State of North Carolina

Office of The State Auditor

Beth A. Wood, CPA

Johnston Community College

Smithfield, North Carolina

Financial Statement Audit Report

For the Year Ended June 30, 2015

A Component Unit of the State of North Carolina

NCOSA

The Taxpayers' Watchdog

STATE OF NORTH CAROLINA

Office of the State Auditor

Beth A. Wood, CPA
State Auditor

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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, 2015, 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 ways listed in the back of this report.

Beth A. Wood

Beth A. Wood, CPA
State Auditor

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State Auditor

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Article V, Chapter 147 of the *North Carolina General Statutes*, gives the Auditor broad powers to examine all books, records, files, papers, documents, and financial affairs of every state agency. The Auditor also has the power to summon people to produce records and to answer questions under oath.

INDEPENDENT AUDITOR'S REPORT

STATE OF NORTH CAROLINA
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, 2015, 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 opinions, insofar as they relate to the amounts included for Johnston Community College Foundation, Inc., are based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of Johnston Community College Foundation, Inc. were not audited in accordance with *Government Auditing Standards*.

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

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

Opinions

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of Johnston Community College, and its discretely presented component unit, as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 13 to the financial statements, during the year ended June 30, 2015, Johnston Community College adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 68. – *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27* and Statement No. 71 – *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*. Our opinion is not modified with respect to this matter.

Other Matters – Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 26, 2016 on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control over financial reporting and compliance.

Beth A. Wood

Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

February 26, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Management's Discussion and Analysis for Johnston Community College (College) for fiscal year ended June 30, 2015 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, deferred outflows of resources, liabilities, and deferred inflows of resources 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 roll 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. Required supplementary information related to pension plans follows the Notes to the Financial Statements.

Financial Position

The College experienced a slight increase in net position of $372,094, or 0.7% during 2015. This was due to the combined effect of an increase in total revenues of $180,707.20 and a decrease in total expenses of $132,396.06. Tuition rates increased by $0.50 per credit hour during 2015, but enrollments declined slightly.

Statement of Net Position

The Statement of Net Position presents the financial position of the College at year end and includes all assets, deferred outflows of resources, liabilities, and deferred inflows of resources. Assets and liabilities are separately presented in current and noncurrent components. Net position represents the difference between assets and deferred outflows of resources, less liabilities and deferred inflows of resources.

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

Statement of Net Position

	2015	2014 (as restated)	Increase (Decrease)	% Change
Assets:				
Current Assets	$ 7,708,662.08	$ 7,564,768.12	$ 143,893.96	1.9%
Noncurrent Assets	998,732.89	237,342.54	761,390.35	320.8%
Captial Assets, Net	51,160,527.38	52,181,677.56	(1,021,150.18)	-2.0%
Total Assets	59,867,922.35	59,983,788.22	(115,865.87)	-0.2%
Deferred Outflows:				
Deferred Outflows Related to Pensions	1,644,583.00	1,330,077.00	314,506.00	23.6%
Liabilities:				
Current Liabilities	1,684,389.42	1,415,115.73	269,273.69	19.0%
Noncurrent Liabilities	2,698,944.91	8,264,984.47	(5,566,039.56)	-67.3%
Total Liabilities	4,383,334.33	9,680,100.20	(5,296,765.87)	-54.7%
Deferred Inflows:				
Deferred Inflows Related to Pensions	5,123,282.00		5,123,282.00	
Net Position:				
Investment in Capital Assets	51,160,527.38	52,181,677.56	(1,021,150.18)	-2.0%
Restricted - Expendable	2,489,612.27	1,985,701.25	503,911.02	25.4%
Unrestricted	(1,644,250.63)	(2,533,583.79)	889,333.16	35.1%
Total Net Position	$ 52,005,889.02	$ 51,633,795.02	$ 372,094.00	0.7%

Assets

Current assets include cash, receivables, and inventories. Total current assets increased by $143,893.96 from the prior period. This is mainly attributable to the following: current cash and cash equivalents increased by $790,869.19 largely due to commissions from the bookstore which is now privately run; and net receivables decreased by $641,724.54 in 2015. This is a combination of a decrease in certain gross receivables due to collection, and an increase in the allowance for doubtful accounts due to an increase in account balances no longer considered collectible. Inventory decreased by $28,444.78 with the majority of that decrease coming from a reduction in departmental inventory.

