina, as of June 30, 2003, and the related Statement of Revenues, Expenses, and Changes in Net Assets and Statement of Cash Flows for the year then ended, in accordance with *Statements on Standards for Accounting and Review Services* issued by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the College's management.

A review consists principally of inquiries of College personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis (MD&A), 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. Such information has been subjected to the inquiry and analytical procedures applied in the review of the basic financial statements, and we are not aware of any material modifications that should be made thereto.

Our review was conducted for the purpose of expressing limited assurance that there are no material modifications that should be made to the basic financial statements in order for them to be in conformity with generally accepted accounting principles. Schedule 1 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the inquiry and analytical procedures applied in the review of the basic financial statements, and we are not aware of any material modifications that should be made thereto.

A handwritten signature in cursive script that reads "Ralph Campbell, Jr.".

Ralph Campbell, Jr.
State Auditor

May 6, 2004

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MANAGEMENT'S DISCUSSION AND ANALYSIS

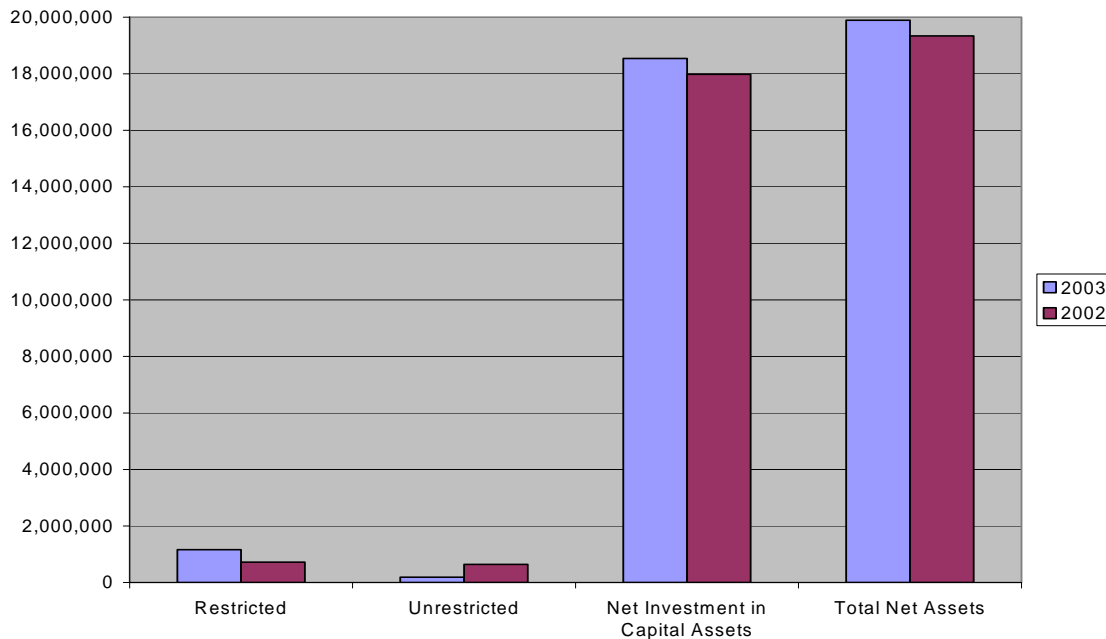
This section of Lenoir Community College's financial statements presents Management's Discussion and Analysis of the College's financial activity during the fiscal year ended June 30, 2003. Since this Management's Discussion and Analysis is designed to focus on current activities, resulting change, and currently known facts, please read it in conjunction with the College's basic financial statements and the related notes. Responsibility for the completeness and fairness of this information rests with the College.

Using This Annual Report

The financial statements focus on the College as a whole. The College's basic financial statements are designed to emulate corporate presentation models, whereby all College activities are consolidated into one total. The focus of the Statement of Net Assets is designed to be similar to bottom line results of the College. This Statement combines and consolidates current financial resources (short-term expendable resources) with capital assets. The Statement of Revenues, Expenses, and Changes in Net Assets focuses on both the gross costs and the net costs of College activities, which are supported mainly by federal, State and local funding. This approach is intended to summarize and simplify the user's analysis of cost of various College services to students and the public.

Financial Analysis of the College as a Whole

Comparison of Net Assets - Fiscal Years 2003 and 2002



MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Analysis of Net Assets				
June 30,				
	<u>2003</u>	<u>2002</u>	<u>Increase (Decrease)</u>	<u>Percent Changed</u>
Net Assets				
Restricted for Expendable	\$ 1,160,082	\$ 719,356	\$ 440,726	61.27%
Unrestricted	189,725	639,039	(449,314)	-70.31%
Net Investment in Capital Assets	<u>18,546,777</u>	<u>17,980,147</u>	<u>566,630</u>	<u>3.15%</u>
Total Net Assets	<u>\$ 19,896,584</u>	<u>\$ 19,338,542</u>	<u>\$ 558,042</u>	

