



STATE OF NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT OF

LENOIR COMMUNITY COLLEGE

KINSTON, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2004

OFFICE OF THE STATE AUDITOR

LESLIE W. MERRITT, JR., CPA, CFP

STATE AUDITOR

FINANCIAL STATEMENT AUDIT REPORT OF

LENOIR COMMUNITY COLLEGE

KINSTON, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2004

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STATE OF NORTH CAROLINA
Office of the State Auditor

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AUDITOR'S TRANSMITTAL

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

This report presents the results of our financial statement audit of Lenoir Community College, a component unit of the State of North Carolina, for the year ended June 30, 2004. Our audit 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 audit work necessary for the CAFR and the *Single Audit Report*, the accounts and operations of the College were subjected to audit procedures, as we considered necessary. In addition, we performed auditing procedures that we considered necessary for us to report on the accompanying financial statements that relate solely to Lenoir Community College. The audit procedures were conducted in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States.

The purpose of this report is to present the results of our audit on the accompanying financial statements that relate solely to Lenoir Community College. A summary of our reporting objectives and audit results is:

- 1. Objective** – To express an opinion on the accompanying financial statements that relate solely to Lenoir Community College.

Results - The accompanying financial statements present fairly, in all material respects, the amounts and disclosures made in accordance with accounting principles generally accepted in the United States of America. These matters are more fully described in the Independent Auditor's Report on the Financial Statements.

AUDITOR'S TRANSMITTAL (CONCLUDED)

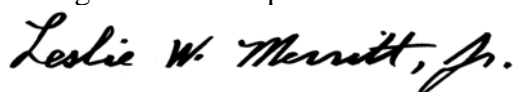
2. **Objective** – To present significant deficiencies, if any, in internal control over financial reporting which could adversely affect the College's ability to record, process, summarize, and report financial data in the financial statements and present instances of noncompliance, if any, with laws,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

Results - Our tests disclosed no material weaknesses in internal control over financial reporting and no instances of noncompliance, which require disclosure herein under *Government Auditing Standards*. These matters are more fully described in the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters.

3. **Objective** – To present significant deficiencies, if any, in internal control over compliance that could adversely affect the College's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants and present instances of noncompliance with federal laws, regulations, contracts or grants, the effects of which have a material effect in relation to a type of compliance requirement or audit objective identified in *OMB Circular A-133 Compliance Supplement*.

Results - Our tests disclosed no significant deficiencies in internal control over compliance and no instances of noncompliance, which require disclosure herein under *OMB Circular A-133*.

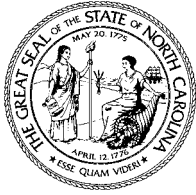
North Carolina General Statutes require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.



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

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Lenoir Community College
Kinston, North Carolina

We have audited the accompanying financial statements of Lenoir 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, 2004, which collectively comprise Lenoir Community 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 Lenoir Community College Foundation, Inc., which represents 100% of the College's discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component unit, is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of Lenoir 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 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 Lenoir Community College and its component unit, as of June 30, 2004, and the respective changes in its financial position and its 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)

As discussed in Note 13 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, during the year ended June 30, 2004.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2004 on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of this 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 (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. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. 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 auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



