



STATE OF NORTH CAROLINA

JOHNSTON COMMUNITY COLLEGE

SMITHFIELD, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2011

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, 2011

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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 E. 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, 2011, 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 black ink that reads "Beth A. Wood".

Beth A. Wood, CPA
State Auditor

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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, 2011, 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.

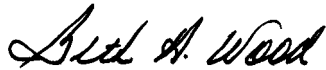
In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of Johnston Community College and its discretely presented component unit as of June 30, 2011, and the respective 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 1, 2012 on our consideration of the College's internal control over financial

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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.



Beth A. Wood, CPA
State Auditor

February 1, 2012

JOHNSTON COMMUNITY COLLEGE MANAGEMENT'S DISCUSSION AND ANALYSIS

The Management Discussion and Analysis for Johnston Community College (College) for fiscal year ended June 30, 2011 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 an 11% growth in net assets during 2011 reflecting a strong financial position. The majority of the growth was the result of capital construction projects which were funded with county bond funds.

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.

Condensed Statement of Net Assets

	2011	Restated 2010	Increase (Decrease)
Assets:			
Current Assets	\$ 5,200,283.95	\$ 5,207,702.86	\$ (7,418.91)
Noncurrent Assets	751,137.82	1,250,536.63	(499,398.81)
Capital Assets, Net	<u>54,097,295.49</u>	<u>48,678,271.99</u>	<u>5,419,023.50</u>
Total Assets	<u>60,048,717.26</u>	<u>55,136,511.48</u>	<u>4,912,205.78</u>
Liabilities:			
Current Liabilities	2,556,861.91	2,713,988.99	(157,127.08)
Noncurrent Liabilities	<u>1,391,034.06</u>	<u>1,748,172.87</u>	<u>(357,138.81)</u>
Total Liabilities	<u>3,947,895.97</u>	<u>4,462,161.86</u>	<u>(514,265.89)</u>
Net Assets:			
Invested in Capital Assets	53,714,256.30	48,119,758.49	5,594,497.81
Net of Related Debt			
Restricted - Expendable	1,309,514.93	1,811,942.37	(502,427.44)
Unrestricted	<u>1,077,050.06</u>	<u>742,648.76</u>	<u>334,401.30</u>
Total Net Assets	<u>\$ 56,100,821.29</u>	<u>\$ 50,674,349.62</u>	<u>\$ 5,426,471.67</u>

Assets

Current assets include cash, receivables, and inventories. Current assets decreased by \$7,418.91 in 2011 compared to 2010.

Noncurrent assets decreased mainly due to a decrease of \$318,702.47 in Due from Primary Government. The College was able to draw more money for construction projects from the NC Community College System's office during 2010. The College received no additional allotments from the State for 2011. There was also a note receivable for \$180,696.34 in 2010 related to the Art Gallery renovation that was not present in 2011.

Net capital assets increased in the amount of \$5,419,023.50 due to construction activity for the library building that was near completion at June 30, 2011.

Liabilities

Current liabilities decreased mainly as the result of accounts payable decreasing by \$284,597.28 due to fewer payables outstanding at year end and contract retainage increasing \$130,875.27 due to the library project being near completion.

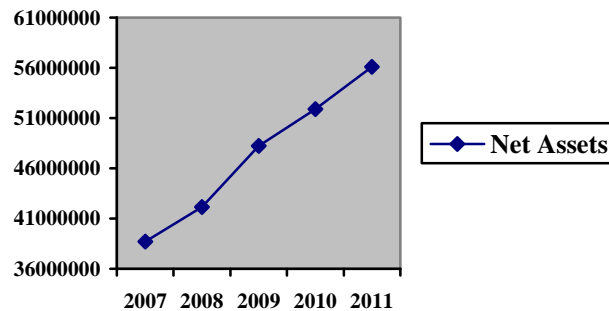
Noncurrent liabilities decreased \$357,138.81 mainly due to having only two years remaining on the capital lease and a reduction in employees which reduced compensated absences.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Net Assets

Net assets are a measure of the value of the College's assets after liabilities and depreciation are deducted. The College's overall net assets increased \$5,426,471.67 in 2011. Investment in capital assets increased \$5,594,497.81 and restricted - expendable net assets decreased \$502,427.44 due mainly to the construction and near completion of the library building. Unrestricted net assets increased \$334,401.30 mainly due a reduction in employees which reduced the payable related to compensated absences, as explained above. The remaining increase is related to a decrease in accounts payable due to fewer payables outstanding at year end.