Statement of Net Assets				
June 30,				
	<u>2003</u>	<u>2002</u>	<u>Increase (Decrease)</u>	<u>Percent Changed</u>
Assets				
Current Assets	\$ 2,280,174	\$ 1,881,685	\$ 398,489	21.18%
Noncurrent Assets:				
Capital Assets, Net of Depreciation	19,483,221	18,895,780	587,441	3.11%
Other	<u>37,620</u>	<u>73,083</u>	<u>(35,463)</u>	<u>-48.52%</u>
Total Assets	<u>21,801,015</u>	<u>20,850,548</u>	<u>950,467</u>	
Liabilities				
Current Liabilities	472,260	298,274	173,986	58.33%
Noncurrent Liabilities	<u>1,432,171</u>	<u>1,213,732</u>	<u>218,439</u>	<u>18.00%</u>
Total Liabilities	<u>1,904,431</u>	<u>1,512,006</u>	<u>392,425</u>	
Net Assets				
Investment in Capital Assets	18,546,777	17,980,147	566,630	3.15%
Restricted for Expendable	1,160,082	719,356	440,726	61.27%
Unrestricted	<u>189,725</u>	<u>639,039</u>	<u>(449,314)</u>	<u>-70.31%</u>
Total Net Assets	<u>\$ 19,896,584</u>	<u>\$ 19,338,542</u>	<u>\$ 558,042</u>	

These schedules were prepared from the College's Statement of Net Assets, which is presented on an accrual basis of accounting whereby assets are capitalized and depreciated.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

As of June 30, 2003, the College's net assets have increased slightly to \$19,896,584 from \$19,338,542 at June 30, 2002. This is due in part to unexpended bond allocations.

Investment in Capital Assets is shown net of related debt, including notes payable to Branch Bank and Trust Company in the amount of \$936,444. The note was entered into for the purpose of a guaranteed energy savings equipment purchase.

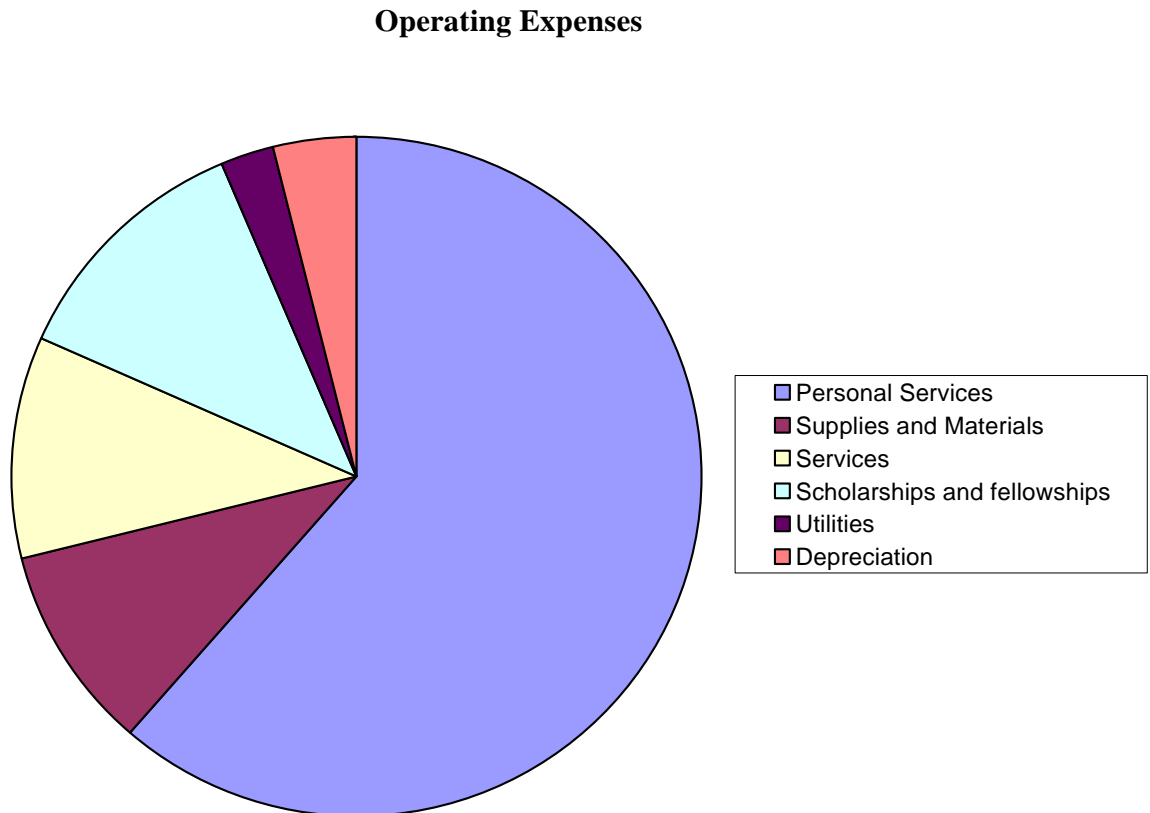
The General Assembly of North Carolina authorized the issuance of \$600 million of general obligation bonds of the State. Lenoir Community College's portion of the bonds is \$12,841,299. As shown on the Schedule of General Obligation Bond Project Authorizations, Budgets, and Expenditures, five projects have currently been approved. The outstanding commitments on construction contracts for bond projects at June 30, 2003 were \$344,124.

