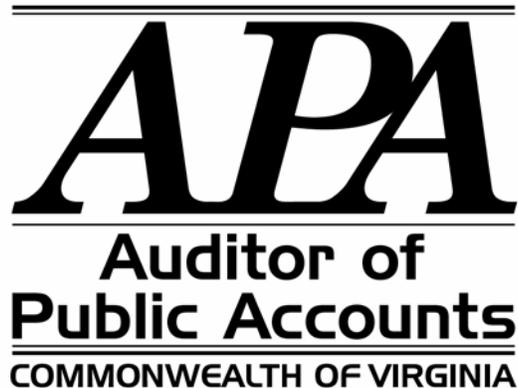


**DABNEY S. LANCASTER COMMUNITY COLLEGE  
CLIFTON FORGE, VIRGINIA**

**REPORT ON AUDIT  
FOR THE YEAR ENDED  
JUNE 30, 2003**



- TABLE OF CONTENTS -

INDEPENDENT AUDITOR'S REPORT

FINANCIAL STATEMENTS:

Statement of Net Assets

Statement of Revenues, Expenses, and Changes in Net Assets

Statement of Cash Flows

Notes to Financial Statements

COLLEGE OFFICIALS



# Commonwealth of Virginia

Walter J. Kucharski, Auditor

Auditor of Public Accounts  
P.O. Box 1295  
Richmond, Virginia 23218

December 18, 2003

The Honorable Mark R. Warner  
Governor of Virginia

The Honorable Lacey E. Putney  
Vice Chairman, Joint Legislative Audit  
and Review Commission

College Board  
Dabney S. Lancaster Community College

## INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying basic financial statements of **Dabney S. Lancaster Community College**, a member of the Virginia Community College System, as of and for the year ended June 30, 2003, as listed in the table of contents. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. 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 provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Dabney S. Lancaster Community College as of June 30, 2003, and the changes in its financial position and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The College has not presented the Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

We discussed this report with management on February 10, 2004.

AUDITOR OF PUBLIC ACCOUNTS

DBC/kva  
kva:27

DABNEY S. LANCASTER COMMUNITY COLLEGE  
STATEMENT OF NET ASSETS  
As of June 30, 2003

<u>ASSETS</u>	
Current assets:	
Cash and cash equivalents (Note 3)	\$ 331,348
Accounts receivable (Note 4)	24,299
Due from the Commonwealth	36,884
Due from system office	5,787
Inventories	<u>90,088</u>
Total current assets	488,406
Noncurrent assets:	
Capital assets, net (Note 5)	<u>4,444,767</u>
Total assets	<u>4,933,173</u>
<u>LIABILITIES</u>	
Current liabilities:	
Vendor accounts payable	136,790
Retainage payable	5,407
Accrued payroll expense	211,295
Deferred revenue	31,462
Compensated absences payable - current portion (Note 6)	169,129
Due to Commonwealth	4,000
Deposits	<u>2,151</u>
Total current liabilities	560,234
Noncurrent liabilities:	
Compensated absences payable - long-term portion (Note 6)	<u>235,880</u>
Total liabilities	<u>796,114</u>
<u>NET ASSETS</u>	
Invested in capital assets, net of related debt	4,444,767
Restricted for:	
Expendable	(10,778)
Unrestricted (deficit)	<u>(296,930)</u>
Total net assets	<u><u>\$4,137,059</u></u>

The accompanying Notes to Financial Statements are an integral part of this statement.

DABNEY S. LANCASTER COMMUNITY COLLEGE  
STATEMENT OF REVEUES, EXPENSES, AND CHANGES IN NET ASSETS  
For the Year Ended June 30, 2003