The College's net assets have increased an average of 9% over the past 5 years.



MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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

	2011	Restated 2010	Increase (Decrease)
Operating Revenues:			
Student Tuition and Fees, Net	\$ 3,010,995.70	\$ 3,024,320.85	\$ (13,325.15)
Grants and Contracts	1,437,898.72	1,771,073.86	(333,175.14)
Sales and Services, Net	1,370,209.55	1,469,112.38	(98,902.83)
Other Operating Revenue	78.00	250.00	(172.00)
Total Operating Revenues	5,819,181.97	6,264,757.09	(445,575.12)
Operating Expenses:			
Salaries and Benefits	22,339,049.58	22,630,101.41	(291,051.83)
Supplies and Materials	4,829,686.84	4,258,218.83	571,468.01
Services	3,437,765.73	2,913,537.02	524,228.71
Scholarships and Fellowships	4,551,817.49	4,062,677.60	489,139.89
Utilities	969,886.40	1,013,748.23	(43,861.83)
Depreciation	1,357,147.49	1,175,113.90	182,033.59
Total Operating Expenses	37,485,353.53	36,053,396.99	1,431,956.54
Operating Loss	(31,666,171.56)	(29,788,639.90)	(1,877,531.66)
Nonoperating Revenues:			
State Aid	17,161,886.00	17,416,118.28	(254,232.28)
County Appropriations	3,926,501.59	4,082,385.53	(155,883.94)
Noncapital Grants - Student Financial Aid	8,507,656.09	6,396,565.05	2,111,091.04
Other Nonoperating Revenues	944,794.85	824,275.19	120,519.66
Nonoperating Revenues	30,540,838.53	28,719,344.05	1,821,494.48
State Capital Aid	2,332,816.58	885,732.04	1,447,084.54
County Capital Aid	4,006,276.29	2,759,659.21	1,246,617.08
Capital Grants	200,711.83	209,995.21	(9,283.38)
Capital Gifts	12,000.00	103,325.00	(91,325.00)
Increase in Net Assets	5,426,471.67	2,889,415.61	2,537,056.06
Net Assets - July 1 (Restated)	50,674,349.62	47,784,934.01	2,889,415.61
Net Assets - June 30	\$ 56,100,821.29	\$ 50,674,349.62	\$ 5,426,471.67

Operating Revenues

Operating revenues include student tuition and fees (net of scholarship discount), state, local, and private grants, revenue received from sales and services, and other operating revenue. Contracts and grants decreased \$333,175.14 mainly due to a decrease in state grants. The College did not receive the NC EARN grant in FY 2011. This grant was \$302,000 in FY 2010. In addition, sales and services, net decreased \$98,902.83 mainly due to an increase in scholarship discounts as the result of more students receiving financial aid.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Nonoperating Revenues

Nonoperating revenues are comprised of state aid for current expense and capital construction, appropriations from Johnston County and proceeds from Johnston County bond issuances. Federal financial aid revenues are also included in nonoperating revenues. Nonoperating revenues experienced an increase of \$1,821,494.48 in 2011 compared to 2010, in part due to federal financial aid increases. The College enrolled more students who were eligible to receive Pell grants and the maximum amount of Pell allowed per student increased by \$200. A decrease in state aid of \$254,232.28 is the result of a management flexibility reduction as well as a 3% reversion. County appropriations decreased \$155,883.94 as local governments were also adversely affected by the State's economic situation.

Other Revenues

State capital aid increased by \$1,447,084.54 in 2011 as a result of an increase in state capital funds for equipment purchases. An increase in county capital aid of \$1,246,617.08 resulted from an increase in bond revenues for the library project.