	Operating Results for the Year Ended June 30,			
	<u>2003</u>	<u>2002</u>	<u>Increase (Decrease)</u>	<u>Percent Changed</u>
Operating Revenues				
Student Tuition and Fees, Net	\$ 575,400	\$ 631,882	\$ (56,482)	-8.94%
Federal Grants and Contracts	4,620,872	4,226,237	394,635	9.34%
State and Local Grants and Contracts	691,428	634,202	57,226	9.02%
Sales and Services, Net	454,039	315,027	139,012	44.13%
Other	37,680	44,738	(7,058)	-15.78%
Total Operating Revenues	<u>6,379,419</u>	<u>5,852,086</u>	<u>527,333</u>	
Less Operating Expenses	<u>19,315,215</u>	<u>17,499,408</u>	<u>1,815,807</u>	10.38%
Net Operating Loss	<u>(12,935,796)</u>	<u>(11,647,322)</u>	<u>(1,288,474)</u>	
Nonoperating Revenues (Expenses)				
State Aid	9,279,751	9,034,039	245,712	2.72%
County Appropriations	1,388,303	1,411,816	(23,513)	-1.67%
Noncapital Grants	492,943		492,943	100.00%
Noncapital Gifts	19,546	20,916	(1,370)	-6.55%
Investment Income	27,822	45,088	(17,266)	-38.29%
Other	(73,762)	(6,414)	(67,348)	1050.02%
Net Nonoperating Revenues	<u>11,134,603</u>	<u>10,505,445</u>	<u>629,158</u>	
Loss	<u>(1,801,193)</u>	<u>(1,141,877)</u>	<u>659,316</u>	
State Capital Aid	2,160,150	1,421,404	738,746	51.97%
County Capital Appropriations	191,085	217,572	(26,487)	-12.17%
Capital Gifts	8,000	10,000	(2,000)	-20.00%
Increase in Net Assets	<u>558,042</u>	<u>507,099</u>	<u>50,943</u>	10.05%
Net Assets, Beginning of Year	<u>19,338,542</u>	<u>18,831,443</u>	<u>507,099</u>	2.69%
Net Assets, End of Year	<u>\$ 19,896,584</u>	<u>\$ 19,338,542</u>	<u>\$ 558,042</u>	2.89%

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

	Operating Expenses June 30,		Increase (Decrease)	Percent Changed
	2003	2002		
Operating Expenses				
Personal Services	\$ 11,882,693	\$ 11,380,552	\$ 502,141	4.41%
Supplies and Materials	1,852,603	1,369,034	483,569	35.32%
Services	2,042,620	1,695,815	346,805	20.45%
Scholarships and Fellowships	2,309,682	1,822,431	487,251	26.74%
Utilities	459,961	489,093	(29,132)	-5.96%
Depreciation	767,656	742,483	25,173	3.39%
Total Operating Expenses	\$ 19,315,215	\$ 17,499,408	\$ 1,815,807	

The following is a graphic illustration of operating expenses.



These schedules were prepared from the College's Statement of Revenues, Expenses, and Changes in Net Assets.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

Operating revenue increased \$527,333, which includes an increase in Pell Grant funding of \$700,092. Pell grant served more students during the fiscal year ending June 30, 2003 and the awards were higher per student than in the previous year.

Operating expenses at June 30, 2003, increased by \$1,815,807 over the same period in fiscal year 2002. This increase is due to increased enrollment, additional grant funded positions, and increased Pell Grant awards.

Lenoir Community College service area has experienced increased unemployment over the last year. This unemployment increase has resulted in increased student enrollment and increased students receiving WIA and other financial aid. It appears that the net assets of the College are comparable with the prior year when the significant impact of the North Carolina Community Bond allocations is taken into consideration.

Lenoir Community College
Statement of Net Assets
June 30, 2003

Exhibit A

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 553,906.56
Restricted Cash and Cash Equivalents	274,519.26
Receivables, Net (Note 3)	355,289.68
Restricted Due from Primary Government	995,028.30
Due from State of North Carolina Component Units	10,528.00
Inventories	74,216.53
Prepaid Items	15,410.40
Notes Receivable (Note 3)	1,275.33
Total Current Assets	2,280,174.06

Noncurrent Assets:

Restricted Cash and Cash Equivalents	37,619.76
Capital Assets - Nondepreciable (Note 4)	1,294,931.79
Capital Assets - Depreciable, Net (Note 4)	18,188,289.31
Total Noncurrent Assets	19,520,840.86
Total Assets	21,801,014.92

LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 5)	216,801.98
Deferred Revenue	80,242.60
Funds Held for Others	40,556.02
Long-Term Liabilities - Current Portion (Note 6)	134,659.07
Total Current Liabilities	472,259.67

Noncurrent Liabilities:

Long-Term Liabilities (Note 6)	1,432,171.23
Total Noncurrent Liabilities	1,432,171.23
Total Liabilities	1,904,430.90

NET ASSETS

Invested in Capital Assets, Net of Related Debt	18,546,776.83
Restricted for:	
Expendable:	
Loans	13,284.83
Capital Projects	955,006.43
Other	191,790.94
Unrestricted	189,724.99
Total Net Assets	\$ 19,896,584.02

