



STATE OF NORTH CAROLINA

LENOIR COMMUNITY COLLEGE

KINSTON, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2006

OFFICE OF THE STATE AUDITOR

LESLIE W. MERRITT, JR., CPA, CFP

STATE AUDITOR

LENOIR COMMUNITY COLLEGE

KINSTON, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2006

STATE BOARD OF COMMUNITY COLLEGES

THE NORTH CAROLINA COMMUNITY COLLEGE SYSTEM

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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

We have completed a financial statement and compliance audit of Lenoir Community College for the year ended June 30, 2006, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

Our consideration of internal control over financial reporting and compliance and other matters based on an audit of the financial statements resulted in no audit findings.

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.

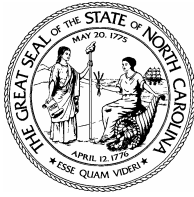
Leslie W. Merritt, Jr.

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

May 7, 2007

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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, 2006, which collectively comprise the College's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Lenoir Community 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 represent 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 this entity, 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of Lenoir Community College and its discretely presented component unit as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

In accordance with *Government Auditing Standards*, we have also issued our report dated March 22, 2007, 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 that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis, as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Leslie W. Merritt, Jr.

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

March 22, 2007

**LENOIR COMMUNITY COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS**

This section of Lenoir Community College's Financial Statement Audit Report presents Management's Discussion and Analysis of the College's financial activity during the fiscal year ended June 30, 2006, and June 30, 2005. 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 transmittal letter, the College's basic financial statements and the Notes to the Financial Statements. Responsibility for the completeness and fairness of this information rests with the College.

Financial Statement Presentation

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 for the College. This statement combines and consolidates current financial resources (short-term consumable 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 that are supported mainly by State, local, federal and other revenues. This approach is intended to summarize and simplify the user's analysis of costs of various College services to students and the public. The Statement of Cash Flows presents information detailing the sources and uses of cash from both operating activities and financing activities.

Statement of Net Assets

The following condensed statement of net assets compares the current year information with the prior year and indicates the monetary and percentage increase or decrease between years.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Condensed Statement of Net Assets

	2006	2005	Increase (Decrease)	Percent Change
Assets				
Current Assets	\$ 1,821,184	\$ 3,143,779	\$ (1,322,595)	(42) %
Capital Assets	25,650,804	21,627,803	4,023,001	19 %
Other Assets	789,228	3,158,590	(2,369,362)	(75) %
Total Assets	28,261,216	27,930,172	331,044	1 %
Liabilities				
Current Liabilities	817,698	973,984	(156,286)	(16) %
Long-Term Liabilities	1,390,226	1,473,147	(82,921)	(6) %
Total Liabilities	2,207,924	2,447,131	(239,207)	(10) %
Net Assets				
Invested in Capital Assets, Net of Related Debt	25,013,100	20,885,289	4,127,811	20 %
Restricted	1,066,472	4,553,215	(3,486,743)	(77) %
Unrestricted	(26,280)	44,537	(70,817)	(159) %
Total Net Assets	\$ 26,053,292	\$ 25,483,041	\$ 570,251	2 %

At the end of the fiscal year ending June 30, 2005, the College was awarded a grant from Golden Long-Term Economic Advancement Foundation, Inc. in the amount of \$1.9 million. This grant was received to establish a state of the art training program in advanced metal working to train the workforce for emerging companies and to replace employees that are retiring from the Naval Air Depot at Cherry Point Marine Air Station (NADEP). As of the end of that fiscal year, the College had cash on hand related to this grant in the amount of \$1.6 million. These funds were used during the current fiscal year to purchase the software and equipment necessary to equip the Machining Center at the Global Transpark Learning Center. The decrease in current assets and the restricted net assets account is a result of the expenditures incurred related to this grant.

During the past four fiscal years, the College has expended \$5.4 million on the construction of a Science/Learning Assistance Program Building and a Culinary Building. The increase in capital assets and investment in capital assets, net of related debt, reflects an increase of \$3.5 million related to the construction of these two new facilities during the current fiscal year. Also, the decrease in other assets is related to the receivable from the bond cash flow on the new construction. Since the buildings were near completion at June 30, 2006, the bond receivable decreased significantly.

For the fiscal year ended June 30, 2006, the College has a deficit unrestricted fund balance in the amount of \$26 thousand. This is primarily the result of an increase in the compensated absences liability of \$82 thousand. Compensated absences include the unused portion of the

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

special annual leave bonuses awarded by the College as of September 30, 2002, July 1, 2003, and September 1, 2005.

