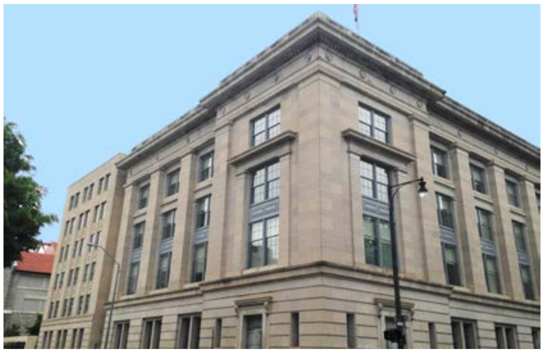
STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA



LENOIR COMMUNITY COLLEGE

KINSTON, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2016

A COMPONENT UNIT OF THE STATE OF NORTH CAROLINA

NCOSA

The Taxpayers' Watchdog

STATE OF NORTH CAROLINA
Office of the State Auditor

Beth A. Wood, CPA
State Auditor

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Raleigh, NC 27699-0600
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AUDITOR'S TRANSMITTAL

The Honorable Roy Cooper, 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, 2016, 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

STATE OF NORTH CAROLINA
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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 (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, 2016, 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 Lenoir Community College Foundation, Inc., 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 respective financial position of Lenoir Community College, and its discretely presented component unit, as of June 30, 2016, and the respective 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 and other required supplementary information, as listed in the table of contents, 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 March 20, 2017 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

Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

March 20, 2017

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, 2016, and June 30, 2015. Since this Management's Discussion and Analysis is designed to focus on current activities, resulting change and currently known facts, please read it in conjunction with the College's basic financial statements and the Notes to the Financial Statements.

Financial Statement Presentation

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

The Statement of Net Position includes all assets, deferred outflows, liabilities, and deferred inflows. 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 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.

	2016	2015 (As Restated)	Increase (Decrease)	Percent Change
Assets				
Current Assets	$ 2,655,048	$ 2,738,859	$ (83,811)	(3.1) %
Capital Assets	33,215,520	34,221,743	(1,006,223)	(2.9) %
Other Noncurrent Assets	181,316	170,201	11,115	6.5 %
Total Assets	36,051,884	37,130,803	(1,078,919)	(2.9) %
Deferred Outflows of Resources				
Deferred Outflows Related to Pensions	1,366,330	1,362,013	4,317	0.3 %
Liabilities				
Current Liabilities	1,336,666	1,411,689	(75,023)	(5.3) %
Long-term Liabilities	7,621,863	5,148,170	2,473,693	48.0 %
Total Liabilities	8,958,529	6,559,859	2,398,670	36.6 %
Deferred Inflows of Resources				
Deferred Inflows Related to Pensions	982,688	4,583,811	(3,601,123)	(78.6) %
Net Position				
Net Investment in Capital Assets	30,325,586	31,154,864	(829,278)	(2.7) %
Restricted	497,943	457,737	40,206	8.8 %
Unrestricted	(3,346,532)	(4,263,455)	916,923	(21.5) %
Total Net Position	$ 27,476,997	$ 27,349,146	$ 127,851	0.5 %

Current Assets

The $84 thousand decrease in current assets resulted from a decrease in restricted cash and cash equivalents. The reduction in cash resulted from the College using technology funds to purchase simulation equipment for health sciences programs as referenced in the capital assets section.

Current Liabilities

Current liabilities decreased by $75 thousand from the prior year, which is related to a decrease in unearned revenue. Unearned revenue decreased due to an increase in waivers for high school students. The College was able to offer more summer classes that high school students were eligible to take tuition free through the Career and College Promise program.

Noncurrent Liabilities

Noncurrent liabilities increased $2.5 million over the prior year due to the GASB 68 requirement. In accordance with GASB 68, the College was required to record a long-term liability in the amount of $3.9 million related to pensions, an increase of $2.6 million from the prior year. This increase in the net pension liability is primarily due to substantially lower than anticipated investment earnings generated from the pension plan.

Deferred Inflows of Resources

The College recorded a reduction of $3.6 million in deferred inflows related to pensions from the prior year. The reduction is due primarily to the recognition of differences between projected/actual investment earnings of the defined benefit pension plan, in response to the GASB 68 requirement for accounting and financial reporting for pensions.

