



STATE OF NORTH CAROLINA

JOHNSTON COMMUNITY COLLEGE

SMITHFIELD, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2009

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR

JOHNSTON COMMUNITY COLLEGE

SMITHFIELD, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2009

STATE BOARD OF COMMUNITY COLLEGES

THE NORTH CAROLINA COMMUNITY COLLEGE SYSTEM

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Beth A. Wood, CPA
State Auditor

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AUDITOR'S TRANSMITTAL

The Honorable Beverly Eaves Perdue, Governor
The General Assembly of North Carolina
Board of Trustees, Johnston Community College

We have completed a financial statement audit of Johnston Community College for the year ended June 30, 2009, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

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

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

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

Beth A. Wood, CPA
State Auditor

TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITOR'S REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	3
BASIC FINANCIAL STATEMENTS	
College Exhibits	
A-1 Statement of Net Assets	8
A-2 Statement of Revenues, Expenses, and Changes in Net Assets	9
A-3 Statement of Cash Flows	10
Component Unit Exhibits	
B-1 Statement of Financial Position	12
B-2 Statement of Activities	13
Notes to the Financial Statements	15
INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT</i> <i>AUDITING STANDARDS</i>	33
ORDERING INFORMATION	35



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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Johnston Community College
Smithfield, North Carolina

We have audited the accompanying financial statements of Johnston 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, 2009, which collectively comprise the College's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the College's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Johnston Community College Foundation, Inc., the College's discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinions, insofar as they relate to the amounts included for the discretely presented component unit, are based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of Johnston Community College Foundation, Inc. were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of Johnston Community College and its discretely presented component unit as of June 30, 2009, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 14 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* and Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*, during the year ended June 30, 2009.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

In accordance with *Government Auditing Standards*, we have also issued our report dated April 5, 2010 on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis, as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



State Auditor

April 5, 2010

JOHNSTON COMMUNITY COLLEGE MANAGEMENT'S DISCUSSION AND ANALYSIS

The Management Discussion and Analysis for Johnston Community College (College) for fiscal year ended June 30, 2009 provides the reader with a narrative introduction and a summary overview of the financial operations of the College. This allows the reader to easily interpret the College's financial operations by comparing the current year with prior year operations.

The basic financial statements focus on the College as a whole and consist of three basic components: Statement of Net Assets; Statement of Revenues, Expenses, and Changes in Net Assets; and Statement of Cash Flows.

- The Statement of Net Assets presents the College's Assets and Liabilities with differences being reported as Net Assets. Net Assets reflect the differences in revenues and expenses over the life of the College. The review of a comparison of Net Assets over a number of years will help the user determine the growth and stability of the College.
- The Statement of Revenues, Expenses, and Changes in Net Assets displays revenue and expense activities of the College. The net effect of revenues and expenses roll into the Net Assets which reflects the current year activities.
- The Statement of Cash Flows is prepared using the direct method. This statement reports the net changes in cash resulting from operating, investing, and financing activities.

The Notes to the Financial Statements provide additional detailed information required for an understanding of the financial statements.

Financial Position

The College experienced a 15% growth in net assets during 2009 reflecting a strong financial position. The majority of the growth was the result of capital construction projects.

Statement of Net Assets

The Statement of Net Assets presents the financial position of the College at year end, includes all assets and liabilities, and segregates the assets and liabilities into current and noncurrent components. Net assets represent the difference between assets and liabilities.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

A consolidated Statement of Net Assets with comparative figures is presented below.

	2009	2008	Increase (Decrease)
Assets:			
Current Assets	\$ 4,650,638.55	\$ 3,357,155.91	\$ 1,293,482.64
Noncurrent Assets	947,442.29	1,000,474.97	(53,032.68)
Capital Assets, Net	<u>46,355,984.62</u>	<u>41,160,623.10</u>	<u>5,195,361.52</u>
Total Assets	<u>51,954,065.46</u>	<u>45,518,253.98</u>	<u>6,435,811.48</u>
Liabilities:			
Current liabilities	1,451,942.14	1,297,169.28	154,772.86
Noncurrent Liabilities	<u>2,284,585.11</u>	<u>2,286,706.12</u>	<u>(2,121.01)</u>
Total Liabilities	<u>3,736,527.25</u>	<u>3,583,875.40</u>	<u>152,651.85</u>
Net Assets:			
Invested in Capital Assets, Net of Related Debt	45,631,893.22	40,280,292.08	5,351,601.14
Restricted - Expendable	2,272,248.81	2,012,311.26	259,937.55
Unrestricted	<u>313,396.18</u>	<u>(358,224.76)</u>	<u>671,620.94</u>
Total Net Assets	<u>\$ 48,217,538.21</u>	<u>\$ 41,934,378.58</u>	<u>\$ 6,283,159.63</u>

Assets

Current assets include cash, receivables, inventories, and the current portion of notes receivable. Current assets increased by \$1,293,482.64 in 2009 compared to 2008. In 2009, receivables increased as a result of a timing delay in receiving a county construction reimbursement in the amount of \$607,217.08. In addition, cash increased in 2009 over 2008 in the amount of \$603,863.88 with the majority of that increase coming from performing arts, bookstore, and student government receipts.

Capital assets, net increased in the amount of \$5,195,361.52 for the most part from construction activity for the Health Sciences Building Addition and Renovation and Parking Lot Projects. A new 34,000 square foot Library Building Project is in the design stage. This facility will replace the old Library when completed in the spring of 2011.

