



STATE OF NORTH CAROLINA

LENOIR COMMUNITY COLLEGE

KINSTON, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2012

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR

A Component Unit of the State of North Carolina

LENOIR COMMUNITY COLLEGE

KINSTON, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2012

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Beth A. Wood, CPA
State Auditor

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AUDITOR'S TRANSMITTAL

The Honorable Pat McCrory, 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, 2012, 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

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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, 2012, 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 units as of June 30, 2012, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

In accordance with *Government Auditing Standards*, we have also issued our report January 28, 2013 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.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during the audit of the basic financial statements. However, we do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



Beth A. Wood, CPA
State Auditor

January 28, 2013

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, 2012, and June 30, 2011. 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Condensed Statements of Net Assets

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

| | 2012 | 2011 | Increase (Decrease) | Percent Change |
|----------------------------|----------------------|----------------------|------------------------|-------------------|
| Assets | | | | |
| Current Assets | \$ 3,070,905 | \$ 2,741,948 | \$ 328,957 | 12.0 % |
| Capital Assets | 33,184,655 | 33,646,740 | (462,085) | (1.4) % |
| Other Noncurrent Assets | 1,402,845 | 919,365 | 483,480 | 52.6 % |
| Total Assets | 37,658,405 | 37,308,053 | 350,352 | 0.9 % |
| Liabilities | | | | |
| Current Liabilities | 1,013,948 | 1,119,713 | (105,765) | (9.4) % |
| Noncurrent Liabilities | 911,063 | 800,146 | 110,917 | 13.9 % |
| Total Liabilities | 1,925,011 | 1,919,859 | 5,152 | 0.3 % |
| Net Assets | | | | |
| Invested in Capital Assets | 33,184,655 | 33,623,378 | (438,723) | (1.3) % |
| Restricted | 1,948,450 | 1,555,956 | 392,494 | 25.2 % |
| Unrestricted | 600,288 | 208,860 | 391,428 | 187.4 % |
| Total Net Assets | \$ 35,733,393 | \$ 35,388,194 | \$ 345,199 | 1.0 % |

Current Assets

The increase in Current Assets is the result of an increase in Restricted Cash and Cash Equivalents. Three factors had major effects on the increase in current assets. The first factor is related to federal drawdowns. In 2010-2011, the College was allowed to award summer Pell to students. As a result of this occurrence and the timing of drawdowns, the College expended \$414 thousand that was not received by June 30, 2011. In 2011-2012, the summer Pell program was discontinued; therefore, at June 30, 2012 the College was due \$212 thousand which resulted in an increase in cash of \$222 thousand. The second factor is due to a \$174 thousand increase in Overhead Receipts related to Pell Grant overpayments and \$118 thousand increase in State Tuition related to the \$10 per credit hour tuition increase. The third factor is the \$67 thousand increase of technology funds from 2010-2011 to 2011-2012. This increase is the result of collecting revenue but not having expenditures in 2011-2012. In 2011-2012, the use of technology funds was not required and those funds were carried over to be used in a future year.

Capital Assets

In 2010-2011, the College administration considered equipment needs to be the number one priority when allocating the budget. There were many areas that needed updated equipment, so the College purchased \$1.5 million in machinery and equipment. In 2011-2012, the College reprioritized and allocated budget to other areas. Therefore, the \$462 thousand decrease is the result of reduced capital purchases offset by accumulated depreciation. This also caused the Invested in Capital Assets, net of Related Debt to show a \$438 thousand decrease.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Other Noncurrent Assets

Before year-end, the College received a check for 80% of a \$580 thousand grant from the Golden LEAF Foundation. This grant is for the construction of a Vocational Lab building at the Jones County Center. The majority of the expenditures will take place in the 2012-2013 fiscal year which is the main cause for the \$483 thousand increase.

