STATE OF NORTH CAROLINA

LENOIR COMMUNITY COLLEGE

KINSTON, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2014

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR

A Component Unit of the State of North Carolina

STATE OF NORTH CAROLINA
Office of the State Auditor

Beth A. Wood, CPA
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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, 2014, 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

Report on the Financial Statements

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, 2014, and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Lenoir Community College Foundation, Inc., the College's discretely presented component unit. Those statements were audited by other auditors, whose report has been furnished to us, and our opinions, insofar as they relate to the amounts included for discretely presented component unit, are based solely 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 from material misstatement. The financial statements of Lenoir Community College Foundation, Inc. were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the College's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of Lenoir Community College and its discretely presented component unit, as of June 30, 2014, and the changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters – Required Supplementary Information

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 a 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 our audit of the basic financial statements. 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 15, 2015 on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College’s internal control over financial reporting and compliance.

Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

January 15, 2015

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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, 2014, and June 30, 2013. 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 Position, the Statement of Revenues, Expenses and Change in Net Position and the Statement of Cash Flows.

The Statement of Net Position 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 Change in Net Position 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 Position

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

	2014	2013	Increase (Decrease)	Percent Change
Assets				
Current Assets	$ 4,068,608	$ 3,037,519	$ 1,031,089	34 %
Capital Assets	34,812,913	33,476,517	1,336,396	4 %
Other Noncurrent Assets	703,091	1,113,486	(410,395)	(37) %
Total Assets	39,584,612	37,627,522	1,957,090	5 %
Liabilities				
Current Liabilities	2,672,720	1,240,523	1,432,197	115 %
Noncurrent Liabilities	4,076,910	989,624	3,087,286	312 %
Total Liabilities	6,749,630	2,230,147	4,519,483	203 %
Net Position				
Net Investment in Capital Assets	31,830,378	33,476,517	(1,646,139)	(5) %
Restricted	569,169	1,339,414	(770,245)	(58) %
Unrestricted	435,435	581,444	(146,009)	(25) %
Total Net Position	$ 32,834,982	$ 35,397,375	$ (2,562,393)	(7) %

Current Assets

In August 2013, the College borrowed $3.1 million from Banc of America to fund an energy savings project performed by Brady Trane. The energy savings project included replacing major equipment such as HVAC systems across campus to conserve energy and save money. The project also included installing motion sensors for lights and water conserving toilets. As work was completed, the College submitted payments to Brady Trane. At June 30, 2014, this project was not yet complete and the College still had $1,587,993 left in the bank. This large amount of cash on hand caused the $1 million increase in Current Assets.

Capital Assets

Capital Assets experienced a $1.3 million increase due to the energy savings project mentioned previously. The project will be complete in 2014-2015. Upon completion, we will move the completed items from work-in-progress and setup assets to begin depreciating.

Other Noncurrent Assets

The $410 thousand decrease in Other Noncurrent Assets is related to the completion of several construction projects at the Main Campus and the Greene County Center. Some of the projects completed included renovations for a Barber School at a cost of approximately $32 thousand, the conversion of a welding shop to an EMS lab at a cost of approximately $75 thousand, and the replacement of windows at various locations at a cost of approximately

$150 thousand. The funds used to complete these projects were construction funds held by the NC Community College System Office. In 2011-2012 and 2012-2013, the Legislature allowed colleges to transfer State dollars to construction funds. Given this great opportunity, Administration transferred to construction funds, $361 thousand the first year and $781 thousand the second year. At June 30, 2013, the System Office was holding $1 million in construction funds for the College. During 2013-2014, the College completed multiple projects of various sizes such as the ones mentioned above. At June 30, 2014, the College had expended all but $100 thousand of the construction funds held by the System Office.

Current Liabilities

Current liabilities increased by a little more than $1.4 million the prior year, which is related to a construction payable for the energy savings project. At June 30, 2014, the College owed Brady Trane $1.4 million for work that had been completed.

