

STATE OF NORTH CAROLINA

JOHNSTON COMMUNITY COLLEGE

SMITHFIELD, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2013

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, 2013

STATE BOARD OF COMMUNITY COLLEGES

THE NORTH CAROLINA COMMUNITY COLLEGE SYSTEM

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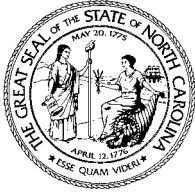
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Beth A. Wood, CPA
State Auditor

STATE OF NORTH CAROLINA
Office of the State Auditor

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AUDITOR'S TRANSMITTAL

The Honorable Pat McCrory, 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, 2013, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

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

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

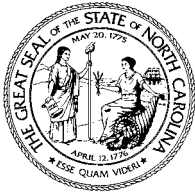
A handwritten signature in cursive script that reads "Beth A. Wood".

Beth A. Wood, CPA
State Auditor

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Office of the State Auditor



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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Johnston Community College
Smithfield, North Carolina

Report on the Financial Statements

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, 2013, and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Johnston Community College Foundation, Inc., the College's discretely presented component unit. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Johnston Community College Foundation, Inc., is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of Johnston Community College Foundation, Inc. were not audited in accordance with *Government Auditing Standards*.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

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

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

Opinions

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of Johnston Community College, and its discretely presented component unit, as of June 30, 2013, and the changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters – Required Supplementary Information

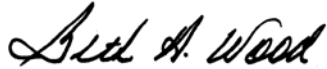
Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 4, 2014 on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control over financial reporting and compliance.



Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

February 4, 2014

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JOHNSTON COMMUNITY COLLEGE MANAGEMENT'S DISCUSSION AND ANALYSIS

The Management Discussion and Analysis for Johnston Community College (College) for the fiscal year ended June 30, 2013 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 Position; Statement of Revenues, Expenses, And Changes in Net Position; and Statement of Cash Flows.

- The Statement of Net Position presents the College's assets and liabilities with differences being reported as net position. Net position reflects the differences in revenues and expenses over the life of the College. The review of a comparison of net position 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 Position displays revenue and expense activities of the College. The net effect of revenues and expenses rolls into net position 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 slight decrease (1.34%) in net position during 2013. The majority of the decrease was the result of a decrease in bookstore inventory due to the anticipation of contracting the bookstore to Barnes & Noble College, Inc. on July 1, 2013 and a 2% decrease in unduplicated student enrollment, which affected the revenues received from tuition and fees and financial aid.

Statement of Net Position

The Statement of Net Position 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 position for the College represents the difference between assets and liabilities.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

A condensed Statement of Net Position with comparative figures is presented below.

Condensed Statement of Net Position

	2013	2012	Increase (Decrease)
Assets:			
Current Assets	\$ 5,915,874.31	\$ 6,272,261.95	\$ (356,387.64)
Noncurrent Assets	837,740.82	727,397.34	110,343.48
Capital Assets, Net	53,290,407.92	53,944,489.20	(654,081.28)
Total Assets	<u>60,044,023.05</u>	<u>60,944,148.49</u>	<u>(900,125.44)</u>
Liabilities:			
Current liabilities	1,486,768.96	1,684,856.66	(198,087.70)
Noncurrent Liabilities	1,300,499.81	1,222,757.63	77,742.18
Total Liabilities	<u>2,787,268.77</u>	<u>2,907,614.29</u>	<u>(120,345.52)</u>
Net Position:			
Net Investment in Capital Assets	53,290,407.92	53,747,412.23	(457,004.31)
Restricted - Expendable	2,146,092.70	1,746,619.48	399,473.22
Unrestricted	1,820,253.66	2,542,502.49	(722,248.83)
Total Net Position	<u>\$ 57,256,754.28</u>	<u>\$ 58,036,534.20</u>	<u>\$ (779,779.92)</u>

Assets

Current assets include cash, receivables, and inventories. Current assets decreased by \$356,387.64 in 2013 compared to 2012. During 2013, inventory decreased in the amount of \$289,065.52 with the majority of that decrease coming from bookstore inventory. Bookstore inventory was consciously decreased due to the planned transition from a college-owned bookstore to a contracted bookstore.