Condensed Statements of Revenues, Expenses, and Changes in Net Assets

| | 2012 | 2011 | Increase (Decrease) | Percent Change |
|--|----------------------|----------------------|--------------------------------|---------------------------|
| Operating Revenues | | | | |
| Student Tuition and Fees, Net | \$ 2,254,709 | \$ 1,987,547 | \$ 267,162 | 13.4 % |
| Federal Grants and Contracts | 833,390 | 994,989 | (161,599) | (16.2) % |
| State and Local Grants and Contracts | 6,379 | 333,746 | (327,367) | (98.1) % |
| Sales and Services | 320,345 | 286,745 | 33,600 | 11.7 % |
| Other Operating Revenues | 47,299 | 24,462 | 22,837 | 93.4 % |
| Total Operating Revenues | 3,462,122 | 3,627,489 | (165,367) | (4.6) % |
| Operating Expenses | | | | |
| Salaries and Benefits | 20,829,216 | 20,346,175 | 483,041 | 2.4 % |
| Supplies and Materials | 2,175,739 | 2,803,017 | (627,278) | (22.4) % |
| Services | 2,553,843 | 2,865,077 | (311,234) | (10.9) % |
| Scholarships and Fellowships | 5,026,054 | 7,255,339 | (2,229,285) | (30.7) % |
| Utilities | 788,341 | 849,508 | (61,167) | (7.2) % |
| Depreciation | 1,128,647 | 1,046,113 | 82,534 | 7.9 % |
| Total Operating Expenses | 32,501,840 | 35,165,229 | (2,663,389) | (7.6) % |
| Operating Loss | (29,039,718) | (31,537,740) | (2,498,022) | (7.9) % |
| Nonoperating Revenues | | | | |
| State Aid | 16,752,117 | 16,429,495 | 322,622 | 2.0 % |
| County Appropriations | 2,510,372 | 2,444,926 | 65,446 | 2.7 % |
| Noncapital Grants and Gifts | 8,075,862 | 10,597,482 | (2,521,620) | (23.8) % |
| Other Nonoperating Expenses | (36,670) | (54,448) | (17,778) | (32.7) % |
| Capital Aid, Gifts, and Grants | 2,083,236 | 2,875,732 | (792,496) | (27.6) % |
| Total Nonoperating and Other Revenues | 29,384,917 | 32,293,187 | (2,908,270) | (9.0) % |
| Change in Net Assets | 345,199 | 755,447 | (410,248) | (54.3) % |
| Net Assets - Beginning of Year | 35,388,194 | 34,632,747 | 755,447 | 2.2 % |
| Net Assets - End of Year | \$ 35,733,393 | \$ 35,388,194 | \$ 345,199 | 1.0 % |

Operating Expenses

Salaries and Benefits increased \$483 thousand primarily due to a 2.51% increase for retirement benefits from the previous year.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Supplies and Materials experienced a \$627 thousand decrease due to a decrease in special state allocations. In 2010-2011, the College was allocated \$342 thousand in special equipment funds, \$151 thousand special allocation for Health Sciences programs and \$67 thousand special allocation for vocational programs. These allocations were not available in 2011-2012.

The \$311 thousand decrease in Services results from a \$146 thousand decrease in marketing and recruiting expenditures and a \$170 thousand decrease in contracted services related to the Spirit Aerosystems Customized Industry Training (CIT) project.

The \$2.2 million decrease in Scholarships and Fellowships results from decreased enrollment and funding. In 2010-2011, the College was allowed to award Summer Pell in the amount of approximately \$1.17 million. The Department of Education did not allow the awarding of Summer Pell for the 2011-2012 award year. Also, the College experienced an 11% curriculum enrollment decrease from 2010-2011 to 2011-2012 which reduced the amount of federal awards received by approximately \$1.1 million and a decrease in state funded scholarships of approximately \$200 thousand. This also caused the \$2.5 million decrease in Noncapital Grants and Gifts. Even though the College experienced a decrease in curriculum enrollment, Student Tuition and Fees, Net shows a \$267 thousand increase. This increase is related to a curriculum tuition increase from 2010-2011 to 2011-2012 of \$10 per credit hour for both in-state and out-of-state students and an increase in continuing education enrollment.

Capital Aid, Gifts and Grants

The College was awarded a Golden LEAF grant for \$580 thousand of which \$520 thousand will be used for the construction of a Vocational Lab building at the Jones County Center. In 2010-2011, College administration placed a significant emphasis on equipment needs which resulted in several large equipment purchases for various vocational programs. In 2011-2012, the College administration reevaluated needs and allocated more budget to non-capital related areas. Also, in 2011-2012 the College chose to redirect \$360 thousand of the State equipment allotment to a capital improvement project. These factors attributed to the \$792 thousand decrease in Capital Aid, Gifts and Grants.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

Capital Assets

At June 30, 2012, the College reported \$33.2 million in capital assets net of accumulated depreciation of \$11.8 million. The \$500 thousand increase in Machinery and Equipment is due primarily to the purchase of servers and switches used by the IT department and additional equipment for Machining and Automotive classes. The majority of the increase in Construction in Progress of \$135 thousand is related to a signage project that began in 2010-2011 and will be finished in 2012-2013.