Statement of Revenues, Expenses, and Changes in Net Assets

	2006	2005	Increase (Decrease)	Percent Change
Operating Revenues				
Student Tuition and Fees, Net	\$ 983,033	\$ 1,005,683	\$ (22,650)	(2) %
Federal Grants and Contracts	5,902,463	5,610,775	291,688	5 %
State and Local Grants and Contracts	1,384,900	2,797,697	(1,412,797)	(50) %
Sales and Services	348,794	301,648	47,146	16 %
Other	26,444	35,913	(9,469)	(26) %
Total Operating Revenues	8,645,634	9,751,716	(1,106,082)	(11) %
Operating Expenses				
Personal Services	14,896,475	13,780,191	1,116,284	8 %
Supplies and Materials	3,111,607	1,857,577	1,254,030	68 %
Services	1,835,920	1,711,651	124,269	7 %
Scholarships and Fellowships	3,045,912	3,095,347	(49,435)	(2) %
Utilities	585,244	500,799	84,445	17 %
Depreciation	890,213	814,822	75,391	9 %
Total Operating Expenses	24,365,371	21,760,387	2,604,984	12 %
Operating Loss	(15,719,737)	(12,008,671)	(3,711,066)	31 %
Nonoperating Revenues (Expenses)				
State Aid	11,634,602	10,892,144	742,458	7 %
County Appropriations	1,704,480	1,646,212	58,268	4 %
Noncapital Grants	399,953	402,193	(2,240)	(1) %
Noncapital Gifts	12,613	10,940	1,673	15 %
Investment Income	40,908	101,785	(60,877)	(60) %
Other Nonoperating Expenses	(32,247)	(35,273)	3,026	(9) %
Other Revenues				
State Capital Aid	2,209,318	2,319,079	(109,761)	(5) %
County Capital Appropriations	221,921	316,532	(94,611)	(30) %
Capital Grants	98,440	147,784	(49,344)	(33) %
Capital Gifts	18,000	18,000	(18,000)	(100) %
Total Nonoperating Revenues	16,289,988	15,819,396	470,592	3 %
Change in Net Assets	570,251	3,810,725	(3,240,474)	(85) %
Net Assets - Beginning of Year	25,483,041	21,672,316	3,810,725	18 %
Net Assets - End of Year	\$ 26,053,292	\$ 25,483,041	\$ 570,251	2 %

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

The significant changes in the State and local grants and contracts, supplies and materials expense and investment income is due to the Golden Long-Term Economic Advancement Foundation, Inc. grant as previously mentioned.

For the two years presented, the College has an operating loss. Although State appropriations are used to cover operating expenses, GASB Statement No. 35 requires that they be reported as nonoperating revenue. With adherence to this standard, the College will always report an operating loss.

Capital Assets

At June 30, 2006, the College reported \$25.7 million in capital assets net of accumulated depreciation of \$9.7 million. The construction in progress amount of \$6.2 million includes construction funded by the general obligation bonds approved in 2000 for capital improvements for the North Carolina Community College System. The College was funded \$12.8 million for new construction and repairs and renovation.

	<u>2006</u>	<u>2005</u>	<u>Increase</u>	<u>Percent Change</u>
Land	\$ 1,725,819	\$ 1,651,196	\$ 74,623	5 %
Construction in Progress	6,242,371	2,646,905	3,595,466	136 %
Buildings	22,849,567	22,849,567		
Machinery and Equipment	3,938,262	2,803,135	1,135,127	40 %
General Infrastructure	<u>605,277</u>	<u>605,277</u>		
Total	<u>\$ 35,361,296</u>	<u>\$ 30,556,080</u>	<u>\$ 4,805,216</u>	16 %

Debt

The College reported debt of \$1.6 million as of June 30, 2006. This balance consists of a note payable and accrued compensated absences. The note payable is in the amount of \$638 thousand for the cost of the implementation of the energy savings program. The current portion of the note is \$110 thousand. The note will mature in August 2011. The liability for accrued compensated absences is \$977 thousand of which \$115 thousand is current.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