Operating revenue:	
Tuition and fees (net of scholarship allowance of \$310,095)	\$ 896,284
Federal grants and contracts	1,681,959
State and local grants	35,486
Nongovernmental grants	14,909
Sales and services of educational departments	1,581
Auxiliary enterprises (net of scholarship allowance of \$112,550)	321,006
Other operating revenues	<u>8,459</u>
Total operating revenue	<u>2,959,684</u>
Operating expenses:	
Instruction	2,928,498
Public service	47,254
Academic support	468,847
Student services	610,932
Institutional support	1,421,604
Operation and maintenance	647,321
Scholarships and fellowships	642,401
Auxiliary enterprises	<u>393,508</u>
Total operating expenses	<u>7,160,365</u>
Operating income (loss)	<u>(4,200,681)</u>
Nonoperating revenues (expenses):	
State appropriations (Note 8)	3,787,605
Local appropriations	1,000
Investment income	1,109
Interest on capital asset related debt	(1,062)
Other nonoperating revenue	<u>90,870</u>
Net nonoperating revenue	<u>3,879,522</u>
Income before other revenues (expenses)	(321,159)
Capital appropriations - state	23,414
Capital appropriations - local	44,695
Equipment Trust Fund assets	<u>76,099</u>
Increase (decrease) in net assets	(176,951)
Net assets - beginning of year	<u>4,314,010</u>
Net assets - end of year	<u><u>\$4,137,059</u></u>

The accompanying Notes to Financial Statements are an integral part of this statement.

DABNEY S. LANCASTER COMMUNITY COLLEGE  
STATEMENT OF CASH FLOWS  
For the Year Ended June 30, 2003

---

Cash flows from operating activities:	
Tuition and fees	\$ 892,141
Grants and contracts	1,732,354
Payments to suppliers and others	(1,190,916)
Payments for employee wages	(3,959,140)
Payments for employee fringes	(888,534)
Payment for scholarships	(700,261)
Payments for utilities	(118,243)
Sales and services of education departments	1,581
Auxiliary enterprise receipts	343,149
Other	8,459
	<hr/>
Net cash used by operating activities	(3,879,410)
Cash flows from non-capital financing activities:	
State appropriations	3,787,605
Local appropriations	1,000
Agency receipts	112,114
Agency disbursements	(115,183)
PLUS, Stafford and Direct Lending loan receipts	81,457
PLUS, Stafford and Direct Lending loan disbursements	(81,457)
Other non-operating revenue	112,078
	<hr/>
Net cash provided by non-capital financing activities	3,897,614
Cash flows from capital financing activities:	
Capital appropriations - state	23,414
Capital appropriations - local	44,695
Purchases of capital assets	(78,946)
Proceeds from sale of capital assets	762
Debt interest payments	(1,062)
Debt principal payments	(22,352)
	<hr/>
Net cash used by capital financing activities	(33,489)
Cash flows from investing activities:	
Investment income	1,109
	<hr/>
Net increase (decrease) in cash and cash equivalents	(14,176)
Cash and cash equivalents - beginning of year	345,524
	<hr/>
Cash and cash equivalents - end of year	\$ 331,348

Reconciliation of operating income (loss) to net cash used in operating activities:	
Operating income (loss)	\$ (4,200,681)
Adjustment to reconcile operating income (loss) to net cash used in operating activities:	
Depreciation expense	289,244
Changes in assets and liabilities:	
Receivables, net	(18,730)
Prepaid expenses and other	(21,402)
Accrued compensation and leave	(9,591)
Accounts payable and other	78,785
Deferred revenue	<u>2,965</u>
Net cash used in operating activities	<u><u>\$ (3,879,410)</u></u>
Noncash transactions:	
Equipment Trust Fund assets	<u><u>\$ 76,099</u></u>

The accompanying Notes to Financial Statements are an integral part of this statement.

DABNEY S. LANCASTER COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

AS OF JUNE 30, 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Dabney S. Lancaster Community College (the College) was established in 1967 as part of the Virginia Community College System (the System) to serve primarily the counties of Alleghany, Bath, northern Botetourt and Rockbridge, as well as the cities of Buena Vista, Clifton Forge, Covington and Lexington.

The Virginia Community College System was established as an institution of higher education in 1965. The System includes the State Board for Community Colleges, a System Office located in Richmond, 23 community colleges located on 40 campuses throughout the Commonwealth and the Information Technology Utility. The State Board for Community Colleges is the governing body and is charged with the responsibility to establish, control, and administer a statewide system of publicly-supported comprehensive community colleges. The System, therefore, functions as a statewide institution of higher learning.

The System is a discrete component unit of the Commonwealth of Virginia and is included in the basic financial statements of the Commonwealth. A separate report is prepared for the Commonwealth of Virginia that includes all agencies, boards, commissions, and authorities over which the Commonwealth exercises or has the ability to exercise oversight authority.

The accompanying financial statements include the accounts of the College, which has an educational foundation that is defined as a related party. The assets of the foundation, which is separately incorporated and managed by its own board, are not included in these statements and is described in Note 2.

