STATE OF NORTH CAROLINA

LENOIR COMMUNITY COLLEGE

KINSTON, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2010

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, 2010

STATE BOARD OF COMMUNITY COLLEGES

THE NORTH CAROLINA COMMUNITY COLLEGE SYSTEM

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STATE OF NORTH CAROLINA
Office of the State Auditor

Beth A. Wood, CPA
State Auditor

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AUDITOR'S TRANSMITTAL

The Honorable Beverly Eaves 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, 2010, 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.

Beth A. Wood

Beth A. Wood, CPA
State Auditor

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Lenoir Community College
Kinston, North Carolina

We have audited the accompanying financial statements of Lenoir Community College, a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 2010, which collectively comprise the College's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the College's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the 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 opinions, insofar as they relate to the amounts included for the Foundation, are 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, 2010, 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. 51, *Accounting and Financial Reporting for Intangible Assets* during the year ended June 30, 2010.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

In accordance with *Government Auditing Standards*, we have also issued our report dated March 23, 2011 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, 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

Beth A. Wood, CPA
State Auditor

March 23, 2011

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, 2010, and June 30, 2009. 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.

Financial Statement Presentation

The College's basic financial statements include the Statement of Net Assets, the Statement of Revenues, Expenses and Changes in Net Assets and the Statement of Cash Flows.

The Statement of Net Assets includes all assets and liabilities. It is prepared under the accrual basis of accounting whereby revenues and assets are recognized when the service is provided and expenses and liabilities are recognized when others provide the service, regardless of when cash is exchanged.

The Statement of Revenues, Expenses, and Changes in Net Assets presents the revenues earned and the expenses incurred during the year. Activities are reported as either operating or nonoperating. The financial reporting model classifies State and county appropriations, federal grants and contracts, and gifts as nonoperating revenues. Public colleges' dependency on State and county aid and gifts usually results in an operating deficit under governmental accounting standards. The utilization of long-lived assets, referred to as capital assets, is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life.

The Statement of Cash Flows presents the information related to cash inflows and outflows summarized by operating, capital and noncapital financing and investing 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.

	2010	2009	Increase (Decrease)	Percent Change
Assets				
Current Assets	$ 2,816,592	$ 1,667,134	$ 1,149,458	69 %
Capital Assets	32,351,723	31,747,520	604,203	2 %
Other Noncurrent Assets	1,472,852	1,856,087	(383,235)	(21) %
Total Assets	36,641,167	35,270,741	1,370,426	4 %
Liabilities				
Current Liabilities	1,157,620	856,129	301,491	35 %
Noncurrent Liabilities	850,800	1,081,546	(230,746)	(21) %
Total Liabilities	2,008,420	1,937,675	70,745	4 %
Net Assets				
Invested in Capital Assets, Net of Related Debt	32,192,371	31,459,081	733,290	2 %
Restricted	2,137,620	1,807,967	329,653	18 %
Unrestricted	302,756	66,018	236,738	359 %
Total Net Assets	$ 34,632,747	$ 33,333,066	$ 1,299,681	4 %

Current Assets

The $1.2 million increase in current assets is primarily a $715 thousand intergovernmental receivable. Due to changes in federal regulations, students were awarded Pell Grant awards for the summer semester. These summer awards resulted in a receivable from the Department of Education in the amount of $715 thousand.

Other Noncurrent Assets

The decrease in other noncurrent assets was due to a $639 thousand dollar decrease in the receivable due from the State for construction projects, and a $175 note receivable resulting from the sale of the Jones County Center.

Current Liabilities

Unearned revenue, included in the current liabilities classification, experienced a $100 thousand increase due to increased summer term classes being offered in the summer of 2010. Accounts Payable increased $52 thousand because the College was not accruing a draft payment for electricity payments in prior years. Accrued Payroll expense increased by $125 thousand due to an increase in nine month faculty spreading out their salary over twelve months and an overall increase in payroll in response to more occupational extension classes being offered.