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

Lenoir Community College		
Statement of Revenues, Expenses, and		
Changes in Net Assets		
For the Fiscal Year Ended June 30, 2003		Exhibit B
REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net (Note 7)	\$	575,400.11
Federal Grants and Contracts		4,620,872.33
State and Local Grants and Contracts		691,428.45
Sales and Services, Net		454,038.78
Other Operating Revenues		37,679.64
Total Operating Revenues		6,379,419.31
EXPENSES		
Operating Expenses:		
Personal Services		11,882,692.99
Supplies and Materials		1,852,602.87
Services		2,042,620.23
Scholarships and Fellowships		2,309,681.44
Utilities		459,961.35
Depreciation		767,656.08
Total Operating Expenses		19,315,214.96
Operating Loss		(12,935,795.65)
NONOPERATING REVENUES (EXPENSES)		
State Aid		9,279,750.90
County Appropriations		1,388,303.00
Noncapital Grants		492,942.43
Noncapital Gifts, Net		19,545.60
Investment Income, Net		27,821.73
Interest and Fees on Capital Asset-Related Debt		(16,625.48)
Other Nonoperating Expenses		(57,136.10)
Net Nonoperating Revenues		11,134,602.08
Loss Before Other Revenues, Expenses, Gains, and Losses		(1,801,193.57)
State Capital Aid		2,160,150.26
County Capital Appropriations		191,085.00
Capital Gifts, Net		8,000.00
Increase in Net Assets		558,041.69
NET ASSETS		
Net Assets, July 1, 2002		19,338,542.33
Net Assets, June 30, 2003	\$	19,896,584.02
The accompanying notes to the financial statements are an integral part of this statement.		

Lenoir Community College		
Statement of Cash Flows		
For the Fiscal Year Ended June 30, 2003		Exhibit C
CASH FLOWS FROM OPERATING ACTIVITIES		
Received from Customers	\$	6,448,415.15
Payments to Employees and Fringe Benefits		(11,540,802.59)
Payments to Vendors and Suppliers		(4,388,627.65)
Payments for Scholarships and Fellowships		(2,309,681.44)
Loans Issued to Students		(13,025.85)
Collection of Loans to Students		12,709.28
Other Receipts		7,523.11
Net Cash Used by Operating Activities		(11,783,489.99)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State Aid Received		9,279,750.90
County Appropriations		1,388,303.00
Noncapital Grants Received		566,874.81
Noncapital Gifts and Endowments Received		19,545.60
Net Cash Provided by Noncapital Financing Activities		11,254,474.31
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
State Capital Aid Received		1,784,280.13
County Capital Appropriations		191,085.00
Proceeds from Sale of Capital Assets		5,482.38
Acquisition and Construction of Capital Assets		(1,297,276.32)
Principal Paid on Capital Debt and Leases		(89,647.26)
Interest Paid on Capital Debt and Leases		(51,437.34)
Net Cash Provided by Capital and Related Financing Activities		542,486.59
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment Income		27,987.70
Net Cash Provided by Investing Activities		27,987.70
Net Increase in Cash and Cash Equivalents		41,458.61
Cash and Cash Equivalents, July 1, 2002		824,586.97
Cash and Cash Equivalents, June 30, 2003	\$	866,045.58

<i>Lenoir Community College</i>		
<i>Statement of Cash Flows</i>		<i>Exhibit C</i>
<i>For the Fiscal Year Ended June 30, 2003</i>		<i>Page 2</i>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating Loss		\$ (12,935,795.65)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense		767,656.08
Changes in Assets and Liabilities:		
Receivables, Net		(11,246.76)
Inventories		(7,230.99)
Prepaid Items		(576.08)
Notes Receivable, Net		(316.57)
Accounts Payable and Accrued Liabilities		4.46
Deferred Revenue		80,242.60
Funds Held for Others		7,523.11
Compensated Absences		316,249.81
Net Cash Used by Operating Activities		\$ (11,783,489.99)
RECONCILIATION OF CASH AND CASH EQUIVALENTS		
Current Assets:		
Cash and Cash Equivalents		\$ 553,906.56
Restricted Cash and Cash Equivalents		274,519.26
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		37,619.76
Total Cash and Cash Equivalents - June 30, 2003		\$ 866,045.58
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES		
Assets Acquired through Assumption of a Liability		\$ 78,052.00
Assets Acquired through a Gift		8,000.00
Increase in Receivables Related to Nonoperating Income		377,932.21
The accompanying notes to the financial statements are an integral part of this statement.		

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LENOIR COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

- A. Financial Reporting Entity** - The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their constituents for their actions. As required by accounting principles generally accepted in the United States of America, the financial reporting entity includes both the primary government and all of its component units. An organization other than a primary government serves as a nucleus for a reporting entity when it issues separate financial statements. Lenoir 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 for which the College's Board of Trustees is financially accountable. Related foundations and similar nonprofit corporations for which the College is not financially accountable are not part of the accompanying financial statements. These entities are not included because they are separately incorporated and there are neither common directors nor other evidence of common control.

- B. Basis of Presentation** - The accompanying financial statements are presented in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

Pursuant to the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as amended by GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*, the full scope of the College's activities is considered to be a single business-type activity (BTA) and accordingly, is reported within a single column in the basic financial statements.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- C. Basis of Accounting** - The financial statements of the College have been prepared using the economic resource measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.
- D. Cash and Cash Equivalents** – This classification includes undeposited receipts, petty cash, cash on deposit with private bank accounts, and deposits held by the State Treasurer in the short-term investment portfolio. The short-term investment portfolio maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.
- E. Receivables** – Receivables consist of tuition and fees charges to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from the federal government, State and local governments, and private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants that are verifiable, measurable, and expected to be collected and available for expenditures for which the resource provider's conditions have been satisfied. Receivables are recorded net of estimated uncollectible amounts.
- F. Inventories** – Inventories, consisting of expendable supplies, are valued at cost using the last invoice cost method.
- G. Capital Assets** – Capital assets are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. The College capitalizes assets that have a value or cost in excess of \$5,000 at the date of acquisition and an expected useful life of more than one year. Library books are generally not considered to have a useful life of more than one year unless part of a collection and are expensed in the year of acquisition.