Noncurrent Liabilities

The $3 million increase in noncurrent liabilities is the result of the long-term portion of the notes payable due for the ESA. This debt will be paid in full as of July 1, 2030. Also, the College entered into a capital lease agreement with the Town of La Grange for the La Grange Center. The long-term portion of the capital lease is approximately $74 thousand. The capital lease will be paid in full at June 30, 2021.

Statement of Revenues, Expenses, and Change in Net Position

	2014	2013 (as restated)	Increase (Decrease)	Percent Change
Operating Revenues				
Student Tuition and Fees, Net	$ 2,206,776	$ 2,035,582	$ 171,194	8 %
Sales and Services	344,780	335,752	9,028	3 %
Other Operating Revenues	29,111	41,130	(12,019)	(29) %
Total Operating Revenues	2,580,667	2,412,464	168,203	7 %
Operating Expenses				
Salaries and Benefits	21,876,074	21,963,329	(87,255)	(0) %
Supplies and Materials	3,552,205	3,028,078	524,127	17 %
Services	2,803,654	2,658,646	145,008	5 %
Scholarships and Fellowships	5,586,693	4,500,482	1,086,211	24 %
Utilities	824,091	823,359	732	0 %
Depreciation	1,575,411	1,160,738	414,673	36 %
Total Operating Expenses	36,218,128	34,134,632	2,083,496	6 %
Operating Loss	(33,637,461)	(31,722,168)	1,915,293	6 %
Nonoperating and Other Revenues				
State Aid	17,938,334	17,883,467	54,867	0 %
County Appropriations	2,541,858	2,525,503	16,355	1 %
Noncapital Grants and Gifts	9,536,133	8,668,050	868,083	10 %
Other Nonoperating Expenses	(644,260)	(249,502)	(394,758)	158 %
Capital Aid, Gifts, and Grants	1,703,003	2,558,633	(855,630)	(33) %
Total Nonoperating and Other Revenues	31,075,068	31,386,151	(311,083)	(1) %
Change in Net Position	(2,562,393)	(336,017)	2,226,376	661 %
Net Position - Beginning of Year	35,397,375	35,733,392	(336,017)	(1) %
Net Position - End of Year	$ 32,834,982	$ 35,397,375	$ 1,890,359	5 %

Fiscal Year 2013-2014 total revenues are $34,299,995 and total expenses are $36,862,388.

Fiscal Year 2012-2013 total revenues are $34,048,117 and total expenses are $34,384,134.

Operating Revenues

Student Tuition and Fees, Net increased by $171 thousand. This increase is mainly due to a tuition increase of $2.50 per credit hour.

Operating Expenses

The College experienced a $2 million increase in Operating Expenses which is related in part to a $524 thousand increase in Supplies and Materials and a $415 thousand increase in Depreciation. Scholarships and Fellowships also increased by $1 million from 2012-2013 to 2013-2014. This increase is directly related to the increase in student financial aid awards.

Supplies and Materials increased by $524 thousand in which $228 thousand is related to an increase in construction fees. As mentioned previously, the College made major renovations to various areas which included renovations for a Barber School at a cost of approximately

$32 thousand, the conversion of a welding shop to an EMS lab at a cost of approximately $75 thousand, and the replacement of windows at various locations at a cost of approximately $150 thousand.

Depreciation expense increased $414 thousand due to a change in the useful lives of several fixed assets. At year end, the College identified several items whose remaining usefulness was less than previously estimated. The College adjusted these assets lives to a shorter time period and by doing so, increased depreciation expense by allocating the remaining value shorter period of time.

Nonoperating Revenues

Net Nonoperating Revenues increased by $544 thousand from 2012-2013 to 2013-2014. This increase resulted from a $868 thousand increase in Noncapital Grants and Gifts because of an increase in federal student grants due to policy changes. However, this increase was offset by a $395 thousand increase in Other Nonoperating Expenses due to a $499 thousand loss on fixed assets due in part to the transfer of ownership of the Greene County Vocational Building back to the Greene County Board of Education.

Capital Aid, Gifts and Grants

The $855 thousand decrease in Capital Aid, Gifts and Grants is related to the $781 thousand transfer from equipment to construction that occurred in 2012-2013. In 2012-2013, the College was allowed by the North Carolina Legislature to transfer state aid to construction; however, this transfer was not allowed in fiscal year 2013-2014.