B. Accounting Policy Changes

The College adopted Governmental Accounting Standards Board (GASB) Statement 38 – *Certain Financial Statement Note Disclosures* for the year ended June 30, 2003. This Statement requires detail about the major components of receivable and payable balances.

C. Basis of Accounting

For financial reporting purposes, the College is considered a special purpose government engaged in only business-type activities. Business-type activities are those that are financed in whole or in part by fees charged to external parties for goods and services. Accordingly, the financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. All material internal transactions have been eliminated.

Revenues and expenses of the summer academic term occur within two fiscal years because the term extends from May through August and the fiscal year ends on June 30. Expenses and an equal amount of revenue have been reported in the current period for the portion of the summer academic term from May 16 through June 30, 2003.

The College has the option to apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The College has elected not to apply FASB pronouncements issued after the applicable date.

D. Inventories

Inventories are stated at cost (primarily first-in, first-out method) and consist mainly of goods purchased for resale and expendable supplies.

E. Capital Assets

Capital assets consisting of land, buildings, infrastructure, equipment, library books, and construction-in-progress are stated at appraised historical cost or actual cost where determinable. Improvements to buildings, infrastructure, and land that significantly increase the usefulness, efficiency, or life of the asset are capitalized. Routine maintenance and repairs are charged to operations when incurred. Interest expense relating to construction is capitalized. All equipment purchased under the Equipment Trust Fund program that is titled to the Virginia College Building Authority has been capitalized on these statements. Donated assets are recorded at the estimated fair value at the date of donation. The capital asset values presented in these financial statements are extracted from the financial data maintained by the System's Financial Records System and the Fixed Asset Inventory System (FAIS). Current fund expenditures for equipment are capitalized when the unit acquisition cost is \$5,000 or greater and the estimated useful life is one year or more. Occupancy permits are used to determine when to reclassify buildings from construction-in-progress. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets, generally 50 years for buildings, 20-25 years for infrastructure and land improvements, 3 to 25 years for equipment, and 10 years for library books.

F. Accrued Compensated Absences

The amount of leave earned, but not taken by all classified employees and administrative, professional, and teaching faculty is recorded as a liability on the Statement of Net Assets. The amount reflects, as of June 30, all unused annual leave, compensatory leave, and the amount payable upon termination under the Commonwealth of Virginia's sick leave pay out policy. An additional liability amount has been included for those employees with less than five years of service based on the probability they will eventually become vested. Also included in the liability is the College's share of the employment taxes on leave balances for which employees will be compensated.

G. Classification of Revenues

Operating revenues include activities that have the characteristics of exchange transactions, such as tuition and fees; sales and services of auxiliary enterprises; most federal, state, and local grants and contracts; and interest on student loans.

Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, state appropriations, and investment income.

H. Scholarship Discounts and Allowances

Student tuition and fees revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the Statement of Revenues, Expenses, and Changes in Net Assets. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the College, and the amount that is paid by students and/or third parties making payments on the student's behalf. Certain governmental grants, such as Pell grants and other federal, state, or nongovernmental programs are recorded as either operating or nonoperating revenues in the financial statements. To the extent that such revenues are used to satisfy tuition and fees and other student charges, the College has recorded a scholarship discount and allowance.

I. Net Assets

Net assets are classified as follows:

Invested in capital, net of related debt: Consists of capital assets, net of accumulated depreciation and reduced by outstanding debt attributable to the acquisition, construction, or improvement of those assets.

Restricted net assets - expendable: Restricted expendable net assets include resources in which the College is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.

Unrestricted net assets: Unrestricted net assets represent resources that may be used at the discretion of the governing board for any lawful purpose.

When an expense is incurred that can be paid from either restricted or unrestricted resources, it is the policy of the College to first apply the expense towards restricted resources and then towards unrestricted resources.

2. **AFFILIATED ORGANIZATION**

The DSLCC Educational Foundation, Inc. is a non-profit organization established in 1980 to promote the growth, progress, and general welfare of the College and the Virginia Community College System. The Foundation is a non-profit organization created to raise funds supporting college programs, students, and related activities. The Foundation uses the interest and dividends on its funds to grant scholarships to high school students to help pay their tuition, books, and related materials for one or two years of study at the College.