Cash Flow

Statement of Cash Flows

	2006	2005	Increase (Decrease)	Percent Change
Cash Provided (Used) by:				
Operating Activities	\$ (14,685,066)	\$ (11,277,158)	\$ (3,407,908)	30 %
Noncapital Financing Activities	13,682,757	12,556,204	1,126,553	9 %
Capital Financing Activities	(185,047)	(314,366)	129,319	(41) %
Investing Activities	40,908	101,785	(60,877)	(60) %
Net Change in Cash and Cash Equivalents	(1,146,448)	1,066,465	(2,212,913)	(207) %
Cash and Cash Equivalents, Beginning of Year	2,054,176	987,711	1,066,465	108 %
Cash and Cash Equivalents, End of Year	\$ 907,728	\$ 2,054,176	\$ (1,146,448)	(56) %

Major sources of funds for the operating activities were provided by student tuition and fees totaling \$983 thousand, federal grants and contracts of \$5.9 million, and State and local grants and contracts totaling \$1.4 million.

Major uses of funds in operating activities were for employee compensation totaling \$14.9 million, payments for goods and services of \$4.9 million, and scholarships of \$3.0 million.

Cash provided by noncapital financing activities included State appropriations of \$11.6 million, county appropriations of \$1.7 million, and grants totaling \$400 thousand.

The major sources of cash provided by capital financing activities include State capital appropriations of \$2.2 million and county capital appropriations of \$222 thousand. The major uses of these funds were for acquisition of capital assets and capital note payments.

Economic Forecast

While the economy of Lenoir County has struggled in the past several years, The North Carolina Economic Outlook published by North Carolina State University gives hope of future economic growth. The North Carolina Economic Outlook states that the region is expected to increase its job base, annual retail sales will experience growth, and real wages per employee will improve modestly. Lenoir Community College will seek to aid this economic development by supporting the training needs of area businesses and continuing to provide education to the population of Lenoir, Jones, and Greene counties.

Lenoir Community College
Statement of Net Assets
June 30, 2006

Exhibit A-1

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 427,603.08
Restricted Cash and Cash Equivalents	365,989.69
Receivables, Net (Note 3)	471,768.58
Due from State of North Carolina Component Units	474,697.91
Inventories	55,600.30
Prepaid Items	21,962.82
Notes Receivable (Note 3)	3,561.64
	<hr/>
Total Current Assets	1,821,184.02

Noncurrent Assets:

Restricted Cash and Cash Equivalents	114,134.34
Receivables (Note 3)	68,803.33
Restricted Due from Primary Government	606,289.58
Capital Assets - Nondepreciable (Note 4)	7,968,190.58
Capital Assets - Depreciable, Net (Note 4)	17,682,613.80
	<hr/>
Total Noncurrent Assets	26,440,031.63

Total Assets

28,261,215.65

LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 5)	444,800.62
Unearned Revenue	109,124.41
Funds Held for Others	38,796.84
Long-Term Liabilities - Current Portion (Note 6)	224,975.89
	<hr/>
Total Current Liabilities	817,697.76

Noncurrent Liabilities:

Long-Term Liabilities (Note 6)	1,390,225.91
	<hr/>

Total Liabilities

2,207,923.67

NET ASSETS

Invested in Capital Assets, Net of Related Debt	25,013,099.84
Restricted for:	
Expendable:	
Scholarships and Fellowships	48.04
Loans	13,788.49
Capital Projects	497,399.40
Other	555,236.48
Unrestricted	(26,280.27)
	<hr/>
Total Net Assets	\$ 26,053,291.98

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, 2006***

Exhibit A-2

REVENUES

Operating Revenues:

Student Tuition and Fees, Net (Note 7)	\$ 983,032.63
Federal Grants and Contracts	5,902,462.82
State and Local Grants and Contracts	1,384,900.49
Sales and Services	348,793.91
Other Operating Revenues	26,444.27

Total Operating Revenues	8,645,634.12
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EXPENSES

Operating Expenses:

Personal Services	14,896,475.18
Supplies and Materials	3,111,606.79
Services	1,835,920.23
Scholarships and Fellowships	3,045,912.10
Utilities	585,243.90
Depreciation	890,213.03

Total Operating Expenses	24,365,371.23
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Operating Loss	(15,719,737.11)
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NONOPERATING REVENUES (EXPENSES)

State Aid	11,634,602.25
County Appropriations	1,704,479.52
Noncapital Grants	399,952.55
Noncapital Gifts, Net	12,613.45
Investment Income, Net	40,907.85
Interest and Fees on Debt	(36,275.23)
Other Nonoperating Revenues	4,027.75