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

Capital Assets

At June 30, 2014, the College reported $34.8 million in capital assets net of accumulated depreciation of $14 million. The $25 thousand decrease in Land resulted from the transfer of ownership of 2.81 acres of property back to the Greene County Board of Education. This property along with a Vocational Building was transferred to the College in 1997 from the Greene County Board of Education to be used as part of the Greene County Education Center. Since that time, the College has constructed buildings that serve the same purpose as the Vocational Building and no longer had a need for the transferred property. On January 17, 2014, the College received approval from the State Board of Community College's to dispose of the property and building which resulted in a transfer back to the original owners. The $387 thousand decrease in Buildings is also related to this transaction. The $2.88 million increase in Construction in Progress is due to the ESA. As stated earlier, the ESA project was not complete at June 30, 2014; however, it will be completed during the 2014-2015 fiscal year. At completion, the College will reduce Construction in Progress and increase General Infrastructure.

	2014	2013	Increase (Decrease)	Percent Change
Land	$ 1,700,529	$ 1,725,819	$ (25,290)	(1) %
Construction in Progress	2,987,851	109,326	2,878,525	2633 %
Buildings	34,209,279	34,596,576	(387,297)	(1) %
Machinery and Equipment	8,686,891	8,558,712	128,179	1 %
General Infrastructure	1,304,396	1,286,408	17,988	1 %
Totals	$ 48,888,946	$ 46,276,841	$ 2,612,105	6 %

Debt

On August 13, 2013, the College entered into an Energy Services Agreement (ESA) with Trane U.S. in the amount of $3.1 million. At June 30, 2014, the ESA project was not complete but will be completed in the 2014-2015 fiscal year. The first payment of the ESA note payable was due August 1, 2014. The ESA note payable is projected to be paid off in July 2030.

Economic Forecast

Lenoir Community College is adequately funded for the 2014-2015 fiscal year, the projection for the 2015-2016 is not so certain. Currently, the projections indicate that North Carolina may be facing budget shortfalls for the 2015-2016 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. Also, the change in the rolling average calculation of FTE from three years to two years may pose problems for the College's future funding if curriculum enrollment continues to decline. 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 Commissions on Colleges (SACSCOC). SACSCOC affirmation affords the College continued credibility with the community and availability of financial resources from significant funding agencies.

Lenoir Community College
Statement of Net Position *Exhibit A-1*
June 30, 2014 *Page 1 of 2*

ASSETS		
Current Assets:		
Cash and Cash Equivalents	$	1,574,658.13
Restricted Cash and Cash Equivalents		1,661,038.13
Receivables, Net (Note 3)		606,671.09
Due from Primary Government		30,573.88
Inventories		125,889.15
Prepaid Items		43,024.84
Notes Receivable, Net (Note 3)		26,752.66
Total Current Assets		4,068,607.88
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		484,287.90
Restricted Due from Primary Government		102,803.02
Restricted Due from State of North Carolina Component Units		116,000.00
Capital Assets - Nondepreciable (Note 4)		4,688,380.31
Capital Assets - Depreciable, Net (Note 4)		30,124,532.96
Total Noncurrent Assets		35,516,004.19
Total Assets		39,584,612.07
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Outflows of Resources		0.00
LIABILITIES		
Current Liabilities:		
Accounts Payable and Accrued Liabilities (Note 5)		2,170,388.89
Unearned Revenue		256,950.25
Funds Held for Others		63,482.27
Long-Term Liabilities - Current Portion (Note 6)		181,898.18
Total Current Liabilities		2,672,719.59
Noncurrent Liabilities:		
Long-Term Liabilities (Note 6)		4,076,910.86
Total Noncurrent Liabilities		4,076,910.86
Total Liabilities		6,749,630.45
DEFERRED INFLOWS OF RESOURCES		
Total Deferred Inflows of Resources		0.00