Limited members of the College Board, the locality-appointed advisory board of the College, represent the College on the related foundation's governing board. The Foundation is independently audited. The following is a condensed summary of the financial condition of the foundation at June 30, 2003:

Assets	<u>\$1,726,636</u>
Liabilities	\$ 1,268
Net assets	<u>\$1,725,368</u>
 Total	 <u>\$1,726,636</u>
 Revenues	 <u>\$ 152,141</u>
 Expenditures	 <u>\$ 109,675</u>

### 3. CASH AND CASH EQUIVALENTS

Cash of the College that is maintained by the Treasurer of Virginia is invested and collateralized pursuant to Section 2.2-1800, et seq., Code of Virginia (1950), as amended, who is responsible for the collection, disbursement, custody, and investment of state funds.

Local deposits with banks and savings institutions not with the Treasurer of Virginia are covered by federal depository insurance or collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-440, et seq., of the Code of Virginia.

Cash equivalents maintained by the College are investments in the Local Government Investment Pool held by the Treasurer of Virginia with a maturity of less than three months. This investment is not categorized as to credit risk under GASB Statement 3.

The following is a summary of the cash and cash equivalents held at June 30, 2003:

Cash	\$283,835
Cash equivalents:	
Non-Categorized:	
Local Government Investment Pool	<u>47,513</u>
 Total	 <u>\$331,348</u>

### 4. ACCOUNTS RECEIVABLE

The following is a summary of accounts receivable at June 30, 2003:

Tuition and fees	\$ 4,173
Auxiliary enterprises	19,926
Other	<u>200</u>
 Total	 <u>\$24,299</u>

## 5. CAPITAL ASSETS

Changes in capital assets for the year ended June 30, 2003, are as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	\$ 93,440	\$ -	\$ -	\$ 93,440
Construction-in-progress	<u>1,874,505</u>	<u>-</u>	<u>1,820,164</u>	<u>54,341</u>
Total capital assets not being depreciated	<u>1,967,945</u>	<u>-</u>	<u>1,820,164</u>	<u>147,781</u>
Other capital assets:				
Buildings	3,543,451	1,704,362	-	5,247,813
Infrastructure	532,833	109,199	-	642,032
Equipment	1,217,298	119,238	123,016	1,213,520
Land improvements	99,520	33,781	-	133,301
Library books	<u>1,249,850</u>	<u>8,259</u>	<u>4,111</u>	<u>1,253,998</u>
Total other capital assets	<u>6,642,952</u>	<u>1,974,839</u>	<u>127,127</u>	<u>8,490,664</u>
Less accumulated depreciation for:				
Buildings	(1,806,072)	(106,116)	-	(1,912,188)
Infrastructure	(299,146)	(31,607)	-	(330,753)
Equipment	(702,481)	(127,111)	(109,070)	(720,522)
Land improvements	(72,971)	(2,200)	-	(75,171)
Library books	<u>(1,136,945)</u>	<u>(22,210)</u>	<u>(4,111)</u>	<u>(1,155,044)</u>
Total accumulated depreciation	<u>(4,017,615)</u>	<u>(289,244)</u>	<u>(113,181)</u>	<u>(4,193,678)</u>
Other capital assets, net	<u>2,625,337</u>	<u>1,685,595</u>	<u>13,946</u>	<u>4,296,986</u>
Total capital assets, net	<u>\$ 4,593,282</u>	<u>\$ 1,685,595</u>	<u>\$ 1,834,110</u>	<u>\$ 4,444,767</u>

## 6. LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2003, is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts due within one year</u>
Capital leases	\$ 22,352	\$ -	\$ 22,352	\$ -	\$ -
Compensated absences	<u>412,013</u>	<u>251,402</u>	<u>258,406</u>	<u>405,009</u>	<u>169,129</u>
Total long-term liabilities	<u>\$434,365</u>	<u>\$251,402</u>	<u>\$280,758</u>	<u>\$405,009</u>	<u>\$169,129</u>

## 7. COMMITMENTS

At June 30, 2003, the College had future commitments for construction contracts totaling approximately \$21,975. The College held \$5,407 as retainage payable on construction and

architectural/engineering contracts for work performed. The retainage payable will be remitted to the various contractors upon satisfactory completion of the construction projects.