Operating Expenses

Operating expenses of the College are comprised mainly of the direct cost of personnel and the related fringe benefits. Salaries and benefits decreased by \$291,051.83, in part due to the loss of faculty from our prison education and Huskins programs. The College also had some resignations and retirements of personnel in which the vacated positions were not rehired before the end of the fiscal year. Scholarship and fellowships increased by \$489,139.89. The majority of that increase was the result of an increase in Pell grants awarded to students. The grant amounts have increased and the number of students qualifying for financial aid has also increased because of the increase in unemployment. Supplies and materials increased \$571,468.01 due to the near completion of the library project. Services increased \$524,228.71 due to an increase in contracted personal services due to the loss of full time personnel and several high level interim contracted employees.

Economic Outlook

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 July 2008 with an August 2010 completion date. A new library building is currently under construction with a projected budget of \$8.2 million, also funded with county bond funds. This project was completed Fall 2011. With this bond issue, county voters have approved a total of \$25 million for College construction over the last ten years.

The College takes every opportunity to acquire alternative funding. Alternative funding for 2011 included several sources:

- The Johnston Community College Foundation provided funds to the College in the form of innovation grants totaling \$5,900 for funding faculty/staff educational projects. The Foundation also provided \$30,000 to be used by the College for institutional support.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

- Grants received during 2011 included:
 - Golden Leaf - capital equipment \$200,000
 - Workforce Development Center \$270,000
 - ARRA - facilities improvements \$191,156
 - Glow AM for Engineering \$ 6,200
 - Project Skill-Up \$ 40,000

Johnston Community College
Statement of Net Assets
June 30, 2011

Exhibit A-1

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 2,919,570.77
Restricted Cash and Cash Equivalents	1,022,381.14
Receivables, Net (Note 3)	808,745.94
Inventories	420,604.82
Notes Receivable, (Note 3)	28,981.28
	<hr/>
Total Current Assets	5,200,283.95

Noncurrent Assets:

Restricted Due from Primary Government	711,137.82
Restricted Due from State of North Carolina Component Units	40,000.00
Capital Assets - Nondepreciable (Note 4)	12,705,446.85
Capital Assets - Depreciable, Net (Note 4)	41,391,848.64
	<hr/>
Total Noncurrent Assets	54,848,433.31

Total Assets	<hr/> <hr/> 60,048,717.26
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LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 5)	1,907,810.33
Unearned Revenue	94,766.05
Funds Held for Others	99,814.59
Long-Term Liabilities - Current Portion (Note 6)	454,470.94
	<hr/>
Total Current Liabilities	2,556,861.91

Noncurrent Liabilities:

Long-Term Liabilities (Note 6)	1,391,034.06
	<hr/>

Total Liabilities	3,947,895.97
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NET ASSETS

Invested in Capital Assets, Net of Related Debt	53,714,256.30
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Restricted for:

Expendable:

Scholarships and Fellowships	315,464.32
Loans	134,901.64
Capital Projects	330,041.02
Other	529,107.95

Unrestricted	<hr/> 1,077,050.06
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Total Net Assets	<hr/> <hr/> \$ 56,100,821.29
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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, 2011***

Exhibit A-2

REVENUES

Operating Revenues:	
Student Tuition and Fees, Net (Note 8)	\$ 3,010,995.70
Federal Grants and Contracts	247,040.62
State and Local Grants and Contracts	1,190,858.10
Sales and Services, Net (Note 8)	1,370,209.55
Other Operating Revenues	78.00
	<hr/>
Total Operating Revenues	5,819,181.97
	<hr/>

EXPENSES

Operating Expenses:	
Salaries and Benefits	22,339,049.58
Supplies and Materials	4,829,686.84
Services	3,437,765.73
Scholarships and Fellowships	4,551,817.49
Utilities	969,886.40
Depreciation	1,357,147.49
	<hr/>
Total Operating Expenses	37,485,353.53
	<hr/>
Operating Loss	(31,666,171.56)
	<hr/>

NONOPERATING REVENUES

State Aid	17,161,886.00
County Appropriations	3,926,501.59
Noncapital Grants - Student Financial Aid	8,507,656.09
Noncapital Grants	434,946.33
Noncapital Gifts	1,777.00
Investment Income	25,222.47
Other Nonoperating Revenues	482,849.05
	<hr/>
Nonoperating Revenues	30,540,838.53
	<hr/>
Loss Before Other Revenues	(1,125,333.03)
	<hr/>

