



STATE OF NORTH CAROLINA

LENOIR COMMUNITY COLLEGE

KINSTON, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2008

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR

LENOIR COMMUNITY COLLEGE

KINSTON, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2008

STATE BOARD OF COMMUNITY COLLEGES

THE NORTH CAROLINA COMMUNITY COLLEGE SYSTEM

DR. R. SCOTT RALLS, PRESIDENT

BOARD OF TRUSTEES

GRADY E. BETHEL, CHAIRMAN

ADMINISTRATIVE OFFICERS

DR. A. BRANTLEY BRILEY, PRESIDENT

DEBORAH SUTTON, CHIEF FINANCIAL OFFICER



Beth A. Wood, CPA
State Auditor

STATE OF NORTH CAROLINA
Office of the State Auditor

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

AUDITOR'S TRANSMITTAL

The Honorable Beverly E. Perdue, Governor
The General Assembly of North Carolina
Board of Trustees, Lenoir Community College

We have completed a financial statement audit of Lenoir Community College for the year ended June 30, 2008, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

The results of our tests disclosed no deficiencies in internal control over financial reporting that we consider to be material weaknesses in relation to our audit scope or any instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

A handwritten signature in cursive script that reads "Beth A. Wood".

Beth A. Wood, CPA
State Auditor

April 14, 2009

TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITOR’S REPORT	1
MANAGEMENT’S DISCUSSION AND ANALYSIS	3
FINANCIAL STATEMENTS	
College Exhibits	
A-1 Statement of Net Assets	8
A-2 Statement of Revenues, Expenses, and Changes in Net Assets	9
A-3 Statement of Cash Flows	10
Component Unit Exhibits	
B-1 Statement of Financial Position	12
B-2 Statement of Activities	13
Notes to the Financial Statements	15
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 <i>GOVERNMENT AUDITING STANDARDS</i>	29
ORDERING INFORMATION	31



Beth A. Wood, CPA
State Auditor

STATE OF NORTH CAROLINA
Office of the State Auditor

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

INDEPENDENT AUDITOR'S REPORT

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, 2008, which collectively comprise the College's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of 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., 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.

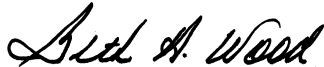
In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of Lenoir Community College and its discretely presented component unit as of June 30, 2008, and the respective changes 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.

As discussed in Note 13 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and Statement 50, *Pension Disclosures*, during the year ended June 30, 2008.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

In accordance with *Government Auditing Standards*, we have also issued our report dated March 12, 2009, 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.



Beth A. Wood, CPA
State Auditor

March 12, 2009

**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, 2008, and June 30, 2007. 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 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 column. 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.

Condensed Statement of Net Assets				
	2008	2007	Increase (Decrease)	Percent Change
Assets				
Current Assets	\$ 1,819,468	\$ 2,163,355	\$ (343,887)	(15) %
Capital Assets	30,118,971	28,879,504	1,239,467	4 %
Other Assets	3,880,497	5,080,775	(1,200,278)	(24) %
Total Assets	35,818,936	36,123,634	(304,698)	(1) %
Liabilities				
Current Liabilities	826,736	867,744	(41,008)	(5) %
Noncurrent Long-Term Liabilities	1,193,783	1,318,372	(124,589)	(9) %
Total Liabilities	2,020,519	2,186,116	(165,597)	(8) %
Net Assets				
Invested in Capital Assets, Net of Related Debt	29,707,996	28,352,212	1,355,784	5 %
Restricted	4,114,090	5,524,423	(1,410,333)	(26) %
Unrestricted	(23,669)	60,883	(84,552)	(139) %
Total Net Assets	\$ 33,798,417	\$ 33,937,518	\$ (139,101)	

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

The only significant changes resulted from the accounting of bond proceeds and special appropriations for construction. Capital assets increased primarily due to the completion of the addition in Greene County which totaled \$2.3 million. At the fiscal year ending June 30, 2008, the College had a restricted due from primary government balance of \$3.6 million shown above as a part of other assets. This balance is the cash flow expected from bond proceeds and special appropriations for construction. This receivable decreased by \$1.4 million from the prior year primarily due to bond funds collected for the addition in Greene County. Although various line items on the balance sheet changed, the overall net assets remained constant.