Liabilities

Increased liabilities for 2009 were the result of construction payments due in FY 2009 and paid in FY 2010. Other liability increases were due to increases in the compensated absences liability at year end.

Net Assets

Invested in Capital Assets, Net of Related Debt increased \$5,351,601.14 in FY 2009. The majority of the increase was construction of the Health Sciences Building Addition and Renovation and Parking Lot Projects.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

The majority of increases in unrestricted net assets in 2009 over the prior year were the result of increases in activity in proprietary funds brought on by growth in enrollment. Proprietary funds were responsible for an increase of \$541,729.00. The major contributors to the increase were Student Government Association, Performing Arts, and Bookstore. These funds increased in 2009 as compared to 2008 in the amounts of \$48,749.46, \$82,817.32, and \$375,924.45, respectively, for a total increase of \$507,491.23. Additionally, unrestricted funds increased \$76,817.00 due to growth in technology fees.

Results of Operations

The Statement of Revenues, Expenses, and Changes in Net Assets presents the results of the College's operations. A consolidated Statement of Revenues, Expenses, and Changes in Net Assets with comparative figures is presented below.

Statement of Revenues, Expenses, and Changes in Net Assets

	2009	2008 (Restated)	Increase (Decrease)
Operating Revenue:			
Student Tuition and Fees, Net	\$ 2,370,480.07	\$ 2,363,662.09	\$ 6,817.98
Grants and Contracts	1,550,324.74	965,099.62	585,225.12
Sales and Services, Net	1,377,814.66	1,327,525.88	50,288.78
Total Operating Revenue	<u>5,298,619.47</u>	<u>4,656,287.59</u>	<u>642,331.88</u>
Operating Expenses:			
Personal Services	22,063,067.64	21,209,361.44	853,706.20
Supplies and Materials	3,555,315.40	3,463,197.36	92,118.04
Services	2,685,040.54	2,826,944.19	(141,903.65)
Other Operating Expenses	5,374,193.97	3,999,213.60	1,374,980.37
Total Operating Expenses	<u>33,677,617.55</u>	<u>31,498,716.59</u>	<u>2,178,900.96</u>
Operating Loss	<u>(28,378,998.08)</u>	<u>(26,842,429.00)</u>	<u>(1,536,569.08)</u>
Nonoperating Revenues			
State Aid	18,252,804.65	17,341,200.91	911,603.74
County Appropriations	3,744,302.00	3,480,657.00	263,645.00
Noncapital Grants - Federal Fin Aid	4,607,062.90	3,360,872.56	1,246,190.34
Other Nonoperating revenues	550,923.33	638,449.91	(87,526.58)
Net Nonoperating Revenues	<u>27,155,092.88</u>	<u>24,821,180.38</u>	<u>2,333,912.50</u>
State Capital Aid	701,331.20	1,577,418.81	(876,087.61)
County Capital Aid	6,745,534.38	3,661,982.74	3,083,551.64
Capital Grants	5,199.25	9,903.80	(4,704.55)
Capital Gifts	55,000.00		55,000.00
Increase in Net Assets	<u>6,283,159.63</u>	<u>3,228,056.73</u>	<u>3,055,102.90</u>
Net Assets - July 1 (Restated)	<u>41,934,378.58</u>	<u>38,706,321.85</u>	<u>3,228,056.73</u>
Net Assets - June 30	<u>\$ 48,217,538.21</u>	<u>\$ 41,934,378.58</u>	<u>\$ 6,283,159.63</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Operating revenues

Operating revenues include Student Tuition and Fees (net of scholarship discount), State, local, and private grants, and revenue received from sales and services. In 2009, the College experienced a \$585,225.12 increase in-State and local grants as a result of several factors: a new State program (NC Earn and Learn) was implemented in 2009, North Carolina Lottery funds increased as a result of a larger number of qualifying students receiving these funds, and funds from State Community College Grants increased as a result of increased participation by students.

Nonoperating Revenues

Nonoperating revenues are comprised of state aid for current expense and capital construction, funds appropriated from Johnston County, and proceeds from Johnston County Construction Bond issuances. Federal funds received for student financial aid are now also included within this category. Nonoperating revenues experienced a \$2,333,912.50 increase in 2009 compared to 2008. The \$911,603.74 increase in State Aid was the result of increased enrollment and an increase in the formula allocations from the North Carolina Community College System. County appropriations increased \$263,645.00 upon request of the college to fund increasing utility and maintenance costs.

State Capital Aid decreased \$876,087.61 in 2009 as a result of a decrease in state capital bond construction in 2009. An increase in County Capital Appropriations resulted from an increase in construction for the Health Sciences Building Addition and Renovation and Parking Lot projects.

Operating Expenses

Operating expenses of the College are comprised mainly of the direct cost of personnel and the related fringe benefits. Personal services increase of \$1,106,423.92 was due to a salary increase of 4% or \$1,100 per employee whichever was greater. Other Operating Expenses include the scholarship and fellowship activity that experienced an increase of \$1,211,030.23. The majority of that increase was an increase in Pell grants of \$670,733.32 and a \$533,268.35 increase in Stafford loans in 2009.

Economic Outlook

The fall semester 2009 experienced an increase in curriculum enrollment of 6% as compared to the fall of 2008.