State Capital Aid	2,332,816.58
County Capital Aid	4,006,276.29
Capital Grants	200,711.83
Capital Gifts	12,000.00
	<hr/>
Increase in Net Assets	5,426,471.67
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NET ASSETS

Net Assets, July 1, 2010, as Restated (Note 14)	50,674,349.62
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Net Assets, June 30, 2011	\$ 56,100,821.29
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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, 2011

Exhibit A-3
Page 1 of 2

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 5,596,923.73
Payments to Employees and Fringe Benefits	(22,496,246.19)
Payments to Vendors and Suppliers	(9,467,920.02)
Payments for Scholarships and Fellowships	(4,551,817.49)
Collection of Loans to Students	14,408.46
Other Receipts	485,811.91
	<hr/>
Net Cash Used by Operating Activities	(30,418,839.60)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Aid Received	17,161,886.00
County Appropriations	3,926,501.59
Noncapital Grants - Student Financial Aid	8,599,365.40
Noncapital Grants Received	463,733.67
Noncapital Gifts	1,777.00
William D. Ford Direct Lending Disbursements	(12,526.74)
	<hr/>
Net Cash Provided by Noncapital Financing Activities	30,140,736.92

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

State Capital Aid Received	2,651,519.05
County Capital Aid	4,289,049.50
Capital Grants Received	215,187.17
Proceeds from Sale of Capital Assets	48,574.20
Acquisition and Construction of Capital Assets	(6,684,922.08)
Principal Paid on Capital Leases	(175,474.31)
	<hr/>
Net Cash Provided by Capital and Related Financing Activities	343,933.53

CASH FLOWS FROM INVESTING ACTIVITIES

Investment Income	25,222.47
	<hr/>
Cash Provided by Investing Activities	25,222.47

Net Increase in Cash and Cash Equivalents	91,053.32
Cash and Cash Equivalents, July 1, 2010	3,850,898.59
	<hr/>
Cash and Cash Equivalents, June 30, 2011	\$ 3,941,951.91

***Johnston Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2011***

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

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

Operating Loss	\$ (31,666,171.56)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	1,357,147.49
Miscellaneous Nonoperating Income	485,811.91
Changes in Assets and Liabilities:	
Receivables, Net	(206,822.72)
Inventories	54,016.23
Notes Receivable	14,408.46
Accounts Payable and Accrued Liabilities	(296,707.08)
Unearned Revenue	(15,435.52)
Compensated Absences	(145,086.81)
Net Cash Used by Operating Activities	<u>\$ (30,418,839.60)</u>

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	\$ 2,919,570.77
Restricted Cash and Cash Equivalents	<u>1,022,381.14</u>
Total Cash and Cash Equivalents - June 30, 2011	<u>\$ 3,941,951.91</u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through Assumption of a Liability	\$ 278,264.73
Assets Acquired through a Gift	12,000.00
Capital Asset Write-Offs	42,589.48

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, 2011

Exhibit B-1

ASSETS

Cash and Cash Equivalents	\$	2,591,174
Investments		1,658,227
Pledges Receivable/Promises		105,524
Property and Equipment, Net		<u>778,790</u>
Total Assets		<u>5,133,715</u>

LIABILITIES

Accounts Payable and Accrued Expenses		<u>5,900</u>
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NET ASSETS

Unrestricted		99,261
Temporarily Restricted		1,364,137
Permanently Restricted		<u>3,664,417</u>
Total Net Assets	\$	<u>5,127,815</u>

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, 2011

Exhibit B-2

CHANGES IN UNRESTRICTED NET ASSETS

Revenues and Gains:	
Contributions	\$ 26,721
Golf Tournament	59,907
Investment Income	14,848
Interest and Dividends	6,428
Special Events	31,481
	<hr/>
Total Unrestricted Revenues and Gains	139,385
	<hr/>
Net Assets Released from Restrictions:	
Satisfaction of Program Restrictions	130,354
	<hr/>
Total Unrestricted Revenues and Gains	269,739
	<hr/>
Expenses:	
Program Services	167,629
Management and General	32,048
Fund Raising	38,778
	<hr/>
Total Expenses	238,455
	<hr/>
Increase in Unrestricted Net Assets	31,284
	<hr/>