| | <u>2012</u> | <u>2011</u> | <u>Increase (Decrease)</u> | <u>Percent Change</u> |
|--------------------------|----------------------|----------------------|--------------------------------|---------------------------|
| Land | \$ 1,725,819 | \$ 1,725,819 | \$ 0 | |
| Construction in Progress | 229,949 | 95,090 | 134,859 | 141.8 % |
| Buildings | 34,062,302 | 34,082,075 | (19,773) | (0.1) % |
| Machinery and Equipment | 8,039,482 | 7,522,764 | 516,718 | 6.9 % |
| General Infrastructure | 947,120 | 930,823 | 16,297 | 1.8 % |
| Totals | <u>\$ 45,004,672</u> | <u>\$ 44,356,571</u> | <u>\$ 648,101</u> | 1.5 % |

Debt

The College did not report any debt related to a note payable at June 30, 2012. The note reported at June 30, 2011 for the cost of implementing an energy savings program matured in August, 2011. The College has not incurred any new debt as of date.

Economic Forecast

Lenoir Community College is well funded for the 2012-2013 fiscal year, the projection for the 2013-2014 is not so certain. Currently, the projections indicate that North Carolina may be facing budget shortfalls for the 2013-2014 fiscal year. If this situation occurs, budget cuts will be passed to all state entities, including Lenoir Community College. However, the community colleges are assisting now by cutting back on several areas of non-instructional expenditures. The economic outlook is invariably changing, and despite the possible looming budget cuts, Lenoir Community College will continue to respond to the community to provide services and education to the population of Lenoir, Greene and Jones Counties to the extent resources will allow.

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.

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Lenoir Community College
Statement of Net Assets
June 30, 2012

Exhibit A-1
Page 1 of 2

ASSETS

Current Assets:

| | |
|--|-----------------|
| Cash and Cash Equivalents | \$ 1,313,107.45 |
| Restricted Cash and Cash Equivalents | 439,312.26 |
| Receivables, Net (Note 3) | 920,920.27 |
| Due from Primary Government | 17,777.51 |
| Due from State of North Carolina Component Units | 166,942.00 |
| Inventories | 129,425.37 |
| Prepaid Items | 30,008.49 |
| Notes Receivable, Net (Note 3) | 53,410.67 |
| | <hr/> |
| Total Current Assets | 3,070,904.02 |

Noncurrent Assets:

| | |
|--|---------------|
| Restricted Cash and Cash Equivalents | 525,477.20 |
| Restricted Due from Primary Government | 802,367.89 |
| Notes Receivable (Note 3) | 75,000.00 |
| Capital Assets - Nondepreciable (Note 4) | 1,955,768.55 |
| Capital Assets - Depreciable, Net (Note 4) | 31,228,886.49 |
| | <hr/> |
| Total Noncurrent Assets | 34,587,500.13 |

| | |
|--------------|---------------------------|
| Total Assets | <hr/> <hr/> 37,658,404.15 |
|--------------|---------------------------|

LIABILITIES

Current Liabilities:

| | |
|---|--------------|
| Accounts Payable and Accrued Liabilities (Note 5) | 623,434.74 |
| Unearned Revenue | 246,340.11 |
| Funds Held for Others | 64,519.86 |
| Long-Term Liabilities - Current Portion (Note 6) | 79,653.62 |
| | <hr/> |
| Total Current Liabilities | 1,013,948.33 |

Noncurrent Liabilities:

| | |
|--------------------------------|--------------------------|
| Long-Term Liabilities (Note 6) | <hr/> 911,062.95 |
| Total Noncurrent Liabilities | <hr/> 911,062.95 |
| Total Liabilities | <hr/> <hr/> 1,925,011.28 |

Lenoir Community College
Statement of Net Assets
June 30, 2012

Exhibit A-1
Page 2 of 2

NET ASSETS

| | |
|----------------------------------|--------------------------------|
| Invested in Capital Assets | 33,184,655.04 |
| Restricted for: | |
| Expendable: | |
| Scholarships and Fellowships | 321.80 |
| Loans | 6,938.04 |
| Capital Projects | 1,452,845.09 |
| Restricted for Specific Programs | 251,645.51 |
| Other | 236,699.68 |
| Unrestricted | <u>600,287.71</u> |
| Total Net Assets | <u><u>\$ 35,733,392.87</u></u> |