Noncurrent assets increased by a total of \$110,343.48. This was due to an increase of \$275,000 in Restricted Due from State of NC Component Units and a decrease of \$181,293.60 in Restricted Due from Primary Government. The College was awarded a PRIME grant in the amount of \$275,000 from the Golden Leaf Foundation in 2013 for the purchase of machinery to be used in the Computer Integrated Machining Technology curriculum program. The decrease in Restricted Due from Primary Government is due to the receipt of funds from the North Carolina Community College System Office for four completed capital improvement projects.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

The following schedule compares capital assets for the fiscal years 2013 and 2012, net of accumulated depreciation:

	<u>2013</u>	<u>2012</u>	<u>Increase (Decrease)</u>
Land	\$ 5,456,219.54	\$ 5,456,219.54	\$ 0.00
Construction in Progress	135,679.10	105,850.00	29,829.10
Buildings	38,828,163.97	39,609,399.83	(781,235.86)
Machinery and Equipment	5,131,091.70	4,945,999.36	185,092.34
General Infrastructure	<u>3,739,253.61</u>	<u>3,827,020.47</u>	<u>(87,766.86)</u>
Total Capital Assets, Net	<u>\$ 53,290,407.92</u>	<u>\$ 53,944,489.20</u>	<u>\$ (654,081.28)</u>

Net capital assets decreased in the amount of \$654,081.28 during 2013. As shown by the schedule above, this was mainly due to a net decrease in the value of Buildings and a net increase in the value of machinery and equipment. Four small capital projects were completed during the year that resulted in \$227,399.36 being added to the value of buildings; however, the depreciation recorded against the value of the buildings account was \$1,008,635.22. This resulted in a net decrease of \$781,235.86 for the year. In the machinery and equipment account, new purchases made during the year resulted in an addition of \$855,880.83. The disposal of old, outdated equipment resulted in a decrease of \$269,205.99. Depreciation recorded against the value of the machinery and equipment netted to \$401,582.50. These transactions resulted in a net increase of \$185,092.34 for the year.

Liabilities

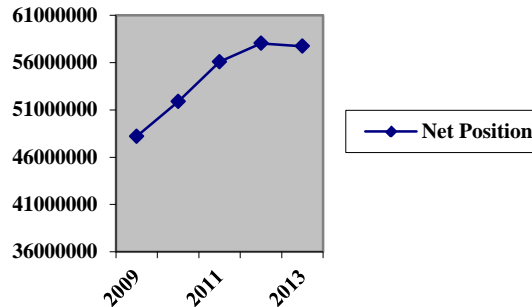
Current liabilities decreased by \$198,087.70 mainly as a result of the completion of a capital lease payable during 2013.

Net Position

Net position is a measure of the value of the College's assets after liabilities and depreciation are deducted. The College's overall net position decreased by \$779,779.92 in 2013. Restricted-expendable net position increased by \$399,473.22 mainly due to the accumulation of capital to replace the roof on the Elsee Building. Unrestricted net position decreased by \$722,248.83 mostly due to the need to cover negative restricted net position with unrestricted funds because of the timing of reimbursements and the decrease in bookstore inventory as noted above.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

The College's net position has steadily increased over the past 4 years on an average of 4.48%, with just a slight dip of 1.34% in 2013.



Results of Operations

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

Statement of Revenues, Expenses, and Changes in Net Position

	2013	2012	Increase (Decrease)
Operating Revenue:			
Student Tuition and Fees, Net	\$ 2,728,539.40	\$ 3,169,828.60	\$ (441,289.20)
Grants and Contracts	1,379,843.75	1,417,402.80	(37,559.05)
Sales and Services, Net	1,627,114.88	1,544,938.27	82,176.61
Total Operating Revenue	5,735,498.03	6,132,169.67	(396,671.64)
Operating Expenses:			
Salaries and Benefits	23,710,687.07	22,668,093.29	1,042,593.78
Supplies and Materials	6,095,690.47	4,908,801.40	1,186,889.07
Services	3,363,893.39	3,570,772.33	(206,878.94)
Scholarships and Fellowships	3,188,627.82	3,717,917.66	(529,289.84)
Utilities	1,124,305.52	974,937.84	149,367.68
Depreciation	1,702,734.57	1,579,153.02	123,581.55
Total Operating Expenses	39,185,938.84	37,419,675.54	1,766,263.30
Operating Loss	(33,450,440.81)	(31,287,505.87)	(2,162,934.94)
Nonoperating Revenues			
State Aid	16,977,588.78	16,368,399.55	609,189.23
County Appropriations	3,786,746.95	3,691,225.79	95,521.16
Noncapital Grants - Student Fin Aid	8,409,534.25	9,323,945.47	(914,411.22)
Other Nonoperating revenues	708,728.20	515,163.67	193,564.53
Net Nonoperating Revenues	29,882,598.18	29,898,734.48	(16,136.30)
State Capital Aid	1,473,010.04	1,679,617.47	(206,607.43)
County Capital Aid	1,009,065.92	1,554,891.69	(545,825.77)
Capital Grants	305,986.75	44,975.14	261,011.61
Capital Gifts		45,000.00	(45,000.00)
Increase (Decrease) in Net Position	(779,779.92)	1,935,712.91	(2,715,492.83)
Net Position - July 1	58,036,534.20	56,100,821.29	1,935,712.91
Net Position - June 30	\$ 57,256,754.28	\$ 58,036,534.20	\$ (779,779.92)

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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 revenues. Student tuition and fees decreased \$441,289.20 over the prior year due in part to a slight decrease in the enrollment. Net sales and services revenues increased by \$82,176.61 mainly due to increased bookstore sales, increased grill sales, and an increase in facilities rental at Howell Woods.