Statement of Revenues, Expenses, and Change in Net Position

	2016	2015 (As Restated)	Increase (Decrease)	Percent Change
Operating Revenues				
Student Tuition and Fees, Net	$ 2,456,145	$ 2,266,911	$ 189,234	8.3 %
Sales and Services	322,952	361,195	(38,243)	(10.6) %
Other Operating Revenues	80,729	54,059	26,670	49.3 %
Total Operating Revenues	2,859,826	2,682,165	177,661	6.6 %
Operating Expenses				
Salaries and Benefits	21,688,750	21,442,684	246,066	1.1 %
Supplies and Materials	2,027,660	1,983,536	44,124	2.2 %
Services	2,829,019	3,181,494	(352,475)	(11.1) %
Scholarships and Fellowships	3,710,743	4,736,347	(1,025,604)	(21.7) %
Utilities	650,966	669,882	(18,916)	(2.8) %
Depreciation	1,402,522	1,289,297	113,225	8.8 %
Total Operating Expenses	32,309,660	33,303,240	(993,580)	(3.0) %
Operating Loss	(29,449,834)	(30,621,075)	(1,171,241)	(3.8) %
Nonoperating Revenues and Expenses				
State Aid	18,871,685	18,212,835	658,850	3.6 %
County Appropriations	2,480,548	2,453,419	27,129	1.1 %
Noncapital Grants and Gifts	6,859,270	8,726,472	(1,867,202)	(21.4) %
Investment Income	2,634	964	1,670	173.2 %
Other Nonoperating Expenses	(232,641)	(309,767)	(77,126)	(24.9) %
Capital Aid, Gifts, and Grants	1,596,189	1,301,249	294,940	22.7 %
Total Nonoperating and Other Revenues	29,577,685	30,385,172	(807,487)	(2.7) %
Change in Net Position	127,851	(235,903)	363,754	154.2 %
Net Position - Beginning of Year	27,349,146	27,585,049	(235,903)	(0.9) %
Net Position - End of Year	$ 27,476,997	$ 27,349,146	$ 127,851	0.5 %

Fiscal Year 2015-2016 total revenues are $32,670,152 and total expenses are $32,542,301.

Fiscal Year 2014-2015 total revenues are $33,377,104 and total expenses are $33,613,007.

Operating Revenues

Although gross student tuition and fees decreased by $321 thousand, the College reported a net increase of $189 thousand. The net increase is a result of decrease in student financial aid grants used to pay student tuition and fees in the amount of $678 thousand offset by a decrease in the allowance for uncollectible student accounts receivable of $168 thousand. These changes are a result of declining enrollment at the College as compared to previous years.

Operating Expenses

The College experienced a $1 million decrease in operating expenses which is related in part to a $352 thousand decrease in services. Scholarships and fellowships also decreased by $1 million from 2014-2015 to 2015-2016. This decrease is directly related to the decrease in student financial aid awards.

Services decreased by $352 thousand in which $87 thousand is related to a decrease in advertising expenses. Contracted instruction for customized industry training decreased by $57 thousand due to a reduction in open customized industry projects. Customized industry funding fluctuates with local industry needs and fund availability. The College also reduced contracted services by $75 thousand by hiring full-time employees for those positions previously contracted. Additionally, the College spent $109 thousand in the prior fiscal year to upgrade the security by installing new doors and keycard access to the administration building that did not have to be incurred again this fiscal year.

Nonoperating Revenues

Net nonoperating revenues decreased by $1.1 million from 2014-2015 to 2015-2016. This decrease occurred due to the $1.9 million decrease in noncapital grants and gifts mainly due to a reduction of Federal Pell Grant awards. However, this decrease was offset by a $659 thousand increase in state aid. This increase can be attributed to a $456 thousand increase in the base allotment and performance based allocation formulas. Also, the College received carryover in the amount of $252 thousand that was not available in previous budget years.

Capital Aid, Gifts and Grants

The $295 thousand increase in capital aid, gifts and grants can be attributed directly to the amount of capital expenditures that are incurred during the year, including library and cosmetology furniture. The increase also included a $62 thousand reduction in the amount required by the System Office as a budget call-back. A budget call-back is required when cash availability is uncertain due to receipt shortfalls experienced by the State.

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

Capital Assets

At June 30, 2016, the College reported $33.2 million in capital assets net of accumulated depreciation of $16.5 million. The $137 thousand decrease in machinery and equipment resulted from the purchase of $468 thousand in equipment offset by the disposal of $72 thousand in equipment net and current year depreciation expense of $533 thousand. The purchases included three jet lathes totaling $43 thousand used in the gunsmithing program, simulation equipment totaling $86 thousand used in health science programs as well as a frame machine totaling $70 thousand used in the automotive customizing program. The decreases in buildings and general infrastructure are related to current year depreciation.

	2016	2015	Increase (Decrease)	Percent Change
Land	$ 1,700,529	$ 1,700,529	$ 0	0.0 %
Construction in Progress	90,000	90,000		
Buildings, Net	22,079,880	22,721,031	(641,151)	(2.8) %
Machinery and Equipment, Net	5,641,724	5,779,019	(137,295)	(2.4) %
General Infrastructure, Net	3,703,386	3,931,165	(227,779)	(5.8) %
Totals	$ 33,215,519	$ 34,221,744	$ (1,006,224)	(2.9) %

Debt

On August 13, 2013, the College entered into an Energy Services Agreement with Trane U.S. funded by Banc of America in the amount of $3.1 million. The ESA project was completed during the 2014-2015 fiscal year. As of June 30, 2016 the College has paid 23 payments toward the ESA note. The ESA note payable is projected to be paid off in July 2030.

Economic Forecast

Lenoir Community College is adequately funded for the 2016-2017 fiscal year, the projection for the 2017-2018 is not so certain. Currently, the projections indicate that Lenoir Community College may be facing budget shortfalls for the 2017-2018 fiscal year due to declining enrollment. Administration is reassessing the needs of the College in preparation of this budget 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.