Net Nonoperating Revenues	13,760,308.14
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Loss Before Other Revenues	(1,959,428.97)
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State Capital Aid	2,209,317.63
County Capital Appropriations	221,921.48
Capital Grants	98,440.22

Increase in Net Assets	570,250.36
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NET ASSETS

Net Assets, July 1, 2005	25,483,041.62
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Net Assets, June 30, 2006	\$ 26,053,291.98
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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, 2006

Exhibit A-3

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 8,669,047.46
Payments to Employees and Fringe Benefits	(14,822,629.14)
Payments to Vendors and Suppliers	(5,483,111.27)
Payments for Scholarships and Fellowships	(3,045,912.10)
Loans Issued to Students	(8,095.71)
Collection of Loans to Students	7,175.00
Other Payments	(1,540.20)
	<hr/>
Net Cash Used by Operating Activities	(14,685,065.96)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Aid Received	11,634,602.25
County Appropriations	1,704,479.52
Noncapital Grants Received	331,061.64
Noncapital Gifts	12,613.45
	<hr/>
Cash Provided by Noncapital Financing Activities	13,682,756.86

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

State Capital Aid Received	4,656,230.33
County Capital Appropriations	221,921.48
Capital Grants Received	253,421.89
Proceeds from Sale of Capital Assets	1,156.00
Acquisition and Construction of Capital Assets	(5,176,692.25)
Principal Paid on Capital Debt and Leases	(104,809.37)
Interest Paid on Capital Debt and Leases	(36,275.23)
	<hr/>
Net Cash Used by Capital and Related Financing Activities	(185,047.15)

CASH FLOWS FROM INVESTING ACTIVITIES

Investment Income	40,907.85
	<hr/>
Cash Provided by Investing Activities	40,907.85

Net Decrease in Cash and Cash Equivalents	(1,146,448.40)
Cash and Cash Equivalents, July 1, 2005	2,054,175.51
	<hr/>
Cash and Cash Equivalents, June 30, 2006	\$ 907,727.11

Lenoir Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2006

Exhibit A-3
Page 2

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

Operating Loss	\$ (15,719,737.11)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	890,213.03
Provision for Uncollectible Loans and Write-Offs	219.26
Miscellaneous Nonoperating Income	2,871.75
Changes in Assets and Liabilities:	
Receivables, Net	(10,637.64)
Inventories	23,654.44
Prepaid Items	190.44
Notes Receivable, Net	(920.71)
Accounts Payable and Accrued Liabilities	19,201.41
Dut to State of North Carolina Component Units	(1,724.76)
Unearned Revenue	34,050.98
Funds Held for Others	(4,411.95)
Compensated Absences	81,964.90
	<u>81,964.90</u>
Net Cash Used by Operating Activities	<u><u>\$ (14,685,065.96)</u></u>

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	\$ 427,603.08
Restricted Cash and Cash Equivalents	365,989.69
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	<u>114,134.34</u>
Total Cash and Cash Equivalents - June 30, 2006	<u><u>\$ 907,727.11</u></u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Increase in Receivables Related to Nonoperating Income	\$ 68,890.91
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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, 2006

Exhibit B-1

ASSETS

Cash and Cash Equivalents	\$	2,228,413
Other Receivables		5,674
Student Loan Receivables, Net		2,377
Deposit		1,500
Investments		195,383
Fixed Assets, Net		<u>296,398</u>
Total Assets		<u>2,729,745</u>

LIABILITIES

Accounts Payable		<u>144</u>
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NET ASSETS

Unrestricted		919,382
Temporarily Restricted		217,691
Permanently Restricted		<u>1,592,528</u>
Total Net Assets	\$	<u><u>2,729,601</u></u>

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

Lenoir Community College Foundation , Inc.
Statement of Activities
For the Fiscal Year Ended June 30, 2006

Exhibit B-2

CHANGES IN UNRESTRICTED NET ASSETS

Revenues, Gains, and Other Support:

Contributions	\$ 103,240
Travel Program	86,595
Interest Income	13,932
Dividends	2,532
Lease	20,192
Investment Gains	13,303
In-kind Contributions	1,825
Net Assets Released from Restrictions	<u>49,156</u>

Total Unrestricted Revenues, Gains, and Other Support	<u>290,775</u>
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Expenses:

Grants/Scholarships	121,863
Other Program Expenses	126,736
General and Administrative	18,851
Fund Raising	<u>23,219</u>

Total Expenses	<u>290,669</u>
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Gain on Sale of Fixed Assets	<u>(100)</u>
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Total Expenses and Gains	<u>290,569</u>
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Increase in Unrestricted Net Assets	<u>206</u>
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CHANGES IN TEMPORARILY RESTRICTED NET ASSETS

Contributions	11,536
Interest Income	49,156
Net Assets Released from Restrictions	<u>(49,156)</u>

Increase in Temporarily Restricted Net Assets	<u>11,536</u>
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CHANGES IN PERMANENTLY RESTRICTED NET ASSETS

Contributions	152,204
Interest Income	<u>7,790</u>

Increase in Permanently Restricted Net Assets	<u>159,994</u>
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Increase in Net Assets	171,736
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Net Assets at Beginning of Year	<u>2,557,865</u>
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Net Assets at End of Year	<u><u>\$ 2,729,601</u></u>
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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, 2006

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 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. The discretely presented component unit's financial data is reported in separate financial statements because of its use of a different GAAP reporting model and to emphasize 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.

The 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)

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

During the year ended June 30, 2006, the Foundation distributed \$147,406.65 to the College for both restricted and unrestricted purposes. 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 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

deposits held by the State Treasurer in the short-term investment fund. The short-term investment fund maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.

- E. Receivables** – Receivables consist of tuition and fees charged to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from the federal government, State and local governments, and private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants 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 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 1 or for which an employee can be paid upon

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 30 equals the leave carried forward at the previous December 31 plus the leave earned, less the leave taken between January 1 and June 30.

In addition to the vacation leave described above, compensated absences include the accumulated unused portion of the special annual leave bonuses awarded by the North Carolina General Assembly. The bonus leave balance on December 31 is retained by employees and transferred into the next calendar year. It is not subject to the limitation on annual leave carried forward described above and is not subject to conversion to sick leave. 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

operating or nonoperating revenues in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. To the extent that revenues from these programs are used to satisfy tuition, fees, and other charges, the College has recorded a scholarship discount.

- M. Revenue and Expense Recognition** – The College classifies its revenues and expenses as operating or nonoperating in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the College’s principal ongoing operations. Operating revenues include activities that have characteristics of exchange transactions, such as (1) student tuition and fees, (2) sales and services of auxiliary enterprises, and (3) certain federal, State and local grants and contracts. Operating expenses are all expense transactions incurred other than those related to capital and noncapital financing or investing activities as defined by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*.

Nonoperating revenues include activities that have the characteristics of nonexchange transactions. Revenues from nonexchange transactions and State aid that represent subsidies or gifts to the College, as well as investment income, are considered nonoperating since these are either investing, capital or noncapital financing activities. Capital contributions are presented separately after nonoperating revenues and expenses.

- N. County Appropriations** – County appropriations are provided to the College primarily to fund its plant operation and maintenance function and to fund construction projects, motor vehicle purchases, and maintenance of equipment. Unexpended county current appropriation and county capital appropriation do not revert and are available for future use by the College.

NOTE 2 - DEPOSITS AND INVESTMENTS

All funds of the College are deposited in board-designated official depositories and are required to be collateralized in accordance with *North Carolina General Statute* 115D-58.7. Official depositories may be established with any bank or savings and loan association whose principal office is located in North Carolina. Also, the College may establish time deposit accounts, money market accounts, and certificates of deposit. The amount shown on the Statement of Net Assets as cash and cash equivalents includes cash on hand totaling \$2,239.00, and deposits in private financial institutions with a carrying value of \$152,699.52 and a bank balance of \$526,312.02.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

Custodial credit risk is the risk that in the event of a bank failure, the College's deposits may not be returned to it. As of June 30, 2006, the College's bank balance in excess of federal depository insurance coverage was covered under the pooling method.

The College is authorized to invest idle funds as provided by G.S. 115D-58.6. In accordance with this statute, the College and the Board of Trustees manage investments to ensure they can be converted into cash when needed.

Generally, funds belonging to the College may be invested in the form of investments pursuant to G.S. 159-30(c), as follows: a commingled investment pool established and administered by the State Treasurer pursuant to G.S. 147-69.3, obligations of or fully guaranteed by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain nonguaranteed federal agencies; prime quality commercial paper bearing specified ratings and banker's acceptances; The North Carolina Capital Management Trust, an SEC registered mutual fund; repurchase agreements; and evidences of ownership of, or fractional undivided interests in, future interest and principal payments on either direct obligations of or fully guaranteed by the United States government, which are held by a specified bank or trust company or any state in the capacity.