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, 2012***

Exhibit A-2

REVENUES

Operating Revenues:

| | |
|--|-----------------|
| Student Tuition and Fees, Net (Note 7) | \$ 2,254,708.76 |
| Federal Grants and Contracts | 833,389.95 |
| State and Local Grants and Contracts | 6,378.92 |
| Sales and Services | 320,344.94 |
| Other Operating Revenues | 47,299.63 |

| | |
|--------------------------|--------------|
| Total Operating Revenues | 3,462,122.20 |
|--------------------------|--------------|

EXPENSES

Operating Expenses:

| | |
|------------------------------|---------------|
| Salaries and Benefits | 20,829,215.71 |
| Supplies and Materials | 2,175,739.39 |
| Services | 2,553,843.23 |
| Scholarships and Fellowships | 5,026,053.90 |
| Utilities | 788,341.19 |
| Depreciation | 1,128,647.24 |

| | |
|--------------------------|---------------|
| Total Operating Expenses | 32,501,840.66 |
|--------------------------|---------------|

| | |
|----------------|-----------------|
| Operating Loss | (29,039,718.46) |
|----------------|-----------------|

NONOPERATING REVENUES (EXPENSES)

| | |
|---|---------------|
| State Aid | 16,752,117.17 |
| County Appropriations | 2,510,371.74 |
| Noncapital Grants - Student Financial Aid | 6,973,904.78 |
| Other Noncapital Grants | 1,044,638.13 |
| Noncapital Gifts | 57,319.00 |
| Investment Income | 6,740.63 |
| Interest and Fees on Debt | (152.18) |
| Other Nonoperating Expenses | (43,257.95) |

| | |
|---------------------------|---------------|
| Net Nonoperating Revenues | 27,301,681.32 |
|---------------------------|---------------|

| | |
|----------------------------|----------------|
| Loss Before Other Revenues | (1,738,037.14) |
|----------------------------|----------------|

| | |
|--------------------|--------------|
| State Capital Aid | 1,314,414.05 |
| County Capital Aid | 83,484.22 |
| Capital Grants | 685,337.88 |

| | |
|------------------------|------------|
| Increase in Net Assets | 345,199.01 |
|------------------------|------------|

NET ASSETS

| | |
|--------------------------|---------------|
| Net Assets, July 1, 2011 | 35,388,193.86 |
|--------------------------|---------------|

| | |
|---------------------------|------------------|
| Net Assets, June 30, 2012 | \$ 35,733,392.87 |
|---------------------------|------------------|

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, 2012

Exhibit A-3
Page 1 of 2

CASH FLOWS FROM OPERATING ACTIVITIES

| | |
|---|-----------------|
| Received from Customers | \$ 3,221,440.99 |
| Payments to Employees and Fringe Benefits | (20,878,889.74) |
| Payments to Vendors and Suppliers | (5,553,490.16) |
| Payments for Scholarships and Fellowships | (5,026,053.90) |
| Loans Issued to Students | (7,356.45) |
| Collection of Loans to Students | 7,536.34 |
| Other Receipts | 37,054.08 |
| | <hr/> |
| Net Cash Used by Operating Activities | (28,199,758.84) |
| | <hr/> |

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

| | |
|--|---------------|
| State Aid Received | 16,752,117.17 |
| County Appropriations | 2,510,371.74 |
| Noncapital Grants - Student Financial Aid | 7,197,348.66 |
| Other Noncapital Grants Received | 1,234,950.37 |
| Noncapital Gifts Received | 57,319.00 |
| | <hr/> |
| Cash Provided by Noncapital Financing Activities | 27,752,106.94 |
| | <hr/> |

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

| | |
|---|--------------|
| State Capital Aid Received | 1,184,441.78 |
| County Capital Aid | 83,484.22 |
| Capital Grants Received | 685,337.88 |
| Proceeds from Sale of Capital Assets | 50,050.00 |
| Acquisition and Construction of Capital Assets | (664,571.48) |
| Principal Paid on Capital Debt | (23,361.92) |
| Interest Paid on Capital Debt | (152.18) |
| | <hr/> |
| Net Cash Provided by Capital and Related Financing Activities | 1,315,228.30 |
| | <hr/> |

CASH FLOWS FROM INVESTING ACTIVITIES

| | |
|---------------------------------------|----------|
| Investment Income | 6,740.63 |
| | <hr/> |
| Cash Provided by Investing Activities | 6,740.63 |
| | <hr/> |

| | |
|---|-----------------|
| Net Increase in Cash and Cash Equivalents | 874,317.03 |
| Cash and Cash Equivalents, July 1, 2011 | 1,403,579.88 |
| | <hr/> |
| Cash and Cash Equivalents, June 30, 2012 | \$ 2,277,896.91 |
| | <hr/> <hr/> |