Statement of Revenues, Expenses, and Changes in Net Assets

	<u>2008</u>	<u>2007</u>	<u>Increase (Decrease)</u>	<u>Percent Change</u>
Operating Revenues				
Student Tuition and Fees, Net	\$ 1,591,855	\$ 1,589,451	\$ 2,404	0 %
Federal Grants and Contracts	4,612,520	4,414,236	198,284	4 %
State and Local Grants and Contracts	995,527	690,768	304,759	44 %
Sales and Services	287,635	283,153	4,482	2 %
Other Operating Revenues	<u>55,319</u>	<u>33,003</u>	<u>22,316</u>	68 %
Total Operating Revenues	<u>7,542,856</u>	<u>7,010,611</u>	<u>532,245</u>	8 %
Operating Expenses				
Personal Services	16,939,896	16,716,920	222,976	1 %
Supplies and Materials	1,969,708	2,334,130	(364,422)	(16) %
Services	2,190,370	2,026,892	163,478	8 %
Scholarships and Fellowships	3,354,308	3,035,177	319,131	11 %
Utilities	711,923	634,682	77,241	12 %
Depreciation	<u>813,290</u>	<u>752,709</u>	<u>60,581</u>	8 %
Total Operating Expenses	<u>25,979,495</u>	<u>25,500,510</u>	<u>478,985</u>	2 %
Operating Loss	<u>(18,436,639)</u>	<u>(18,489,899)</u>	<u>53,260</u>	
Nonoperating Revenues				
State Aid	14,318,793	14,393,663	(74,870)	(1) %
County Appropriations	1,927,374	1,899,578	27,796	1 %
Noncapital Grants	462,388	411,473	50,915	12 %
Noncapital Gifts	13,779	162,789	(149,010)	(92) %
Investment Income	51,847	54,588	(2,741)	(5) %
Other Nonoperating Expenses	<u>(57,991)</u>	<u>(34,198)</u>	<u>(23,793)</u>	(70) %
Other Revenues				
State Capital Aid	1,669,048	6,033,005	(4,363,957)	(72) %
County Capital Aid	251,904	340,886	(88,982)	(26) %
Capital Grants	208,020	97,267	110,753	114 %
Capital Gifts	<u>1,461</u>	<u>138,103</u>	<u>(136,642)</u>	(99) %
Total Nonoperating and Other Revenues	18,846,623	23,497,154	(4,650,531)	(20) %
Change in Net Assets	<u>409,984</u>	<u>5,007,255</u>	<u>(4,597,271)</u>	(92) %
Net Assets - Beginning of Year	33,937,518	26,053,292	7,884,226	30 %
Restatement	<u>(549,085)</u>	<u>2,876,971</u>	<u>(3,426,056)</u>	
Net Assets - End of Year	<u>\$ 33,798,417</u>	<u>\$ 33,937,518</u>	<u>\$ (139,101)</u>	

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

The significant decrease in state capital aid and change in net assets results from the accounting of bond and special appropriation proceeds as mentioned earlier. During the fiscal year 2006-2007, all approved bond/special allocations were recognized in income totaling \$4.9 million. During the current year, \$900 thousand was recognized for the special appropriations received for the Jones County construction. The increase in capital grants for the 2008 fiscal year is the result of a \$125 thousand Golden LEAF Foundation grant to support a mobile machining lab that will enable Lenoir Community College to reach future machining technology students and current employees at local industries. The increase in the state and local grants and contracts is due to the allotment from the North Carolina Lottery Scholarship Fund in the amount of \$228 thousand. The North Carolina Education Lottery Scholarship was created by the 2005 General Assembly to provide financial assistance to needy North Carolina resident students attending eligible colleges and universities located within the state of North Carolina.

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, 2008 the College reported \$30.1 million in capital assets net of accumulated depreciation of \$8.2 million. The decrease in Construction in Progress and the increase in Buildings resulted primarily from the completion of the Greene County addition.