Statement of Revenues, Expenses, and Changes in Net Assets

	2010	2009	Increase (Decrease)	Percent Change
Operating Revenues				
Student Tuition and Fees, Net	$ 1,786,850	$ 1,513,453	$ 273,397	18 %
Grants and Contracts	1,723,176	1,304,428	418,748	32 %
Sales and Services	296,393	261,905	34,488	13 %
Other Operating Revenues	62,252	64,465	(2,213)	(3) %
Total Operating Revenues	3,868,671	3,144,251	724,420	23 %
Operating Expenses				
Salaries and Benefits	18,048,931	17,966,735	82,196	0 %
Supplies and Materials	2,897,593	1,537,120	1,360,473	89 %
Services	2,211,679	1,994,812	216,867	11 %
Scholarships and Fellowships	7,428,950	4,661,922	2,767,028	59 %
Utilities	872,042	709,360	162,682	23 %
Depreciation/ Amortization	931,355	875,540	55,815	6 %
Total Operating Expenses	32,390,550	27,745,489	4,645,061	17 %
Operating Loss	(28,521,879)	(24,601,238)	(3,920,641)	16 %
Nonoperating Revenues				
State Aid	14,980,567	14,808,885	171,682	1 %
County Appropriations	2,249,215	2,134,658	114,557	5 %
Noncapital Grants and Gifts	9,782,818	6,352,371	3,430,447	54 %
Other Nonoperating Expenses	(73,589)	(11,619)	(61,970)	533 %
Capital Aid, Gifts, and Grants	2,882,549	851,592	2,030,957	238 %
Total Nonoperating and Capital Revenues	29,821,560	24,135,887	5,685,673	24 %
Change in Net Assets	1,299,681	(465,351)	1,765,032	(379) %
Net Assets - Beginning of Year	33,333,066	33,798,417	(465,351)	(1) %
Net Assets - End of Year	$ 34,632,747	$ 33,333,066	$ 1,299,681	4 %

Operating Revenues

The increase in Student Tuition and Fees was due to enrollment growth and increased summer school offerings. Annualized average annual Full Time Equivalent (FTE) for 2009-10 was 4,293 while for 2008-09 it was 3,655. Grants and Contracts increased due to receiving an additional $145,000 in Workforce Investment Act (WIA) and $390,000 in WIA-ARRA grants. The increase in Sales and Services was due to an increase Bookstore commissions related to the enrollment growth previously mentioned.

Operating Expenses

Operating expenses increased $4.6 million. The supplies and materials operating expenses had increases in the Customized Industry Training (CIT) department of $438 thousand for instructional supplies for Spirit AeroSystems due to start up cost associated with industry training. This includes the purchase of the curriculum program in the amount of $290 thousand. Scholarships and fellowships increased due to a $3 million increase due to increased enrollment and year round PELL Grant availability.

Nonoperating Revenues

The $2 million increase in capital aid and grants results from an increased budget allotment due to growth, Spirit Aerosystems equipment allocation, and North Carolina Motorcycle Safety equipment allotment. Also, during the fiscal year 2009-2010, $481 thousand was allotted from State bond funds that were allocated to projects. The $3.4 million increase in Noncapital Grants and Gifts was primarily due to an increase of Pell Grant Funds. This increase is the result of increased enrollment and the increase in the annual allotment per student.

Capital Assets

At June 30, 2010, the College reported $32.3 million in capital assets net of accumulated depreciation of $9.8 million. The $1.3 million decrease in Construction in Progress and $1.5 million increase in Buildings is a result of the completion of Phase II Jones County addition, the Maintenance Facility, and the Corrections Training Facility. The $1 million increase in Machinery and Equipment is due primarily to the purchase of a 3' x 5' Autoclave, which cleans and sanitizes lab supplies for use in lab classes, Security Locking System, and a Simman 3G patient simulator for use in nursing classes.