At June 30, 2006, the amount shown on the Statement of Net Assets as cash and cash equivalents includes \$752,788.59 which represents the College's equity position in the State Treasurer's Short-Term Investment Fund. The Short-Term Investment Fund (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission and does not have a credit rating) had a weighted average maturity of 1.18 years as of June 30, 2006. Assets and shares of the Short-Term Investment Fund are valued at amortized cost, which approximates fair value. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's Short-Term Investment Fund) are included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.ncosc.net/> and clicking on "Financial Reports", or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

NOTE 3 - RECEIVABLES

Receivables at June 30, 2006, were as follows:

	<u>Gross Receivables</u>	<u>Less Allowance for Doubtful Accounts</u>	<u>Net Receivables</u>
Current Receivables:			
Students	\$ 109,000.25	\$ 37,832.09	\$ 71,168.16
Accounts	260,353.43		260,353.43
Intergovernmental	140,171.99		140,171.99
Other	75.00		75.00
Total Current Receivables	<u>\$ 509,600.67</u>	<u>\$ 37,832.09</u>	<u>\$ 471,768.58</u>
Noncurrent Receivables:			
Intergovernmental	<u>\$ 68,803.33</u>	<u>\$ 0.00</u>	<u>\$ 68,803.33</u>
Notes Receivable:			
Notes Receivable - Current:			
Institutional Student Loan Programs	<u>\$ 3,561.64</u>	<u>\$ 0.00</u>	<u>\$ 3,561.64</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, 2006, is presented as follows:

	Balance July 1, 2005	Increases	Decreases	Balance June 30, 2006
Capital Assets, Nondepreciable:				
Land	\$ 1,651,196.77	\$ 74,622.54	\$ 0.00	\$ 1,725,819.31
Construction in Progress	2,646,904.53	3,595,466.74		6,242,371.27
Total Capital Assets, Nondepreciable	4,298,101.30	3,670,089.28		7,968,190.58
Capital Assets, Depreciable:				
Buildings	22,849,566.92			22,849,566.92
Machinery and Equipment	2,803,134.79	1,243,124.84	107,997.21	3,938,262.42
General Infrastructure	605,276.59			605,276.59
Total Capital Assets, Depreciable	26,257,978.30	1,243,124.84	107,997.21	27,393,105.93
Less Accumulated Depreciation:				
Buildings	6,861,057.67	633,543.24		7,494,600.91
Machinery and Equipment	1,755,487.45	222,827.94	107,997.21	1,870,318.18
General Infrastructure	311,731.19	33,841.85		345,573.04
Total Accumulated Depreciation	8,928,276.31	890,213.03	107,997.21	9,710,492.13
Total Capital Assets, Depreciable, Net	17,329,701.99	352,911.81		17,682,613.80
Capital Assets, Net	\$ 21,627,803.29	\$ 4,023,001.09	\$ 0.00	\$ 25,650,804.38

NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2006, were as follows:

	Amount
Accounts Payable	\$ 92,501.60
Accrued Payroll	101,416.40
Contract Retainage	250,882.62
Total Accounts Payable and Accrued Liabilities	\$ 444,800.62

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, 2005	Additions	Reductions	Balance June 30, 2006	Current Portion
Notes Payable	\$ 742,513.91	\$ 0.00	\$ 104,809.37	\$ 637,704.54	\$ 110,413.22
Compensated Absences	895,532.36	530,668.50	448,703.60	977,497.26	114,562.67
Total Long-Term Liabilities	<u>\$ 1,638,046.27</u>	<u>\$ 530,668.50</u>	<u>\$ 553,512.97</u>	<u>\$ 1,615,201.80</u>	<u>\$ 224,975.89</u>

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 06/30/2006	Principal Outstanding 06/30/2006
Guaranteed Energy Savings Equipment Purchase	Branch Bank and Trust Company	5.22%	08/17/2011	<u>\$ 1,097,312.00</u>	<u>\$ 459,607.46</u>	<u>\$ 637,704.54</u>

The annual requirements to pay principal and interest on the notes payable at June 30, 2006, are as follows:

Fiscal Year	Annual Requirements	
	Notes Payable	
	Principal	Interest
2007	\$ 110,413.22	\$ 30,671.38
2008	116,316.69	24,767.91
2009	122,535.83	18,548.77
2010	129,087.47	11,997.13
2011	135,989.41	5,095.19
2012	23,361.92	152.18
Total Requirements	<u>\$ 637,704.54</u>	<u>\$ 91,232.56</u>

NOTE 7 - REVENUES

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

	Gross Revenues	Less Scholarship Discounts	Less Allowance for Uncollectables	Net Revenues
Operating Revenues:				
Student Tuition and Fees	<u>\$ 2,644,089.96</u>	<u>\$ 1,623,225.24</u>	<u>\$ 37,832.09</u>	<u>\$ 983,032.63</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 8 - OPERATING EXPENSES BY FUNCTION

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

	Personal Services	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	\$ 8,874,423.09	\$ 2,638,697.58	\$ 597,515.23	\$ 58,592.91	\$ 0.00	\$ 0.00	\$ 12,169,228.81
Public Service	114,955.58	6,438.04	30,902.61				152,296.23
Academic Support	1,755,066.71	65,465.04	27,896.51				1,848,428.26
Student Services	1,442,409.46	61,169.09	164,200.48	710,700.58			2,378,479.61
Institutional Support	1,992,201.96	148,964.23	753,952.24				2,895,118.43
Operations and Maintenance of Plant	670,075.81	129,599.63	232,191.59		585,243.90		1,617,110.93
Student Financial Aid			7,621.26	2,276,618.61			2,284,239.87
Auxiliary Enterprises	47,342.57	61,273.18	21,640.31				130,256.06
Depreciation						890,213.03	890,213.03
Total Operating Expenses	<u>\$ 14,896,475.18</u>	<u>\$ 3,111,606.79</u>	<u>\$ 1,835,920.23</u>	<u>\$ 3,045,912.10</u>	<u>\$ 585,243.90</u>	<u>\$ 890,213.03</u>	<u>\$ 24,365,371.23</u>

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, 2006, these rates were set at 2.34% of covered payroll for employers and 6% of covered payroll for members.

For the year ended June 30, 2006, the College had a total payroll of \$12,416,060.87, of which \$10,049,026.20 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were \$602,941.58 and \$235,198.27, respectively. The College made 100% of its annual required contributions for the years ended June 30, 2006, 2005, and 2004, which were \$235,198.27, \$206,531.20, and \$18,523.94, respectively.

The Teachers' and State Employees' Retirement System's financial information is included in the State of North Carolina's *Comprehensive*

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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. Deferred Compensation and Supplemental Retirement Income Plans** - IRC Section 457 Plan – The State of North Carolina offers its permanent employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 through the North Carolina Public Employee Deferred Compensation Plan (the Plan). The Plan permits each participating employee to defer a portion of his or her salary until future years. The deferred compensation is available to employees upon separation from service, death, disability, retirement, or financial hardships if approved by the Board of Trustees of the Plan. The Board, a part of the North Carolina Department of Administration, maintains a separate fund for the exclusive benefit of the participating employees and their beneficiaries, *the North Carolina Public Employee Deferred Compensation Trust Fund*. The Board also contracts with an external third party to perform certain administrative requirements and to manage the trust fund's assets. All costs of administering and funding the Plan are the responsibility of the Plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to \$10,000.00 for the year ended June 30, 2006.

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 \$196,683.00 for the year ended June 30, 2006.

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 \$4,425.00 for the year ended June 30, 2006.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 3.8% of the covered payroll under the Teachers' and State Employees' Retirement System for these health care benefits. For the fiscal year ended June 30, 2006, the College's total contribution to the Plan was \$382,043.17. 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 year ended June 30, 2006, the College's total contribution to the DIPNC was \$52,277.46. 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, and can include 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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. The employer contribution rate was .16% for the current fiscal year.

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

NOTE 12 - COMMITMENTS AND CONTINGENCIES

The College has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were \$1,958,456.00 and on other purchases were \$89,955.81 at June 30, 2006.



STATE OF NORTH CAROLINA
Office of the 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, 2006, which collectively comprise the College's basic financial statements, and have issued our report thereon dated March 22, 2007.

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

Internal Control Over Financial Reporting

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

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

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, the State Board of Community Colleges, management of the College, the Governor, the State Controller, and the General Assembly, 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

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