FINANCIAL STATEMENTS

Lenoir Community College
Statement of Net Position
June 30, 2016

ASSETS		
Current Assets:		
Cash and Cash Equivalents	$	1,365,423.46
Restricted Cash and Cash Equivalents		290,816.81
Receivables, Net (Note 4)		767,326.41
Due from Primary Government		46,530.24
Inventories		137,735.32
Prepaid Items		43,636.72
Notes Receivable, Net (Note 4)		3,579.51
Total Current Assets		2,655,048.47
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		96,173.51
Restricted Due from Primary Government		85,142.52
Capital Assets - Nondepreciable (Note 5)		1,790,529.31
Capital Assets - Depreciable, Net (Note 5)		31,424,990.04
Total Noncurrent Assets		33,396,835.38
Total Assets		36,051,883.85
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Outflows Related to Pensions		1,366,330.00
LIABILITIES		
Current Liabilities:		
Accounts Payable and Accrued Liabilities (Note 6)		752,201.67
Unearned Revenue		175,759.99
Funds Held for Others		69,152.39
Long-Term Liabilities - Current Portion (Note 7)		339,552.02
Total Current Liabilities		1,336,666.07
Noncurrent Liabilities:		
Long-Term Liabilities (Note 7)		7,621,862.59
Total Liabilities		8,958,528.66
DEFERRED INFLOWS OF RESOURCES		
Deferred Inflows Related to Pensions		982,688.00

NET POSITION

Net Investment in Capital Assets		30,305,380.87
Restricted for:		
Expendable:		
Scholarships		3,370.00
Loans		7,731.63
Capital Projects		260,866.57
Restricted for Specific Programs		175,206.10
Other		50,768.85
Unrestricted		(3,326,326.83)
Total Net Position	$	27,476,997.19

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, 2016

Exhibit A-2

REVENUES	
Operating Revenues:	
Student Tuition and Fees, Net (Note 9)	$ 2,456,145.01
Sales and Services	322,951.66
Other Operating Revenues	80,729.26
Total Operating Revenues	2,859,825.93
EXPENSES	
Operating Expenses:	
Salaries and Benefits	21,688,750.26
Supplies and Materials	2,027,659.85
Services	2,829,019.29
Scholarships and Fellowships	3,710,742.82
Utilities	650,966.24
Depreciation	1,402,521.62
Total Operating Expenses	32,309,660.08
Operating Loss	(29,449,834.15)
NONOPERATING REVENUES (EXPENSES)	
State Aid	18,871,684.75
County Appropriations	2,480,547.60
Noncapital Grants - Student Financial Aid	5,369,071.66
Noncapital Grants	1,462,093.05
Noncapital Gifts	28,106.00
Investment Income	2,634.02
Interest and Fees on Debt	(80,671.93)
Other Nonoperating Expenses	(151,969.12)
Net Nonoperating Revenues	27,981,496.03
Loss Before Other Revenues	(1,468,338.12)
State Capital Aid	1,125,280.43
County Capital Aid	270,826.71
Capital Grants	193,081.73
Capital Gifts	7,000.00
Increase in Net Position	127,850.75
NET POSITION	
Net Position, July 1, 2015 as Restated (Note 16)	27,349,146.44
Net Position, June 30, 2016	$ 27,476,997.19

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

CASH FLOWS FROM OPERATING ACTIVITIES		
Received from Customers	$	2,742,466.15
Payments to Employees and Fringe Benefits		(22,612,846.40)
Payments to Vendors and Suppliers		(5,541,610.93)
Payments for Scholarships and Fellowships		(3,710,742.82)
Loans Issued to Students		(5,343.22)
Collection of Loans to Students		4,722.40
Other Payments		(83,806.25)
Net Cash Used by Operating Activities		(29,207,161.07)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State Aid Received		18,871,684.75
County Appropriations		2,480,547.60
Noncapital Grants - Student Financial Aid		5,485,408.61
Noncapital Grants		1,453,035.19
Noncapital Gifts		28,106.00
Cash Provided by Noncapital Financing Activities		28,318,782.15
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
State Capital Aid Received		1,125,280.43
County Capital Aid		196,170.20
Capital Grants		193,081.73
Proceeds from Sale of Capital Assets		7,350.00
Acquisition of Capital Assets		(440,619.75)
Principal Paid on Capital Debt and Leases		(176,945.29)
Interest Paid on Capital Debt and Leases		(80,671.93)
Net Cash Provided by Capital and Related Financing Activities		823,645.39
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment Income		2,634.02
Cash Provided by Investing Activities		2,634.02
Net Decrease in Cash and Cash Equivalents		(62,099.51)
Cash and Cash Equivalents, July 1, 2015		1,814,513.29
Cash and Cash Equivalents, June 30, 2016	$	1,752,413.78

RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES

Operating Loss	$	(29,449,834.15)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense		1,402,521.62
Provision for Uncollectible Loans and Write-Offs		217.65
Pension Expense		360,341.00
Nonoperating Other Expenses		(90,050.34)
Changes in Assets, Liabilities, and Deferred Outflows of Resources:		
Receivables, Net		(42,704.77)
Inventories		21,383.85
Prepaid Items		(302.12)
Notes Receivable, Net		(620.82)
Accounts Payable and Accrued Liabilities		22,813.62
Unearned Revenue		(72,397.01)
Funds Held for Others		3,986.09
Deferred Outflows for Contributions Subsequent to the Measurement Date		(1,331,518.00)
Compensated Absences		(30,997.69)
Net Cash Used by Operating Activities	$	(29,207,161.07)

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:		
Cash and Cash Equivalents	$	1,365,423.46
Restricted Cash and Cash Equivalents		290,816.81
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		96,173.51
Total Cash and Cash Equivalents - June 30, 2016	$	1,752,413.78

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through Assumption of a Liability	$	20,205.16
Assets Acquired through a Gift		7,000.00
Increase in Receivables Related to Nonoperating Income		30,274.58
Loss on Disposal of Capital Assets		(64,176.78)

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, 2016 — *Exhibit B-1*

ASSETS		
Cash and Cash Equivalents	$	2,124,626
Investments		2,584,175
Other Receivables		136
Student Loan Receivables, Net		4,690
Fixed Assets, Net		302,415
Total Assets		5,016,042
LIABILITIES		
Total Liabilities		0
NET ASSETS		
Unrestricted		1,005,895
Temporarily Restricted		333,670
Permanently Restricted		3,676,477
Total Net Assets	$	5,016,042

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, 2016 — *Exhibit B-2*

CHANGES IN UNRESTRICTED NET ASSETS		
Revenues and Gains:		
Contributions	$	325,628
Travel Program		139,056
Investment Income		16,479
Lease		21,069
In-Kind Contributions		281,647
Net Assets Released from Restrictions		69,851
Total Unrestricted Revenues, Gains, and Other Support		853,730
Expenses and Losses:		
Grants/Scholarships		145,515
Other Program Expenses		300,688
Management and General		137,973
Fund Raising		215,377
Total Expenses		799,553
Loss on Sale of Fixed Assets		6,200
Total Expenses and Losses		805,753
Increase in Unrestricted Net Assets		47,977
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS		
Contributions		54,220
Investment Income		3,681
Net Assets Released from Restrictions:		(68,446)
Decrease in Temporarily Restricted Net Assets		(10,545)
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS		
Contributions		242,037
Investment Income		(102)
Net Assets Released from Restrictions		(1,405)
Increase in Permanently Restricted Net Assets		240,530
Increase in Net Assets		277,962
Net Assets at Beginning of Year		4,738,080
Net Assets at End of Year	$	5,016,042

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

NOTES TO THE FINANCIAL STATEMENTS

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 (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, tax-exempt 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 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 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, 2016, the Foundation distributed $277,761.07 to the College for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from the 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 Additional information regarding the fair value measurement of deposits held by the State Treasurer in the STIF is disclosed in Note 3.

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 acquisition value at date of donation in the case of gifts. Donated capital assets acquired prior to July 1, 2015 are stated at fair value as of the date of donation. 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 in the following manner:

Asset Class	Estimated Useful Life
Buildings	10-75 years
Machinery & Equipment	2-50 years
General Infrastructure	10-75 years

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, net pension liability, capital lease obligations, and compensated absences that will not be paid within the next fiscal year.

The net pension liability represents the College's proportionate share of the collective net pension liability reported in the State of North Carolina's 2015 *Comprehensive Annual Financial Report.* This liability represents the College's portion of the collective total pension liability less the fiduciary net position of the Teachers' and State Employees' Retirement System. See Note 11 for further information regarding the College's policies for recognizing liabilities, expenses, and deferred outflows and inflows related to pensions.

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 liabilities 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 outflows and inflows 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 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 $2,240.00, and deposits in private financial institutions with a carrying value of $594,724.09 and a bank balance of $1,167,494.29.

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, 2016, 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, 2016, the amount shown on the Statement of Net Position as cash and cash equivalents includes $1,155,449.69 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 or subject to any other regulatory oversight and does not have a credit rating) had a weighted average maturity of 1.5 years as of June 30, 2016. Assets and shares of the STIF are valued at 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 on the North Carolina Office of the State Controller's website at http://www.osc.nc.gov/ or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

NOTE 3 - FAIR VALUE MEASUREMENTS

College - To the extent available, the College's investments are recorded at fair value as of June 30, 2016. GASB Statement No. 72, Fair Value Measurement and Application, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Inputs are used in applying the various valuation techniques and take into account the assumptions that market participants use to make valuation decisions. Inputs may include price information, credit data, interest and yield curve data, and other factors specific to the financial instrument. Observable inputs reflect market data obtained from independent sources. In contrast, unobservable inputs reflect the entity's assumptions about how market participants would value the financial instrument. Valuation techniques should maximize the use of observable inputs to the extent available.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used for financial instruments measured at fair value on a recurring basis:

Level 1	Investments whose values are based on quoted prices (unadjusted) for identical assets in active markets that a government can access at the measurement date.
Level 2	Investments with inputs – other than quoted prices included within Level 1 – that are observable for an asset, either directly or indirectly.
Level 3	Investments classified as Level 3 have unobservable inputs and may require a degree of professional judgment.