Lenoir Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2012

Exhibit A-3
Page 2 of 2

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

| | |
|---|---------------------------|
| Operating Loss | \$ (29,039,718.46) |
| Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities: | |
| Depreciation Expense | 1,128,647.24 |
| Provision for Uncollectible Loans and Write-Offs | 2,016.42 |
| Miscellaneous Nonoperating Income | 2,790.10 |
| Changes in Assets and Liabilities: | |
| Receivables, Net | (248,615.95) |
| Inventories | (25,575.24) |
| Prepaid Items | 91.55 |
| Notes Receivable, Net | 179.89 |
| Accounts Payable and Accrued Liabilities | (110,105.63) |
| Unearned Revenue | 7,934.74 |
| Funds Held for Others | 34,263.98 |
| Compensated Absences | 48,332.52 |
| | <u>48,332.52</u> |
| Net Cash Used by Operating Activities | <u>\$ (28,199,758.84)</u> |

RECONCILIATION OF CASH AND CASH EQUIVALENTS

| | |
|---|------------------------|
| Current Assets: | |
| Cash and Cash Equivalents | \$ 1,313,107.45 |
| Restricted Cash and Cash Equivalents | 439,312.26 |
| Noncurrent Assets: | |
| Restricted Cash and Cash Equivalents | <u>525,477.20</u> |
| Total Cash and Cash Equivalents - June 30, 2012 | <u>\$ 2,277,896.91</u> |

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

| | |
|--|--------------|
| Assets Acquired through Assumption of a Liability | \$ 48,088.62 |
| Increase in Receivables Related to Nonoperating Income | 120,425.03 |
| Loss on Disposal of Capital Assets | (46,048.05) |

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, 2012

Exhibit B-1

ASSETS

| | | |
|--------------------------------|----|------------------|
| Cash and Cash Equivalents | \$ | 3,412,733 |
| Other Receivables | | 14,707 |
| Student Loans Receivable - Net | | 3,510 |
| Investments | | 164,606 |
| Fixed Assets - Net | | <u>231,270</u> |
| Total Assets | | <u>3,826,826</u> |

NET ASSETS

| | | |
|------------------------|----|-------------------------|
| Unrestricted | | 701,622 |
| Temporarily Restricted | | 262,999 |
| Permanently Restricted | | <u>2,862,205</u> |
| Total Net Assets | \$ | <u><u>3,826,826</u></u> |

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

Lenoir Community College Foundation, Inc.
Statement of Activities
For the Fiscal Year Ended June 30, 2012

Exhibit B-2

CHANGES IN UNRESTRICTED NET ASSETS

Revenues, Gains, and Other Support:

| | |
|---------------------------------------|------------|
| Contributions | \$ 160,867 |
| Travel Program | 98,220 |
| Interest Income | 3,019 |
| Dividends | 431 |
| Lease | 17,462 |
| Investment Losses | (9,557) |
| Other | 614 |
| In-Kind Contributions | 43,203 |
| Net Assets Released from Restrictions | 63,633 |

| | |
|---|---------|
| Total Unrestricted Revenues, Gains, and Other Support | 377,892 |
|---|---------|

Expenses

| | |
|----------------------------|---------|
| Grants/Scholarships | 145,278 |
| Other Program Expense | 166,319 |
| General and Administrative | 16,026 |
| Fund Raising | 67,783 |

| | |
|----------------|---------|
| Total Expenses | 395,406 |
|----------------|---------|

| | |
|------------------------------|---------|
| Gain on Sale of Fixed Assets | (4,014) |
|------------------------------|---------|

| | |
|--------------------------|---------|
| Total Expenses and Gains | 391,392 |
|--------------------------|---------|

| | |
|-------------------------------------|----------|
| Decrease in Unrestricted Net Assets | (13,500) |
|-------------------------------------|----------|

CHANGES IN TEMPORARILY RESTRICTED NET ASSETS

| | |
|---------------------------------------|----------|
| Contributions | 35,827 |
| Interest Income | 17,190 |
| Net Assets Released from Restrictions | (63,633) |

| | |
|---|----------|
| Decrease in Temporarily Restricted Net Assets | (10,616) |
|---|----------|