	2010	2009	Increase (Decrease)	Percent Change
Land	$ 1,725,819	$ 1,725,819	$ 0	0 %
Construction in Progress	71,774	1,322,927	(1,251,153)	(95) %
Buildings	33,725,707	32,190,535	1,535,172	5 %
Machinery and Equipment	5,975,434	4,930,263	1,045,171	21 %
General Infrastructure	641,296	632,578	8,718	1 %
Totals	$ 42,140,030	$ 40,802,122	$ 1,337,908	3 %

Debt

The College reported debt related to a note payable; the note payable is in the amount of $159 thousand for the cost of the implementation of the energy savings program. The current portion of the note is $136 thousand. The note will mature in August, 2011.

Economic Forecast

Lenoir Community College experienced budget FTE growth from 3,582 in fiscal year ended June 30, 2010 to 4,168 in fiscal year ending June 30, 2011. This increased our formula budget by $2.9 million. However, we are holding $452 thousand for potential reversions and sent back $684 thousand in management flexibility funds. Taking these factors in consideration, the formula budget for fiscal year ending June 30, 2011 increased $1.8 million over last year.

The Fall 2010 semester has already rendered an enrollment increase of approximately 4 percent. The actual and anticipated increase is attributed mainly to intensive marketing and recruiting, particularly in distance education, and to the continued local economic recession.

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, 2010 — *Exhibit A-1*

ASSETS		
Current Assets:		
Cash and Cash Equivalents	$	642,669.83
Restricted Cash and Cash Equivalents		647,494.44
Receivables, Net (Note 3)		1,181,357.14
Due from Primary Government		45,285.17
Due from State of North Carolina Component Units		93,000.00
Inventories		118,310.12
Prepaid Items		33,525.89
Notes Receivable, Net (Note 3)		54,949.14
Total Current Assets		2,816,591.73
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		80,707.93
Restricted Due from Primary Government		1,217,144.71
Notes Receivable (Note 3)		175,000.00
Capital Assets - Nondepreciable (Note 4)		1,797,593.51
Capital Assets - Depreciable, Net (Note 4)		30,554,129.17
Total Noncurrent Assets		33,824,575.32
Total Assets		36,641,167.05
LIABILITIES		
Current Liabilities:		
Accounts Payable and Accrued Liabilities (Note 5)		548,033.73
Unearned Revenue		232,658.24
Funds Held for Others		65,029.29
Long-Term Liabilities - Current Portion (Note 6)		311,898.97
Total Current Liabilities		1,157,620.23
Noncurrent Liabilities:		
Long-Term Liabilities (Note 6)		850,799.74
Total Liabilities		2,008,419.97
NET ASSETS		
Invested in Capital Assets, Net of Related Debt		32,192,371.35
Restricted for:		
Expendable:		
Loans		11,571.26
Capital Projects		1,481,522.31
Restricted for Specific Programs		405,240.34
Other		239,285.63
Unrestricted		302,756.19
Total Net Assets	$	34,632,747.08

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, 2010

Exhibit A-2

REVENUES	
Operating Revenues:	
Student Tuition and Fees, Net (Note 7)	$ 1,786,850.08
Federal Grants and Contracts	1,261,109.64
State and Local Grants and Contracts	462,065.62
Sales and Services	296,393.10
Other Operating Revenues	62,252.47
Total Operating Revenues	3,868,670.91
EXPENSES	
Operating Expenses:	
Salaries and Benefits	18,048,930.32
Supplies and Materials	2,897,593.45
Services	2,211,678.74
Scholarships and Fellowships	7,428,949.53
Utilities	872,042.07
Depreciation	931,354.71
Total Operating Expenses	32,390,548.82
Operating Loss	(28,521,877.91)
NONOPERATING REVENUES (EXPENSES)	
State Aid	14,980,566.77
County Appropriations	2,249,214.77
Noncapital Grants - Federal Student Financial Aid	8,430,993.67
Noncapital Grants	1,343,635.50
Noncapital Gifts	8,189.55
Investment Income	11,752.80
Interest and Fees on Debt	(11,997.13)
Other Nonoperating Expenses	(73,345.02)
Net Nonoperating Revenues	26,939,010.91
Income Before Other Revenues	(1,582,867.00)
State Capital Aid	2,511,625.75
County Capital Aid	276,817.84
Capital Grants	83,229.97
Capital Gifts	10,875.00
Increase in Net Assets	1,299,681.56
NET ASSETS	
Net Assets, July 1, 2009	33,333,065.52
Net Assets, June 30, 2010	$ 34,632,747.08