Short-Term Investment Fund - At year-end, all of the College's investments valued at $1,155,449.69 were held in the STIF which is a Level 2 investment. Ownership interest of the STIF is determined on a fair market valuation basis as of fiscal year end in accordance with the STIF operating procedures. Valuation of the underlying assets is performed by the custodian.

Component Unit – FASB ASC Subtopic 820-10, *Fair Value Measurements and Disclosures*, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The three levels of the fair value hierarchy under FASB ASC Subtopic 820-10 are described as follows:

Level 1	Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets
Level 2	Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets or quoted prices for identical or similar assets or liabilities inactive markets
Level 3	Inputs to the valuation methodology are unobservable

The following methods and assumptions were used by the Foundation in estimating its fair value disclosures for financial instruments:

The Foundation invests in equity mutual funds, equity securities, and other similar securities. Fair value for investments is determined by reference to quoted market prices (fair market value).

NOTE 4 - RECEIVABLES

Receivables at June 30, 2016, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	$ 843,600.26	$ 483,045.48	$ 360,554.78
Student Sponsors	127,010.54	72,726.23	54,284.31
Accounts	148,478.30		148,478.30
Intergovernmental	201,438.87		201,438.87
Other	2,570.15		2,570.15
Total Current Receivables	$ 1,323,098.12	$ 555,771.71	$ 767,326.41
Notes Receivable:			
Notes Receivable - Current:			
Institutional Student Loan Programs	$ 4,460.28	$ 880.77	$ 3,579.51

NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2016, is presented as follows:

	Balance July 1, 2015 (As restated)	Increases	Decreases	Balance June 30, 2016
Capital Assets, Nondepreciable:				
Land	$ 1,700,529.31	$ 0.00	$ 0.00	$ 1,700,529.31
Construction in Progress	90,000.00			90,000.00
Total Capital Assets, Nondepreciable	1,790,529.31			1,790,529.31
Capital Assets, Depreciable:				
Buildings	34,209,278.74			34,209,278.74
Machinery and Equipment	9,046,516.61	467,823.91	135,740.67	9,378,599.85
General Infrastructure	4,359,192.41			4,359,192.41
Total Capital Assets, Depreciable	47,614,987.76	467,823.91	135,740.67	47,947,071.00
Less Accumulated Depreciation for:				
Buildings	11,488,247.85	641,150.76		12,129,398.61
Machinery and Equipment	3,267,497.92	533,591.78	64,213.89	3,736,875.81
General Infrastructure	428,027.46	227,779.08		655,806.54
Total Accumulated Depreciation	15,183,773.23	1,402,521.62	64,213.89	16,522,080.96
Total Capital Assets, Depreciable, Net	32,431,214.53	(934,697.71)	71,526.78	31,424,990.04
Capital Assets, Net	$ 34,221,743.84	$ (934,697.71)	$ 71,526.78	$ 33,215,519.35

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2016, were as follows:

	Amount
Current Accounts Payable and Accrued Liabilities:	
Accounts Payable	$ 183,882.49
Accrued Payroll	568,319.18
Total Current Accounts Payable and Accrued Liabilities	$ 752,201.67

NOTE 7 - LONG-TERM LIABILITIES

A. **Changes in Long-Term Liabilities** - A summary of changes in the long-term liabilities for the year ended June 30, 2016, is presented as follows:

	Balance July 1, 2015	Additions	Reductions	Balance June 30, 2016	Current Portion
Notes Payable	$ 2,992,724.13	$ 0.00	$ 165,931.36	$ 2,826,792.77	$ 171,834.25
Capital Leases Payable	74,154.48		11,013.93	63,140.55	11,519.92
Net Pension Liability	1,269,146.00	2,632,005.00		3,901,151.00	
Compensated Absences	1,201,327.98	683,995.00	714,992.69	1,170,330.29	156,197.85
Total Long-Term Liabilities	$ 5,537,352.59	$ 3,316,000.00	$ 891,937.98	$ 7,961,414.61	$ 339,552.02

Additional information regarding capital lease obligations is included in Note 8.
Additional information regarding the net pension liability is included in Note 11.