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

December 16, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

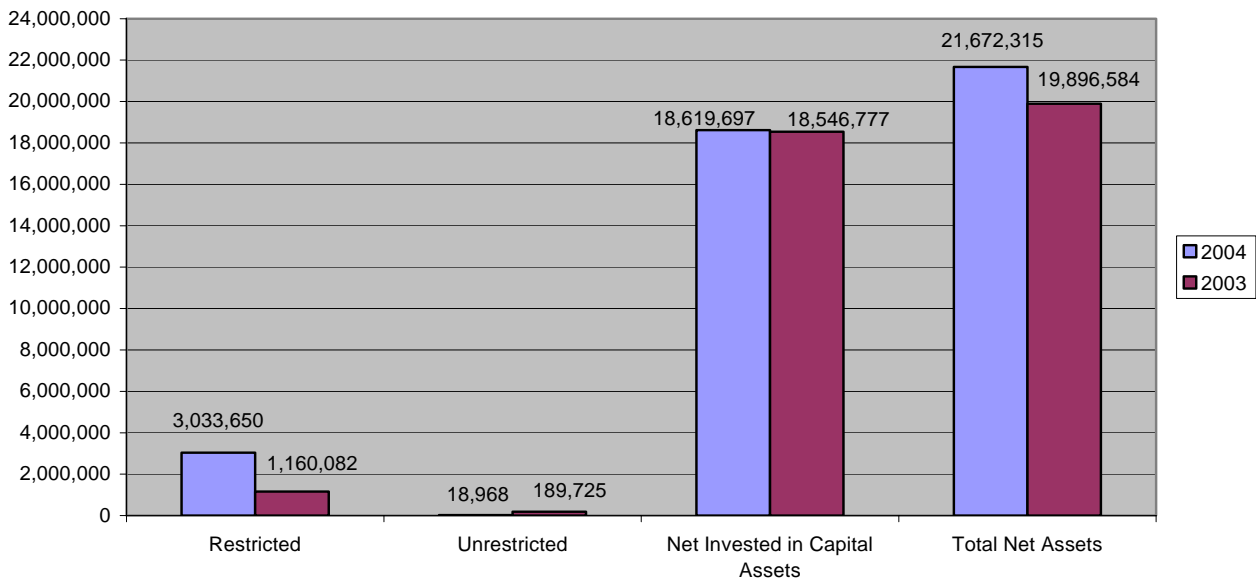
This section of Lenoir Community College's financial statements presents Management's Discussion and Analysis of the College's financial activity during the fiscal year ended June 30, 2004. Since this Management's Discussion and Analysis is designed to focus on current activities, resulting change, and 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 2004 and 2003



MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Analysis of Net Assets				
June 30,				
	2004	2003	Increase (Decrease)	Percent Changed
Net Assets				
Restricted for Expendable	\$ 3,033,650	\$ 1,160,082	\$ 1,873,568	161.50%
Unrestricted	18,968	189,725	(170,757)	-90.00%
Net Invested in Capital Assets	18,619,697	18,546,777	72,920	0.39%
Total Net Assets	\$ 21,672,315	\$ 19,896,584	\$ 1,775,731	

Statement of Net Assets				
June 30,				
	2004	2003	Increase (Decrease)	Percent Changed
Assets				
Current Assets	\$ 1,391,427	\$ 2,280,174	\$ (888,747)	-38.98%
Noncurrent Assets:				
Capital Assets, Net of Depreciation	19,461,701	19,483,221	(21,520)	-0.11%
Other	2,878,013	37,620	2,840,393	7550.22%
Total Assets	23,731,141	21,801,015	1,930,126	
Liabilities				
Current Liabilities	455,382	472,260	(16,878)	-3.57%
Noncurrent Liabilities	1,603,444	1,432,171	171,273	11.96%
Total Liabilities	2,058,826	1,904,431	154,395	
Net Assets				
Invested in Capital Assets	18,619,697	18,546,777	72,920	0.39%
Restricted for Expendable	3,033,650	1,160,082	1,873,568	161.50%
Unrestricted	18,968	189,725	(170,757)	-90.00%
Total Net Assets	\$ 21,672,315	\$ 19,896,584	\$ 1,775,731	

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.

As of June 30, 2004, the College's net assets have increased slightly to \$21,672,315 from \$19,896,584 at June 30, 2003. This is due in part to unexpended bond allocations.

Invested in Capital Assets is shown net of related debt, including notes payable to Branch Bank and Trust Company in the amount of \$842,004. The note was entered into for the purpose of a guaranteed energy savings equipment purchase.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