Noncurrent assets increased by $761,390.35. This was mainly due to an increase of $458,320.72 in funds designated for the Southeast Parking Lot improvement, as well as $50,000 designated for the Telephone System upgrade. This also reflects the receipt of payment for the PRIME Grant from the Golden Leaf Foundation for $239,824.56.

The following schedule compares capital assets for the fiscal years 2015 and 2014, net of accumulated depreciation:

Capital Assets Net of Accumulated Depreciation

	2015	2014	Increase (Decrease)	% Change
Land	$ 5,456,219.54	$ 5,456,219.54	$ 0.00	
Construction in Progress	78,626.93	121,399.83	(42,772.90)	-35.2%
Buildings	36,972,228.29	37,852,253.03	(880,024.74)	-2.3%
Machinery and Equipment	5,094,918.29	5,110,796.41	(15,878.12)	-0.3%
General Infrastructure	3,558,534.33	3,641,008.75	(82,474.42)	-2.3%
Total Capital Assets, Net	$ 51,160,527.38	$ 52,181,677.56	$ (1,021,150.18)	-2.0%

Net capital assets decreased by $1,021,150.18 from the prior period. As shown by the schedule above, this was mainly due to a net decrease in the value of buildings and general infrastructure due to routine depreciation of assets. Buildings had modest additions of $113,790.22 during the period; however these additions were offset by $992,014.96 in depreciation expense. This resulted in a net decrease of $880,024.74 for the year. The same is true of general infrastructure; the account increased for new assets capitalized during the period, but the additions were outpaced by depreciation expense resulting in a net decrease of $82,474.42.

Deferred Outflows/Inflows of Resources

During the fiscal year ended June 30, 2015, the College implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. The prior year financial statements have been restated to record the College's proportionate share of the collective net pension liability, and related deferred inflows and outflows of resources. Refer to Note 9 in the Notes to the Financial Statements for additional information.

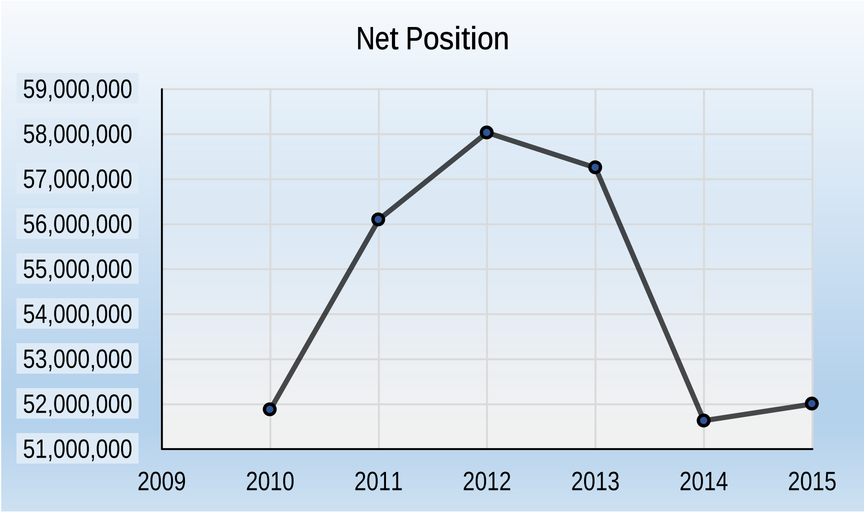
Liabilities

Current liabilities increased by $269,273.69. This is mainly a result of an increase in accounts payable accruals at year end, and a $65,300.58 increase in the current portion of long-term liabilities for compensated absences during 2015. In 2015, state legislature granted 40 hours of bonus leave for each full-time employee which resulted in an overall increase in compensated leave. Noncurrent liabilities decreased by $5,566,039.56 from the prior period. This was due to changes in the valuation of the College's proportionate share of the collective net pension liability discussed in Note 9 to the financial statements.