CHANGES IN TEMPORARILY RESTRICTED NET ASSETS

Contributions	219,817
Investment Income	130,828
Interest and Dividends	57,360
Net Assets Released from Restrictions:	
Satisfaction of Program Restrictions	(130,354)
	<hr/>
Increase in Temporarily Restricted Net Assets	277,651
	<hr/>

CHANGES IN PERMANENTLY RESTRICTED NET ASSETS

Contributions	203,396
Investment Income	143,040
	<hr/>
Increase in Permanently Restricted Net Assets	346,436
	<hr/>
Increase in Net Assets	655,371
Net Assets at Beginning of Year	4,472,444
	<hr/>
Net Assets at End of Year	<u><u>\$ 5,127,815</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, 2011

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 is a legally separate, tax-exempt component unit of the College. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the College in support of its programs. The Foundation board consists of 35 members. Although the College does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, which the Foundation holds and invests, is 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 revenue recognition criteria and presentation features are different from

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 2011, the Foundation distributed \$103,644 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 GASB.

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

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

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

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

- D. Cash and Cash Equivalents** - This classification includes undeposited receipts, petty cash, cash on deposit with private bank

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 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 of \$5,000 or greater 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 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

expenditure, the decision for funding is transactional based within the departmental management system in place at the College.

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

activities to College departments from auxiliary operations and sales and service units have been eliminated in the accompanying financial statements. These 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 \$1,910.00, and deposits in private financial institutions with a carrying value of \$1,105,761.13 and a bank balance of \$1,345,192.88.

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, 2011, 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Board of Trustees manage investments to ensure they can be converted into cash when needed.

Generally, funds belonging to the College may be invested in the form of investments pursuant to G.S. 159-30(c), as follows: a commingled investment pool established and administered by the State Treasurer pursuant to G.S. 147-69.3, obligations of or fully guaranteed by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain nonguaranteed federal agencies; prime quality commercial paper bearing specified ratings; specified bills of exchange; and 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.

At June 30, 2011, the amount shown on the Statement of Net Assets as cash and cash equivalents includes \$2,834,280.78 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 1.9 years as of June 30, 2011. Assets and shares of the Short-Term Investment Fund are valued at amortized cost, which approximates fair value. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's Short-Term Investment Fund) are included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.nc.gov/> and clicking on "Proceed directly to OSC's index page," then "Reports," or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

Component Unit - Investments of the College's discretely presented component unit, Johnston Community College Foundation, Inc., are 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 by type:

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Marketable Securities:

Investment Type	Cost	Fair Value
Mutual Funds	\$ 1,846,470	\$ 1,651,619
Stocks and Options	14,801	6,608
Total Marketable Securities	\$ 1,861,271	\$ 1,658,227

NOTE 3 - RECEIVABLES

Receivables at June 30, 2011, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	\$ 640,619.22	\$ 451,509.41	\$ 189,109.81
Accounts	339,979.91		339,979.91
Intergovernmental	279,656.22		279,656.22
Total Current Receivables	\$ 1,260,255.35	\$ 451,509.41	\$ 808,745.94
Notes Receivable - Current:			
Institutional Student Loan Programs	\$ 28,981.28	\$ 0.00	\$ 28,981.28

NOTE 4 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2011, is presented as follows:

	Balance July 1, 2010	Increases	Decreases	Balance June 30, 2011
Capital Assets, Nondepreciable:				
Land	\$ 5,456,219.54	\$ 0.00	\$ 0.00	\$ 5,456,219.54
Construction in Progress	2,174,435.06	5,090,018.86	15,226.61	7,249,227.31
Total Capital Assets, Nondepreciable	7,630,654.60	5,090,018.86	15,226.61	12,705,446.85
Capital Assets, Depreciable:				
Buildings	42,166,207.92	15,226.61		42,181,434.53
Machinery and Equipment	5,824,665.63	1,718,896.19	89,847.29	7,453,714.53
General Infrastructure	5,009,803.69	18,793.00		5,028,596.69
Total Capital Assets, Depreciable	53,000,677.24	1,752,915.80	89,847.29	54,663,745.75
Less Accumulated Depreciation for:				
Buildings	8,549,393.28	850,872.96		9,400,266.24
Machinery and Equipment	2,397,605.45	408,593.39	38,310.23	2,767,888.61
General Infrastructure	1,006,061.12	97,681.14		1,103,742.26
Total Accumulated Depreciation	11,953,059.85	1,357,147.49	38,310.23	13,271,897.11
Total Capital Assets, Depreciable, Net	41,047,617.39	395,768.31	51,537.06	41,391,848.64
Capital Assets, Net	\$ 48,678,271.99	\$ 5,485,787.17	\$ 66,763.67	\$ 54,097,295.49

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2011, were as follows:

	Amount
Accounts Payable	\$ 1,014,807.43
Accrued Payroll	614,648.87
Contract Retainage	278,264.73
Intergovernmental Payables	89.30
Total Accounts Payable and Accrued Liabilities	\$ 1,907,810.33

NOTE 6 - LONG-TERM LIABILITIES

A summary of changes in the long-term liabilities for the year ended June 30, 2011, is presented as follows:

	Balance July 1, 2010	Additions	Reductions	Balance June 30, 2011	Current Portion
Capital Leases Payable	\$ 558,513.50	\$ 0.00	\$ 175,474.31	\$ 383,039.19	\$ 185,962.22
Compensated Absences	1,607,552.62	1,087,529.08	1,232,615.89	1,462,465.81	268,508.72
Total Long-Term Liabilities	\$ 2,166,066.12	\$ 1,087,529.08	\$ 1,408,090.20	\$ 1,845,505.00	\$ 454,470.94

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

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, 2011:

	Fiscal Year	Amount
	2012	\$ 208,856.06
	2013	208,856.06
Total Minimum Lease Payments		417,712.12
Amount Representing Interest (5.976% Rate of Interest)		34,672.93
Present Value of Future Lease Payments		\$ 383,039.19

Building renovations acquired under capital lease amounted to \$1,407,773.20 at June 30, 2011.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Depreciation for the capital assets associated with capital leases is included in depreciation expense.

NOTE 8 - REVENUES

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

	Gross Revenues	Internal Sales Eliminations	Less Scholarship Discounts	Less Allowance for Uncollectibles	Net Revenues
Operating Revenues:					
Student Tuition and Fees	\$ 6,099,488.22	\$ 0.00	\$ 2,980,356.49	\$ 108,136.03	\$ 3,010,995.70
Sales and Services:					
Sales and Services of Auxiliary Enterprises:					
Bookstore	\$ 2,572,950.46	\$ 0.00	\$ 1,782,956.12	\$ 0.00	\$ 789,994.34
Other	522,082.47	87,251.30			434,831.17
Sales and Services of Education and Related Activities	145,384.04				145,384.04
Total Sales and Services	\$ 3,240,416.97	\$ 87,251.30	\$ 1,782,956.12	\$ 0.00	\$ 1,370,209.55

NOTE 9 - OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	\$ 13,550,744.94	\$ 1,909,018.13	\$ 745,212.69	\$ 0.00	\$ 0.00	\$ 0.00	\$ 16,204,975.76
Public Service	238,249.52	23,174.35	385,462.30				646,886.17
Academic Support	1,926,135.55	166,470.39	101,809.32		67,672.75		2,262,088.01
Student Services	1,507,123.79	60,295.25	327,604.07	32,960.00	106.01		1,928,089.12
Institutional Support	3,477,040.28	142,360.11	1,060,876.80				4,680,277.19
Operations and Maint. of Plant	1,234,751.53	309,663.68	505,731.55		902,107.64		2,952,254.40
Student Financial Aid	208,182.01	8,207.73	164,001.92	4,518,857.49			4,899,249.15
Auxiliary Enterprises	196,821.96	2,210,497.20	147,067.08				2,554,386.24
Depreciation						1,357,147.49	1,357,147.49
Total Operating Expenses	\$ 22,339,049.58	\$ 4,829,686.84	\$ 3,437,765.73	\$ 4,551,817.49	\$ 969,886.40	\$ 1,357,147.49	\$ 37,485,353.53

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 2011, these rates were set at 4.93% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the College had a total payroll of \$18,447,605.80, of which \$15,245,759.89 was covered under the Teachers' and State Employees' Retirement System. Total employer and employee contributions for pension benefits for the year were \$751,615.96 and \$914,745.59, respectively.