	<u>2008</u>	<u>2007</u>	<u>Increase (Decrease)</u>	<u>Percent Change</u>
Land	\$ 1,725,819	\$ 1,725,819	\$ 0	0 %
Construction in Progress	142,931	411,745	(268,814)	65 %
Buildings	30,922,874	28,476,447	2,446,427	9 %
Machinery and Equipment	4,931,979	4,626,214	305,765	7 %
General Infrastructure	632,578	605,277	27,301	5 %
Totals	<u>\$ 38,356,181</u>	<u>\$ 35,845,502</u>	<u>\$ 2,510,679</u>	7 %

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Debt

The College reported debt of \$1.4 million as of June 30, 2008. This balance consists of notes payable and accrued compensated absences. The note payable is in the amount of \$411 thousand for the cost of the implementation of the energy savings program. The current portion of the note is \$123 thousand. The note will mature in August, 2011. The liability for accrued compensated absences is \$1.02 million of which \$118 thousand is current.

Condensed Statement of Cash Flows

	<u>2008</u>	<u>2007</u>	<u>Increase (Decrease)</u>	<u>Percent Change</u>
Cash Provided (Used) by:				
Operating Activities	\$ (17,435,882)	\$ (17,609,137)	\$ 173,255	1 %
Noncapital Financing Activities	16,720,045	17,194,400	(474,355)	(3) %
Capital Financing Activities	665,973	647,298	18,675	3 %
Investing Activities	51,847	54,588	(2,741)	(5) %
Net Change in Cash and Cash Equivalents	1,983	287,149	(285,166)	(99) %
Cash and Cash Equivalents, Beginning of Year	1,194,877	907,728	287,149	32 %
Cash and Cash Equivalents, End of Year	<u>\$ 1,196,860</u>	<u>\$ 1,194,877</u>	<u>\$ 1,983</u>	

Major sources of funds for the operating activities were provided by student tuition and fees (\$1.6 million), federal grants and contracts (\$4.6 million), and state and local grants and contracts (\$996 thousand).

Major uses of funds in operating activities were for employee compensation (\$16.9 million), payments for goods and services (\$4.1 million), and scholarships (\$3.3 million).

Cash provided by noncapital financing activities included state appropriations (\$14.3 million), county appropriations (\$1.9 million), and grants (\$462 thousand).

The major sources of cash provided by capital financing activities include state capital appropriations (\$1.7 million) and county capital appropriations (\$252 thousand). The major uses of these funds were for acquisition of capital assets and capital note payments.

Economic Forecast

The College is expecting to increase enrollment by 5 percent this year. The fall 2008 semester has already rendered an enrollment increase. The actual and anticipated increase is attributed mainly to intensive marketing and recruiting, particularly in distance education, and to the continued local economic recession.

So far this year (2008-2009), the College has reverted three percent of their state budget. The reversions will greatly impact our technology and equipment needs. Our technology and equipment must be maintained at a basic standard or our students' learning and job opportunities will suffer.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

The College is affirmed by the Southern Association of Colleges and Schools (SACS). SACS affirmation affords the College continued credibility with the community and availability of financial resources from significant funding agencies.

Lenoir Community College
Statement of Net Assets
June 30, 2008

Exhibit A-1

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 724,917.85
Restricted Cash and Cash Equivalents	246,243.13
Receivables, Net (Note 3)	380,373.29
Due from Primary Government	3,051.72
Due from State of North Carolina Component Units	356,995.90
Inventories	77,389.75
Prepaid Items	25,928.78
Notes Receivable, Net (Note 3)	4,567.19

Total Current Assets	1,819,467.61
----------------------	--------------

Noncurrent Assets:

Restricted Cash and Cash Equivalents	225,698.48
Restricted Due from Primary Government	3,629,799.20
Restricted Due from State of North Carolina Component Units	25,000.00
Capital Assets - Nondepreciable (Note 4)	1,868,750.13
Capital Assets - Depreciable, Net (Note 4)	28,250,220.44

Total Noncurrent Assets	33,999,468.25
-------------------------	---------------

Total Assets	35,818,935.86
--------------	---------------

LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 5)	372,534.72
Due to Primary Government	2,225.00
Unearned Revenue	145,595.96
Funds Held for Others	65,738.23
Long-Term Liabilities - Current Portion (Note 6)	240,642.02