Net Position

Net position is a measure of the value of the College's assets and deferred outflows of resources, less liabilities and deferred inflows of resources. The College's total net position increased by $372,094.00, or 0.7%, from the prior period. The modest decrease in the investment in capital assets caption was due to depreciation outpacing capital additions during the period. Restricted expendable net position increased by $503,911.02, or 25.4% from the prior year due mainly to the accumulation of reserve funds to resurface the parking lots behind the Wilson and Elsee Buildings. Unrestricted net position increased by $889,333.16, or 35.1% from the prior year. This is the result of various fluctuations in a combination of unrestricted accounts. Unrestricted revenues are generated from receipts such as student tuition and fees, sales and services, other operating revenues, state aid, county appropriations, and investment income. Expenses paid from unrestricted funds include a portion of the College's salaries and benefits, supplies and materials, services, and utilities. Additional discussion regarding changes in revenues and expenses from the prior period is found below.

The College's net position was steadily increasing at an average of 4.48% during fiscal years 2010 through 2012. There was a 1.34% dip in 2013, followed by a significant decrease of 9.82% in 2014. This decrease is due to the implementation of GASB Statement No. 68 and the related restatement described above and in notes 9 and 13 in the Notes to the Financial Statements.



Results of Operations

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

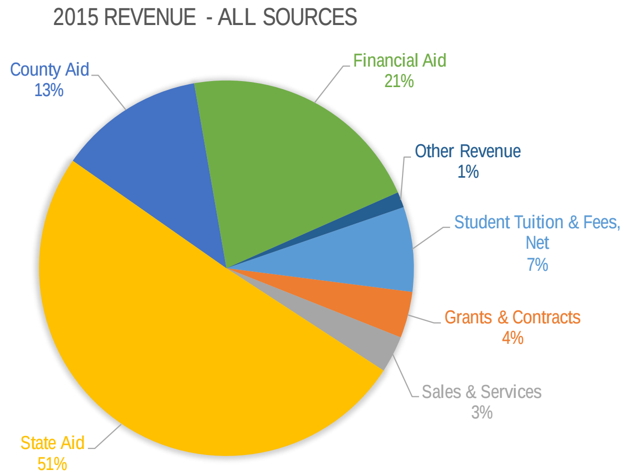
Statement of Revenues, Expenses, and Changes in Net Position

	2015	2014*	Increase (Decrease)	% Change
Operating Revenues:				
Student Tuition and Fees, Net	$ 2,752,739.46	$ 2,766,233.23	$ (13,493.77)	-0.5%
Sales and Services, Net	1,194,398.06	1,165,026.15	29,371.91	2.5%
Other Operating Revenues	54,104.04		54,104.04	100.0%
Total Operating Revenues	4,001,241.56	3,931,259.38	69,982.18	1.8%
Operating Expenses:				
Salaries and Benefits	23,474,762.25	23,384,385.08	90,377.17	0.4%
Supplies and Materials	2,720,488.42	2,354,229.55	366,258.87	15.6%
Services	3,298,003.14	3,360,567.16	(62,564.02)	-1.9%
Scholarships and Fellowships	4,913,773.95	5,427,047.58	(513,273.63)	-9.5%
Utilities	1,112,119.21	1,052,206.54	59,912.67	5.7%
Depreciation	1,808,132.97	1,881,240.09	(73,107.12)	-3.9%
Total Operating Expenses	37,327,279.94	37,459,676.00	(132,396.06)	-0.4%
Operating Loss	(33,326,038.38)	(33,528,416.62)	(202,378.24)	-0.6%
Nonoperating Revenues				
State Aid	17,844,461.34	17,298,922.78	545,538.56	3.2%
County Appropriations	3,862,513.26	3,661,765.65	200,747.61	5.5%
Noncapital Grants - Student Financial Aid	7,971,096.52	9,423,105.48	(1,452,008.96)	-15.4%
Other Nonoperating Revenues	1,651,212.36	1,862,769.61	(211,557.25)	-11.4%
Total Nonoperating Revenues	31,329,283.48	32,246,563.52	(917,280.04)	-2.8%
State Capital Aid	1,204,954.15	696,768.02	508,186.13	72.9%
County Capital Aid	861,953.19	565,600.65	296,352.54	52.4%
Capital Grants	261,941.56	12,851.18	249,090.38	1938.3%
Capital Gifts	40,000.00	65,623.99	(25,623.99)	-39.0%
Increase in Net Position	372,094.00	58,990.74	313,103.26	530.8%
Net Position - July 1	57,315,745.02	57,256,754.28		
Restatement	(5,681,950.00)			
Net Position - June 30	$ 52,005,889.02	$ 57,315,745.02		

** Note: The year-end June 30, 2014, column is not presented "as restated" above because actuarial calculations performed relative to the implementation of GASB 68 do not provide sufficient information to restate these amounts.*

Total Revenues

Revenues from all sources (operating, nonoperating and capital) total $37,699,373.94. This represents an increase of $180,707.20 from the prior period. The revenue sources are depicted below by type.