CHANGES IN PERMANENTLY RESTRICTED NET ASSETS

| | |
|-----------------|---------|
| Contributions | 167,291 |
| Interest Income | 3,464 |

| | |
|---|---------|
| Increase in Permanently Restricted Net Assets | 170,755 |
|---|---------|

| | |
|------------------------|---------|
| Increase in Net Assets | 146,639 |
|------------------------|---------|

| | |
|---------------------------------|-----------|
| Net Assets at Beginning of Year | 3,680,187 |
|---------------------------------|-----------|

| | |
|---------------------------|--------------|
| Net Assets at End of Year | \$ 3,826,826 |
|---------------------------|--------------|

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

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LENOIR COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 2012, the Foundation distributed \$167,533.10 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 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 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, include 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 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 of \$5,000 or greater at the date of acquisition and an estimated useful life of more than one year.

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 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 - This represents the College's total investment in 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 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 nonoperating revenues in the accompanying Statement of

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

The College is required by *North Carolina General Statute 147-77* to deposit any funds collected or received that belong to the state of North Carolina with the State Treasurer or with a depository institution in the name of the State Treasurer. All funds of the College, other than those required to be deposited with the State Treasurer, 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 \$2,240.00, and deposits in private financial institutions with a carrying value of \$588,769.45 and a bank balance of \$1,247,979.75.

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, 2012, 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 any form of investment established or managed by certain investment advisors pursuant to G.S. 115D-58.6 (d1) or 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; specified bills of exchange; certain savings certificates; 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 of custodian.

At June 30, 2012, the amount shown on the Statement of Net Assets as cash and cash equivalents includes \$1,686,887.46 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 1.5 years as of June 30, 2012. Assets and shares

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 "Reports" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

NOTE 3 - RECEIVABLES

Receivables at June 30, 2012, were as follows:

| | <u>Gross Receivables</u> | <u>Less Allowance for Doubtful Accounts</u> | <u>Net Receivables</u> |
|---|------------------------------|---|----------------------------|
| Current Receivables: | | | |
| Students | \$ 749,985.79 | \$ 266,848.93 | \$ 483,136.86 |
| Student Sponsors | 75,327.33 | | 75,327.33 |
| Accounts | 143,463.84 | | 143,463.84 |
| Intergovernmental | 218,917.24 | | 218,917.24 |
| Other | 75.00 | | 75.00 |
| Total Current Receivables | <u>\$ 1,187,769.20</u> | <u>\$ 266,848.93</u> | <u>\$ 920,920.27</u> |
| Notes Receivable: | | | |
| Notes Receivable - Current: | | | |
| Institutional Student Loan Programs | \$ 11,266.99 | \$ 7,856.32 | \$ 3,410.67 |
| Sale of Building to Jones County - Current Portion | 50,000.00 | | 50,000.00 |
| Total Notes Receivable - Current | <u>\$ 61,266.99</u> | <u>\$ 7,856.32</u> | <u>\$ 53,410.67</u> |
| Notes Receivable - Noncurrent: | | | |
| Sale of Building to Jones County - Noncurrent Portion | \$ 75,000.00 | \$ 0.00 | \$ 75,000.00 |
| Total Notes Receivable - Noncurrent | <u>\$ 75,000.00</u> | <u>\$ 0.00</u> | <u>\$ 75,000.00</u> |

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 4 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2012, is presented as follows:

| | Balance July 1, 2011 | Increases | Decreases | Balance June 30, 2012 |
|---|-------------------------|------------------------|---------------------|--------------------------|
| Capital Assets, Nondepreciable: | | | | |
| Land | \$ 1,725,819.31 | \$ 0.00 | \$ 0.00 | \$ 1,725,819.31 |
| Construction in Progress | 95,090.00 | 134,859.24 | | 229,949.24 |
| Total Capital Assets, Nondepreciable | 1,820,909.31 | 134,859.24 | | 1,955,768.55 |
| Capital Assets, Depreciable: | | | | |
| Buildings | 34,082,075.00 | 918.75 | 20,692.00 | 34,062,301.75 |
| Machinery and Equipment | 7,522,764.33 | 560,584.72 | 43,867.26 | 8,039,481.79 |
| General Infrastructure | 930,822.59 | 16,297.39 | | 947,119.98 |
| Total Capital Assets, Depreciable | 42,535,661.92 | 577,800.86 | 64,559.26 | 43,048,903.52 |
| Less Accumulated Depreciation for: | | | | |
| Buildings | 8,489,957.48 | 693,397.01 | 10,794.33 | 9,172,560.16 |
| Machinery and Equipment | 2,086,050.65 | 416,596.36 | 7,666.88 | 2,494,980.13 |
| General Infrastructure | 133,822.87 | 18,653.87 | | 152,476.74 |
| Total Accumulated Depreciation | 10,709,831.00 | 1,128,647.24 | 18,461.21 | 11,820,017.03 |
| Total Capital Assets, Depreciable, Net | 31,825,830.92 | (550,846.38) | 46,098.05 | 31,228,886.49 |
| Capital Assets, Net | \$ 33,646,740.23 | \$ (415,987.14) | \$ 46,098.05 | \$ 33,184,655.04 |

NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2012, were as follows:

| | Amount |
|---|----------------------|
| Accounts Payable | \$ 199,084.75 |
| Accrued Payroll | 414,391.09 |
| Contract Retainage | 9,958.90 |
| Total Accounts Payable and Accrued Liabilities | \$ 623,434.74 |

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, 2012, is presented as follows:

| | Balance July 1, 2011 | Additions | Reductions | Balance June 30, 2012 | Current Portion |
|------------------------------------|-------------------------|----------------------|----------------------|--------------------------|---------------------|
| Notes Payable | \$ 23,361.92 | \$ 0.00 | \$ 23,361.92 | \$ 0.00 | \$ 0.00 |
| Compensated Absences | 942,384.05 | 612,675.35 | 564,342.83 | 990,716.57 | 79,653.62 |
| Total Long-Term Liabilities | \$ 965,745.97 | \$ 612,675.35 | \$ 587,704.75 | \$ 990,716.57 | \$ 79,653.62 |

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 2012 | Principal Outstanding June 30, 2012 |
|--|-------------------------------|--------------------------|---------------------|--------------------------|--------------------------------------|-------------------------------------|
| Guaranteed Energy Savings Equipment Purchase | Branch Bank and Trust Company | 5.22% | 08/07/2011 | <u>\$ 1,097,312.00</u> | <u>\$ 1,097,312.00</u> | <u>\$ 0.00</u> |

NOTE 7 - REVENUES

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

| | Gross Revenues | Less Scholarship Discounts | Less Allowance for Uncollectibles | Net Revenues |
|---------------------------------|------------------------|----------------------------|-----------------------------------|------------------------|
| Operating Revenues: | | | | |
| Student Tuition and Fees | <u>\$ 5,118,360.65</u> | <u>\$ 2,673,931.39</u> | <u>\$ 189,720.50</u> | <u>\$ 2,254,708.76</u> |

NOTE 8 - OPERATING EXPENSES BY FUNCTION

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

| | Salaries and Benefits | Supplies and Materials | Services | Scholarships and Fellowships | Utilities | Depreciation | Total |
|-------------------------------------|-------------------------|------------------------|------------------------|------------------------------|----------------------|------------------------|-------------------------|
| Instruction | \$ 12,848,490.85 | \$ 1,429,507.55 | \$ 786,881.78 | \$ 94,866.28 | \$ 0.00 | \$ 0.00 | \$ 15,159,746.46 |
| Public Service | | | 9.20 | | | | 9.20 |
| Academic Support | 2,792,880.15 | 109,728.90 | 42,852.85 | | | | 2,945,461.90 |
| Student Services | 1,472,575.29 | 75,201.13 | 317,480.77 | 410,626.52 | | | 2,275,883.71 |
| Institutional Support | 2,807,530.61 | 237,894.08 | 969,179.49 | 4,293.98 | | | 4,018,898.16 |
| Operations and Maintenance of Plant | 903,863.41 | 322,026.52 | 405,825.12 | | 788,341.19 | | 2,420,056.24 |
| Student Financial Aid | | | 16,134.40 | 4,516,267.12 | | | 4,532,401.52 |
| Auxiliary Enterprises | 3,875.40 | 1,381.21 | 15,479.62 | | | | 20,736.23 |
| Depreciation | | | | | | 1,128,647.24 | 1,128,647.24 |
| Total Operating Expenses | <u>\$ 20,829,215.71</u> | <u>\$ 2,175,739.39</u> | <u>\$ 2,553,843.23</u> | <u>\$ 5,026,053.90</u> | <u>\$ 788,341.19</u> | <u>\$ 1,128,647.24</u> | <u>\$ 32,501,840.66</u> |

NOTE 9 - PENSION PLANS

A. Retirement Plans - Each permanent full-time employee, as a condition of employment, is a member of the Teachers' and State Employees' Retirement System. The Teachers' and State Employees' Retirement System (Plan) is a cost-sharing multiple-employer defined benefit pension plan established by the state to provide pension benefits for employees of

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 2012, these rates were set at 7.44% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the College had a total payroll of \$16,757,963.46, of which \$13,558,838.71 was covered under the Teachers' and State Employees' Retirement System. Total employer and employee contributions for pension benefits for the year were \$1,008,777.60 and \$813,530.32, respectively.