Depreciation is computed using the straight-line and/or units of output method over the estimated useful lives of the assets, generally 10 to 25 years for general infrastructure, 15 to 40 years for buildings, and 3 to 15 years for equipment.

- H. Restricted Assets** – Unexpended capital contributions are classified as restricted assets because their use is limited by donor/grantor agreements. Certain other assets are classified as restricted because their use is limited by external parties or statute.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- I. Noncurrent Long-Term Liabilities** – Noncurrent long-term liabilities include notes payable and compensated absences that will not be paid within the next fiscal year.
- J. Compensated Absences** - The College's policy is to record the cost of vacation leave when earned. The policy provides for a maximum accumulation of unused vacation leave of 30 days which can be carried forward each January 1st or for which an employee can be paid upon termination of employment. Also, any accumulated vacation leave in excess of 30 days at year-end is converted to sick leave. Under this policy, the accumulated vacation leave for each employee at June 30th equals the leave carried forward at the previous December 31st plus the leave earned, less the leave taken between January 1st and June 30th.

In addition to the vacation leave described above, compensated absences includes the accumulated unused portion of the special annual leave bonus awarded by the College to all full-time permanent employees as of September 30, 2002. The unused portion of this leave remains available until used, notwithstanding the limitation on annual leave carried forward described above.

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

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

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

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

Unrestricted Net Assets – Unrestricted net assets include resources derived from student tuition and fees, sales and services, unrestricted gifts, and interest income.

Restricted and unrestricted resources are tracked using a fund accounting system and are spent in accordance with established fund authorities. Fund authorities provide rules for the fund activity and are separately established for restricted and unrestricted activities. When both restricted and unrestricted funds are available for expenditure, the decision for funding is transactional based within the departmental management system in place at the College.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- L. Scholarship Discounts** – Student tuition and fees revenues and certain other revenues from College charges are reported net of scholarship discounts in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. The scholarship discount is the difference between the actual charge for goods and services provided by the College and the amount that is paid by students or by third parties on the students' behalf. Student financial assistance grants, such as Pell grants, and other federal, State, or nongovernmental programs, are recorded as either operating or nonoperating revenues in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. To the extent that revenues from these programs are used to satisfy tuition, fees, and other charges, the College has recorded a scholarship discount.
- M. Revenue and Expense Recognition** – The College classifies its revenues and expenses as operating or nonoperating in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the College's principal ongoing operations. Operating revenues include activities that have characteristics of exchange transactions, such as (1) student tuition and fees, (2) sales and services of auxiliary enterprises, and (3) certain federal, State and local grants and contracts. Operating expenses are all expense transactions incurred other than those related to capital and noncapital financing or investing activities as defined by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*.
- Nonoperating revenues include activities that have the characteristics of nonexchange transactions. Revenues from nonexchange transactions and State aid that represent subsidies or gifts to the College, as well as investment income, are considered nonoperating since these are either investing, capital or noncapital financing activities. Capital contributions are presented separately after nonoperating revenues and expenses.
- N. County Appropriations** - County appropriations are provided to the College primarily to fund its plant operation and maintenance function and to fund construction projects, motor vehicle purchases, and maintenance of equipment. Unexpended county current appropriation and county capital appropriation do not revert and are available for future use by the College.

NOTE 2 - DEPOSITS

All funds of the College are deposited in board-designated official depositories and are required to be collateralized in accordance with General

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Statute 115D-58.7. Official depositories may be established with any bank or savings and loan association whose principal office is located in North Carolina or with the State Treasurer’s Investment Pool. Also, the College may establish time deposit accounts, money market accounts, and certificates of deposit. At year-end, cash on hand was \$1,839.00. The carrying amount of cash on deposit was \$864,206.58 and the bank balance was \$1,145,292.58.

The North Carolina Administrative Code (20 NCAC 7) requires all depositories to collateralize public deposits in excess of federal depository insurance coverage by using one of two methods, dedicated or pooled. Under the dedicated method, a separate escrow account is established by each depository in the name of each local governmental unit and the responsibility of monitoring collateralization rests with the local unit. Under the pooling method, each depository establishes an escrow account in the name of the State Treasurer to secure all of its public deposits. This method shifts the monitoring responsibility from the local unit to the State Treasurer.

Cash on deposit at year end consisted of the following:

	Book Balance	Bank Balance
Cash on Deposit with State Treasurer	\$ 761,814.52	\$ 846,814.52
Cash on Deposit with Private Financial Institutions	102,392.06	298,478.06
	\$ 864,206.58	\$ 1,145,292.58

The cash on deposit with the State Treasurer is pooled with State agencies and similar institutions in short-term investments with the State Treasurer’s Investment Pool. These moneys are invested in accordance with General Statutes 147-69.1(c) and 147-69.2, and as required by law are “readily convertible into cash.” All investments of the fund are held either by the Department of State Treasurer or agent in the State’s name. The fund’s uninvested cash is either covered by federal depository insurance or, pursuant to 20 NCAC 7, is collateralized under either the dedicated or pooling method.