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

Purpose	Financial Institution	Interest Rate	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2016	Principal Outstanding June 30, 2016
Guaranteed Energy Savings Equipment Purchase	Banc of America	2.765%	07/01/2030	$ 3,054,796.00	$ 228,003.23	$ 2,826,792.77

The annual requirements to pay principal and interest on notes payable at June 30, 2016, are as follows:

	Annual Requirements Notes Payable	
Fiscal Year	Principal	Interest
2017	$ 171,834.25	$ 75,994.04
2018	176,655.35	71,182.05
2019	181,611.72	66,235.02
2020	184,256.37	61,177.31
2021	189,092.58	56,024.31
2022-2026	1,007,150.38	198,478.26
2027-2031	916,192.12	53,709.52
Total Requirements	$ 2,826,792.77	$ 582,800.51

NOTE 8 - CAPITAL LEASE OBLIGATIONS

Capital lease obligations relating to 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, 2016:

Fiscal Year	Amount
2017	$ 14,125.68
2018	14,125.68
2019	14,125.68
2020	14,125.68
2021	14,125.68
Total Minimum Lease Payments	70,628.40
Amount Representing Interest (4.5% Rate of Interest)	7,487.85
Present Value of Future Lease Payments	$ 63,140.55

The La Grange Center acquired under capital lease amounted to $88,934.55 at June 30, 2016. Depreciation for the capital asset associated with capital lease is included in depreciation expense, and accumulated depreciation for the asset acquired under capital lease totaled $4,446.60 at June 30, 2016.

NOTE 9 - 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, Net	$ 4,591,429.18	$ 2,010,421.53	$ 124,862.64	$ 2,456,145.01

NOTE 10 - 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	$ 13,165,954.73	$ 1,546,596.84	$ 680,323.60	$ 93,965.20	$ 0.00	$ 0.00	$ 15,486,840.37
Academic Support	3,270,337.96	70,195.25	96,336.45				3,436,869.66
Student Services	1,252,273.25	63,967.36	285,026.64	353,267.39			1,954,534.64
Institutional Support	3,201,249.04	214,509.18	1,075,693.66	216.00			4,491,667.88
Operations and Maintenance of Plant	798,935.28	131,755.85	664,567.47		650,966.24		2,246,224.84
Student Financial Aid			15,322.12	3,263,294.23			3,278,616.35
Auxiliary Enterprises		635.37	11,749.35				12,384.72
Depreciation						1,402,521.62	1,402,521.62
Total Operating Expenses	$ 21,688,750.26	$ 2,027,659.85	$ 2,829,019.29	$ 3,710,742.82	$ 650,966.24	$ 1,402,521.62	$ 32,309,660.08

NOTE 11 - PENSION PLANS

Defined Benefit Plan

Plan Administration: The State of North Carolina administers the Teachers' and State Employees' Retirement System (TSERS) plan. This plan is a cost-sharing, multiple-employer, defined benefit pension plan established by the State to provide pension benefits for general employees and law enforcement officers (LEOs) of the State, general employees and LEOs of its component units, and employees of Local Education Agencies (LEAs) and charter schools not in the reporting entity. Membership is comprised of employees of the State (state agencies and institutions), universities, community colleges, and certain proprietary component units along with the LEAs and charter schools. Benefit provisions are established by General Statute 135-5 and may be amended only by the North Carolina General Assembly.

Benefits Provided: TSERS provides retirement and survivor benefits. Retirement benefits are determined as 1.82% of the member's average final compensation times the member's years of creditable service. A member's average final compensation is calculated as the average of a member's four highest consecutive years of compensation. General employee plan members are eligible to retire with full retirement benefits at age 65 with five years of creditable service, at age 60 with 25 years of creditable service, or at any age with 30 years of creditable service. General employee plan members are eligible to retire with partial retirement benefits at age 50 with 20 years of creditable service or at age 60 with five years of creditable service. Survivor benefits are available to eligible beneficiaries of general members who die while in active service or within 180 days of their last day of service and who also have either completed 20 years of creditable service regardless of age, or have completed five years of service and have reached age 60. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions. The plan does not provide for automatic post-retirement benefit increases. Increases are contingent upon actuarial gains of the plan.

Contributions: Contribution provisions are established by General Statute 135-8 and may be amended only by the North Carolina General Assembly. Employees are required to contribute 6% of their compensation. The contribution rate for employers is set each year by the NC General Assembly in the Appropriations Act based on the actuarially-determined rate recommended by the actuary. The College's contractually-required contribution rate for the year ended June 30, 2016 was 9.15% of covered payroll. The College's contributions to the pension plan were $1,331,517.93, and employee contributions were $873,126.51 for the year ended June 30, 2016.

The TSERS plan's financial information, including all information about the plan's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fiduciary net position, is included in the State of North Carolina's fiscal year 2015 *Comprehensive Annual Financial Report*. An electronic version of this report is available on the North Carolina Office of the State Controller's website at http://www.osc.nc.gov/ or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

TSERS Basis of Accounting: The financial statements of the TSERS plan were prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has a legal requirement to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan. The plan's fiduciary net position was determined on the same basis used by the pension plan.

Methods Used to Value TSERS Investment: Pursuant to *North Carolina General Statutes*, the State Treasurer is the custodian and administrator of the retirement systems. The State Treasurer maintains various investment portfolios in its Investment Pool. The pension trust funds are the primary participants in the Long-term Investment portfolio and the sole participants in the External Fixed Income Investment, Equity Investment, Real Estate Investment, Alternative Investment, Credit Investment, and Inflation Protection Investment portfolios. The investment balance of each pension trust fund represents its share of the fair market value of the net position of the various portfolios within the pool. Detailed descriptions of the methods and significant assumptions regarding investments of the State Treasurer are provided in the 2015 *Comprehensive Annual Financial Report*.