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. Student financial aid revenues experienced a decrease of \$914,411.22 in 2013 compared to 2012, due to the decrease in student enrollment, thus the decrease in students who were eligible to receive the financial aid. The increase in state aid in the amount of \$609,189.23 was in part due to an allowed 1.2% salary increase and an allowance for increased fringe benefits. County appropriations increased by \$95,521.16 due to the county commissioners allotting additional funding for a 1.2% raise for our locally paid employees and higher utility bills due to the new library building that was fully functional for the entire year in 2013.

Other Revenues

State capital aid decreased by \$206,607.43 and county capital aid decreased by \$545,825.77 in 2013 as a result of the campus not having any major construction projects in process during the year. Capital grants increased by \$261,011.61 in large part because of the awarding of the PRIME grant from the Golden Leaf Foundation, Inc.

Operating Expenses

Operating expenses of the College are comprised mainly of the direct cost of personnel and related fringe benefits. Salaries and benefits increased by \$1,042,593.78 due to a 1.2% salary increase of all personnel and the increase of the related fringe benefits. Scholarships and fellowships decreased by \$529,289.84. The majority of this decrease was due mainly to the above-noted decrease in student enrollment, which leads to fewer financial aid awards that could be used to pay for expenses to attend school. Supplies and materials expense increased by \$1,186,889.07 in large part due to the completion of the Wilson Building roof replacement.

Economic Outlook

The major sources of funding for Johnston Community College are from the State of North Carolina and Johnston County. State aid and county appropriations constituted 61% of total revenues for the College in 2013. In the 2014 budget year, the College expects a slight decrease to the state-mandated management flexibility reduction. However, due to an approximate 3% decrease in student FTE in 2013, the College is expecting a decrease in state appropriations overall. County appropriations are expected to remain stable for the next fiscal year.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

During the upcoming year, the College is planning to replace the roof on the Elsee Building and begin several other minor renovation projects which will improve and update the College facilities.

Johnston Community College takes every opportunity to acquire alternative funding to help support the mission and strategic goals of the College. Alternative funding for 2013 included several sources:

- The Johnston Community College Foundation provided funds to the College in the form of innovation grants for funding faculty/staff educational projects, scholarships, institutional support, and other support totaling \$485,253 during 2013.
- Grants received from the following during 2013:
 - Workforce Development Center \$321,600
 - Partnership Realizing Impact on
Manufacturing Economy (PRIME) \$275,000
 - New Generation \$ 46,123
 - Project Skill-up \$ 25,000
 - Minority Male Mentoring \$ 24,656

Johnston Community College
Statement of Net Position
June 30, 2013

Exhibit A-1

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 2,918,226.73
Restricted Cash and Cash Equivalents	1,228,022.94
Receivables, Net (Note 3)	1,033,900.58
Inventories	662,853.74
Notes Receivable, Net (Note 3)	<u>72,870.32</u>
Total Current Assets	<u>5,915,874.31</u>

Noncurrent Assets:

Restricted Cash and Cash Equivalents	478,533.90
Restricted Due from Primary Government	44,206.92
Restricted Due from State of North Carolina Component Units	315,000.00
Capital Assets - Nondepreciable (Note 4)	5,591,898.64
Capital Assets - Depreciable, Net (Note 4)	<u>47,698,509.28</u>
Total Noncurrent Assets	<u>54,128,148.74</u>
Total Assets	<u>60,044,023.05</u>

LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 5)	1,071,469.95
Unearned Revenue	94,655.40
Funds Held for Others	105,939.17
Long-Term Liabilities - Current Portion (Note 6)	<u>214,704.44</u>
Total Current Liabilities	<u>1,486,768.96</u>

Noncurrent Liabilities:

Long-Term Liabilities (Note 6)	<u>1,300,499.81</u>
Total Noncurrent Liabilities	<u>1,300,499.81</u>
Total Liabilities	<u>2,787,268.77</u>