Total Current Liabilities	826,735.93
---------------------------	------------

Noncurrent Liabilities:

Long-Term Liabilities (Note 6)	1,193,783.13
--------------------------------	--------------

Total Liabilities	2,020,519.06
-------------------	--------------

NET ASSETS

Invested in Capital Assets, Net of Related Debt	29,707,995.94
---	---------------

Restricted for:

Expendable:

Loans	12,052.12
Capital Projects	3,893,323.70
Restricted for Specific Programs	59,889.20
Other	148,824.69

Unrestricted	(23,668.85)
--------------	-------------

Total Net Assets	\$ 33,798,416.80
------------------	------------------

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, 2008***

Exhibit A-2

REVENUES

Operating Revenues:	
Student Tuition and Fees, Net (Note 7)	\$ 1,591,855.01
Federal Grants and Contracts	4,612,519.48
State and Local Grants and Contracts	995,526.71
Sales and Services	287,634.54
Other Operating Revenues	55,318.75
	<hr/>
Total Operating Revenues	7,542,854.49
	<hr/>

EXPENSES

Operating Expenses:	
Personal Services	16,939,895.79
Supplies and Materials	1,969,707.58
Services	2,190,369.94
Scholarships and Fellowships	3,354,307.97
Utilities	711,923.45
Depreciation	813,289.89
	<hr/>
Total Operating Expenses	25,979,494.62
	<hr/>
Operating Loss	(18,436,640.13)
	<hr/>

NONOPERATING REVENUES (EXPENSES)

State Aid	14,318,792.51
County Appropriations	1,927,374.32
Noncapital Grants	462,388.08
Noncapital Gifts	13,778.86
Investment Income	51,846.87
Interest and Fees on Debt	(24,767.91)
Other Nonoperating Expenses	(33,222.66)
	<hr/>

Net Nonoperating Revenues	16,716,190.07
	<hr/>

Loss Before Other Revenues	(1,720,450.06)
	<hr/>

State Capital Aid	1,669,048.04
County Capital Aid	251,904.08
Capital Grants	208,020.37
Capital Gifts	1,461.00
	<hr/>

Increase in Net Assets	409,983.43
	<hr/>

NET ASSETS

Net Assets, July 1, 2007 as Restated (Note 14)	33,388,433.37
	<hr/>

Net Assets, June 30, 2008	\$ 33,798,416.80
	<hr/> <hr/>

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, 2008***

Exhibit A-3

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 7,529,314.22
Payments to Employees and Fringe Benefits	(16,794,854.36)
Payments to Vendors and Suppliers	(4,826,904.26)
Payments for Scholarships and Fellowships	(3,354,307.97)
Loans Issued to Students	(22,415.27)
Collection of Loans to Students	19,198.13
Other Receipts	14,087.97
	<hr/>
Net Cash Used by Operating Activities	(17,435,881.54)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Aid Received	14,318,792.51
County Appropriations	1,927,374.32
Noncapital Grants Received	460,098.89
Noncapital Gifts Received	13,778.86
	<hr/>
Cash Provided by Noncapital Financing Activities	16,720,044.58

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

State Capital Aid Received	3,058,421.54
County Capital Aid	251,904.08
Capital Grants Received	193,799.20
Proceeds from Sale of Capital Assets	1,637.50
Acquisition and Construction of Capital Assets	(2,698,704.94)
Principal Paid on Capital Debt and Leases	(116,316.69)
Interest Paid on Capital Debt and Leases	(24,767.91)
	<hr/>
Net Cash Provided by Capital and Related Financing Activities	665,972.78

CASH FLOWS FROM INVESTING ACTIVITIES

Investment Income	51,846.87
	<hr/>
Cash Provided by Investing Activities	51,846.87

Net Increase in Cash and Cash Equivalents	1,982.69
Cash and Cash Equivalents, July 1, 2007	1,194,876.77
	<hr/>
Cash and Cash Equivalents, June 30, 2008	\$ 1,196,859.46