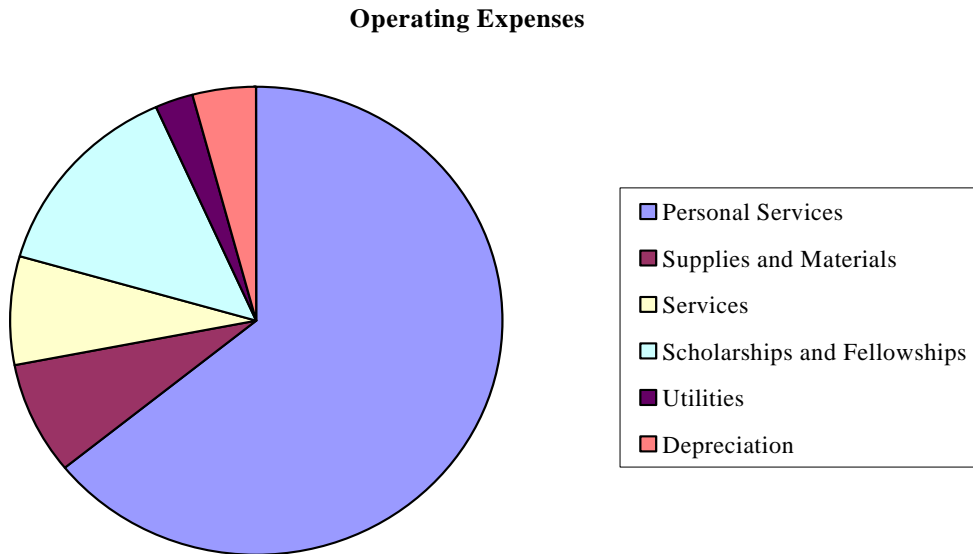
The General Assembly of North Carolina authorized the issuance of \$600 million of general obligation bonds of the State. Lenoir Community College's portion of the bonds is \$12,841,299. As shown on the Schedule of General Obligations Bond Project Authorizations, Budgets, and Expenditures, nine projects have currently been approved. The outstanding commitments on construction contracts for bond projects at June 30, 2004 were \$134,329.

	Operating Results for the Year Ended June 30,			
	2004	2003	Increase (Decrease)	Percent Changed
Operating Revenues				
Student Tuition and Fees, Net	\$ 473,017	\$ 575,400	\$ (102,383)	-17.79%
Federal Grants and Contracts	4,884,699	4,620,872	263,827	5.71%
State and Local Grants and Contracts	749,927	691,428	58,499	8.46%
Sales and Services	616,274	454,039	162,235	35.73%
Other	26,762	37,680	(10,918)	-28.98%
Total Operating Revenues	6,750,679	6,379,419	371,260	
Less Operating Expenses	19,897,128	19,315,215	581,913	3.01%
Net Operating Loss	(13,146,449)	(12,935,796)	(210,653)	
Nonoperating Revenues (Expenses)				
State Aid	9,597,146	9,279,751	317,395	3.42%
County Appropriations	1,599,062	1,388,303	210,759	15.18%
Noncapital Grants	559,535	492,943	66,592	13.51%
Noncapital Gifts	15,883	19,546	(3,663)	-18.74%
Investment Income	26,050	27,822	(1,772)	-6.37%
Other	(34,160)	(73,762)	39,602	-53.69%
Net Nonoperating Revenues	11,763,516	11,134,603	628,913	
Loss	(1,382,933)	(1,801,193)	418,260	
State Capital Aid	2,862,050	2,160,150	701,900	32.49%
County Capital Appropriations	241,489	191,085	50,404	26.38%
Capital Gifts	55,125	8,000	47,125	589.06%
Increase in Net Assets	1,775,731	558,042	1,217,689	218.21%
Net Assets, Beginning of Year	19,896,584	19,338,542	558,042	2.89%
Net Assets, End of Year	\$ 21,672,315	\$ 19,896,584	\$ 1,775,731	8.92%

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

Operating Expenses				
June 30,				
	2004	2003	Increase (Decrease)	Percent Changed
Operating Expenses				
Personal Services	\$ 12,771,371	\$ 11,882,693	\$ 888,678	7.48%
Supplies and Materials	1,555,673	1,852,603	(296,930)	-16.03%
Services	1,453,983	2,042,620	(588,637)	-28.82%
Scholarships and Fellowships	2,812,095	2,309,682	502,413	21.75%
Utilities	493,074	459,961	33,113	7.20%
Depreciation	810,932	767,656	43,276	5.64%
Total Operating Expenses	\$ 19,897,128	\$ 19,315,215	\$ 581,913	

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.