NET POSITION		
Net Investment in Capital Assets		31,830,377.61
Restricted for:		
Expendable:		
Loans		7,145.82
Capital Projects		194,450.69
Restricted for Specific Programs		193,628.00
Other		173,944.66
Unrestricted		435,434.84
Total Net Position	$	32,834,981.62

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 Position
For the Fiscal Year Ended June 30, 2014 ***Exhibit A-2***

REVENUES	
Operating Revenues:	
Student Tuition and Fees, Net (Note 8)	$ 2,206,776.46
Sales and Services	344,780.16
Other Operating Revenues	29,110.57
Total Operating Revenues	2,580,667.19
EXPENSES	
Operating Expenses:	
Salaries and Benefits	21,876,073.45
Supplies and Materials	3,552,205.22
Services	2,803,654.04
Scholarships and Fellowships	5,586,693.17
Utilities	824,091.35
Depreciation	1,575,411.32
Total Operating Expenses	36,218,128.55
Operating Loss	(33,637,461.36)
NONOPERATING REVENUES (EXPENSES)	
State Aid	17,938,333.84
County Appropriations	2,541,858.00
Noncapital Grants - Student Financial Aid	7,974,450.66
Noncapital Grants	1,501,960.85
Noncapital Gifts	59,721.49
Investment Income	551.42
Interest and Fees on Debt	(67,067.23)
Other Nonoperating Expenses	(577,744.31)
Net Nonoperating Revenues	29,372,064.72
Loss Before Other Revenues	(4,265,396.64)
State Capital Aid	1,142,992.70
County Capital Aid	63,933.56
Capital Grants	426,076.95
Capital Gifts	70,000.00
Decrease in Net Position	(2,562,393.43)
NET POSITION	
Net Position, July 1, 2013	35,397,375.05
Net Position, June 30, 2014	$ 32,834,981.62

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, 2014

CASH FLOWS FROM OPERATING ACTIVITIES	
Received from Customers	$ 3,077,325.01
Payments to Employees and Fringe Benefits	(21,906,359.60)
Payments to Vendors and Suppliers	(7,141,550.35)
Payments for Scholarships and Fellowships	(5,586,693.17)
Loans Issued to Students	(4,583.05)
Collection of Loans to Students	5,150.20
Other Payments	(63,860.29)
Net Cash Used by Operating Activities	(31,620,571.25)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Aid Received	17,938,333.84
County Appropriations	2,541,858.00
Noncapital Grants - Student Financial Aid	8,004,438.05
Noncapital Grants	1,422,212.54
Noncapital Gifts	59,721.49
Cash Provided by Noncapital Financing Activities	29,966,563.92
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
State Capital Aid Received	2,108,707.69
County Capital Aid	63,933.56
Capital Grants	426,076.95
Proceeds from Capital Debt	3,054,796.00
Proceeds from Sale of Capital Assets	50,000.00
Acquisition and Construction of Capital Assets	(1,932,213.54)
Principal Paid on Capital Debt and Leases	(4,249.89)
Net Cash Provided by Capital and Related Financing Activities	3,767,050.77
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment Income	551.42
Cash Provided by Investing Activities	551.42
Net Increase in Cash and Cash Equivalents	2,113,594.86
Cash and Cash Equivalents, July 1, 2013	1,606,389.30
Cash and Cash Equivalents, June 30, 2014	$ 3,719,984.16

RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES

Operating Loss	$	(33,637,461.36)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense		1,575,411.32
Provision for Uncollectible Loans and Write-Offs		(567.15)
Nonoperating Other Expenses		(71,042.00)
Changes in Assets and Liabilities:		
Receivables, Net		511,142.50
Inventories		25,583.02
Prepaid Items		(9,778.95)
Notes Receivable, Net		567.15
Accounts Payable and Accrued Liabilities		(6,587.20)
Unearned Revenue		(14,484.68)
Funds Held for Others		7,181.71
Compensated Absences		(535.61)
Net Cash Used by Operating Activities	$	(31,620,571.25)

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:		
Cash and Cash Equivalents	$	1,574,658.13
Restricted Cash and Cash Equivalents		1,661,038.13
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		484,287.90
Total Cash and Cash Equivalents - June 30, 2014	$	3,719,984.16