Operating Revenues

Operating revenues include student tuition and fees (net of scholarship discount), revenues received from sales and services, and other miscellaneous operating revenues. Student tuition and fees decreased $13,493.77 from the prior year due to a slight decrease in enrollment. Net sales and services revenues increased by $29,371.91 due to various fluctuations in auxiliary enterprise operations such as Performing Arts, Bookstore, and Howell Woods.

Nonoperating Revenues

Nonoperating revenues are comprised of state and county aid for current expenses, student financial aid revenues, other noncapital grants, interest income, and other miscellaneous revenues. Financial aid revenues decreased $1,452,008.96 from 2014 due to a decrease in students applying for and/or eligible for Pell awards. This decrease may be related to the College no longer participating in the Stafford Loan Program; frequently, students who received loan funds would also receive Pell awards. The increase in state aid in the amount of $545,538.56 was due mainly to the receipt of additional allotments throughout the year for customized training projects, carryover allotments, Project Skill-UP, and Minority Male Mentoring. County appropriations increased by $200,747.61 due in part to a minimum salary increase and increased security costs.

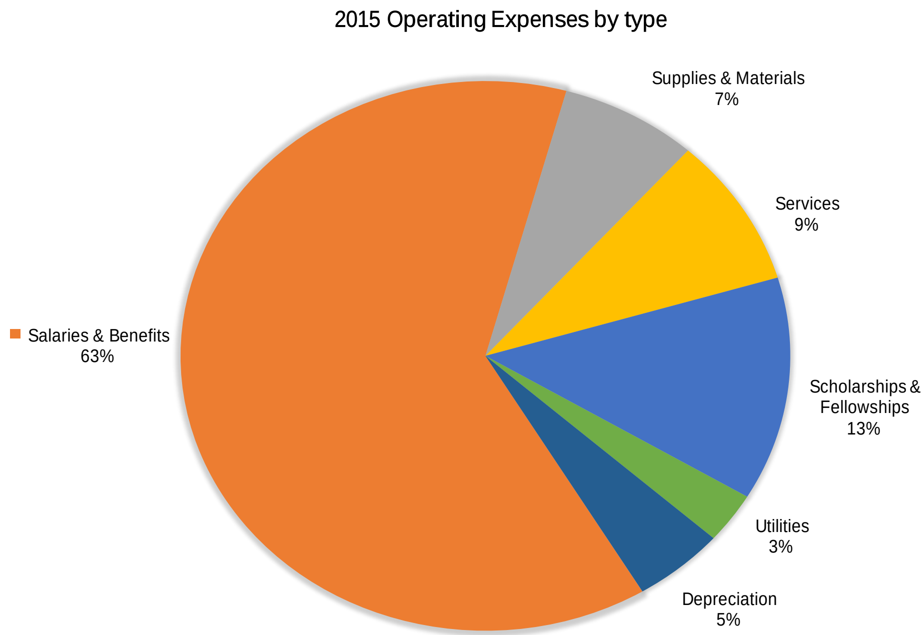
Other Revenues

State capital aid increased by $508,186.13 in 2015 in part due to an increase in capital equipment purchases. County capital aid increased by $296,352.54 mainly due to an increase in amounts received to fund the Southeast Parking Rehabilitation project. Capital grants increased by $249,090.38 due to a grant from Duke Energy to provide training for manufacturing and related industries and for economic development. This grant specifically served the College's Advance Welding Certificate program.

Operating Expenses

For 2015 total operating expenses decreased by $132,396.06, or 0.4%.