Operating revenues increased \$371,260, which includes an increase in Pell Grant funding of \$410,889. The Pell Grant served more students during the fiscal year ending June 30, 2004. Operating expenses at June 30, 2004, increased by \$581,913 over the same period in fiscal year 2003. This increase is due to increased enrollment, additional grant funds, and increased Pell Grant awards. 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, 2004		Exhibit A-1
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$	696,435.12
Restricted Cash and Cash Equivalents		185,225.93
Receivables, Net (Note 3)		358,939.80
Due from State of North Carolina Component Units		9,974.82
Inventories		118,191.18
Prepaid Items		19,818.80
Notes Receivable (Note 3)		2,841.09
Total Current Assets		1,391,426.74
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		106,049.49
Restricted Due from Primary Government		2,771,964.40
Capital Assets - Nondepreciable (Note 4)		1,932,348.83
Capital Assets - Depreciable, Net (Note 4)		17,529,352.16
Total Noncurrent Assets		22,339,714.88
Total Assets		23,731,141.62
LIABILITIES		
Current Liabilities:		
Accounts Payable and Accrued Liabilities (Note 5)		173,483.76
Deferred Revenue		71,426.29
Funds Held for Others		40,169.25
Long-Term Liabilities - Current Portion (Note 6)		170,302.34
Total Current Liabilities		455,381.64
Noncurrent Liabilities:		
Long-Term Liabilities (Note 6)		1,603,444.07
Total Noncurrent Liabilities		1,603,444.07
Total Liabilities		2,058,825.71
NET ASSETS		
Invested in Capital Assets, Net of Related Debt		18,619,697.17
Restricted for:		
Expendable:		
Scholarships and Fellowships		2,266.63
Loans		13,530.66
Capital Projects		2,835,768.15
Other		182,084.85
Unrestricted		18,968.45
Total Net Assets	\$	21,672,315.91
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, 2004		Exhibit A-2
REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net (Note 7)		\$ 473,016.51
Federal Grants and Contracts		4,884,699.02
State and Local Grants and Contracts		749,926.87
Sales and Services		616,274.15
Other Operating Revenues		26,762.23
Total Operating Revenues		6,750,678.78
EXPENSES		
Operating Expenses:		
Personal Services		12,771,370.54
Supplies and Materials		1,555,672.97
Services		1,453,982.94
Scholarships and Fellowships		2,812,094.84
Utilities		493,074.19
Depreciation		810,932.23
Total Operating Expenses		19,897,127.71
Operating Loss		(13,146,448.93)
NONOPERATING REVENUES (EXPENSES)		
State Aid		9,597,146.28
County Appropriations		1,599,062.49
Noncapital Grants		559,535.62
Noncapital Gifts		15,882.57
Investment Income		26,049.61
Interest and Fees on Debt		(46,644.15)
Other Nonoperating Revenues		12,484.02
Net Nonoperating Revenues		11,763,516.44
Loss Before Other Revenues, Expenses, Gains, and Losses		(1,382,932.49)
State Capital Aid		2,862,050.38
County Capital Appropriations		241,489.00
Capital Gifts, Net		55,125.00
Increase in Net Assets		1,775,731.89
NET ASSETS		
Net Assets, July 1, 2003		19,896,584.02
Net Assets, June 30, 2004		\$ 21,672,315.91
The accompanying notes to the financial statements are an integral part of this statement.		

<i>Lenoir Community College</i>		
<i>Statement of Cash Flows</i>		
<i>For the Fiscal Year Ended June 30, 2004</i>		<i>Exhibit A-3</i>
CASH FLOWS FROM OPERATING ACTIVITIES		
Received from Customers		\$ 6,734,414.21
Payments to Employees and Fringe Benefits		(12,443,061.19)
Payments to Vendors and Suppliers		(3,531,850.16)
Payments for Scholarships and Fellowships		(2,812,094.84)
Loans Issued to Students		(10,764.92)
Collection of Loans to Students		9,199.16
Other Receipts		91.23
	Net Cash Used by Operating Activities	(12,054,066.51)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State Aid Received		9,597,146.28
County Appropriations		1,599,062.49
Noncapital Grants Received		561,345.43
Noncapital Gifts and Endowments Received		15,882.57
	Net Cash Provided by Noncapital Financing Activities	11,773,436.77
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
State Capital Aid Received		1,085,114.28
County Capital Appropriations		241,489.00
Proceeds from Sale of Capital Assets		39.06
Proceeds from Insurance on Capital Assets		23,082.13
Acquisition and Construction of Capital Assets		(834,936.29)
Principal Paid on Capital Debt and Leases		(94,440.45)
Interest Paid on Capital Debt and Leases		(46,644.15)
	Net Cash Provided by Capital and Related Financing Activities	373,703.58
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment Income		28,591.12
	Net Cash Provided by Investing Activities	28,591.12
	Net Increase in Cash and Cash Equivalents	121,664.96
	Cash and Cash Equivalents, July 1, 2003	866,045.58
	Cash and Cash Equivalents, June 30, 2004	\$ 987,710.54