Required employer contribution rates for the years ended June 30, 2010, and 2009, were 3.57% and 3.36%, respectively, while employee contributions were 6% each year. The College made 100% of its annual required contributions for the years ended June 30, 2011, 2010, and 2009, which were \$751,615.96, \$563,826.39, and \$531,888.64, respectively.

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

- B. Deferred Compensation 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 \$27,900.08 for the year ended June 30, 2011.

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 \$293,933.28 for the year ended June 30, 2011.

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 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 \$2,166.00 for the year ended June 30, 2011.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

For the current fiscal year, the College contributed 4.9% of the covered payroll under the Teachers' and State Employees' Retirement System to the Fund. Required contribution rates for the years ended June 30, 2010, and 2009, were 4.5% and 4.1%, respectively. The College made 100% of its annual required contributions to the Plan for the years ended June 30, 2011, 2010, and 2009, which were \$747,042.23, \$710,705.53, and \$649,030.78, respectively. The College assumes no liability for retiree health care benefits provided by the programs other than its required contribution.

Additional detailed information about these programs can be located in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.nc.gov/> and clicking on "Reports," or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

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

Disability income benefits are funded by actuarially determined employer contributions that are established by the General Assembly. For the fiscal year ended June 30, 2011, the College made a statutory contribution of .52% of covered payroll under the Teachers' and State Employees' Retirement System to the DIPNC. Required contribution

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

rates for the years ended June 30, 2010, and 2009, were .52% and .52%, respectively. The College made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2011, 2010, and 2009, which were \$79,277.95, \$82,125.97, and \$82,316.10, respectively. The College assumes no liability for long-term disability benefits under the Plan other than its contribution.

Additional detailed information about the DIPNC is disclosed in the State of North Carolina's *Comprehensive Annual Financial Report*.

NOTE 12 - RISK MANAGEMENT

The College is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These exposures to loss are handled via a combination of methods, including participation in State-administered insurance programs, purchase of commercial insurance, and self-retention of certain risks. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

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

Fire and other property losses are covered by the Public School Insurance Fund, 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. Property is covered under an all risk coverage contract. Building and contents are valued under a replacement cost basis. No coinsurance penalties apply. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 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 discretely presented component unit of the State of North Carolina. The Plan is funded by employer and employee contributions. The Plan has contracted with third parties to process claims.

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

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

Additional details on the State-administered risk management programs are disclosed in the State's *Comprehensive Annual Financial Report*, issued by the Office of the State Controller.

NOTE 13 - COMMITMENTS

The College has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were \$412,178.53 and on other purchases were \$553,383.29 at June 30, 2011.

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

NOTE 14 - NET ASSET RESTATEMENTS

As of July 1, 2010, net assets as previously reported were restated as follows:

	<u>Amount</u>
July 1, 2010 Net Assets as Previously Reported	\$ 51,881,644.73
Restatements:	
To correct error in posting fall tuition revenue in the prior year	(1,694,381.40)
To correct error in accruing August 2010 payroll	<u>487,086.29</u>
July 1, 2010 Net Assets as Restated	<u>\$ 50,674,349.62</u>



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, 2011, which collectively comprise the College's basic financial statements and have issued our report thereon dated February 1, 2012. Our report was modified to include a reference to other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of Johnston Community College Foundation, Inc. as described in our report on the College's financial statements. The financial statements of Johnston Community College Foundation, Inc. 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 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.

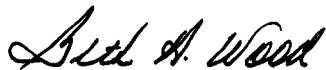
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Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be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

Compliance and Other Matters

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

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



Beth A. Wood, CPA
State Auditor

February 1, 2012

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