Operating expenses for the College are comprised primarily of direct cost of personnel and the related fringe benefits (63% of total costs). Salaries and benefits increased by $90,377.17 inclusive of the net pension liability adjustments. The state legislature gave an increase of $1,000 per full-time employee (pro-rated for part-time employees). This increase was offset by the GASB 68 requirement to reclassify current-year retirement contributions to deferred outflows of resources. Supplies and materials increased by $366,258.87 primarily due to an increase in purchases of instructional supplies. Scholarships and fellowships decreased by $513,273.63 due to the combined effect of a decline in Pell awards discussed above offset by a decrease in the amount of the College's scholarship discount.



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 63% of total revenues for the College in 2015. The College's 2016 state budget has decreased slightly from the prior year due to an approximate 4% decrease in student FTE. County appropriations for 2016 have increased by $139,919.00 (3.1%) due to an increase in projected operating expenses. The county has also approved $7,000,000 of bond funds for College use in funding campus improvements over the next two fiscal years.

During the upcoming year, the College plans to resurface and expand the parking lots located behind the Elsee and Wilson Buildings. As a result of the completion of the Facilities Master Plan, the College will renovate the Tart Building including replacement of the roof, the auditorium lights, and the draperies and rigging system. The Art Building roof will be also replaced, as well as other smaller campus improvements scheduled to be completed in 2016.

Johnston Community College takes every opportunity to acquire alternative funding to help support the mission and strategic goals of the College. Alternative funding for 2015 included several sources:

- The Johnston Community College Foundation provided funds to the College in the form of innovation grants totaling $9,855.94 for funding faculty/staff educational projects, and $311,018.00 for scholarships. The Foundation also provided $50,000 to be used by the College for institutional support during 2015 and $30,000 for the costs associated with the College's 45th anniversary.
- Grants received during 2015 included:
    - Workforce Development Center $466,689.70
    - FBNC Fort Bragg –Truck Driver Training $151,033.00
    - NSF-Electronic Engineering Dual Enrollment $144,287.00
    - Howell Woods – Low Ropes & Aquarium $ 24,200.00
    - Project Skill-up $ 20,000.00

FINANCIAL STATEMENTS

Johnston Community College
Statement of Net Position — *Exhibit A-1*
June 30, 2015

ASSETS	
Current Assets:	
Cash and Cash Equivalents	$ 5,286,574.90
Restricted Cash and Cash Equivalents	1,634,797.72
Receivables, Net (Note 3)	525,067.96
Inventories	191,774.81
Notes Receivable, Net (Note 3)	70,446.69
Total Current Assets	7,708,662.08
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	998,494.05
Restricted Due from Primary Government	238.84
Capital Assets - Nondepreciable (Note 4)	5,534,846.47
Capital Assets - Depreciable, Net (Note 4)	45,625,680.91
Total Noncurrent Assets	52,159,260.27
Total Assets	59,867,922.35
DEFERRED OUTFLOWS OF RESOURCES	
Deferred Outflows Related to Pensions	1,644,583.00
LIABILITIES	
Current Liabilities:	
Accounts Payable and Accrued Liabilities (Note 5)	1,136,052.02
Unearned Revenue	146,891.20
Funds Held for Others	124,174.84
Long-Term Liabilities - Current Portion (Note 6)	277,271.36
Total Current Liabilities	1,684,389.42
Noncurrent Liabilities:	
Long-Term Liabilities (Note 6)	2,698,944.91
Total Noncurrent Liabilities	2,698,944.91
Total Liabilities	4,383,334.33
DEFERRED INFLOWS OF RESOURCES	
Deferred Inflows Related to Pensions	5,123,282.00

NET POSITION		
Investment in Capital Assets		51,160,527.38
Restricted for:		
Expendable:		
Scholarships and Fellowships		78,344.12
Loans		146,508.37
Capital Projects		945,067.34
Restricted for Specific Programs		1,201,085.77
Other		118,606.67
Unrestricted		(1,644,250.63)
Total Net Position	$	52,005,889.02