NET POSITION

Investment in Capital Assets	53,290,407.92
Restricted for:	
Expendable:	
Scholarships and Fellowships	187,251.74
Loans	146,508.37
Capital Projects	1,014,261.94
Other	798,070.65
Unrestricted	<u>1,820,253.66</u>
Total Net Position	<u>\$ 57,256,754.28</u>

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 Position
For the Fiscal Year Ended June 30, 2013***

Exhibit A-2

REVENUES

Operating Revenues:

Student Tuition and Fees, Net (Note 7)	\$ 2,728,539.40
Federal Grants and Contracts	244,237.54
State and Local Grants and Contracts	1,135,606.21
Sales and Services, Net (Note 7)	1,627,114.88

Total Operating Revenues	5,735,498.03
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EXPENSES

Operating Expenses:

Salaries and Benefits	23,710,687.07
Supplies and Materials	6,095,690.47
Services	3,363,893.39
Scholarships and Fellowships	3,188,627.82
Utilities	1,124,305.52
Depreciation	1,702,734.57

Total Operating Expenses	39,185,938.84
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Operating Loss	(33,450,440.81)
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NONOPERATING REVENUES

State Aid	16,977,588.78
County Appropriations	3,786,746.95
Noncapital Grants - Student Financial Aid	8,409,534.25
Noncapital Grants	350,669.39
Noncapital Gifts, Net (Note 7)	10,697.85
Investment Income	14,980.15
Other Nonoperating Revenues	332,380.81

Nonoperating Revenues	29,882,598.18
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Loss Before Other Revenues	(3,567,842.63)
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State Capital Aid	1,473,010.04
County Capital Aid	1,009,065.92
Capital Grants	305,986.75

Decrease in Net Position	(779,779.92)
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NET POSITION

Net Position, July 1, 2012	58,036,534.20
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Net Position, June 30, 2013	\$ 57,256,754.28
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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, 2013

Exhibit A-3
Page 1 of 2

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 5,492,686.41
Payments to Employees and Fringe Benefits	(23,609,492.09)
Payments to Vendors and Suppliers	(10,353,157.70)
Payments for Scholarships and Fellowships	(3,188,627.82)
Loans Issued to Students	(83,723.28)
Collection of Loans to Students	56,527.85
Other Receipts	371,348.46
	<hr/>
Net Cash Used by Operating Activities	(31,314,438.17)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Aid Received	16,977,588.78
County Appropriations	3,786,746.95
Noncapital Grants - Student Financial Aid	8,409,534.25
Noncapital Grants Received	350,669.39
Noncapital Gifts Received	10,697.85
William D. Ford Direct Lending Receipts	7,402,826.00
William D. Ford Direct Lending Disbursements	(7,402,820.31)
	<hr/>
Net Cash Provided by Noncapital Financing Activities	29,535,242.91

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

State Capital Aid Received	1,654,303.64
County Capital Aid	1,019,525.95
Capital Grants Received	30,986.75
Proceeds from Sale of Capital Assets	12,753.33
Acquisition and Construction of Capital Assets	(1,108,166.74)
Principal Paid on Capital Leases	(197,076.97)
	<hr/>
Net Cash Provided by Capital and Related Financing Activities	1,412,325.96

CASH FLOWS FROM INVESTING ACTIVITIES

Investment Income	14,980.15
	<hr/>
Cash Provided by Investing Activities	14,980.15

Net Decrease in Cash and Cash Equivalents	(351,889.15)
Cash and Cash Equivalents, July 1, 2012	4,976,672.72
	<hr/>
Cash and Cash Equivalents, June 30, 2013	\$ 4,624,783.57

Johnston Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2013

Exhibit A-3
Page 2 of 2

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

Operating Loss	\$ (33,450,440.81)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	1,702,734.57
Miscellaneous Nonoperating Income	394,356.03
Changes in Assets and Liabilities:	
Receivables, Net	(284,468.71)
Inventories	289,065.52
Notes Receivable, Net	(27,195.43)
Accounts Payable and Accrued Liabilities	25,950.76
Unearned Revenue	41,657.09
Funds Held for Others	(23,007.57)
Compensated Absences	16,910.38
	<u>16,910.38</u>
Net Cash Used by Operating Activities	<u>\$ (31,314,438.17)</u>

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	\$ 2,918,226.73
Restricted Cash and Cash Equivalents	1,228,022.94
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	478,533.90
	<u>478,533.90</u>
Total Cash and Cash Equivalents - June 30, 2013	<u>\$ 4,624,783.57</u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through Assumption of a Liability	\$ 15,215.10
Increase in Receivables Related to Nonoperating Income	275,000.00
Loss on Disposal of Capital Assets	(61,975.22)