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through Assumption of a Liability	$	1,519,982.55
Assets Acquired through a Gift		70,000.00
Increase in Receivables Related to Nonoperating Income		116,772.98
Loss on Disposal of Capital Assets		(506,702.31)

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, 2014 ***Exhibit B-1***

ASSETS		
Cash and Cash Equivalents	$	1,757,325
Investments		2,596,372
Other Receivables		6,084
Student Loan Receivables, Net		4,276
Fixed Assets, Net		183,999
Total Assets		4,548,056
LIABILITIES		
Accounts Payable		510
NET ASSETS		
Unrestricted		811,879
Temporarily Restricted		426,847
Permanently Restricted		3,308,820
Total Net Assets	$	4,547,546

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, 2014 — *Exhibit B-2*

CHANGES IN UNRESTRICTED NET ASSETS		
Revenues and Gains:		
Contributions	$	232,253
Travel Program		170,544
Investment Income		34,358
Lease		20,841
In-Kind Contributions		95,926
Net Assets Released from Restrictions		74,589
Total Unrestricted Revenues, Gains and Other Support		628,511
Expenses and Losses:		
Grants/Scholarships		173,653
Other Program Expenses		287,371
General and Administrative		34,106
Fund Raising		64,385
Total Expenses		559,515
Loss on Sale of Fixed Assets		518
Total Expenses and Losses		560,033
Increase in Unrestricted Net Assets		68,478
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS		
Contributions		39,791
Investment Income		177,695
Net Assets Released from Restrictions		(73,439)
Increase in Temporarily Restricted Net Assets		144,047
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS		
Contributions		205,913
Income on Long-Term Investments		34,742
Net Assets Released from Restrictions		(1,150)
Increase in Permanently Restricted Net Assets		239,505
Increase in Net Assets		452,030
Net Assets at Beginning of Year		4,095,516
Net Assets at End of Year	$	4,547,546

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 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. See below for further discussion of the College's component unit.

Discretely Presented Component Unit – Lenoir Community College Foundation, Inc. (Foundation) is a legally separate nonprofit 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 nonprofit organization that reports its financial results under the Financial Accounting Standards Board (FASB) Codification. 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, 2014, the Foundation distributed $206,276.93 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.

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 (STIF). The STIF 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 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, resources whose use is limited by external parties or statute.

I. **Noncurrent Long-Term Liabilities** - Noncurrent long-term liabilities include notes payable, capital lease obligations, 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 Position - The College's net position is classified as follows:

Net Investment in Capital Assets - This represents the College's total investment in capital assets, net of outstanding debt obligations related to those capital assets. Additionally, deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of capital assets or related debt are also included in this component of net position.

Restricted Net Position - Expendable - Expendable restricted net position includes resources for which the College is legally or contractually obligated to spend in accordance with restrictions imposed by external parties.

Unrestricted Net Position - Unrestricted net position includes 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. Both restricted and unrestricted net position include consideration of deferred inflows and outflows of resources.

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 Position. 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 Revenues, Expenses, and Changes in Net Position. 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 Position. 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 appropriations and county capital appropriations 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 Position as cash and cash equivalents includes cash on hand totaling

$2,190.00, and deposits in private financial institutions with a carrying value of $2,823,088.11 and a bank balance of $3,248,391.23.

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, 2014, 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, 2014, the amount shown on the Statement of Net Position as cash and cash equivalents includes $894,706.05 which represents the College's equity position in the State Treasurer's Short-Term Investment Fund (STIF). The STIF (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 1.3 years as of June 30, 2014. Assets and shares of the STIF 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 STIF) 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, 2014, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	$ 873,337.53	$ 527,418.70	$ 345,918.83
Student Sponsors	76,467.30	47,111.46	29,355.84
Accounts	116,772.98		116,772.98
Intergovernmental	114,548.44		114,548.44
Other	75.00		75.00
Total Current Receivables	$ 1,181,201.25	$ 574,530.16	$ 606,671.09
Notes Receivable:			
Notes Receivable - Current:			
Institutional Student Loan Programs	$ 2,983.43	$ 1,230.77	$ 1,752.66
Jones County - Current Portion	25,000.00		25,000.00
Total Notes Receivable - Current	$ 27,983.43	$ 1,230.77	$ 26,752.66