The financial statements and disclosures for the State Treasurer’s Investment Pool are included in the State of North Carolina’s *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller’s Internet home page <http://www.osc.state.nc.us/> and clicking on “Financial Reports”, or by calling the State Controller’s Financial Reporting Section at (919) 981-5454.

Of the cash on deposit with private financial institutions at June 30, 2003, \$198,532.86 of the bank balance was covered by federal depository insurance,

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

and \$99,945.20 was covered by collateral held by an authorized escrow agent in the name of the State Treasurer (pooling method).

NOTE 3 - RECEIVABLES

Receivables at June 30, 2003 were as follows:

	<u>Gross Receivables</u>	<u>Less Allowance for Doubtful Accounts</u>	<u>Net Receivables</u>
Current Receivables:			
Students	\$ 97,509.43	\$ 33,012.56	\$ 64,496.87
Accounts	154,940.20		154,940.20
Intergovernmental	133,236.10		133,236.10
Investment Earnings	2,541.51		2,541.51
Other	75.00		75.00
	<u>388,302.24</u>	<u>33,012.56</u>	<u>355,289.68</u>
Total Current Receivables	<u>\$ 388,302.24</u>	<u>\$ 33,012.56</u>	<u>\$ 355,289.68</u>
Notes Receivable - Current:			
Institutional Student Loan Programs	<u>\$ 1,275.33</u>	<u>\$ 0.00</u>	<u>\$ 1,275.33</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, 2003, is presented as follows:

	Balance July 1, 2002	Adjustments	Increases	Decreases	Balance June 30, 2003
Capital Assets, Nondepreciable:					
Land	\$ 817,053.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 817,053.00
Construction in Progress	1,256,293.50	(1,995,027.34)	1,216,612.63		477,878.79
Total Capital Assets, Nondepreciable	2,073,346.50	(1,995,027.34)	1,216,612.63		1,294,931.79
Capital Assets, Depreciable:					
Buildings	20,576,251.82	1,986,499.34			22,562,751.16
Machinery and Equipment	2,743,120.25		201,103.40	289,445.67	2,654,777.98
General Infrastructure	554,748.59	8,528.00			563,276.59
Total Capital Assets, Depreciable	23,874,120.66	1,995,027.34	201,103.40	289,445.67	25,780,805.73
Less Accumulated Depreciation:					
Buildings	5,051,538.53		566,177.78		5,617,716.31
Machinery and Equipment	1,782,673.27		169,840.72	226,827.19	1,725,686.80
General Infrastructure	217,475.73		31,637.58		249,113.31
Total Accumulated Depreciation	7,051,687.53		767,656.08	226,827.19	7,592,516.42
Total Capital Assets, Depreciable, Net	16,822,433.13	1,995,027.34	(566,552.68)	62,618.48	18,188,289.31
Capital Assets, Net	\$ 18,895,779.63	\$ 0.00	\$ 650,059.95	\$ 62,618.48	\$ 19,483,221.10

NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2003 were as follows:

	Amount
Accounts Payable	\$ 101,077.35
Accrued Payroll	77,292.15
Contract Retainage	21,822.50
Intergovernmental Payables	5,932.62
Other	10,677.36
Total Accounts Payable and Accrued Liabilities	\$ 216,801.98

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 is presented as follows:

	Balance July 1, 2002	Additions	Reductions	Balance June 30, 2003	Current Portion
Notes Payable	\$ 1,026,091.53	\$ 0.00	\$ 89,647.26	\$ 936,444.27	\$ 94,440.45
Compensated Absences	314,136.22	645,963.69	329,713.88	630,386.03	40,218.62
Total Long-Term Liabilities	<u>\$ 1,340,227.75</u>	<u>\$ 645,963.69</u>	<u>\$ 419,361.14</u>	<u>\$ 1,566,830.30</u>	<u>\$ 134,659.07</u>

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 06/30/2003	Principal Outstanding 06/30/2003
Guaranteed Energy Savings Equipment Purchase	Branch Bank and Trust Company	5.22%	08/17/2011	<u>\$ 1,097,312.00</u>	<u>\$ 160,867.73</u>	<u>\$ 936,444.27</u>

The annual requirements to pay principal and interest on the notes payable at June 30, 2003 are as follows:

Fiscal Year	Annual Requirements	
	Notes Payable	
	Principal	Interest
2004	\$ 94,440.45	\$ 46,644.15
2005	99,489.91	41,594.69
2006	104,809.37	36,275.23
2007	110,413.22	30,671.38
2008	116,316.69	24,767.91
2009-2013	<u>410,974.63</u>	<u>35,793.27</u>
Total Requirements	<u>\$ 936,444.27</u>	<u>\$ 215,746.63</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 7 - REVENUES

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

	Gross Revenues	Less Scholarship Discounts	Net Revenues
Operating Revenues:			
Student Tuition and Fees	\$ 1,835,059.61	\$ 1,259,659.50	\$ 575,400.11