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, 2013

Exhibit B-1

ASSETS

Cash and Cash Equivalents	\$	963,853
Investments		4,380,929
Accrued Interest		2,585
Pledges Receivable		130,230
Other Assets		2,506
Property and Equipment, Net		<u>778,790</u>
Total Assets		<u>6,258,893</u>

LIABILITIES

Accounts Payable		3,060
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NET ASSETS

Unrestricted		180,887
Temporarily Restricted		1,872,939
Permanently Restricted		<u>4,202,007</u>

Total Net Assets	\$	<u><u>6,255,833</u></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, 2013

Exhibit B-2

CHANGES IN UNRESTRICTED NET ASSETS

Revenues and Gains:	
Contributions	\$ 41,996
Golf Tournament	60,626
Special Events	27,075
Investment Income	13,198
Interest and Dividends	4,062
	<hr/>
Total Unrestricted Revenues and Gains	146,957
	<hr/>
Net Assets Released from Restrictions:	
Satisfaction of Program Restrictions	523,508
	<hr/>
Total Net Assets Released from Restrictions	523,508
	<hr/>
Total Unrestricted Revenues, Gains, and Other Support	670,465
	<hr/>
Expenses and Losses:	
Program Services	561,535
Management and General	29,586
Fund Raising	49,722
	<hr/>
Total Expenses	640,843
	<hr/>
Loss on Uncollectible Pledges	200
	<hr/>
Total Expenses and Losses	641,043
	<hr/>
Increase in Unrestricted Net Assets	29,422
	<hr/>

CHANGES IN TEMPORARILY RESTRICTED NET ASSETS

Contributions	591,213
Investment Income	235,172
Interest and Dividends	71,370
Loss on Uncollectible Pledges	(76,167)
Net Assets Released from Restrictions:	
Satisfaction of Program Restrictions	(523,508)
	<hr/>
Increase in Temporarily Restricted Net Assets	298,080
	<hr/>

CHANGES IN PERMANENTLY RESTRICTED NET ASSETS

Contributions	208,967
	<hr/>
Increase in Permanently Restricted Net Assets	208,967
	<hr/>
Increase in Net Assets	536,469
Net Assets at Beginning of Year	5,719,364
	<hr/>
Net Assets at End of Year	\$ 6,255,833
	<hr/> <hr/>

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

JOHNSTON COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013

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 their use of different GAAP reporting models and to emphasize their legal separateness.

Discretely Presented Component Unit – The Johnston Community College Foundation, Inc. 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 24 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 the Financial Accounting Standards Board (FASB) Codification. 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, 2013, the Foundation distributed \$485,253 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 GASB.

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

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

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

- D. Cash and Cash Equivalents** - This classification includes undeposited receipts, petty cash, cash on deposit with private bank accounts and deposits held by the State Treasurer in the short-term investment fund (STIF). The STIF maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.

- E. Receivables** - Receivables consist of tuition and fees charged to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from the federal government, state and local

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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. Interest costs incurred are capitalized during the period of construction.

The College capitalizes assets that have a value or cost of \$5,000 or greater at the date of acquisition and an estimated useful life of more than one year. Assets are also capitalized regardless of cost if the asset is made part of an existing asset with a combined cost of \$5,000 or more.

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 30 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.
- I. Noncurrent Long-Term Liabilities** - Noncurrent long-term liabilities include compensated absences that will not be paid within the next fiscal year.
- J. Compensated Absences** - The College's policy is to record the cost of vacation leave when earned. The policy provides for a maximum accumulation of unused vacation leave of 30 days which can be carried forward each July 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 June 30 is retained by employees and transferred into the next fiscal year. It is not subject to the limitation on annual leave carried forward described above and is not subject to conversion to sick leave.

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

K. Net Position - The College's net position is classified as follows:

Investment in Capital Assets - This represents the College's total investment in capital assets.

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

Unrestricted Net Position - Unrestricted net position includes resources derived from student tuition and fees, sales and services, unrestricted gifts, and interest income.

Restricted and unrestricted resources are tracked using a fund accounting system and are spent in accordance with established fund authorities. Fund authorities provide rules for the fund activity and are separately established for restricted and unrestricted activities. When both restricted and unrestricted funds are available for expenditure, the decision for funding is transactional based within the departmental management system in place at the College.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

N. 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 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 appropriations and county capital appropriations do not revert and are available for future use by the College.