NOTE 4 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2014, is presented as follows:

	Balance July 1, 2013	Increases	Decreases	Balance June 30, 2014
Capital Assets, Nondepreciable:				
Land	$ 1,725,819.31	$ 0.00	$ 25,290.00	$ 1,700,529.31
Construction in Progress	109,326.00	2,985,552.90	107,027.90	2,987,851.00
Total Capital Assets, Nondepreciable	1,835,145.31	2,985,552.90	132,317.90	4,688,380.31
Capital Assets, Depreciable:				
Buildings	34,596,575.86	212,412.88	599,710.00	34,209,278.74
Machinery and Equipment	8,558,711.80	309,583.93	181,405.14	8,686,890.59
General Infrastructure	1,286,408.33	17,988.08		1,304,396.41
Total Capital Assets, Depreciable	44,441,695.99	539,984.89	781,115.14	44,200,565.74
Less Accumulated Depreciation for:				
Buildings	9,860,002.12	1,141,456.77	192,907.00	10,808,551.89
Machinery and Equipment	2,764,199.79	409,828.55	106,795.83	3,067,232.51
General Infrastructure	176,122.38	24,126.00		200,248.38
Total Accumulated Depreciation	12,800,324.29	1,575,411.32	299,702.83	14,076,032.78
Total Capital Assets, Depreciable, Net	31,641,371.70	(1,035,426.43)	481,412.31	30,124,532.96
Capital Assets, Net	$ 33,476,517.01	$ 1,950,126.47	$ 613,730.21	$ 34,812,913.27

NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2014, were as follows:

	Amount
Current Accounts Payable and Accrued Liabilities:	
Accounts Payable	$ 1,659,554.87
Accrued Payroll	443,766.79
Other	67,067.23
Total Current Accounts Payable and Accrued Liabilities	$ 2,170,388.89

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, 2014, is presented as follows:

	Balance July 1, 2013	Additions	Reductions	Balance June 30, 2014	Current Portion
Notes Payable	$ 0.00	$ 3,054,796.00	$ 0.00	$ 3,054,796.00	$ 62,071.87
Capital Leases Payable		88,934.55	4,249.89	84,684.66	10,530.18
Compensated Absences	1,119,863.99	713,880.79	714,416.40	1,119,328.38	109,296.13
Total Long-Term Liabilities	$ 1,119,863.99	$ 3,857,611.34	$ 718,666.29	$ 4,258,809.04	$ 181,898.18

Additional information regarding capital lease obligations is included in Note 7.

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, 2014	Principal Outstanding June 30, 2014
Guaranteed Energy Savings Equipment Purchase	Banc of America	2.765%	07/01/2030	$ 3,054,796.00	$ 0.00	$ 3,054,796.00

The annual requirements to pay principal and interest on notes payable at June 30, 2014, are as follows:

	Annual Requirements	
	Notes Payable	
Fiscal Year	Principal	Interest
2015	$ 62,072	$ 84,645
2016	165,931	80,672
2017	171,834	75,994
2018	176,655	71,182
2019	181,612	66,235
2020-2024	966,614	252,992
2025-2029	1,077,267	112,301
2030-2034	252,811	4,096
Total Requirements	$ 3,054,796	$ 748,117

NOTE 7 - LEASE OBLIGATIONS

Capital Lease Obligations - Capital lease obligations relating to the La Grange Center are recorded at the present value of the minimum lease payments. Future minimum lease payments under capital lease obligations consist of the following at June 30, 2014:

Fiscal Year	Amount
2015	$ 14,125.68
2016	14,125.68
2017	14,125.68
2018	14,125.68
2019	14,125.68
2020-2024	28,251.36
Total Minimum Lease Payments	98,879.76
Amount Representing Interest (4.5% Rate of Interest)	14,195.10
Present Value of Future Lease Payments	$ 84,684.66

Machinery and equipment acquired under capital lease amounted to $88,934.55 at June 30, 2014. Depreciation for the capital assets associated with capital leases is included in depreciation expense, and accumulated depreciation for assets acquired under capital lease totaled $889.32 at June 30, 2014.