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, 2015

Exhibit A-2

REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net (Note 7)	$	2,752,739.46
Sales and Services, Net (Note 7)		1,194,398.06
Other Operating Revenues		54,104.04
Total Operating Revenues		4,001,241.56
EXPENSES		
Operating Expenses:		
Salaries and Benefits		23,474,762.25
Supplies and Materials		2,720,488.42
Services		3,298,003.14
Scholarships and Fellowships		4,913,773.95
Utilities		1,112,119.21
Depreciation		1,808,132.97
Total Operating Expenses		37,327,279.94
Operating Loss		(33,326,038.38)
NONOPERATING REVENUES		
State Aid		17,844,461.34
County Appropriations		3,862,513.26
Noncapital Grants - Student Financial Aid		7,971,096.52
Noncapital Grants		1,240,303.84
Noncapital Gifts		104.01
Investment Income		24,524.13
Other Nonoperating Revenues		386,280.38
Total Nonoperating Revenues		31,329,283.48
Loss Before Other Revenues		(1,996,754.90)
State Capital Aid		1,204,954.15
County Capital Aid		861,953.19
Capital Grants		261,941.56
Capital Gifts		40,000.00
Increase in Net Position		372,094.00
NET POSITION		
Net Position, July 1, 2014 as Restated (Note 13)		51,633,795.02
Net Position, June 30, 2015	$	52,005,889.02

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, 2015

CASH FLOWS FROM OPERATING ACTIVITIES	
Received from Customers	$ 4,620,582.06
Payments to Employees and Fringe Benefits	(24,185,013.70)
Payments to Vendors and Suppliers	(6,924,283.73)
Payments for Scholarships and Fellowships	(4,911,561.67)
Loans Issued to Students	(192,580.36)
Collection of Loans to Students	169,386.27
Other Receipts	597,792.53
Net Cash Used by Operating Activities	(30,825,678.60)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Aid Received	17,844,461.34
County Appropriations	3,862,513.26
Noncapital Grants - Student Financial Aid	7,971,096.52
Noncapital Grants	1,292,412.60
Noncapital Gifts	104.01
Cash Provided by Noncapital Financing Activities	30,970,587.73
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
State Capital Aid Received	1,204,954.15
County Capital Aid	861,953.19
Capital Grants	261,941.56
Proceeds from Insurance on Capital Assets	3,642.49
Acquisition and Construction of Capital Assets	(949,665.11)
Net Cash Provided by Capital and Related Financing Activities	1,382,826.28
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment Income	24,524.13
Cash Provided by Investing Activities	24,524.13
Net Increase in Cash and Cash Equivalents	1,552,259.54
Cash and Cash Equivalents, July 1, 2014	6,367,607.13
Cash and Cash Equivalents, June 30, 2015	$ 7,919,866.67

Johnston Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2015

RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES

Operating Loss	$	(33,326,038.38)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense		1,808,132.97
Pension Expense		659,941.00
Nonoperating Other Income		585,320.21
Changes in Assets, Liabilities, and Deferred Outflows of Resources:		
Receivables, Net		589,615.78
Inventories		28,444.78
Notes Receivable, Net		(23,194.09)
Accounts Payable and Accrued Liabilities		159,563.79
Unearned Revenue		31,937.00
Funds Held for Others		12,472.32
Deferred Outflows - Contributions After the Measurement Date		(1,444,680.00)
Compensated Absences		92,806.02
Net Cash Used by Operating Activities	$	(30,825,678.60)

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:		
Cash and Cash Equivalents	$	5,286,574.90
Restricted Cash and Cash Equivalents		1,634,797.72
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		998,494.05
Total Cash and Cash Equivalents - June 30, 2015	$	7,919,866.67

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through a Gift	$	40,000.00
Loss on Disposal of Capital Assets		(199,039.83)

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, 2015 — *Exhibit B-1*

		Unrestricted		Temporarily Restricted		Permanently Restricted		Total
ASSETS								
Cash and Cash Equivalents	$	150,484	$	1,174,931	$	0	$	1,325,415
Marketable Securities				409,405		4,713,771		5,123,176
Accrued Interest				5,381				5,381
Pledges Receivable		9,360		66,539		66,998		142,897
Software, Net		14,376						14,376
Land and Building Held for Investment Purpose				778,790				778,790
Total Assets		174,220		2,435,046		4,780,769		7,390,035
LIABILITIES								
Accounts Payable		990						990
NET ASSETS								
Unrestricted		173,230						173,230
Temporarily Restricted				2,435,046				2,435,046
Permanently Restricted						4,780,769		4,780,769
Total Net Assets	$	173,230	$	2,435,046	$	4,780,769	$	7,389,045