NOTE 8 - OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	\$ 7,443,947.28	\$ 1,140,039.71	\$ 528,180.44	\$ 0.00	\$ 0.00	\$ 0.00	\$ 9,112,167.43
Public Service	85,681.44	7,503.37	21,321.01				114,505.82
Academic Support	917,139.89	95,090.09	56,134.93				1,068,364.91
Student Services	1,018,402.19	44,458.19	730,234.92				1,793,095.30
Institutional Support	1,677,903.66	440,170.68	580,713.80				2,698,788.14
Operations and Maintenance of Plant	739,618.53	117,259.68	110,892.17		459,961.35		1,427,731.73
Student Financial Aid			441.77	2,309,681.44			2,310,123.21
Auxiliary Enterprises		8,081.15	14,701.19				22,782.34
Depreciation						767,656.08	767,656.08
Total Operating Expenses	\$ 11,882,692.99	\$ 1,852,602.87	\$ 2,042,620.23	\$ 2,309,681.44	\$ 459,961.35	\$ 767,656.08	\$ 19,315,214.96

NOTE 9 - PENSION PLANS

A. Retirement Plans - Each permanent full-time employee, as a condition of employment, is a member of the Teachers' and State Employees' Retirement System. The Teachers' and State Employees' Retirement System (System) is a cost sharing multiple-employer defined benefit pension plan administered by the North Carolina State Treasurer.

Benefit and contribution provisions for the Teachers' and State Employees' Retirement System are established by *North Carolina General Statutes* 135-5 and 135-8 and may be amended only by the North Carolina General Assembly. Employer and member contribution rates are set each year by the North Carolina General Assembly based on annual actuarial valuations. For the year ended June 30, 2003, the General Assembly required no contribution by employers and 6% of covered payroll for members.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended June 30, 2003, the College had a total payroll of \$10,177,868.15, of which \$7,657,360.76 was covered under the Teachers' and State Employees' Retirement System. Total employee contributions for pension benefits for the year were \$459,441.65. No employer contributions were required. The College made one hundred percent of its annual required contributions for the years ended June 30, 2003, 2002, and 2001, which were \$0.00, \$151,893.27, and \$415,596.46, respectively.

The Teachers' and State Employees' Retirement System's financial information is included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.state.nc.us/> and clicking on "Financial Reports", or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

B. Supplemental Retirement Income Plans - IRC Section 401(k) Plan - All members of the Teachers' and State Employees' Retirement System are eligible to enroll in the Supplemental Retirement Income Plan, a defined contribution plan, created under Internal Revenue Code Section 401(k). All costs of administering the Plan are the responsibility of the Plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to \$141,623.00 for the year ended June 30, 2003.

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 \$9,458.00 for the year ended June 30, 2003.

NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS

A. Health Care for Long-Term Disability Beneficiaries and Retirees - The College participates in State-administered programs which provide postemployment health insurance to eligible former employees. Eligible former employees include long-term disability beneficiaries of the Disability Income Plan of North Carolina and retirees of the Teachers' and State Employees' Retirement System. These benefits were

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

established by Chapter 135, Article 3, Part 3, of the General Statutes and may be amended only by the North Carolina General Assembly. Funding for the health care benefit for long-term disability beneficiaries and retirees is financed on a pay-as-you-go basis. The College contributed 2.35% of the covered payroll under the Teachers' and State Employees' Retirement System for these health care benefits. For the fiscal year ended June 30, 2003, the College's total contribution to the Plan was \$179,947.98. The College assumes no liability for retiree health care benefits provided by the programs other than its required contribution. Additional detailed information about these programs can be located in the State of North Carolina's *Comprehensive Annual Financial Report*.

- B. Long-Term Disability** - The College participates in the Disability Income Plan of North Carolina (DIPNC). Established by Chapter 135, Article 6, of the General Statutes, DIPNC provides short-term and long-term disability benefits to eligible members of the Teachers' and State Employees' Retirement System. Long-term disability income benefits are advance funded on an actuarially determined basis using the one-year term cost method. The College contributes .52% of covered payroll under the Teachers' and State Employees' Retirement System to the DIPNC. For the fiscal year ended June 30, 2003, the College's total contribution to the DIPNC was \$39,818.28. The College assumes no liability for long-term disability benefits under the Plan other than its contribution. Additional detailed information about the DIPNC is disclosed in the State of North Carolina's *Comprehensive Annual Financial Report*.

NOTE 11 - 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 \$500,000 are self-insured under the authority of the State Tort Claims Act. In addition, the State provides excess public officers' and employees' liability insurance up to \$11,000,000 via contract with a private insurance company. The premium, based on a composite rate, is paid by the North Carolina Community College System Office directly to the private insurer.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Fire and other property losses are covered by the Public School Insurance Fund, a State-administered public entity risk pool. This fund is financed by premiums and interest and incurs a \$10 million self-insured deductible per occurrence, subject to a \$20 million annual aggregate. Reinsurance is purchased by the fund to cover catastrophic events in excess of the \$10 million deductible. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

State-owned vehicles used for instructional purposes are covered by liability insurance handled by the State Department of Insurance. Liability insurance for other College-owned vehicles is covered by contracts with private insurance companies.

The College is protected for losses from employee dishonesty and computer fraud for employees paid in whole or in part from State funds. The blanket honesty bond is with a private insurance company and is handled by the North Carolina Department of Insurance with coverage of \$5,000,000 per occurrence and a \$50,000 deductible. The blanket dishonesty policy for county and institutional fund employees is handled by a private insurance company with coverage of \$150,000 per occurrence and no deductible.