Required employer contribution rates for the years ended June 30, 2011, and 2010, were 4.93% and 3.57%, respectively, while employee contributions were 6% each year. The College made 100% of its annual required contributions for the years ended June 30, 2012, 2011, and 2010, which were \$1,008,777.60, \$670,282.48, and \$442,805.21, 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 "Reports" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

B. Deferred Compensation and Supplemental Retirement Income Plans

Internal Revenue Code Section 457 Plan - The state of North Carolina offers its permanent employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 through the North Carolina Public Employee Deferred Compensation Plan (the Plan). The Plan permits each participating employee to defer a portion of his or her salary until future years. The deferred compensation is available to employees upon separation from service, death, disability, retirement, or financial hardships if approved by the Board of Trustees of the Plan. The Board, a part of the North Carolina Department of Administration, maintains a separate fund for the exclusive benefit of the participating employees and their beneficiaries, *the North Carolina Public Employee Deferred Compensation Trust Fund*. The Board also contracts with an

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

external third party to perform certain administrative requirements and to manage the trust fund's assets. All costs of administering and funding the Plan are the responsibility of the Plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to \$26,595.00 for the year ended June 30, 2012.

Internal Revenue Code 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 \$113,096.64 for the year ended June 30, 2012.

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 the State Treasurer and the Board of Trustees of the State Health Plan for Teachers and State Employees as authorized by Chapter 135, Article 3B, of the General Statutes. 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 State Treasurer and the

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Board of Trustees of the State Health Plan for Teachers and State Employees.

For the current fiscal year the College contributed 5.0% of the covered payroll under the Teachers' and State Employees' Retirement System to the Fund. Required contribution rates for the years ended June 30, 2011, and 2010, were 4.9% and 4.5%, respectively. The College made 100% of its annual required contributions to the Plan for the years ended June 30, 2012, 2011, and 2010, which were \$677,941.94, \$664,967.48, and \$558,157.83, 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 "Reports" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

- 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, 2012, 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, 2011, and 2010, were .52% and .52%, respectively. The College made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2012, 2011, and 2010, which were \$70,505.96, \$70,512.84, and \$64,498.24, 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*.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 11 - RISK MANAGEMENT

The College is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These exposures to loss are handled via a combination of methods, including participation in state-administered insurance programs, purchase of commercial insurance, and self-retention of certain risks. 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.

The risk of tort claims of up to \$1,000,000 per claimant is 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 (Fund), a state-administered public entity risk pool. The Fund is financed by premiums and interest collected through membership participation and retains a \$10 million deductible per occurrence. Reinsurance is purchased by the Fund to cover catastrophic events in excess of the \$10 million deductible. Membership insured property is covered under an all risk coverage contract. Building and contents are valued under a replacement cost basis. No coinsurance penalties apply. 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

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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 \$2,000,000 per occurrence with a limit of \$5,000,000.

College employees and retirees are provided comprehensive major medical care benefits. Coverage is funded by contributions to the State Health Plan (Plan), a discretely presented component unit 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.

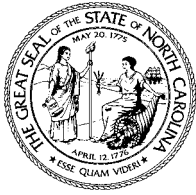
Term life insurance (death benefits) of \$25,000 to \$50,000 is provided to eligible workers. This Death Benefit Plan is administered by the State Treasurer and funded via employer contributions. The employer contribution rate was .16% for the current fiscal year.

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 \$30,487.89 and on other purchases were \$151,703.71 at June 30, 2012.

Office of the State Auditor



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State Auditor

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

Board of Trustees
Lenoir Community College
Kinston, North Carolina

We have audited the financial statements of Lenoir Community College, a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 2012, which collectively comprise the College's basic financial statements and have issued our report thereon dated January 28, 2013. Our report was modified to include a reference to other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of 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

The College's management is responsible for establishing and maintaining effective 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)**

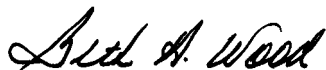
A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies in internal control, such that there is a reasonable 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.

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 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, CPA
State Auditor

January 28, 2013

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:

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