<i>Lenoir Community College</i>		
<i>Statement of Cash Flows</i>		<i>Exhibit A-3</i>
<i>For the Fiscal Year Ended June 30, 2004</i>		<i>Page 2</i>
RECONCILIATION OF OPERATING LOSS		
TO NET CASH USED BY OPERATING ACTIVITIES		
Operating Loss		\$ (13,146,448.93)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense		810,932.23
Miscellaneous Nonoperating Income		478.00
Changes in Assets and Liabilities:		
Receivables, Net		(7,448.26)
Inventories		(43,974.65)
Prepaid Items		(4,408.40)
Notes Receivable, Net		(1,565.76)
Accounts Payable and Accrued Liabilities		46,215.78
Deferred Revenue		(8,816.31)
Funds Held for Others		(386.77)
Compensated Absences		301,356.56
Net Cash Used by Operating Activities		<u>\$ (12,054,066.51)</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS		
Current Assets:		
Cash and Cash Equivalents		\$ 696,435.12
Restricted Cash and Cash Equivalents		185,225.93
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		106,049.49
Total Cash and Cash Equivalents - June 30, 2004		<u>\$ 987,710.54</u>
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES		
Assets Acquired through a Gift		\$ 55,125.00
Increase in Receivables Related to Nonoperating Income		1,776,936.10
Capital Asset Write-Offs		9,500.00
The accompanying notes to the financial statements are an integral part of this statement.		

Lenoir Community College Foundation, Inc.				
Statement of Financial Position				
June 30, 2004				Exhibit B-1
ASSETS				
	Cash and Cash Equivalents			\$ 1,769,692
	Investments			179,184
	Other Receivables			23,098
	Student Loans Receivable, Net			815
	Property and Equipment, Net			148,281
	Total Assets			2,121,070
LIABILITIES				
	Accounts Payable			71
	Total Liabilities			71
NET ASSETS				
	Unrestricted			721,438
	Temporarily Restricted			199,035
	Permanently Restricted			1,200,526
	Total Net Assets			\$ 2,120,999
See Note 1 in the Notes to the Financial Statements				

Lenoir Community College Foundation, Inc.
Statement of Activities
For the Fiscal Year Ended June 30, 2004

Exhibit B-2

CHANGES IN UNRESTRICTED NET ASSETS

Revenues and Gains:

Contributions	\$ 86,289
Interest Income	11,586
Dividends	2,331
Lease	20,995
Investments Gains	23,032
In-kind Contributions	78,675
Net Assets Released from Restrictions	50,117

Total Unrestricted Revenues, Gains and Other Support 273,025

Expenses and Losses:

Grants/Scholarships	102,192
Other Program Expenses	96,768
General and Administrative	11,074
Fund Raising	20,443

Total Expenses 230,477

Increase in Unrestricted Net Assets 42,548

CHANGES IN TEMPORARILY RESTRICTED NET ASSETS

Contributions	13,142
Interest Income	35,333
Net Assets Released from Restrictions	(50,117)

Decrease in Temporarily Restricted Net Assets (1,642)

CHANGES IN PERMANENTLY RESTRICTED NET ASSETS

Contributions	186,405
Interest Income	4,529

Increase in Permanently Restricted Net Assets 190,934

Increase in Net Assets 231,840

Net Assets at Beginning of Year 1,889,159

Net Assets at End of Year \$ 2,120,999

See Note 1 in the Notes to the Financial Statements

LENOIR COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004

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 of the College and the component unit for which the College's Board of Trustees is financially accountable. The College's component unit is discretely presented in the financial statements. Discretely presented component unit's financial data is reported in separate financial statements because of its use of different GAAP reporting models and to emphasize its legal separateness.

Discretely Presented Component Unit – Lenoir 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.

Lenoir Community College Foundation, Inc. is a legally separate, tax-exempt component unit of 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 nineteen or more than twenty-seven directors. Although the College does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, that the Foundation holds and invests are restricted to the activities of the College by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of the College, the Foundation is considered a component unit of the College and is reported in separate financial statements because of the difference in its reporting model, as described below.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Lenoir Community College Foundation, Inc. is a private not-for-profit organization that reports its financial results under Financial Accounting Standards Board (FASB) Statements. As such, certain revenue recognition criteria and presentation features are different from 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.