Lenoir Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2008

Exhibit A-3
Page 2

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

Operating Loss	\$ (18,436,640.13)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	813,289.89
Provision for Uncollectible Loans and Write-Offs	(17.74)
Miscellaneous Nonoperating Income	3,416.70
Changes in Assets and Liabilities:	
Receivables, Net	190,431.37
Inventories	(13,495.53)
Prepaid Items	(416.64)
Notes Receivable, Net	(3,217.14)
Accounts Payable and Accrued Liabilities	143,913.95
Due to Primary Government	2,225.00
Unearned Revenue	(204,213.74)
Funds Held for Others	10,913.37
Compensated Absences	57,929.10
	<hr/>
Net Cash Used by Operating Activities	<u><u>\$ (17,435,881.54)</u></u>

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	\$ 724,917.85
Restricted Cash and Cash Equivalents	246,243.13
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	225,698.48
	<hr/>
Total Cash and Cash Equivalents - June 30, 2008	<u><u>\$ 1,196,859.46</u></u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through a Gift	\$ 1,461.00
Increase in Receivables Related to Nonoperating Income	27,289.19

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, 2008

Exhibit B-1

ASSETS	
Cash and Cash Equivalents	\$ 2,883,073
Investments	201,814
Student Loans Receivable, Net	3,632
Other Receivables	5,704
Property and Equipment, Net	<u>89,070</u>
Total Assets	<u>3,183,293</u>
LIABILITIES	
Accounts Payable	<u>1,731</u>
NET ASSETS	
Unrestricted	741,220
Temporarily Restricted	294,622
Permanently Restricted	<u>2,145,720</u>
Total Net Assets	<u>\$ 3,181,562</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, 2008

Exhibit B-2

CHANGES IN UNRESTRICTED NET ASSETS

Revenues and Gains:	
Contributions	\$ 138,847
Travel Program	151,420
Interest Income	23,327
Dividends	4,470
Lease	20,597
Net Unrealized and Realized Loss on Long-Term Investments	(28,816)
Other	2,955
In-kind Contributions	22,113
Net Assets Released from Restrictions	61,451
	<hr/>
Total Unrestricted Revenues and Gains, and Other Support	396,364
Expenses and Losses:	
Grants/Scholarships	144,429
Other Program Expenses	218,423
General and Administrative	20,812
Fund Raising	67,004
	<hr/>
Total Expenses	450,668
	 <hr/>
Loss on Sale of Fixed Assets	100
	<hr/>
Total Expenses and Losses	450,768
	 <hr/>
Decrease in Unrestricted Net Assets	(54,404)

CHANGES IN TEMPORARILY RESTRICTED NET ASSETS

Contributions	13,107
Interest Income	93,506
Net Assets Released from Restrictions:	
Satisfaction of Program Restrictions	(61,451)
	<hr/>
Increase in Temporarily Restricted Net Assets	45,162

CHANGES IN PERMANENTLY RESTRICTED NET ASSETS

Contributions	279,517
Interest Income	18,509
	<hr/>
Increase in Permanently Restricted Net Assets	298,026
	 <hr/>
Increase in Net Assets	288,784
Net Assets at Beginning of Year	2,892,778
	<hr/>
Net Assets at End of Year	\$ 3,181,562

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

[This Page Left Blank Intentionally]

LENOIR COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

- A. Financial Reporting Entity** - The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their constituents for their actions. As required by accounting principles generally accepted in the United States of America (GAAP), the financial reporting entity includes both the primary government and all of its component units. An organization other than a primary government serves as a nucleus for a reporting entity when it issues separate financial statements. 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 units' 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 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.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 2008, the Foundation distributed \$174,494.23 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 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 and/or units of output method over the estimated useful lives of the assets, generally 10 to 75 years for general infrastructure, 10 to 70 years for buildings, and 2 to 25 years for equipment.

- H. Restricted Assets** - Certain resources are reported as restricted assets because restrictions on asset use change the nature or normal understanding of the availability of the asset. Resources that are not available for current operations and are reported as restricted include resources restricted or designated for the acquisition or construction of capital assets and resources whose 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'

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

benefit. Student financial assistance grants, such as Pell grants, and other federal, State, or nongovernmental programs, are recorded as either operating or nonoperating revenues in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. To the extent that revenues from these programs are used to satisfy tuition, fees, and other charges, the College has recorded a scholarship discount.