NOTE 8 - 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	$ 4,995,448.45	$ 2,898,837.45	$ (110,165.46)	$ 2,206,776.46

NOTE 9 - 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	$ 13,026,383.22	$ 2,101,895.88	$ 727,037.39	$ 102,651.36	$ 0.00	$ 0.00	$ 15,957,967.85
Academic Support	3,253,166.23	84,416.77	83,097.96				3,420,680.96
Student Services	1,409,248.90	100,398.77	255,784.18	490,296.54			2,255,728.39
Institutional Support	3,384,871.17	306,141.04	1,168,288.03	1,449.00			4,860,749.24
Operations and Maintenance of Plant	802,403.93	959,352.76	534,890.59		824,091.35		3,120,738.63
Student Financial Aid			16,391.97	4,992,296.27			5,008,688.24
Auxiliary Enterprises			18,163.92				18,163.92
Depreciation						1,575,411.32	1,575,411.32
Total Operating Expenses	$ 21,876,073.45	$ 3,552,205.22	$ 2,803,654.04	$ 5,586,693.17	$ 824,091.35	$ 1,575,411.32	$ 36,218,128.55

NOTE 10 - PENSION PLANS

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 (TSERS) 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 a 14-member Board of Trustees, with the State Treasurer serving as Chairman of the Board.

Benefit and contribution provisions for the TSERS 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, 2014, these rates were set at 8.69% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the College had a total payroll of $17,403,449.75, of which $14,161,456.57 was covered under the TSERS. Total employer and employee contributions for pension benefits for the year were $1,230,630.58 and $849,687.39, respectively.

Required employer contribution rates for the years ended June 30, 2013, and 2012, were 8.33% and 7.44%, respectively, while employee contributions were 6% each year. The College made 100% of its annual required contributions for the years ended June 30, 2014, 2013, and 2012, which were $1,230,630.58, $1,185,414.59, and $1,008,777.60, respectively.

The TSERS 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.

NOTE 11 - OTHER POSTEMPLOYMENT BENEFITS

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

The Plan's benefit and contribution provisions are established by Chapter 135, Article 3B, 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 established by the General Assembly.

For the current fiscal year the College contributed 5.40% of the covered payroll under the Teachers' and State Employees' Retirement System to the Fund. Required contribution rates for the years ended June 30, 2013, and 2012, were 5.30% and 5.0%, respectively. The College made 100% of its annual required contributions to the Plan for the years ended June 30, 2014, 2013, and 2012, which were $764,718.65, $754,225.37, and $677,941.94, 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, 2014, the College made a statutory contribution of .44% of covered payroll under the Teachers' and State Employees' Retirement System to the DIPNC. Required contribution rates for the years ended June 30, 2013, and 2012, were .44% and .52%, respectively. The College made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2014, 2013, and 2012, which were $62,310.41, $62,614.94, and $70,505.96, 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 12 - RISK MANAGEMENT

The College is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; 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 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 $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 13 - COMMITMENTS

A. 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 $156,945.00 and on other purchases were $387,136.20 at June 30, 2014.

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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, in accordance with the 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, 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, 2014, and the related notes to the financial statements, which collectively comprise the College's basic financial statements, and have issued our report thereon dated January 15, 2015. Our report includes a reference to other auditors who audited the financial statements of Lenoir Community College Foundation, Inc., as described in our report on the College's financial statements. The financial statements of the Colleges discretely presented component unit were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with the discretely presented component unit.

<u>Internal Control Over Financial Reporting</u>

In planning and performing our audit of the financial statements, we considered the College's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the College's internal control.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the College's financial statements are free from 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.*

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the College's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Beth A. Wood

Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

January 15, 2015

ORDERING INFORMATION

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For additional information contact:
Bill Holmes
Director of External Affairs

This audit required 309.5 audit hours at an approximate cost of $29,093.