County voters demonstrated their support by approving a \$10 million construction bond issue in May 2007. These funds have been used in the construction of a Health Education addition and renovation that began construction in July 2008 with an August 2010 completion date. A new Library will begin construction in 2009 and be funded with County bond funds. With this bond issue, county voters have approved a total of \$25 million for College construction over the last ten years.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

The College takes every opportunity to acquire alternative funding. Alternative funding for 2009 included several sources:

- The Johnston Community College Foundation provided funds to the College in the form of ten \$500.00 mini grants for funding faculty projects. The Foundation also provided \$15,000.00 to be used by the College for institutional support.
- Grants received during 2009 included:
 - Aseptic Environment Certification Grant \$15,482.00
 - Community College Summit Initiative 51,120.00
 - The Host Project 20,000.00
 - Development of an International Artist Grant 5,000.00
 - Homeland Security Grant 31,300.00
 - Project Skill-up 40,000.00
 - The Southern Garden Grant 17,500.00
 - Wake Electric Grant 2,070.56

Johnston Community College
Statement of Net Assets
June 30, 2009

Exhibit A-1

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 2,074,186.07
Restricted Cash and Cash Equivalents	709,518.09
Receivables, Net (Note 3)	1,353,388.58
Inventories	494,634.47
Notes Receivable, Net (Note 3)	<u>18,911.34</u>
Total Current Assets	<u>4,650,638.55</u>

Noncurrent Assets:

Restricted Due from Primary Government	947,442.29
Capital Assets - Nondepreciable (Note 4)	11,484,368.12
Capital Assets - Depreciable, Net (Note 4)	<u>34,871,616.50</u>
Total Noncurrent Assets	<u>47,303,426.91</u>

Total Assets	<u>51,954,065.46</u>
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LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 5)	990,811.61
Unearned Revenue	85,791.36
Funds Held for Others	83,824.71
Long-Term Liabilities - Current Portion (Note 6)	<u>291,514.46</u>
Total Current Liabilities	<u>1,451,942.14</u>

Noncurrent Liabilities:

Long-Term Liabilities (Note 6)	<u>2,284,585.11</u>
Total Noncurrent Liabilities	<u>2,284,585.11</u>

Total Liabilities	<u>3,736,527.25</u>
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NET ASSETS

Invested in Capital Assets, Net of Related Debt	45,631,893.22
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Restricted for:

Expendable:

Scholarships and Fellowships	413,833.39
Loans	76,615.13
Capital Projects	1,438,928.70
Other	342,871.59

Unrestricted	<u>313,396.18</u>
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Total Net Assets	<u>\$ 48,217,538.21</u>
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The accompanying notes to the financial statements are an integral part of this statement.

***Johnston Community College
Statement of Revenues, Expenses, and
Changes in Net Assets
For the Fiscal Year Ended June 30, 2009***

Exhibit A-2

REVENUES

Operating Revenues:	
Student Tuition and Fees, Net (Note 8)	\$ 2,370,480.07
State and Local Grants and Contracts	1,550,324.74
Sales and Services, Net (Note 8)	<u>1,377,814.66</u>
Total Operating Revenues	<u>5,298,619.47</u>

EXPENSES

Operating Expenses:	
Personal Services	22,063,067.64
Supplies and Materials	3,555,315.40
Services	2,685,040.54
Scholarships and Fellowships	3,394,113.57
Utilities	920,708.46
Depreciation	<u>1,059,371.94</u>
Total Operating Expenses	<u>33,677,617.55</u>
Operating Loss	<u>(28,378,998.08)</u>

NONOPERATING REVENUES (EXPENSES)

State Aid	18,252,804.65
County Appropriations	3,744,302.00
Noncapital Grants - Federal Student Financial Aid	4,607,062.90
Noncapital Grants	274,058.87
Noncapital Gifts	1,156.05
Investment Income	68,128.31
Other Nonoperating Revenues	<u>207,580.10</u>
Net Nonoperating Revenues	<u>27,155,092.88</u>
Loss Before Other Revenues	(1,223,905.20)
State Capital Aid	701,331.20
County Capital Aid	6,745,534.38
Capital Grants	5,199.25
Capital Gifts	<u>55,000.00</u>
Increase in Net Assets	6,283,159.63

NET ASSETS

Net Assets, July 1, 2008 as Restated (Note 15)	<u>41,934,378.58</u>
Net Assets, June 30, 2009	<u>\$ 48,217,538.21</u>

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

Johnston Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2009

Exhibit A-3

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 5,359,685.05
Payments to Employees and Fringe Benefits	(21,982,374.15)
Payments to Vendors and Suppliers	(7,275,263.90)
Payments for Scholarships and Fellowships	(3,394,113.57)
Collection of Loans to Students	5,287.79
Other Receipts	327,042.69
	<hr/>
Net Cash Used by Operating Activities	(26,959,736.09)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Aid Received	18,252,804.65
County Appropriations	3,744,302.00
Noncapital Grants - Federal Student Financial Aid	4,607,062.90
Noncapital Grants	236,214.98
Noncapital Gifts Received	1,156.05
	<hr/>
Cash Provided by Noncapital Financing Activities	26,841,540.58

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

State Capital Aid Received	754,363.88
County Capital Aid	6,158,447.85
Capital Grants Received	5,199.25
Proceeds from Sale of Capital Assets	16,369.94
Acquisition and Construction of Capital Assets	(6,124,210.22)
Principal Paid on Capital Debt and Leases	(156,239.62)
	<hr/>
Net Cash Provided by Capital and Related Financing Activities	653,931.08