Complete financial statements for the Foundation can be obtained from Lenoir Community College Foundation, Inc. Office, 231 Highway 58 South, Kinston, North Carolina, or by calling 252-527-6223.

- 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.

- 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.
- 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 bonuses awarded by the College to all full-time permanent employees as of September 30, 2002 and as of July 1, 2003. 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.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 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 \$985,871.54 and the bank balance was \$1,168,460.51. 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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:

	<u>Book Balance</u>	<u>Bank Balance</u>
Cash on Deposit with State Treasurer	\$ 916,026.05	\$ 916,026.05
Cash on Deposit with Private Financial Institutions	<u>69,845.49</u>	<u>252,434.46</u>
	<u>\$ 985,871.54</u>	<u>\$ 1,168,460.51</u>

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, 2004, \$200,000.00 of the bank balance was covered by federal depository insurance and \$52,434.46 was covered by collateral held by an authorized escrow agent in the name of the State Treasurer (pooling method).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 3 - RECEIVABLES

Receivables at June 30, 2004 were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	\$ 99,134.73	\$ 45,488.53	\$ 53,646.20
Accounts	220,221.92		220,221.92
Intergovernmental	84,996.68		84,996.68
Other	75.00		75.00
Total Current Receivables	\$ 404,428.33	\$ 45,488.53	\$ 358,939.80
Notes Receivable - Current:			
Institutional Student Loan Programs	\$ 2,841.09	\$ 0.00	\$ 2,841.09

NOTE 4 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2004, is presented as follows:

	Balance July 1, 2003	Increases	Decreases	Balance June 30, 2004
Capital Assets, Nondepreciable:				
Land	\$ 817,053.00	\$ 0.00	\$ 0.00	\$ 817,053.00
Construction in Progress	477,878.79	637,417.04		1,115,295.83
Total Capital Assets, Nondepreciable	1,294,931.79	637,417.04		1,932,348.83
Capital Assets, Depreciable:				
Buildings	22,562,751.16			22,562,751.16
Machinery and Equipment	2,654,777.98	163,110.25	126,255.44	2,691,632.79
General Infrastructure	563,276.59			563,276.59
Total Capital Assets, Depreciable	25,780,805.73	163,110.25	126,255.44	25,817,660.54
Less Accumulated Depreciation:				
Buildings	5,617,716.31	621,670.38		6,239,386.69
Machinery and Equipment	1,725,686.80	157,744.97	115,140.27	1,768,291.50
General Infrastructure	249,113.31	31,516.88		280,630.19
Total Accumulated Depreciation	7,592,516.42	810,932.23	115,140.27	8,288,308.38
Total Capital Assets, Depreciable, Net	18,188,289.31	(647,821.98)	11,115.17	17,529,352.16
Capital Assets, Net	\$ 19,483,221.10	\$ (10,404.94)	\$ 11,115.17	\$ 19,461,700.99

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2004 were as follows:

	Amount
Accounts Payable	\$ 45,161.01
Accrued Payroll	104,244.94
Intergovernmental Payables	6,077.81
Other	18,000.00
Total Accounts Payable and Accrued Liabilities	\$ 173,483.76

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, 2003	Additions	Reductions	Balance June 30, 2004	Current Portion
Notes Payable	\$ 936,444.27	\$ 0.00	\$ 94,440.45	\$ 842,003.82	\$ 99,489.91
Compensated Absences	630,386.03	722,143.44	420,786.88	931,742.59	70,812.43
Total Long-Term Liabilities	\$ 1,566,830.30	\$ 722,143.44	\$ 515,227.33	\$ 1,773,746.41	\$ 170,302.34

B. Notes Payable - The College was indebted for notes payable for the purposes shown in the following table:

Purpose	Financial Institution	Interest Rate	Final Maturity Date	Original Amount of Issue	Principal Paid Through 6/30/2004	Principal Outstanding 6/30/2003
Guaranteed Energy Savings Equipment Purchase	Branch Bank and Trust Company	5.22%	8/17/2011	\$ 1,097,312.00	\$ 255,308.18	\$ 842,003.82

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The annual requirements to pay principal and interest on the notes payable at June 30, 2004 are as follows:

Fiscal Year	Annual Requirements	
	Notes Payable	
	Principal	Interest
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	122,535.83	18,548.77
2010-2012	288,438.80	17,244.50
Total Requirements	\$ 842,003.82	\$ 169,102.48

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	\$ 2,040,159.79	\$ 1,567,143.28	\$ 473,016.51

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	\$ 7,419,250.75	\$ 1,189,911.78	\$ 489,509.57	\$ 27,151.80	\$ 0.00	\$ 0.00	\$ 9,125,823.90
Public Service	74,811.57	12,617.65	19,172.60				106,601.82
Academic Support	1,556,051.70	80,483.06	36,976.21				1,673,510.97
Student Services	1,095,529.79	69,340.02	171,846.21	458,961.54			1,795,677.56
Institutional Support	1,854,116.98	103,123.86	584,033.79				2,541,274.63
Operations and Maintenance of Plant	771,609.75	86,620.47	136,736.89		493,074.19		1,488,041.30
Student Financial Aid			6,640.00	2,325,981.50			2,332,621.50
Auxiliary Enterprises		13,576.13	9,067.67				22,643.80
Depreciation						810,932.23	810,932.23
Total Operating Expenses	\$ 12,771,370.54	\$ 1,555,672.97	\$ 1,453,982.94	\$ 2,812,094.84	\$ 493,074.19	\$ 810,932.23	\$ 19,897,127.71

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 2004, these rates were set at .22% of covered payroll for employers and 6% of covered payroll for members.

For the year ended June 30, 2004, the College had a total payroll of \$10,695,579.48, of which \$8,419,972.07 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were \$505,198.33 and \$18,523.94, respectively. The College made one hundred percent of its annual required contributions for the years ended June 30, 2004, 2003, and 2002, which were \$18,523.94, \$0.00, and \$151,893.27, 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 \$131,919.00 for the year ended June 30, 2004.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 \$7,834.00. for the year ended June 30, 2004.

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 established by Chapter 135, Article 3, Part 3, of the General Statutes and may be amended only by the North Carolina General Assembly. Funding for the health care benefit for long-term disability beneficiaries and retirees is financed on a pay-as-you-go basis. The College contributed 3.2% of the covered payroll under the Teachers' and State Employees' Retirement System for these health care benefits. For the fiscal year ended June 30, 2004, the College's total contribution to the Plan was \$269,439.11. 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. Employer contributions are established in the Appropriations Bill by the General Assembly. The College was not required to contribute to the DIPNC for the fiscal year ended June 30, 2004. The College assumes no liability for long-term disability benefits under the Plan other than its contribution. Additional detailed information about the DIPNC is disclosed in the State of North Carolina's *Comprehensive Annual Financial Report*.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 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. Except for a reduction in the public officers' and employees' liability insurance from \$11,000,000 to \$5,000,000, there have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

Tort claims of up to \$500,000 are self-insured under the authority of the State Tort Claims Act. In addition, the State provides excess public officers' and employees' liability insurance up to \$5,000,000 via contract with a private insurance company. The premium, based on a composite rate, is paid by the North Carolina Community College System Office directly to the private insurer.

Fire and other property losses are covered by 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. 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

The College purchased malpractice insurance for students in medical-related fields. Coverage is provided at \$1,000,000 per occurrence with a limit of \$3,000,000.

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. There were no employer contributions required 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 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 \$134,329.40 and on other purchases were \$30,777.49 at June 30, 2004.
- 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

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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 \$8,255,754.00 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 - CHANGE IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2004, the College implemented Governmental Accounting Standards Board Statement No. 39, *Determining Whether Certain Organizations are Component Units*. This Statement amends GASB Statement No. 14, *The Financial Reporting Entity*, to provide additional guidance to determine whether certain organizations for which the College is not financially accountable should be reported as component units based on the nature and significance of their relationship to the College.