NOTE 2 - DEPOSITS AND INVESTMENTS

The College is required by North Carolina General Statute 147-77 to deposit any funds collected or received that belong to the State of North Carolina with

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

the State Treasurer or with a depository institution in the name of the State Treasurer. All funds of the College, other than those required to be deposited with the State Treasurer, are deposited in board-designated official depositories and are required to be collateralized in accordance with North Carolina General Statute 115D-58.7. Official depositories may be established with any bank or savings and loan association whose principal office is located in North Carolina. Also, the College may establish time deposit accounts, money market accounts, and certificates of deposit. The amount shown on the Statement of Net Position as cash and cash equivalents includes cash on hand totaling \$1,570.00, and deposits in private financial institutions with a carrying value of \$1,807,927.19 and a bank balance of \$1,996,763.93.

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, 2013, the College's bank balance in excess of federal depository insurance coverage was covered under the pooling method.

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

Generally, funds belonging to the College may be invested in any form of investment established or managed by certain investment advisors pursuant to G.S. 115D-58.6 (d1) or in the form of investments pursuant to G.S. 159-30(c), as follows: a commingled investment pool established and administered by the State Treasurer pursuant to G.S. 147-69.3, obligations of or fully guaranteed by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain nonguaranteed federal agencies; prime quality commercial paper bearing specified ratings; specified bills of exchange; certain savings certificates; The North Carolina Capital Management Trust, an SEC registered mutual fund; repurchase agreements; and evidences of ownership of, or fractional undivided interests in, future interest and principal payments on either direct obligations of or fully guaranteed by the United States government, which are held by a specified bank or trust company or any state in the capacity of custodian.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

At June 30, 2013, the amount shown on the Statement of Net Position as cash and cash equivalents includes \$2,815,286.38 which represents the College's equity position in the State Treasurer's Short Term Investment Fund (STIF). The STIF (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission and does not have a credit rating) had a weighted average maturity of 1.6 years as of June 30, 2013. Assets and shares of the STIF are valued at amortized cost, which approximates fair value. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the STIF) are included in the State of North Carolina's Comprehensive Annual Financial Report. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.nc.gov/> and clicking on "Reports" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

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:

Marketable Securities:

Investment Type	Cost	Fair Value
Mutual Funds	\$ 4,162,522	\$ 4,377,153
Stocks and Options	2,774	3,776
Total Marketable Securities	\$ 4,165,296	\$ 4,380,929

NOTE 3 - RECEIVABLES

Receivables at June 30, 2013, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	\$ 1,043,428.44	\$ 792,161.50	\$ 251,266.94
Student Sponsors	50,150.89	6,965.53	43,185.36
Due From Vendors	681,960.52		681,960.52
Intergovernmental	57,487.76		57,487.76
Total Current Receivables	\$ 1,833,027.61	\$ 799,127.03	\$ 1,033,900.58
Notes Receivable:			
Notes Receivable - Current:			
Institutional Student Loan Programs	\$ 76,885.82	\$ 4,015.50	\$ 72,870.32

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 4 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2013, is presented as follows:

	Balance July 1, 2012	Increases	Decreases	Balance June 30, 2013
Capital Assets, Nondepreciable:				
Land and Permanent Easements	\$ 5,456,219.54	\$ 0.00	\$ 0.00	\$ 5,456,219.54
Construction in Progress	105,850.00	233,356.33	203,527.23	135,679.10
Total Capital Assets, Nondepreciable	5,562,069.54	233,356.33	203,527.23	5,591,898.64
Capital Assets, Depreciable:				
Buildings	49,938,259.55	227,399.36		50,165,658.91
Machinery and Equipment	8,081,634.79	855,880.83	269,205.99	8,668,309.63
General Infrastructure	5,028,596.69	10,272.55		5,038,869.24
Total Capital Assets, Depreciable	63,048,491.03	1,093,552.74	269,205.99	63,872,837.78
Less Accumulated Depreciation for:				
Buildings	10,328,859.72	1,008,635.22		11,337,494.94
Machinery and Equipment	3,135,635.43	596,059.94	194,477.44	3,537,217.93
General Infrastructure	1,201,576.22	98,039.41		1,299,615.63
Total Accumulated Depreciation	14,666,071.37	1,702,734.57	194,477.44	16,174,328.50
Total Capital Assets, Depreciable, Net	48,382,419.66	(609,181.83)	74,728.55	47,698,509.28
Capital Assets, Net	\$ 53,944,489.20	\$ (375,825.50)	\$ 278,255.78	\$ 53,290,407.92

NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2013, were as follows:

	Amount
Current Accounts Payable and Accrued Liabilities:	
Accounts Payable	\$ 137,589.58
Accrued Payroll	710,914.31
Contract Retainage	15,215.10
Other	207,750.96
Total	\$ 1,071,469.95

NOTE 6 - LONG-TERM LIABILITIES

A. Changes in Long-Term Liabilities - A summary of changes in the long-term liabilities for the year ended June 30, 2013, is presented as follows:

	Balance July 1, 2012	Additions	Reductions	Balance June 30, 2013	Current Portion
Capital Leases Payable	\$ 197,076.97	\$ 0.00	\$ 197,076.97	\$ 0.00	\$ 0.00
Compensated Absences	1,498,293.86	887,623.83	870,713.44	1,515,204.25	214,704.44
Total Long-Term Liabilities	\$ 1,695,370.83	\$ 887,623.83	\$ 1,067,790.41	\$ 1,515,204.25	\$ 214,704.44

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 7 - 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	\$ 6,651,904.12	\$ 0.00	\$ 3,701,100.25	\$ 222,264.47	\$ 2,728,539.40
Sales and Services:					
Sales and Services of Auxiliary Enterprises:					
Bookstore	\$ 3,266,494.41	\$ 0.00	\$ 2,146,255.58	\$ 0.00	\$ 1,120,238.83
Other	373,574.15	40,779.72			332,794.43
Sales and Services of Education and Related Activities	174,081.62				174,081.62
Total Sales and Services	<u>\$ 3,814,150.18</u>	<u>\$ 40,779.72</u>	<u>\$ 2,146,255.58</u>	<u>\$ 0.00</u>	<u>\$ 1,627,114.88</u>

*Note: The Allowance for Uncollectibles is equivalent to the change in the Allowance for Doubtful Accounts, excluding items such as direct write-offs.

NOTE 8 - OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	\$ 14,657,666.22	\$ 1,429,299.38	\$ 739,809.22	\$ 0.00	\$ 0.00	\$ 0.00	\$ 16,826,774.82
Public Service	218,731.60	43,043.86	239,373.70				501,149.16
Academic Support	1,755,122.21	68,615.96	98,981.94		59,234.67		1,981,954.78
Student Services	1,807,751.02	46,843.64	343,428.66	17,460.00			2,215,483.32
Institutional Support	3,498,931.85	221,200.73	1,160,883.82				4,881,016.40
Operations and Maintenance of Plant	1,334,407.53	1,056,082.07	597,859.03		1,065,070.85		4,053,419.48
Student Financial Aid	230,343.53	2,829.44	36,244.55	3,171,167.82			3,440,585.34
Auxiliary Enterprises	207,733.11	3,227,775.39	147,312.47				3,582,820.97
Depreciation						1,702,734.57	1,702,734.57
Total Operating Expenses	<u>\$ 23,710,687.07</u>	<u>\$ 6,095,690.47</u>	<u>\$ 3,363,893.39</u>	<u>\$ 3,188,627.82</u>	<u>\$ 1,124,305.52</u>	<u>\$ 1,702,734.57</u>	<u>\$ 39,185,938.84</u>

NOTE 9 - PENSION PLANS

A. Retirement Plans - Each permanent full-time employee, as a condition of employment, is a member of the Teachers' and State Employees' Retirement System. The Teachers' and State Employees' Retirement System (TSERS) is a cost-sharing multiple-employer defined benefit pension plan established by the state to provide pension benefits for employees of the state, its component units and local boards of education. The Plan is administered by a 14-member Board of Trustees, with the State Treasurer serving as Chairman of the Board.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Benefit and contribution provisions for the TSERS are established by *North Carolina General Statutes* 135-5 and 135-8 and may be amended only by the North Carolina General Assembly. Employer and member contribution rates are set each year by the North Carolina General Assembly based on annual actuarial valuations. For the year ended June 30, 2013, these rates were set at 8.33% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the College had a total payroll of \$18,761,340.73, of which \$15,495,758.13 was covered under the TSERS. Total employer and employee contributions for pension benefits for the year were \$1,290,796.65 and \$929,332.19, respectively.

Required employer contribution rates for the years ended June 30, 2012, and 2011, were 7.44% and 4.93%, respectively, while employee contributions were 6% each year. The College made 100% of its annual required contributions for the years ended June 30, 2013, 2012, and 2011, which were \$1,290,796.65, \$1,096,346.82, and \$751,615.96, respectively.

The TSERS financial information is included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.nc.gov/> and clicking on "Reports" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

- B. Deferred Compensation and Supplemental Retirement Income Plans** - Internal Revenue Code Section 457 Plan - The State of North Carolina offers its permanent employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 through the North Carolina Public Employee Deferred Compensation Plan (the Plan). The Plan permits each participating employee to defer a portion of his or her salary until future years. The deferred compensation is available to employees upon separation from service, death, disability, retirement, or financial hardships if approved by the Board of Trustees of the Plan. The Board, a part of the North Carolina Department of Administration, maintains a separate fund for the exclusive benefit of the participating employees and their beneficiaries, the North Carolina Public Employee Deferred Compensation Trust Fund. The Board also contracts with an 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 \$70,416.39 for the year ended June 30, 2013.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Internal Revenue Code Section 401(k) Plan - All members of the Teachers' and State Employees' Retirement System are eligible to enroll in the Supplemental Retirement Income Plan, a defined contribution plan, created under Internal Revenue Code Section 401(k). All costs of administering the Plan are the responsibility of the Plan participants. The voluntary contributions by employees amounted to \$154,996.00 for the year ended June 30, 2013.