CASH FLOWS FROM INVESTING ACTIVITIES

Investment Income	68,128.31
	<hr/>
Cash Provided by Investing Activities	68,128.31

Net Increase in Cash and Cash Equivalents	603,863.88
Cash and Cash Equivalents, July 1, 2008	2,179,840.28
	<hr/>
Cash and Cash Equivalents, June 30, 2009	\$ 2,783,704.16

***Johnston Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2009***

***Exhibit A-3
Page 2***

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

Operating Loss	\$ (28,378,998.08)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	1,059,371.94
Provision for Uncollectible Loans and Write-Offs	6,735.59
Miscellaneous Nonoperating Income	325,130.21
Changes in Assets and Liabilities:	
Receivables, Net	66,507.21
Inventories	(127,899.75)
Notes Receivable, Net	5,287.79
Accounts Payable and Accrued Liabilities	(2,360.50)
Unearned Revenue	(5,441.63)
Funds Held for Others	1,912.48
Compensated Absences	90,018.65
	<hr/>
Net Cash Used by Operating Activities	<u><u>\$ (26,959,736.09)</u></u>

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	\$ 2,074,186.07
Restricted Cash and Cash Equivalents	709,518.09
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Total Cash and Cash Equivalents - June 30, 2009	<u><u>\$ 2,783,704.16</u></u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through Assumption of a Liability	\$ 232,586.56
Assets Acquired through a Gift	55,000.00
Increase in Receivables Related to Nonoperating Income	640,249.60
Capital Asset Write-Offs	133,492.87

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

Johnston Community College Foundation, Inc.
Statement of Financial Position
June 30, 2009

Exhibit B-1

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 67,187.00
Investments	2,200.00

Endowment Investments:

Cash and Cash Equivalents	273,296.00
Investments	3,137,983.00

Other Assets:

Land	778,790.00
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Total Assets	<u>4,259,456.00</u>
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LIABILITIES

Accounts Payable and Accrued Expenses	<u>1,746.00</u>
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Total Liabilities	<u>1,746.00</u>
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NET ASSETS

Unrestricted	119,207.00
Temporarily Restricted	1,153,763.00
Permanently Restricted	<u>2,984,740.00</u>

Total Net Assets	<u>\$ 4,257,710.00</u>
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The accompanying notes to the financial statements are an integral part of this statement.

Johnston Community College Foundation, Inc.
Statement of Activities
For the Fiscal Year Ended June 30, 2009

Exhibit B-2

CHANGES IN UNRESTRICTED NET ASSETS

Revenues and Gains:	
Contributions	\$ 32,329.00
Noncash Contributions	2,528.00
Golf Tournament	55,030.00
Special Events	16,537.00
Interest and Dividends	4,020.00
	<hr/>
Total Unrestricted Revenues and Gains	110,444.00
Net Assets Released from Restrictions	385,001.00
	<hr/>
Total Unrestricted Revenues, Gains, and Other Support	495,445.00
	<hr/>
Expenses and Losses:	
Program Services	
Scholarships	180,826.00
Mini Grants	4,781.00
Special Events	85,491.00
Administration	
Salary and Benefits	25,564.00
Contracted Services	8,629.00
Office Supplies	132.00
Printing and Binding	80.00
Public Relations	2,799.00
Travel/Workshops	632.00
Board Meetings	885.00
Postage	331.00
Direct Institutional Support	15,000.00
Credit Card Fees	89.00
Noncash Expense	101,060.00
Golf Tournament	23,878.00
	<hr/>
Total Expenses	450,177.00
	<hr/>
Increase in Unrestricted Net Assets	45,268.00
	<hr/>

CHANGES IN TEMPORARILY RESTRICTED NET ASSETS

Contributions	77,925.00
Noncash Contributions	127,126.00
Golf Tournament	5,500.00
Special Events	91,060.00
Interest and Dividends	118,443.00
Net Assets Released from Restrictions	(385,001.00)
	<hr/>
Increase in Temporarily Restricted Net Assets	35,053.00
	<hr/>

Johnston Community College Foundation, Inc.
Statement of Activities
For the Fiscal Year Ended June 30, 2009

Exhibit B-2
Page 2

CHANGES IN PERMANENTLY RESTRICTED NET ASSETS

Revenues and Gains:	
Contributions	62,713.00
Golf Tournament	2,500.00
Miscellaneous Income	97,376.00
Investment Losses	<u>(13,525.00)</u>
Total Permanently Restricted Revenues and Gains	149,064.00
Expenses	
Change in Fair Market Value of Investments	<u>395,019.00</u>
Decrease in Permanently Restricted Net Assets	<u>(245,955.00)</u>
Decrease in Net Assets	(165,634.00)
Net Assets at Beginning of Year	<u>4,423,344.00</u>
Net Assets at End of Year	<u><u>\$ 4,257,710.00</u></u>

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

JOHNSTON COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009

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. Johnston Community College is a component unit of the State of North Carolina and an integral part of the State's *Comprehensive Annual Financial Report*.

The accompanying financial statements present all funds of the College and its component unit for which the College's Board of Trustees is financially accountable. The College's component unit is discretely presented in the College's financial statements. The discretely presented component unit's financial data is reported in separate financial statements because of its use of different GAAP reporting models and to emphasize its legal separateness.