## 8. APPROPRIATIONS

The System receives state appropriations from the General Fund of the Commonwealth. The Appropriations Act specifies that such unexpended appropriations shall revert, except as specifically provided by the General Assembly. Reverted funds are eligible for reappropriation in the following fiscal year. The System Office allocates state appropriations to the individual colleges during the year. For the fiscal year ended June 30, 2003, the College received an allocation of \$3,787,605 of the total System appropriation of \$271,901,445.

## 9. PENSION PLAN

Employees of the College are employees of the Commonwealth of Virginia. Substantially all full-time classified salaried employees of the College participate in a defined benefit pension plan, with benefits vesting after five years of service, administered by the Virginia Retirement System (VRS). Current benefit provisions are based on a formula using years of service, salary, and age. The VRS is an agent multiple-employer public employee retirement system that acts as a common investment and administrative agency for the Commonwealth of Virginia and its political subdivisions.

The VRS does not measure assets and pension benefit obligations separately for individual state institutions. Information relating to this plan is available at the statewide level only in the Commonwealth of Virginia's Comprehensive Annual Financial Report (CAFR). The Commonwealth, not the College, has overall responsibility for contributions to this plan. The CAFR provides disclosure of the Commonwealth's unfunded pension obligation at June 30, 2003. The same report contains historical trend information showing VRS's progress in accumulating sufficient assets to pay benefits when due.

Most full-time faculty and certain administrative staff participate in one of five optional retirement plans (ORP). These are fixed-contribution plans where the retirement benefits received are based on the employer's (10.4 percent) contributions, plus interest and dividends. Individual contracts issued under the ORP plan provide for full and immediate vesting of the College contributions. Total pension costs under this plan were \$43,668 for year ended June 30, 2003. Contributions to the ORP plan were calculated using the base salary amount of \$419,885. Total payroll for fiscal year 2003 was \$3,873,411.

## 10. POST-EMPLOYMENT BENEFITS

The Commonwealth participates in the VRS-administered statewide group life insurance program, which provides post-employment benefits to eligible retired and terminated employees. The Commonwealth also provides health care credits against the monthly health insurance premiums of its retirees who have at least 15 years of State service and participate in the state's health plan. Information related to these plans is available at the statewide level in the Commonwealth's Comprehensive Annual Financial Report.

11. OPERATING EXPENSES BY NATURAL AND FUNCTIONAL CLASSIFICATIONS

The College's operating expenses for the year ended June 30, 2003, were as follows:

Functional Classification	Natural Classification					Total
	Salaries and Benefits	Utilities	Scholarships	Depreciation	Supplies, Services, and Other	
Instruction	\$2,565,362	\$ 3,593	\$ 57,860	\$158,111	\$ 143,572	\$2,928,498
Public service	17,680	-	-	-	29,574	47,254
Academic support	378,271	-	-	48,913	41,663	468,847
Student services	539,329	-	28,059	-	43,544	610,932
Institutional support	914,096	-	-	77,200	430,308	1,421,604
Operation and maintenance of plant	337,601	122,549	-	5,020	182,151	647,321
Scholarships and fellowships	-	-	642,401	-	-	642,401
Auxiliary enterprises	<u>52,366</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>341,142</u>	<u>393,508</u>
Total	<u>\$4,804,705</u>	<u>\$126,142</u>	<u>\$728,320</u>	<u>\$289,244</u>	<u>\$1,211,954</u>	<u>\$7,160,365</u>

12. RISK MANAGEMENT

The College is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; non-performance of duty; injuries to employees; and natural disasters. The College participates in insurance plans maintained by the Commonwealth of Virginia. The state employee health care and worker's compensation plan are administered by the Department of Human Resource Management and the risk management insurance plans are administered by the Department of Treasury, Division of Risk Management. Risk management insurance includes property, general liability, faithful performance of duty bonds, automobile and air and watercraft plans. The College pays premiums to each of these Departments for its insurance coverage. Information relating to the Commonwealth's insurance plans is available at the statewide level in the Commonwealth of Virginia's Comprehensive Annual Financial Report.

DABNEY S. LANCASTER COMMUNITY COLLEGE  
Clifton Forge, Virginia

College Board

Robert E. Claytor, Chair

Joseph B. Broughman, Vice Chair

James C. Bradford, Jr  
William L. Heartwell, III  
Virginia H. Nowlin  
Harriet W. Nuckols

Frank A. Parsons  
William M. Thomas, Jr.  
Michael D. Wolfe  
Kim Woodson

Richard R. Teaff, President