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, 2010 — *Exhibit A-3*

CASH FLOWS FROM OPERATING ACTIVITIES	
Received from Customers	$ 3,770,891.94
Payments to Employees and Fringe Benefits	(18,008,107.86)
Payments to Vendors and Suppliers	(5,896,324.79)
Payments for Scholarships and Fellowships	(7,428,949.53)
Loans Issued to Students	(14,413.51)
Collection of Loans to Students	11,145.99
Other Receipts	4,756.08
Net Cash Used by Operating Activities	(27,561,001.68)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Aid Received	14,980,566.77
County Appropriations	2,249,214.77
Noncapital Grants - Federal Student Financial Aid	7,768,880.54
Noncapital Grants Received	1,332,391.61
Noncapital Gifts	8,189.55
Cash Provided by Noncapital Financing Activities	26,339,243.24
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
State Capital Aid Received	3,150,568.38
County Capital Aid	269,320.74
Capital Grants Received	83,229.97
Proceeds from Sale of Capital Assets	25,993.00
Acquisition and Construction of Capital Assets	(1,909,707.05)
Principal Paid on Capital Debt	(129,087.47)
Interest Paid on Capital Debt	(11,997.13)
Net Cash Provided by Capital and Related Financing Activities	1,478,320.44
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment Income	11,752.80
Net Increase in Cash and Cash Equivalents	268,314.80
Cash and Cash Equivalents, July 1, 2009	1,102,557.40
Cash and Cash Equivalents, June 30, 2010	$ 1,370,872.20

RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES

Operating Loss	$	(28,521,877.91)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation		931,354.71
Provision for Uncollectible Loans and Write-Offs		1,477.92
Miscellaneous Nonoperating Income		5,111.60
Changes in Assets and Liabilities:		
Receivables, Net		(198,756.47)
Inventories		(22,997.38)
Prepaid Items		(7,454.13)
Notes Receivable, Net		(3,267.52)
Accounts Payable and Accrued Liabilities		235,479.81
Unearned Revenue		100,977.50
Funds Held for Others		(355.52)
Compensated Absences		(80,694.29)
Net Cash Used by Operating Activities	$	(27,561,001.68)

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:		
Cash and Cash Equivalents	$	642,669.83
Restricted Cash and Cash Equivalents		647,494.44
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		80,707.93
Total Cash and Cash Equivalents - June 30, 2010	$	1,370,872.20

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through Assumption of a Liability	$	29,800.00
Assets Acquired through a Gift		10,875.00
Increase in Note Receivable Related to Sale of Capital Assets		225,000.00
Increase in Receivables Related to Nonoperating Income		673,815.51

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, 2010 ***Exhibit B-1***

ASSETS		
Cash and Cash Equivalents	$	3,342,575
Investments		132,757
Other Receivables		4,543
Student Loans Receivable, Net		3,767
Captial Assets, Net		57,212
Total Assets		3,540,854
LIABILITIES		
Accounts Payable and Accrued Expenses		176
Total Liabilities		176
NET ASSETS		
Unrestricted		692,381
Temporarily Restricted		281,047
Permanently Restricted		2,567,250
Total Net Assets	$	3,540,678