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

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

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

NOTE 2 - DEPOSITS AND INVESTMENTS

All funds of the College are deposited in board-designated official depositories and are required to be collateralized in accordance with *North Carolina General Statute 115D-58.7*. Official depositories may be established with any bank or savings and loan association whose principal office is located in North Carolina. Also, the College may establish time deposit accounts, money market accounts, and certificates of deposit. The amount shown on the Statement of Net Assets as cash and cash equivalents includes cash on hand

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

totaling \$2,429.00, and deposits in private financial institutions with a carrying value of \$264,434.81 and a bank balance of \$451,592.59.

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, 2008, 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, 2008, the amount shown on the Statement of Net Assets as cash and cash equivalents includes \$929,995.65 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 2.9 years as of June 30, 2008. 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 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, 2008, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	\$ 150,629.29	\$ 51,594.57	\$ 99,034.72
Accounts	114,943.84		114,943.84
Intergovernmental	166,319.73		166,319.73
Other	75.00		75.00
	<u>\$ 431,967.86</u>	<u>\$ 51,594.57</u>	<u>\$ 380,373.29</u>
Total Current Receivables			
Notes Receivable:			
Notes Receivable - Current:			
Institutional Student Loan Programs	<u>\$ 6,646.19</u>	<u>\$ 2,079.00</u>	<u>\$ 4,567.19</u>

NOTE 4 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2008, is presented as follows:

	Balance July 1, 2007 (as restated)	Increases	Decreases	Balance June 30, 2008
Capital Assets, Nondepreciable:				
Land	\$ 1,725,819.31	\$ 0.00	\$ 0.00	\$ 1,725,819.31
Construction in Progress	411,744.54	2,196,453.58	2,465,267.30	142,930.82
Total Capital Assets, Nondepreciable	<u>2,137,563.85</u>	<u>2,196,453.58</u>	<u>2,465,267.30</u>	<u>1,868,750.13</u>
Capital Assets, Depreciable:				
Buildings	28,476,446.84	2,446,427.30		30,922,874.14
Machinery and Equipment	4,626,214.30	435,204.11	129,439.70	4,931,978.71
General Infrastructure	605,276.59	27,301.00		632,577.59
Total Capital Assets, Depreciable	<u>33,707,937.73</u>	<u>2,908,932.41</u>	<u>129,439.70</u>	<u>36,487,430.44</u>
Less Accumulated Depreciation:				
Buildings	6,223,099.09	572,074.40		6,795,173.49
Machinery and Equipment	1,156,743.83	230,674.69	91,162.84	1,296,255.68
General Infrastructure	135,240.03	10,540.80		145,780.83
Total Accumulated Depreciation	<u>7,515,082.95</u>	<u>813,289.89</u>	<u>91,162.84</u>	<u>8,237,210.00</u>
Total Capital Assets, Depreciable, Net	<u>26,192,854.78</u>	<u>2,095,642.52</u>	<u>38,276.86</u>	<u>28,250,220.44</u>
Capital Assets, Net	<u>\$ 28,330,418.63</u>	<u>\$ 4,292,096.10</u>	<u>\$ 2,503,544.16</u>	<u>\$ 30,118,970.57</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2008, were as follows:

	Amount
Accounts Payable	\$ 149,203.84
Accrued Payroll	218,330.88
Contract Retainage	5,000.00
Total Accounts Payable and Accrued Liabilities	\$ 372,534.72

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, 2007	Additions	Reductions	Balance June 30, 2008	Current Portion
Notes Payable	\$ 527,291.32	\$ 0.00	\$ 116,316.69	\$ 410,974.63	\$ 122,535.83
Compensated Absences	965,521.42	521,778.87	463,849.77	1,023,450.52	118,106.19
Total Long-Term Liabilities	\$ 1,492,812.74	\$ 521,778.87	\$ 580,166.46	\$ 1,434,425.15	\$ 240,642.02

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 06/30/2008	Principal Outstanding 06/30/2008
Guaranteed Energy Savings Equipment Purchase	Branch Bank and Trust Company	5.22%	08/17/2011	\$ 1,097,312.00	\$ 686,337.37	\$ 410,974.63