Discretely Presented Component Unit - Johnston Community College Foundation, Inc. (Foundation) is a legally separate not-for-profit corporation and is reported as a discretely presented component unit based on the nature and significance of its relationship to the College. The Foundation 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 33 members. 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 Johnston Community College Foundation, Inc. is a private not-for-profit organization that reports its financial results under Financial Accounting Standards Board (FASB) Statements. As such, certain

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 2009, the Foundation distributed \$296,886.21 to the College for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from Johnston Community College Foundation, Inc. P O Box 2350, Smithfield, NC 27577.

- B. Basis of Presentation** - The accompanying financial statements are presented in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

Pursuant to the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended by GASB Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities*, the full scope of the College's activities is considered to be a single business-type activity and accordingly, is reported within a single column in the basic financial statements.

In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the College does not apply Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless the GASB amends its pronouncements to specifically adopt FASB pronouncements issued after that date.

- C. Basis of Accounting** - The financial statements of the College have been prepared using the economic resource measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred, regardless of the timing of the cash flows.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- D. Cash and Cash Equivalents** - This classification includes undeposited receipts, petty cash, cash on deposit with private bank accounts, and deposits held by the State Treasurer in the short-term investment fund. The short-term investment fund maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.
- E. Receivables** - Receivables consist of tuition and fees charged to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from the federal government, State and local governments, and private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants. Receivables are recorded net of estimated uncollectible amounts.
- F. Inventories** - Inventories, consisting of expendable supplies and merchandise for resale, are valued at cost using the first-in, first-out 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.
- The College capitalizes assets that have a value or cost in excess of \$5,000 at the date of acquisition and an estimated useful life of more than one year. Library books are generally not considered to have a useful life of more than one year unless part of a collection and are expensed in the year of acquisition.
- Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 50 to 75 years for general infrastructure, 30 to 70 years for buildings, and 5 to 50 years for equipment.
- H. Restricted Assets** - Certain resources are reported as restricted assets because restrictions on asset use change the nature or normal understanding of the availability of the asset. Resources that are not available for current operations and are reported as restricted include resources restricted or designated for the acquisition or construction of capital assets and resources whose use is limited by external parties or statute.
- I. Noncurrent Long-Term Liabilities** - Noncurrent long-term liabilities include capital lease obligations and compensated absences that will not be paid within the next fiscal year.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- J. Compensated Absences** - The College's policy is to record the cost of vacation leave when earned. The policy provides for a maximum accumulation of unused vacation leave of 30 days which can be carried forward each January 1 or for which an employee can be paid upon termination of employment. When classifying compensated absences into current and noncurrent, leave is considered taken using a last-in, first-out (LIFO) method. Also, any accumulated vacation leave in excess of 30 days at year-end is converted to sick leave. Under this policy, the accumulated vacation leave for each employee at June 30 equals the leave carried forward at the previous December 31 plus the leave earned, less the leave taken between January 1 and June 30.

In addition to the vacation leave described above, compensated absences include the accumulated unused portion of the special annual leave bonuses awarded by the North Carolina General Assembly. The bonus leave balance on December 31 is retained by employees and transferred into the next calendar year. It is not subject to the limitation on annual leave carried forward described above and is not subject to conversion to sick leave.

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

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

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

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

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

Restricted and unrestricted resources are tracked using a fund accounting system and are spent in accordance with established fund authorities. Fund authorities provide rules for the fund activity and are separately established for restricted and unrestricted activities. When both restricted and unrestricted funds are available for expenditure, the decision for

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

funding is transactional based within the departmental management system in place at the College.

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

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

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

N. Internal Sales Activities - Certain institutional auxiliary operations provide goods and services to College departments, as well as to its customers. These institutional auxiliary operations include activities such as central stores, print shop, and postal services. In addition, the College has other miscellaneous sales and service units that operated either on a reimbursement or charge basis. All internal sales activities to College departments from auxiliary operations and sales and service units have been eliminated in the accompanying financial statements. These

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

eliminations are recorded by removing the revenue and expense in the auxiliary operations and sales and service units and, if significant, allocating any residual balances to those departments receiving the goods and services during the year.

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

NOTE 2 - DEPOSITS AND INVESTMENTS

All funds of the College are deposited in board-designated official depositories and are required to be collateralized in accordance with *North Carolina General Statute* 115D-58.7. Official depositories may be established with any bank or savings and loan association whose principal office is located in North Carolina. Also, the College may establish time deposit accounts, money market accounts, and certificates of deposit. The amount shown on the Statement of Net Assets as cash and cash equivalents includes cash on hand totaling \$1,600.00, and deposits in private financial institutions with a carrying value of \$1,165,040.24 and a bank balance of \$1,247,111.77.

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, 2009, the College's bank balance in excess of federal depository insurance coverage was covered under the pooling method.

The College is authorized to invest idle funds as provided by G.S. 115D-58.6. In accordance with this statute, the College and the Board of Trustees manage investments to ensure they can be converted into cash when needed.

Generally, funds belonging to the College may be invested in the form of investments pursuant to G.S. 159-30(c), as follows: a commingled investment

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

pool established and administered by the State Treasurer pursuant to G.S. 147-69.3, obligations of or fully guaranteed by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain nonguaranteed federal agencies; prime quality commercial paper bearing specified ratings and banker's acceptances; The North Carolina Capital Management Trust, an SEC registered mutual fund; repurchase agreements; and evidences of ownership of, or fractional undivided interests in, future interest and principal payments on either direct obligations of or fully guaranteed by the United States government, which are held by a specified bank or trust company or any state in the capacity.