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, 2010 — *Exhibit B-2*

CHANGES IN UNRESTRICTED NET ASSETS		
Revenues, Gains, and Other Support:		
Contributions	$	166,779
Interest Income		7,613
Dividends		2,380
Lease		16,945
Net Unrealized and Realized Gains on Long-Term Investments		14,697
Other		350
In-kind Contributions		23,052
Net Assets Released from Restrictions		81,164
Total Unrestricted Revenues, Gains, and Other Support		312,980
Expenses:		
Grants/Scholarships		156,558
Other Program Expenses		51,350
General and Administrative		15,127
Fund Raising		59,151
Total Expenses		282,186
Increase in Unrestricted Net Assets		30,794
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS		
Contributions		10,185
Interest Income		34,446
Net Assets Released from Restrictions:		(81,164)
Decrease in Temporarily Restricted Net Assets		(36,533)
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS		
Contributions		229,791
Interest Income		8,138
Increase in Permanently Restricted Net Assets		237,929
Increase in Net Assets		232,190
Net Assets at Beginning of Year		3,308,488
Net Assets at End of Year	$	3,540,678

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

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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 its component units for which the College's Board of Trustees is financially accountable. The College's component unit is discretely presented in the College's 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. (Foundation) is a 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 Foundation 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 the 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, 2010, the Foundation distributed $156,558.00 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, 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, regardless of the timing of the cash flows.

Nonexchange transactions, in which the College receives (or gives) value without directly giving (or receiving) equal value in exchange includes State appropriations, certain grants, and donations. Revenues are recognized, net of estimated uncollectible amounts, as soon as all eligibility requirements imposed by the provider have been met, if probable of collection.

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 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. 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 value of assets constructed includes all material direct and indirect construction costs. Interest costs incurred are capitalized during the period of construction.

The College capitalizes assets that have a value or cost in excess of $5,000 at the date of acquisition and an estimated 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 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 termination of employment. When classifying compensated absences into current and noncurrent, leave is considered taken using a last-in, first-out (LIFO) method. 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.

There is no liability for unpaid accumulated sick leave because the College has no obligation to pay sick leave upon termination or retirement. However, additional service credit for retirement pension benefits is given for accumulated sick leave upon retirement.

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

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

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

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

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

L. **Scholarship Discounts** - Student tuition and fees revenues and certain other revenues from College charges are reported net of scholarship discounts in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. The scholarship discount is the difference between the actual charge for goods and services provided by the College and the amount that is paid by students or by third parties on the students' behalf. Student financial assistance grants, such as Pell grants, and other federal, State, or nongovernmental programs, are recorded as either operating or nonoperating revenues in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. To the extent that 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.

O. **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 $2,040.00, and deposits in private financial institutions with a carrying value of $472,761.77 and a bank balance of $769,456.47.

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, 2010, 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, 2010, the amount shown on the Statement of Net Assets as cash and cash equivalents includes $896,070.43 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 1.6 years as of June 30, 2010. 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 is available by accessing the North Carolina Office of the State Controller's Internet home page http://www.osc.nc.gov/ and clicking on "Proceed directly to OSC's index page," then "Reports," or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

NOTE 3 - RECEIVABLES

Receivables at June 30, 2010, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	$ 315,118.55	$ 108,063.76	$ 207,054.79
Accounts	223,243.25		223,243.25
Intergovernmental	750,984.10		750,984.10
Other	75.00		75.00
Total Current Receivables	$ 1,289,420.90	$ 108,063.76	$ 1,181,357.14
Notes Receivable:			
Notes Receivable - Current:			
Institutional Student Loan Programs	$ 7,855.77	$ 2,906.63	$ 4,949.14
Jones County - Current Portion	50,000.00		50,000.00
Total Notes Receivable - Current	$ 57,855.77	$ 2,906.63	$ 54,949.14
Notes Receivable - Noncurrent:			
Jones County - Noncurrent Portion	$ 175,000.00	$ 0.00	$ 175,000.00

On April 20, 2010, the College sold an old classroom building to Jones County for use as an Emergency Management Center for $250,000. The County paid $25,000 at closing and issued a promissory note for $225,000 with four annual payments of $50,000 due on July 1st of each year and one final payment of $25,000 due on July 1, 2014.