The annual requirements to pay principal and interest on the notes payable at June 30, 2008, are as follows:

Fiscal Year	Annual Requirements	
	Notes Payable	
	Principal	Interest
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	\$ 410,974.63	\$ 35,793.27

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 7 - REVENUES

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

	Gross Revenues	Less Scholarship Discounts	Less Allowance for Uncollectibles	Net Revenues
Operating Revenues:				
Student Tuition and Fees	\$ 2,909,485.13	\$ 1,309,952.90	\$ 7,677.22	\$ 1,591,855.01

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	\$ 10,582,324.94	\$ 1,406,681.80	\$ 692,394.08	\$ 25,448.08	\$ 0.00	\$ 0.00	\$ 12,706,848.90
Public Service	47,376.57	1,550.33	21,746.10				70,673.00
Academic Support	2,023,063.82	80,160.48	38,033.51				2,141,257.81
Student Services	1,261,760.19	71,782.04	247,496.27	317,504.43			1,898,542.93
Institutional Support	2,217,867.27	139,346.80	971,328.49	17,926.62			3,346,469.18
Operations and Maintenance of Plant	789,349.01	240,783.88	191,933.35		710,517.75		1,932,583.99
Student Financial Aid			6,985.00	2,993,428.84			3,000,413.84
Auxiliary Enterprises	18,153.99	29,402.25	20,453.14		1,405.70		69,415.08
Depreciation						813,289.89	813,289.89
Total Operating Expenses	\$ 16,939,895.79	\$ 1,969,707.58	\$ 2,190,369.94	\$ 3,354,307.97	\$ 711,923.45	\$ 813,289.89	\$ 25,979,494.62

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, 2008, these rates were set at 3.05% of covered payroll for employers and 6% of covered payroll for members.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the current fiscal year, the College had a total payroll of \$14,108,678.02, of which \$11,597,257.09 was covered under the Teachers' and State Employees' Retirement System. Total employer and employee contributions for pension benefits for the year were \$353,716.34 and \$695,835.43, respectively.

Required employer contribution rates for the years ended June 30, 2007, and 2006, were 2.66% and 2.34%, respectively, while employee contributions were 6% each year. The College made 100% of its annual required contributions for the years ended June 30, 2008, 2007, and 2006, which were \$353,716.34, \$310,122.20, and \$235,198.27, 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.ncosc.net/> 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 \$148,297.00 for the year ended June 30, 2008.

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 \$2,550.00 for the year ended June 30, 2008.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS

- A. **Health Benefits** - The College participates in the Comprehensive Major Medical Plan (the Plan), a cost-sharing, multiple-employer defined benefit health care plan that provides postemployment health insurance to eligible former employees. Eligible former employees include long-term disability beneficiaries of the Disability Income Plan of North Carolina and retirees of the Teachers' and State Employees' Retirement System. Coverage eligibility varies depending on years of contributory membership service in their retirement system prior to disability or retirement.

The Plan's benefit and contribution provisions are established by Chapter 135-7, Article 1, and Chapter 135, Article 3, of the General Statutes and may be amended only by the North Carolina General Assembly. The Plan does not provide for automatic post-retirement benefit increases.

By General Statute, a Retiree Health Benefit Fund (the Fund) has been established as a fund in which accumulated contributions from employers and any earnings on those contributions shall be used to provide health benefits to retired and disabled employees and applicable beneficiaries. By statute, the Fund is administered by the Board of Trustees Teachers' and State Employees' Retirement System and contributions to the fund are irrevocable. Also by law, Fund assets are dedicated to providing benefits to retired and disabled employees and applicable beneficiaries and are not subject to the claims of creditors of the employers making contributions to the Fund. Contribution rates to the Fund, which are intended to finance benefits and administrative expenses on a pay-as-you-go basis, are determined by the General Assembly in the Appropriations Bill.

For the current fiscal year the College contributed 4.1% of the covered payroll under the Teachers' and State Employees' Retirement System to the Fund. Required contribution rates for the years ended June 30, 2007, and 2006, were 3.8% and 3.8%, respectively. The College made 100% of its annual required contributions to the Plan for the years ended June 30, 2008, 2007, and 2006, which were \$475,487.54, \$442,902.05, and \$382,043.17, respectively. The College assumes no liability for retiree health care benefits provided by the programs other than its required contribution.