At June 30, 2009, the amount shown on the Statement of Net Assets as cash and cash equivalents includes \$1,617,063.92 which represents the College's equity position in the State Treasurer's Short-Term Investment Fund. The Short-Term Investment Fund (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission and does not have a credit rating) had a weighted average maturity of 1.8 years as of June 30, 2009. Assets and shares of the Short-Term Investment Fund are valued at amortized cost, which approximates fair value. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's Short-Term Investment Fund) are included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.ncosc.net/> and clicking on "Proceed directly to OSC's index page," then "Reports," or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

Component Units - Investments of the College's discretely presented component unit, Johnston Community College Foundation, Inc., is subject to and restricted by G.S. 36E "Uniform Prudent Management of Institutional Funds Act" (UPMIFA) and any requirements placed on them by contract or donor agreements. Because the Foundation reports under the FASB reporting model, disclosures of the various investment risks are not required. The following is an analysis of investments not held by the College by type:

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Investment Type	Cost	Fair Value
Unrestricted:		
BB&T Investments	\$ 927.00	\$ 614.00
First Citizens Investment	835.00	557.00
Edward Jones	85.00	62.00
Certificate of Deposits	967.00	967.00
Total Unrestricted	\$ 2,814.00	\$ 2,200.00
Permanently Restricted:		
NC State Treasurer	\$ 1,715,669.00	\$ 1,715,669.00
BB&T Investments	873,929.00	579,018.00
Fidelity Magellan	869,940.00	580,215.00
First Citizens Investment	46,241.00	33,830.00
Edward Jones	4,150.00	3,050.00
Certificate of Deposits	226,201.00	226,201.00
Total Permanently Restricted	\$ 3,736,130.00	\$ 3,137,983.00

NOTE 3 - RECEIVABLES

Receivables at June 30, 2009, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	\$ 901,712.46	\$ 380,447.73	\$ 521,264.73
Accounts	137,964.29	24,296.29	113,668.00
Intergovernmental	718,557.72	101.87	718,455.85
Total Current Receivables	\$ 1,758,234.47	\$ 404,845.89	\$ 1,353,388.58
Notes Receivable - Current:			
Institutional Student Loan Programs	\$ 27,654.68	\$ 8,743.34	\$ 18,911.34

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 4 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2009, is presented as follows:

	Balance July 1, 2008	Increases	Decreases	Balance June 30, 2009
Capital Assets, Nondepreciable:				
Land	\$ 5,456,219.54	\$ 0.00	\$ 0.00	\$ 5,456,219.54
Construction in Progress	531,523.80	5,657,069.62	160,444.84	6,028,148.58
Total Capital Assets, Nondepreciable	5,987,743.34	5,657,069.62	160,444.84	11,484,368.12
Capital Assets, Depreciable:				
Buildings	35,877,154.84	160,444.84		36,037,599.68
Machinery and Equipment	5,270,685.94	673,465.49	238,788.79	5,705,362.64
General Infrastructure	4,061,753.50	58,118.40		4,119,871.90
Total Capital Assets, Depreciable	45,209,594.28	892,028.73	238,788.79	45,862,834.22
Less Accumulated Depreciation/Amortization for:				
Buildings	7,020,150.89	733,278.81		7,753,429.70
Machinery and Equipment	2,173,830.35	246,944.63	104,868.74	2,315,906.24
General Infrastructure	842,733.28	79,148.50		921,881.78
Total Accumulated Depreciation	10,036,714.52	1,059,371.94	104,868.74	10,991,217.72
Total Capital Assets, Depreciable, Net	35,172,879.76	(167,343.21)	133,920.05	34,871,616.50
Capital Assets, Net	\$ 41,160,623.10	\$ 5,489,726.41	\$ 294,364.89	\$ 46,355,984.62

NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2009, were as follows:

	Amount
Accounts Payable	\$ 667,698.54
Accrued Payroll	75,207.33
Contract Retainage	232,586.56
Intergovernmental Payables	15,319.18
Total Accounts Payable and Accrued Liabilities	\$ 990,811.61

NOTE 6 - LONG-TERM LIABILITIES

A summary of changes in the long-term liabilities for the year ended June 30, 2009, is presented as follows:

	Balance July 1, 2008	Additions	Reductions	Balance June 30, 2009	Current Portion
Capital Leases Payable	\$ 880,331.02	\$ 0.00	\$ 156,239.62	\$ 724,091.40	\$ 165,577.90
Compensated Absences	1,761,989.52	826,020.05	736,001.40	1,852,008.17	125,936.56
Total Long-Term Liabilities	\$ 2,642,320.54	\$ 826,020.05	\$ 892,241.02	\$ 2,576,099.57	\$ 291,514.46

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 7 - CAPITAL LEASE OBLIGATIONS

Capital lease obligations relating to building renovations for energy savings 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, 2009:

<u>Fiscal Year</u>	<u>Amount</u>
2010	\$ 208,856.06
2011	208,856.06
2012	208,856.06
2013	<u>208,856.06</u>
Total Minimum Lease Payments	835,424.24
Amount Representing Interest (5.976% Rate of Interest)	<u>111,332.84</u>
Present Value of Future Lease Payments	<u><u>\$ 724,091.40</u></u>

Building renovations for energy savings acquired under capital lease amounted to \$1,479,052.86 at June 30, 2009.