Net Pension Liability: At June 30, 2016, the College reported a liability of $3,901,151.00 for its proportionate share of the collective net pension liability. The net pension liability was measured as of June 30, 2015. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2014, and update procedures were used to roll forward the total pension liability to June 30, 2015. The College's proportion of the net pension liability was based on the present value of future salaries for the College relative to the present value of future salaries for all participating employers, actuarially-determined. As of June 30, 2015, the College's proportion was 0.10586%, which was a decrease of 0.00239 from its proportion measured as of June 30, 2014.

Actuarial Assumptions: The following table presents the actuarial assumptions used to determine the total pension liability for the TSERS plan at the actuarial valuation date:

Valuation Date	12/31/2014
Inflation	3%
Salary Increases*	4.25% - 9.10%
Investment Rate of Return**	7.25%

* Salary increases include 3.5% inflation and productivity factor.
** Investment rate of return is net of pension plan investment expense, including inflation.

TSERS currently uses mortality tables that vary by age, gender, employee group (i.e. teacher, general, law enforcement officer) and health status (i.e. disabled and healthy). The current mortality rates are based on published tables and based on studies that cover significant portions of the U.S. population. The healthy mortality rates also contain a provision to reflect future mortality improvements.

The actuarial assumptions used in the December 31, 2014 valuations were based on the results of an actuarial experience study for the period January 1, 2005 through December 31, 2009.

Future ad hoc Cost of Living Adjustment (COLA) amounts are not considered to be substantively automatic and are therefore not included in the measurement.

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2015 (the valuation date) are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return
Fixed Income	2.2%
Global Equity	5.8%
Real Estate	5.2%
Alternatives	9.8%
Credit	6.8%
Inflation Protection	3.4%

The information above is based on 30-year expectations developed with the consulting actuary for the 2014 asset, liability and investment policy study for the North Carolina Retirement Systems. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.19%. All rates of return and inflation are annualized.

Discount Rate: The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate: The following presents the net pension liability of the plan calculated using the discount rate of 7.25%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.25%) or 1-percentage point higher (8.25%) than the current rate:

	Net Pension Liability (Asset)	
1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
$ 11,741,387.00	$ 3,901,151.00	$ (2,752,194.00)

Deferred Inflows of Resources and Deferred Outflows of Resources Related to Pensions: For the year ended June 30, 2016, the College recognized pension expense of $360,341.00. At June 30, 2016, the College reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Employer Balances of Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions by Classification:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Actual and Expected Experience	$ 0.00	$ 443,561.00
Changes of Assumptions		
Net Difference Between Projected and Actual Earnings on Pension Plan Investments		422,657.00
Change in Proportion and Differences Between Agency's Contributions and Proportionate Share of Contributions	34,812.00	116,470.00
Contributions Subsequent to the Measurement Date	1,331,518.00	
Total	$ 1,366,330.00	$ 982,688.00

The amount of $1,331,518.00 reported as deferred outflows of resources related to pensions will be included as a reduction of the net pension liability in the fiscal year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Schedule of the Net Amount of the Employer's Balances of Deferred Outflows of Resources and Deferred Inflows of Resources That will be Recognized in Pension Expense:

Year ended June 30:	Amount
2017	$ (527,741.00)
2018	(527,741.00)
2019	(514,329.00)
2020	621,935.00
Total	$ (947,876.00)

NOTE 12 - 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 (TSERS). 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 TSERS 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 5.60% of the covered payroll under TSERS to the Fund. Required contribution rates for the years ended June 30, 2015, and 2014, were 5.49% and 5.4%, respectively. The College made 100% of its annual required contributions to the Plan for the years ended June 30, 2016, 2015, and 2014, which were $814,918.08, $788,834.54, and $764,718.65, 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 on the North Carolina Office of the State Controller's website at http://www.osc.nc.gov/ 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 TSERS. 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, 2016, the College made a statutory contribution of .41% of covered payroll under TSERS to the DIPNC. Required contribution rates for the years ended June 30, 2015, and 2014, were .41% and .44%, respectively. The College made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2016, 2015, and 2014, which were $59,663.64, $58,911.14, and $62,310.41, 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 13 - 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.

A. Public Entity Risk Pool

Public School Insurance Fund

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.

B. Employee Benefit Plans

1. State Health Plan

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.

2. Death Benefit Plan of North Carolina

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.

C. Other Risk Management and Insurance Activities

1. Automobile Insurance

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.

2. Public Officers' and Employees' Liability Insurance

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. The College has an additional Directors, Officers, Trustees and Organization Liability policy with a $1,000,000 limit and a $50,000 deductible.

3. Employee Dishonesty and Computer Fraud

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 $100,000 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.

4. Statewide Workers' Compensation Program

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.

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.

5. **Other Insurance Held by the College**

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. The College purchased an athletic accident insurance policy with $25,000 per occurrence and no deductible. Also, the College has a $50,000 basic student accident insurance policy that is funded by a fee assessed to students each semester.