Employees and retirees are provided health care coverage by the Comprehensive Major Medical Plan (Plan), a component unit of the State. The Plan is funded by employer and employee contributions and is administered by a third-party contractor.

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

Term life insurance of \$25,000 to \$50,000 is provided to eligible workers. This self-insured death benefit program is administered by the State Treasurer and funded via employer contributions.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 12 - COMMITMENTS AND CONTINGENCIES

- A. Commitments** - The College has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were \$344,123.90 and on other purchases were \$33,308.96 at June 30, 2003.
- B. Community College General Obligation Bonds** – The 1999-2000 Session of the General Assembly of North Carolina authorized the issuance of six hundred million dollars of general obligation bonds of the State, as subsequently approved by a vote of qualified voters of the State, to provide funds for capital improvements for the North Carolina Community College System. The funds authorized are to be used solely to construct new buildings and to renovate and modernize existing buildings on the North Carolina Community College System campuses. The bond legislation specifies the amount of bond funding for each College campus as well as the intended amount for new construction and repair and replacement. The legislation further provides that the State Board of Community Colleges shall be responsible for the approval of projects in accordance with provisions of the legislation. The bonds were authorized for issuance over a six-year period beginning in 2001 at a level not to exceed amounts provided in the legislation. Using a cash flow financing approach, The Community College System's Office (CCSO) establishes annual amounts not to exceed for each approved project. The amounts not to exceed are subject to change due to actual cash availability and needs during the year. Subsequent to the bond sales and the availability of bond proceeds, CCSO notifies the Office of State Budget and Management (OSBM) of the amount not to exceed for the total of the approved projects. Within this amount, based on an official request of cash needs from the State Board of Community Colleges, OSBM authorizes allotments. These allotments are then recorded to specific community college allotment accounts by the CCSO. The College records the allotments as revenue on the accompanying financial statements. The College's remaining authorization of \$10,625,404.00 is contingent on future bond sales and CCSO allotment approval. Because of uncertainty and time restrictions the remaining authorization is not recorded as an asset or revenue on the accompanying financial statements.

NOTE 13 - LENOIR COMMUNITY COLLEGE FOUNDATION, INC.

The Lenoir Community College Foundation, Inc. is a separately incorporated nonprofit foundation associated with the College. This organization serves as the primary fundraising arm of the College through which individuals, corporations, and other organizations support College programs by providing

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

scholarships, fellowships, faculty salary supplements, and unrestricted funds to specific departments and the College's overall academic environment. The College's financial statements do not include the assets, liabilities, net assets, or operational transactions of the Foundation, except for the distributions made and benefits provided by the Foundation. The distributions received and/or benefits provided approximated \$13,600.00 for the year ended June 30, 2003.

***Lenoir Community College
Schedule of General Obligation Bond Project Authorizations,
Budgets, and Expenditures
For Project-to-Date as of June 30, 2003***

Schedule 1

Capital Improvement Projects	Projected Start Date	General Obligation Bonds Authorized	Other Sources	Total Project Budget	Amount Expended	Percent Completed	Expected Completion Date
<i>Projects Approved by the State Board</i>							
Additions/Renovations/Health Science Bldg & Marquee 1136	Jan 2001	\$ 596,000.00	\$ 0.00	\$ 596,000.00	\$ 567,681.14	95.25%	Aug 2004
Repair & Renovations Project/Elevator/Roof/HVAC/ADA 1228	Jan 2002	928,692.00		928,692.00	398,831.20	42.95%	Jul 2006
Early Childhood/Family Literacy/Student Center 1239	Jan 2002	1,000,000.00		1,000,000.00	172,209.71	17.22%	Nov 2004
Resurface Roads and Parking Lots 1251	Feb 2002	400,000.00		400,000.00	43,066.00	10.77%	Feb 2004
Classroom & Science Bldg 1238	Apr 2002	4,500,000.00		4,500,000.00	144,838.10	3.22%	Nov 2004
<i>Projects Pending Approval by the State Board</i>							
Renovate Industrial Classrooms and Labs	Sep 2003	225,000.00		225,000.00			Jul 2004
Expand Technology Infrastructure	Mar 2005	500,000.00		500,000.00			Nov 2006
Renovate/Add Classrooms in Administrative Building	Jun 2004	420,249.00		420,249.00			Feb 2006
Industrial/Vocational Center	May 2004	2,190,044.00		2,190,044.00			Jul 2006
Addition to Aviation Ctr/Cafeteria	May 2004	626,314.00		626,314.00			Jan 2006
Land Acquisition	Mar 2004	450,000.00		450,000.00			Jun 2004
Childcare Center	Oct 2004	650,000.00		650,000.00			Jun 2006
Renovate LRC/Alumni and Foundation House	Jan 2005	355,000.00		355,000.00			Feb 2006
Total All Projects		\$ 12,841,299.00	\$ 0.00	\$ 12,841,299.00	\$ 1,326,626.15		
<p>Note: The 1999-2000 Session of the General Assembly of North Carolina authorized the issuance of six hundred million dollars of general obligation bonds of the State, as subsequently approved by a vote of qualified voters of the State, to provide funds for capital improvements for the North Carolina Community College System. The projects listed on this schedule are those funded or to be funded by bond proceeds from the general obligation bonds authorized by Senate Bill 912.</p>							

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May 27, 2004

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