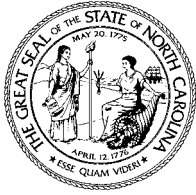
***Lenoir Community College
Schedule of General Obligation Bond Project Authorizations,
Budgets, and Expenditures
For Project-to-Date as of June 30, 2004***

Schedule 1

Capital Improvement Projects	Original Projected Start Date	Revised/ Actual Start Date	General Obligation Bonds Authorized	Other Sources	Total Project Budget	Amount Expended	Percent Completed	Original Expected Completion Date	Revised/ Actual Completion Date
<i>Projects Approved by the State Board</i>									
Additions/Renovations Health Sciences Bldg & Marquee 1136	Jan 2001	May 2001	\$ 596,000.00	\$	\$ 596,000.00	\$ 569,061.44	95.48%	Sep 2002	Mar 2005
Repair & Renovations Projects Elevator/Roofs/HVAC/ADA 1228	Jan 2002	Jun 2001	928,692.00	50,000.00	978,692.00	587,585.67	60.04%	Jul 2006	Jul 2006
Renovate Industrial Classrooms and Labs 1374	Sep 2003	Jun 2004	225,000.00		225,000.00			Jul 2004	Jul 2005
Expand Technology Infrastructure 1385	Mar 2005	Feb 2005	500,000.00		500,000.00			Nov 2006	Nov 2006
Early Childhood/Family Literacy/Student Center 1239	Jan 2002	Aug 2002	1,000,000.00		1,000,000.00	199,745.46	19.97%	Nov 2003	Jul 2005
Resurface Roads and Parking Lots 1251	Feb 2002	May 2002	400,000.00	100,000.00	500,000.00	285,133.45	57.03%	Feb 2005	Jul 2006
Classroom and Science Building 1238	Apr 2002	Aug 2002	4,500,000.00		4,500,000.00	273,479.20	6.08%	Jun 2004	Jun 2006
Addition to Aviation Center/Cafeteria 1386	May 2004	Jun 2005	626,314.00		626,314.00			Jun 2006	Jul 2006
Land Acquisition 1399	Mar 2004	Jun 2004	450,000.00		450,000.00	1,200.00	0.27%	Jun 2004	Oct 2004
<i>Projects Not Started - To Be Funded in Future Years</i>									
Industrial /Vocational Center 1407	May 2004	Jan 2005	2,190,044.00		2,190,044.00			Jul 2006	Jul 2006
Renovate/Add Classrooms in Administration Bldg 1232	Jun 2004	Jan 2005	420,249.00		420,249.00			Feb 2006	Feb 2006
<i>Projects Pending Approval by the State Board</i>									
Renovate LRC/Alumni and Foundation House	Jan 2005	Jan 2005	355,000.00		355,000.00			Feb 2006	Feb 2006
Undesignated Project (Former Childcare Center)	Oct 2004	Jul 2005	650,000.00		650,000.00			Aug 2005	Aug 2006
Total All Projects			\$ 12,841,299.00	\$ 150,000.00	\$ 12,991,299.00	\$ 1,916,205.22			

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.

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STATE OF NORTH CAROLINA
Office of the State Auditor

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State Auditor

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

Board of Trustees
Lenoir Community College
Kinston, North Carolina

We have audited the financial statements of Lenoir 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, 2004, which collectively comprise Lenoir Community College's basic financial statements, and have issued our report thereon dated December 16, 2004. We did not audit the financial statements of Lenoir Community College Foundation, Inc., which represents 100% of the College's discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component unit, is based on the report of the other auditors.

As discussed in Note 13 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, during the year ended June 30, 2004.

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. The financial statements of Lenoir Community College Foundation, Inc., the discretely presented component unit, were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not extend to the component unit.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the College's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that

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

might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the College's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Trustees and the State Board of Community Colleges, management and staff of the College, the Governor, the State Controller, the General Assembly, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

Leslie W. Merritt, Jr.

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

December 16, 2004

DISTRIBUTION OF AUDIT REPORT

In accordance with General Statutes 147-64.5 and 147-64.6(c)(14), copies of this report have been distributed to the public officials listed below. Additional copies are provided to other legislators, state officials, the press, and the general public upon request.

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The Honorable Beverly M. Perdue	Lieutenant Governor of North Carolina
The Honorable Richard H. Moore	State Treasurer
The Honorable Roy A. Cooper, III	Attorney General
Mr. David T. McCoy	State Budget Officer
Mr. Robert L. Powell	State Controller
Mr. H. Martin Lancaster	President, North Carolina Community College System
Dr. A. Brantley Briley	President, Lenoir Community College
Mr. George Vick	Vice President of Administrative Services, Lenoir Community College
Mr. Grady E. Bethel	Chairman, Board of Trustees, Lenoir Community College

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Other Legislative Officials

Mr. James D. Johnson	Director, Fiscal Research Division
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February 2, 2005

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