NOTE 8 - REVENUES

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

	<u>Gross Revenues</u>	<u>Internal Sales Eliminations</u>	<u>Less Scholarship Discounts</u>	<u>Less Allowance for Uncollectibles</u>	<u>Net Revenues</u>
Operating Revenues:					
Student Tuition and Fees	<u>\$ 3,612,988.41</u>	<u>\$ 0.00</u>	<u>\$ 1,226,581.56</u>	<u>\$ 15,926.78</u>	<u>\$ 2,370,480.07</u>
Sales and Services:					
Sales and Services of Auxiliary Enterprises:					
Bookstore	\$ 1,813,737.66	\$ 0.00	\$ 794,521.10	\$ 0.00	\$ 1,019,216.56
Other	338,201.71	50,387.05			287,814.66
Sales and Services of Education and Related Activities	<u>70,783.44</u>				<u>70,783.44</u>
Total Sales and Services	<u><u>\$ 2,222,722.81</u></u>	<u><u>\$ 50,387.05</u></u>	<u><u>\$ 794,521.10</u></u>	<u><u>\$ 0.00</u></u>	<u><u>\$ 1,377,814.66</u></u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 9 - OPERATING EXPENSES BY FUNCTION

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

	Personal Services	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	\$ 13,445,275.53	\$ 1,330,326.72	\$ 437,224.21	\$ 0.00	\$ 0.00	\$ 0.00	\$ 15,212,826.46
Public Service	126,915.91	17,153.07	275,397.75				419,466.73
Academic Support	1,936,273.11	291,199.51	130,661.93		67,630.36		2,425,764.91
Student Services	1,410,502.76	39,101.73	286,220.35		589.11		1,736,413.95
Institutional Support	3,491,432.74	133,912.77	903,013.23				4,528,358.74
Operations and Maintenance of Plant	1,321,253.48	435,688.78	511,749.14		852,488.99		3,121,180.39
Student Financial Aid	191,268.10	4,029.06	51,680.03	3,394,113.57			3,641,090.76
Auxiliary Enterprises	140,146.01	1,303,903.76	89,093.90				1,533,143.67
Depreciation						1,059,371.94	1,059,371.94
Total Operating Expenses	<u>\$ 22,063,067.64</u>	<u>\$ 3,555,315.40</u>	<u>\$ 2,685,040.54</u>	<u>\$ 3,394,113.57</u>	<u>\$ 920,708.46</u>	<u>\$ 1,059,371.94</u>	<u>\$ 33,677,617.55</u>

NOTE 10 - PENSION PLANS

A. Retirement Plans - Each permanent full-time employee, as a condition of employment, is a member of the Teachers' and State Employees' Retirement System. The Teachers' and State Employees' Retirement System is a cost-sharing multiple-employer defined benefit pension plan established by the State to provide pension benefits for employees of the State, its component units and local boards of education. The plan is administered by the North Carolina State Treasurer.

Benefit and contribution provisions for the Teachers' and State Employees' Retirement System are established by *North Carolina General Statutes* 135-5 and 135-8 and may be amended only by the North Carolina General Assembly. Employer and member contribution rates are set each year by the North Carolina General Assembly based on annual actuarial valuations. For the year ended June 30, 2009, these rates were set at 3.36% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the College had a total payroll of \$18,466,436.14, of which \$15,830,019.05 was covered under the Teachers' and State Employees' Retirement System. Total employer and employee contributions for pension benefits for the year were \$531,888.64 and \$949,801.14, respectively.

Required employer contribution rates for the years ended June 30, 2008, and 2007, were 3.05% and 2.66%, respectively, while employee

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

contributions were 6% each year. The College made 100% of its annual required contributions for the years ended June 30, 2009, 2008, and 2007, which were \$531,888.64, \$448,728.90, and \$363,949.80, respectively.

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

B. Deferred Compensation and Supplemental Retirement Income Plans

- IRC Section 457 Plan - The State of North Carolina offers its permanent employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 through the North Carolina Public Employee Deferred Compensation Plan (the Plan). The Plan permits each participating employee to defer a portion of his or her salary until future years. The deferred compensation is available to employees upon separation from service, death, disability, retirement, or financial hardships if approved by the Board of Trustees of the Plan. The Board, a part of the North Carolina Department of Administration, maintains a separate fund for the exclusive benefit of the participating employees and their beneficiaries, *the North Carolina Public Employee Deferred Compensation Trust Fund*. The Board also contracts with an external third party to perform certain administrative requirements and to manage the trust fund's assets. All costs of administering and funding the Plan are the responsibility of the Plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to \$33,600.06 for the year ended June 30, 2009.

IRC Section 401(k) Plan - All members of the Teachers' and State Employees' Retirement System are eligible to enroll in the Supplemental Retirement Income Plan, a defined contribution plan, created under Internal Revenue Code Section 401(k). All costs of administering the Plan are the responsibility of the Plan participants. The voluntary contributions by employees amounted to \$219,963.06 for the year ended June 30, 2009.