Additional detailed information about these programs can be located in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

- B. Disability Income** - The College participates in the Disability Income Plan of North Carolina (DIPNC), a cost-sharing, multiple-employer defined benefit plan, to provide short-term and long-term disability benefits to eligible members of the Teachers' and State Employees' Retirement System. Benefit and contribution provisions are established by Chapter 135, Article 6, of the General Statutes, and may be amended only by the North Carolina General Assembly. The plan does not provide for automatic post-retirement benefit increases.

Disability income benefits are funded by actuarially determined employer contributions that are established in the Appropriations Bill by the General Assembly. For the fiscal year ended June 30, 2008, the College made a statutory contribution of .52% of covered payroll under the Teachers' and State Employees' Retirement System to the DIPNC. Required contribution rates for the years ended June 30, 2007, and 2006, were .52% and .52%, respectively. The College made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2008, 2007, and 2006, which were \$60,305.74, \$60,607.65, and \$52,277.46, respectively. The College assumes no liability for long-term disability benefits under the Plan other than its contribution.

Additional detailed information about the DIPNC is disclosed in the State of North Carolina's *Comprehensive Annual Financial Report*.

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 the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

Tort claims of up to \$1,000,000 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Fire and other property losses are covered by the Public School Insurance Fund, a State-administered public entity risk pool. This fund is financed by premiums and interest and incurs a \$10 million self-insured deductible per occurrence. 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. This coverage is with a private insurance company and is handled by the North Carolina Department of Insurance with coverage of \$5,000,000 per occurrence with a \$75,000 deductible and a 10% participation in each loss above the 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.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

NOTE 12 - 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 \$1,099,805 and on other purchases were \$30,899.94 at June 30, 2008.

NOTE 13 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2008, the College implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.

GASB Statement No. 50, Pension Disclosures.

GASB Statement No. 45, requires cost-sharing employers to recognize OPEB expense for their contractually required contributions to the plan generally consistent with the approach in adopted in GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers, with modifications to reflect differences between pension benefits and OPEB.*

GASB Statement No. 50, aligns financial reporting requirements for pensions with those of other postemployment benefits, to conform with GASB Statement No. 45. This Statement amends GASB Statement No. 27 to require note disclosure of the employer contribution rates and percentage of the amount contributed for the current and preceding two years and to disclose how the required contribution rates are established.

NOTE 14 - NET ASSET RESTATEMENT

As of July 1, 2007, net assets as previously reported were restated as follows:

	<u>Amount</u>
July 1, 2007 Net Assets as Previously Reported	\$ 33,937,518.21
Restatement - Correction of an Error Related to the Capitalization of Repairs and Renovations Expenses as Construction in Progress	<u>(549,084.84)</u>
July 1, 2007 Net Assets as Restated	<u>\$ 33,388,433.37</u>



Beth A. Wood, CPA
State Auditor

STATE OF NORTH CAROLINA
Office of the State Auditor

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

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

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, 2008, which collectively comprise the College's basic financial statements, and have issued our report thereon dated March 12, 2009. Our report was modified to include a reference to other auditors.

As discussed in Note 13 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and Statement 50, *Pension Disclosures*, during the year ended June 30, 2008.

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the College's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over financial reporting.

**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)**

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the College's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the College's financial statements that is more than inconsequential will not be prevented or detected by the College's internal control.


A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the College's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

This report is intended solely for the information and use of management of the College, the Board of Trustees, others within the entity, the State Board of Community Colleges, the Governor, the State Controller, and the General Assembly, and is not intended to be and should not be used by anyone other than these specified parties.



Beth A. Wood, CPA
State Auditor

March 12, 2009

ORDERING INFORMATION

Audit reports issued by the Office of the State Auditor can be obtained from the web site at www.ncauditor.net. Also, parties may register on the web site to receive automatic email notification whenever reports of interest are issued. Otherwise, copies of audit reports may be obtained by contacting the:

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

Telephone: 919/807-7500

Facsimile: 919/807-7647