NOTE 14 - COMMITMENTS AND CONTINGENCIES

A. Commitments - The College has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on other purchases were $37,249.75 at June 30, 2016.

B. Pending Litigation and Claims – In March 2015, the Department of Education conducted an on-site review of the College's administration of programs authorized pursuant to Title IV of the Higher Education Act of 1965, as amended. Findings included the College not verifying students prior to awarding financial aid and not performing a return of Title IV calculation on students who unofficially withdrew. The College received notification on October 3, 2016 from the Department of Education. The original calculation is $1.3 million. The College filed an appeal with the Department of Education on November 18, 2016.

NOTE 15 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2016, the College implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 72, *Fair Value Measurement and Application*

GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*

GASB Statement No. 72 provides guidance for determining a fair value measurement for financial reporting purposes. This statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

GASB Statement No. 76 reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP.

NOTE 16 - NET POSITION RESTATEMENT

As of July 1, 2015, net position as previously reported was restated as follows:

		Amount
July 1, 2015 Net Position as Previously Reported	$	27,249,762.92
Restatement: Adjustment of depreciation for fully depreciated assets		99,383.52
July 1, 2015 Net Position as Restated	$	27,349,146.44

REQUIRED SUPPLEMENTARY INFORMATION

Lenoir Community College
Required Supplementary Information
Schedule of the Proportionate Net Pension Liability
Teachers' and State Employees' Retirement System
Last Three Fiscal Years

Exhibit C-1

	2015	2014	2013
Proportionate Share Percentage of Collective Net Pension Liability	0.10586%	0.10825%	0.10680%
Proportionate Share of TSERS Collective Net Pension Liability	$ 3,901,151.00	$ 1,269,146.00	$ 6,483,848.00
Covered-Employee Payroll	$ 14,368,570.87	$ 14,161,456.57	$ 14,230,667.32
Net Pension Liability as a Percentage of Covered-Employee Payroll	27.15%	8.96%	45.56%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	94.64%	98.24%	90.60%

Lenoir Community College
Required Supplementary Information
Schedule of College Contributions
Teachers' and State Employees' Retirement System
Last Ten Fiscal Years ***Exhibit C-2***

	2016	2015	2014	2013	2012
Contractually Required Contribution	$ 1,331,517.93	$ 1,314,724.24	$ 1,230,630.58	$ 1,185,414.59	$ 1,008,777.60
Contributions in Relation to the Contractually Determined Contribution	1,331,517.93	1,314,724.24	1,230,630.58	1,185,414.59	1,008,777.60
Contribution Deficiency (Excess)	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Covered-Employee Payroll	$ 14,552,108.49	$ 14,368,570.87	$ 14,161,456.57	$ 14,230,667.32	$ 13,558,838.71
Contributions as a Percentage of Covered-Employee Payroll	9.15%	9.15%	8.69%	8.33%	7.44%

	2011	2010	2009	2008	2007
Contractually Required Contribution	$ 670,282.48	$ 442,805.21	$ 415,575.09	$ 353,716.34	$ 310,122.20
Contributions in Relation to the Contractually Determined Contribution	670,282.48	442,805.21	415,575.09	353,716.34	310,122.20
Contribution Deficiency (Excess)	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Covered-Employee Payroll	$ 13,595,993.51	$ 12,403,507.33	$ 12,368,306.39	$ 11,597,257.09	$ 11,658,729.32
Contributions as a Percentage of Covered-Employee Payroll	4.93%	3.57%	3.36%	3.05%	2.66%

Lenoir Community College
Notes to Required Supplementary Information
Schedule of College Contributions
Teachers' and State Employees' Retirement System
Last Ten Fiscal Years

Changes of Benefit Terms:

Cost of Living Increase

2015*	2014	2013	2012	2011	2010	2009	2008	2007	2006
1.00%	N/A	1.00%	N/A	N/A	N/A	2.20%	2.20%	3.00%	2.00%

Changes of assumptions. In 2008, and again in 2012, the rates of withdrawal, mortality, service retirement and salary increase for active members and the rates of mortality for beneficiaries were adjusted to more closely reflect actual experience. Assumptions for leave conversions and loads were also revised in 2012.

*Per the 2015 State of North Carolina *Comprehensive Annual Financial Report* , the 1.00% cost of living adjustment applies to retirees whose retirement began on or before July 1, 2013.

INDEPENDENT AUDITOR'S REPORT

STATE OF NORTH CAROLINA
Office of the State Auditor

Beth A. Wood, CPA
State Auditor

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20601 Mail Service Center
Raleigh, NC 27699-0600
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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 (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, 2016, and the related notes to the financial statements, which collectively comprise the College's basic financial statements, and have issued our report thereon dated March 20, 2017. 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 Lenoir Community College Foundation, Inc., 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 Lenoir Community College Foundation, Inc.

Internal Control Over Financial Reporting

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 opinions 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

March 20, 2017

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For additional information contact:
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919-807-7513

This audit required 321 audit hours at an approximate cost of $33,063.00