NOTE 4 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2010, is presented as follows:

	Balance July 1, 2009	Increases	Decreases	Balance June 30, 2010
Capital Assets, Nondepreciable:				
Land	$ 1,725,819.31	$ 0.00	$ 0.00	$ 1,725,819.31
Construction in Progress	1,322,926.83	715,839.06	1,966,991.69	71,774.20
Total Capital Assets, Nondepreciable	3,048,746.14	715,839.06	1,966,991.69	1,797,593.51
Capital Assets, Depreciable:				
Buildings	32,190,534.79	1,943,088.94	407,917.00	33,725,706.73
Machinery and Equipment	4,930,263.22	1,164,352.92	119,181.69	5,975,434.45
General Infrastructure	632,577.59	8,718.00		641,295.59
Total Capital Assets, Depreciable	37,753,375.60	3,116,159.86	527,098.69	40,342,436.77
Less Accumulated Depreciation for:				
Buildings	7,425,379.19	648,244.49	104,681.43	7,968,942.25
Machinery and Equipment	1,468,959.10	270,555.25	92,967.64	1,646,546.71
General Infrastructure	160,263.67	12,554.97		172,818.64
Total Accumulated Depreciation	9,054,601.96	931,354.71	197,649.07	9,788,307.60
Total Capital Assets, Depreciable, Net	28,698,773.64	2,184,805.15	329,449.62	30,554,129.17
Capital Assets, Net	$ 31,747,519.78	$ 2,900,644.21	$ 2,296,441.31	$ 32,351,722.68

NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2010, were as follows:

	Amount
Accounts Payable	$ 188,564.07
Accrued Payroll	359,469.66
Total Accounts Payable and Accrued Liabilities	$ 548,033.73

NOTE 6 - LONG-TERM LIABILITIES

A. Changes in Long-Term Liabilities - A summary of changes in the long-term liabilities for the year ended June 30, 2010, is presented as follows:

	Balance July 1, 2009	Additions	Reductions	Balance June 30, 2010	Current Portion
Notes Payable	$ 288,438.80	$ 0.00	$ 129,087.47	$ 159,351.33	$ 135,989.41
Compensated Absences	1,084,041.67	554,623.02	635,317.31	1,003,347.38	175,909.56
Total Long-Term Liabilities	$ 1,372,480.47	$ 554,623.02	$ 764,404.78	$ 1,162,698.71	$ 311,898.97

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

Purpose	Financial Institution	Interest Rate/ Ranges	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2010	Principal Outstanding June 30, 2010
Guaranteed Energy Savings Equipment Purchase	Branch Bank and Trust Company	5.22%	08/07/2011	$ 1,097,312.00	$ 937,960.67	$ 159,351.33

The annual requirements to pay principal and interest on notes payable at June 30, 2010, are as follows:

	Annual Requirements Notes Payable	
Fiscal Year	Principal	Interest
2011	$ 135,989.41	$ 5,095.19
2012	23,361.92	152.18
Total Requirements	$ 159,351.33	$ 5,247.37

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	$ 4,279,110.81	$ 2,462,607.08	$ 29,653.65	$ 1,786,850.08

NOTE 8 - OPERATING EXPENSE BY FUNCTION

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

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	$ 11,282,579.61	$ 2,128,155.77	$ 723,682.18	$ 62,468.67	$ 0.00	$ 0.00	$ 14,196,886.23
Public Service	24,890.82	2,308.07	7,518.56				34,717.45
Academic Support	2,256,494.84	94,559.18	40,530.54				2,391,584.56
Student Services	1,367,157.98	109,902.77	258,136.12	737,269.69			2,472,466.56
Institutional Support	2,355,647.17	184,623.38	821,087.76	2,530.45			3,363,888.76
Operations & Maintenance Plant	759,792.12	375,964.73	339,480.82		871,932.50		2,347,170.17
Student Financial Aid			10,230.00	6,626,680.72			6,636,910.72
Auxiliary Enterprises	2,367.78	2,079.55	11,012.76		109.57		15,569.66
Depreciation						931,354.71	931,354.71
Total Operating Expenses	$ 18,048,930.32	$ 2,897,593.45	$ 2,211,678.74	$ 7,428,949.53	$ 872,042.07	$ 931,354.71	$ 32,390,548.82

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 is a cost-sharing multiple-employer defined benefit pension plan established by the State to provide pension benefits for employees of the State, its component units and local boards of education. The plan is 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, 2010, these rates were set at 3.57% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the College had a total payroll of $15,025,440.03, of which $12,403,507.33 was covered under the Teachers' and State Employees' Retirement System. Total employer and employee contributions for pension benefits for the year were $442,805.21 and $744,210.44, respectively.