Internal Revenue Code 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. The plan administrator is Prudential. No costs are incurred by the College. The voluntary contributions by employees amounted to \$45,424.00 for the year ended June 30, 2013.

NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS

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

The Plan's benefit and contribution provisions are established by Chapter 135, Article 3B, of the General Statutes, and may be amended only by the North Carolina General Assembly. The Plan does not provide for automatic post-retirement benefit increases.

By General Statute, a Retiree Health Benefit Fund (the Fund) has been established as a fund in which accumulated contributions from employers and any earnings on those contributions shall be used to provide health benefits to retired and disabled employees and applicable beneficiaries. By statute, the Fund is administered by the Board of Trustees of the Teachers' and State Employees' Retirement System and contributions to the Fund are irrevocable. Also by law, Fund assets are dedicated to providing benefits to retired and disabled employees and applicable

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

beneficiaries and are not subject to the claims of creditors of the employers making contributions to the Fund. Contribution rates to the Fund, which are intended to finance benefits and administrative expenses on a pay-as-you-go basis, are established by the General Assembly.

For the current fiscal year the College contributed 5.3% of the covered payroll under the Teachers' and State Employees' Retirement System to the Fund. Required contribution rates for the years ended June 30, 2012, and 2011, were 5.0% and 4.9%, respectively. The College made 100% of its annual required contributions to the Plan for the years ended June 30, 2013, 2012, and 2011, which were \$821,275.18, \$736,792.22, and \$747,042.23, respectively. The College assumes no liability for retiree health care benefits provided by the programs other than its required contribution.

Additional detailed information about these programs can be located in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.nc.gov/> and clicking on "Reports" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

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

Disability income benefits are funded by actuarially determined employer contributions that are established by the General Assembly. For the fiscal year ended June 30, 2013, the College made a statutory contribution of .44% of covered payroll under the Teachers' and State Employees' Retirement System to the DIPNC. Required contribution rates for the years ended June 30, 2012, and 2011, were .52% and .52%, respectively. The College made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2013, 2012, and 2011, which were \$68,181.34, \$76,626.39, and \$79,277.95, respectively. The College assumes no liability for long-term disability benefits under the Plan other than its contribution.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 11 - RISK MANAGEMENT

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

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

Fire and other property losses are covered by the Public School Insurance Fund (Fund), a state-administered public entity risk pool. The Fund is financed by premiums and interest collected through membership participation and retains a \$10 million deductible per occurrence. Reinsurance is purchased by the Fund to cover catastrophic events in excess of the \$10 million deductible. Membership insured property is covered under an all risk coverage contract. Building and contents are valued under a replacement cost basis. No coinsurance penalties apply. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

State-owned vehicles are covered by liability insurance through a private insurance company and handled by the North Carolina Department of Insurance. The liability limits for losses are \$1,000,000 per claim and \$10,000,000 per occurrence. The 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 paid by the College. The College is protected from losses

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

from county and institutional funds paid employees by a blanket honesty bond with third parties to process claims.

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

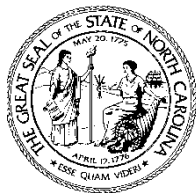
The State Board of Community Colleges makes the necessary arrangements to carry out the provisions of the Workers' Compensation Act which are applicable to employees whose wages are paid in whole or in part from state funds. The College purchases workers' compensation insurance for employees whose salaries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

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

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

NOTE 12 - COMMITMENTS AND CONTINGENCIES

The College has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were \$12,975.00 and on other purchases were \$102,842.38 at June 30, 2013.



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, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of 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, 2013, and the related notes to the financial statements, which collectively comprise the College's basic financial statements, and have issued our report thereon dated February 4, 2014. Our report includes a reference to other auditors who 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*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with Johnston Community College Foundation, Inc.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the College's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency,

**INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
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or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

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

Purpose of this Report

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



Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

February 4, 2014

ORDERING INFORMATION

Copies of this report may be obtained by contacting the:

Office of the State Auditor
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2 South Salisbury Street
20601 Mail Service Center
Raleigh, North Carolina 27699-0601

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For additional information contact:

Bill Holmes
Director of External Affairs