IRC Section 403(b) and 403(b)(7) Plans - Eligible College employees can participate in tax sheltered annuity plans created under Internal Revenue Code Sections 403(b) and 403(b)(7). The employee's eligible contributions, made through salary reduction agreements, are exempt from federal and State income taxes until the annuity is received or the contributions are withdrawn. These plans are exclusively for employees

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

of colleges and certain charitable and other nonprofit institutions. All costs of administering and funding these plans are the responsibility of the Plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to \$4,296.00 for the year ended June 30, 2009.

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 *North Carolina General Statute 135-7* and Chapter 135, Article 3A, of the General Statutes and may be amended only by the North Carolina General Assembly. The Plan does not provide for automatic post-retirement benefit increases.

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

For the current fiscal year the College contributed 4.1% of the covered payroll under the Teachers' and State Employees' Retirement System to the Fund. Required contribution rates for the years ended June 30, 2008, and 2007, were 4.1% and 3.8%, respectively. The College made 100% of its annual required contributions to the Plan for the years ended June 30, 2009, 2008, and 2007, which were \$649,030.78, \$603,209.34,

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

and \$519,928.29, 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.ncosc.net/> and clicking on "Proceed directly to OSC's index page," then "Reports," or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

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

Disability income benefits are funded by actuarially determined employer contributions that are established in the Appropriations Bill by the General Assembly. For the fiscal year ended June 30, 2009, the College made a statutory contribution of .52% of covered payroll under the Teachers' and State Employees' Retirement System to the DIPNC. Required contribution rates for the years ended June 30, 2008, and 2007, were .52% and .52%, respectively. The College made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2009, 2008, and 2007, which were \$82,316.10, \$76,504.60, and \$71,148.08, 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

Tort claims of up to \$1,000,000 are retained under the authority of the State Tort Claims Act. In addition, the State provides excess public officers' and employees' liability insurance up to \$10,000,000 via contract with a private insurance company. The North Carolina Community College System Office pays the premium, based on a composite rate, directly to the private insurer.

Fire and other property losses are covered by the Public School Insurance Fund, a State-administered public entity risk pool. This fund is financed by premiums and interest and retains the risk for the \$10 million deductible per occurrence. Reinsurance is purchased by the fund to cover catastrophic events in excess of the \$10 million deductible. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

State-owned vehicles are covered by liability insurance through a private insurance company and handled by the North Carolina Department of Insurance. The liability limits for losses are \$1,000,000 per claim and \$10,000,000 per occurrence. The community college pays premiums to the North Carolina Department of Insurance for the coverage. Liability insurance for other College-owned vehicles is covered by contracts with private insurance companies.

The College is protected for losses from employee dishonesty and computer fraud for employees paid in whole or in part from State funds. This coverage is with a private insurance company and is handled by the North Carolina Department of Insurance. North Carolina Community College System Office is charged a premium by the private insurance company. Coverage limit is \$5,000,000 per occurrence. The private insurance company pays 90% of each loss less a \$75,000 deductible. This deductible is insured through a private insurance company by the College. The College is protected from losses from county and institutional funds and paid employees by a blanket honesty bond with a private insurance company.

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

The State Board of Community Colleges makes the necessary arrangements to carry out the provisions of the Workers' Compensation Act which are applicable to employees whose wages are paid in whole or in part from State

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 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 construction contracts were \$1,563,499.94 and on other purchases were \$331,883.10 at June 30, 2009.
- B. **Pending Litigation and Claims** - The College is a party to litigation and claims in the ordinary course of its operations. Since it is not possible to predict the ultimate outcome of these matters, no provision for any liability has been made in the financial statements. College management is of the opinion that the liability, if any, for any of these matters will not have a material adverse effect on the financial position of the College.

NOTE 14 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2009, the College implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*.

GASB Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*.

GASB Statement No. 49, requires reporting pollution remediation obligations, including reporting pollution remediation obligations that previously may not have been reported.

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

GASB Statement No. 52, requires reporting land and other real estate held as investments at fair value. This statement amends GASB Statement No. 31 which required endowments to report land and other real estate investments at historical cost.

In addition, beginning with the year ended June 30, 2009, the College reports federal student aid as nonoperating revenue instead of operating revenue. This change was the result of a clarification in the GASB *Comprehensive Implementation Guide*.

NOTE 15 - NET ASSET RESTATEMENT

As of July 1, 2008, net assets as previously reported was restated as follows:

	<u>Amount</u>
July 1, 2008 Net Assets as Previously Reported	\$ 42,187,096.30
Restatement: To Correct an Error in the Compensated Absences Balance Due to a Miscalculation in the Prior Year.	<u>(252,717.72)</u>
July 1, 2008 Net Assets as Restated	<u><u>\$ 41,934,378.58</u></u>

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Beth A. Wood, CPA
State Auditor

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

Board of Trustees
Johnston Community College
Smithfield, North Carolina

We have audited the financial statements of Johnston 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, 2009, which collectively comprise the College's basic financial statements and have issued our report thereon dated April 5, 2010. Our report was modified to include a reference to other auditors.

As discussed in Note 14 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* and Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*, during the year ended June 30, 2009.

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

Internal Control Over Financial Reporting

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control

**INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
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deficiency, or combination of control deficiencies, that adversely affects the College's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the College's financial statements that is more than inconsequential will not be prevented or detected by the College's internal control.

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

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

Compliance and Other Matters

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

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



Beth A. Wood, CPA
State Auditor

April 5, 2010

ORDERING INFORMATION

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

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