Required employer contribution rates for the years ended June 30, 2009, and 2008, were 3.36% and 3.05%, respectively, while employee contributions were 6% each year. The College made 100% of its annual required contributions for the years ended June 30, 2010, 2009, and 2008, which were $442,805.21, $415,575.09, and $353,716.34, respectively.

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

B. Deferred Compensation Plan - 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 $111,494.00 for the year ended June 30, 2010.

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 *North Carolina General Statute* 135-7 and Chapter 135, Article 3A, 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 of the 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.

For the current fiscal year the College contributed 4.5% of the covered payroll under the Teachers' and State Employees' Retirement System to the Fund. Required contribution rates for the years ended June 30, 2009, and 2008, were 4.1% and 4.1%, respectively. The College made 100% of its annual required contributions to the Plan for the years ended June 30, 2010, 2009, and 2008, which were $558,157.83, $507,100.56, and $475,487.54, 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 Carolina Office of the State Controller's Internet home page http://www.osc.nc.gov/ and clicking on "Proceed directly to OSC's index page," then "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 by the General Assembly. For the fiscal year ended June 30, 2010, 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, 2009, and 2008, were .52% and .52%, respectively. The College made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2010, 2009, and 2008, which were $64,498.24, $64,315.19, and $60,305.74, 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, including participation in State-administered insurance programs, purchase of commercial insurance, and self-retention of certain risks. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

Tort claims of up to $1,000,000 are retained under the authority of the State Tort Claims Act. In addition, the State provides excess public officers' and employees' liability insurance up to $10,000,000 via contract with a private insurance company. The North Carolina Community College System Office pays the premium, based on a composite rate, 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 retains the risk for the $10 million 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 are covered by liability insurance through a private insurance company and handled by the North Carolina Department of Insurance. The liability limits for losses are $1,000,000 per claim and $10,000,000 per occurrence. The community college pays premiums to the North Carolina Department of Insurance for the coverage. 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. North Carolina Community College System Office is charged a premium by the private insurance company. Coverage limit is $5,000,000 per occurrence. The private insurance company pays 90% of each loss less a $75,000 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.

The College purchased other authorized coverage from private insurance companies through the North Carolina Department of Insurance. 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.

College employees and retirees are provided comprehensive major medical care benefits. Coverage is funded by contributions to the State Health Plan (Plan), a pension and other employee benefit trust fund of the State of North Carolina. The Plan is funded by employer and employee contributions. The Plan has contracted with third parties to process claims.

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

Term life insurance (death benefits) of $25,000 to $50,000 is provided to eligible workers. This Death Benefit Plan 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

The College has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were $43,200.00 and on other purchases were $320,713.73 at June 30, 2010.

NOTE 13 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2010, the College implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

> GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*.

GASB Statement No. 51, requires reporting certain intangible assets as capital assets.

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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, 2010, which collectively comprise the College's basic financial statements and have issued our report thereon dated March 23, 2011.

As discussed in Note 13 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 51, *Accounting and Financial Reporting for Intangible Assets* during the year ended June 30, 2010.

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 opinions 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.

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies in internal control, such that there is a reasonable

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)

possibility that a material misstatement of the College's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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.

<u>Compliance and Other Matters</u>

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 General Assembly, and the State Controller, and is not intended to be and should not be used by anyone other than these specified parties.

Beth A. Wood

Beth A. Wood, CPA
State Auditor

March 23, 2011

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