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, 2015 ***Exhibit B-2***

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
CHANGES IN NET ASSETS				
Revenues and Gains:				
Contributions	$ 425,385	$ 248,428	$ 197,812	$ 871,625
Golf Tournament	69,687			69,687
Special Events	17,154			17,154
Net Realized and Unrealized Loss on Investments	(6,140)	(88,721)		(94,861)
Interest and Dividends	10,505	85,560		96,065
Net Assets Released from Restrictions	298,996	(298,996)		
Total Revenues and Gains	815,587	(53,729)	197,812	959,670
Expenses:				
Program Services	495,333			495,333
Management and General	165,933			165,933
Fundraising	157,675			157,675
Total Expenses	818,941			818,941
Changes in Net Assets	(3,354)	(53,729)	197,812	140,729
Transfers		(10,000)	10,000	
Net Assets at Beginning of Year	176,584	2,498,775	4,572,957	7,248,316
Net Assets at End of Year	$ 173,230	$ 2,435,046	$ 4,780,769	$ 7,389,045

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

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. **Financial Reporting Entity** - The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their constituents for their actions. As required by accounting principles generally accepted in the United States of America (GAAP), the financial reporting entity includes both the primary government and all of its component units. An organization other than a primary government serves as a nucleus for a reporting entity when it issues separate financial statements. Johnston Community College (College) is a component unit of the State of North Carolina and an integral part of the State's *Comprehensive Annual Financial Report*.

The accompanying financial statements present all funds of the College and its component unit for which the College's Board of Trustees is financially accountable. The College's component unit is discretely presented in the College's financial statements. See below for further discussion of the College's component units.

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 33 members. Although the College does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon that the Foundation holds and invests are restricted to the activities of the College by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of the College, the Foundation is considered a component unit of the College and is reported in separate financial statements because of the difference in its reporting model, as described below.

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 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, 2015, the Foundation distributed $338,776 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 governments, and private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants. Receivables are recorded net of estimated uncollectible amounts.

F. **Inventories** - Inventories, consisting of expendable supplies, are valued at cost using the 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. Assets are also capitalized regardless of cost if the asset is made part of an existing asset with a combined total cost of $5,000 or more.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets in the following manner:

Asset Class	Estimated Useful Life
Buildings	30-70 years
Machinery & Equipment	5-30 years
General Infrastructure	50-75 years

H. **Restricted Assets** - Certain resources are reported as restricted assets because restrictions on asset use change the nature or normal understanding of the availability of the asset. Resources that are not available for current operations and are reported as restricted include resources restricted for the acquisition or construction of capital assets and resources whose use is limited by external parties.

I. **Noncurrent Long-Term Liabilities** - Noncurrent long-term liabilities include the net pension liability and compensated absences that will not be paid within the next fiscal year.

The net pension liability represents the College's proportionate share of the collective net pension liability reported in the State of North Carolina's 2014 *Comprehensive Annual Financial Report.* This liability represents the College's portion of the collective total pension liability less the fiduciary net position of the Teachers' and State Employees' Retirement System. See Note 9 for further information regarding the College's policies for recognizing liabilities, expenses, and deferred outflows and inflows related to pensions.

J. **Compensated Absences** - The College's policy is to record the cost of vacation leave when earned. The policy provides for a maximum accumulation of unused vacation leave of 240 hours (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.

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. Both restricted and unrestricted net position include consideration of deferred outflows and inflows of resources.

L. **Scholarship Discounts** - Student tuition and fees revenues 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 and fees, the College has recorded a scholarship discount.

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

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

N. **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 shops, 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 the State Treasurer or with a depository institution in the name of the State Treasurer. All funds of the College, other than those required to be deposited with the State Treasurer, are deposited in board-designated official depositories and are required to be collateralized in accordance with *North Carolina General Statute* 115D-58.7. Official depositories may be established with any bank or savings and loan association whose principal office is located in North Carolina. Also, the College may establish time deposit accounts, money market accounts, and certificates of deposit. The amount shown on the Statement of Net Position as cash and cash equivalents includes cash on hand totaling $2,120.00, and deposits in private financial institutions with a carrying value of $3,052,416.82 and a bank balance of $3,212,556.87.

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, 2015, the College's bank balance in excess of federal depository insurance coverage was covered under the pooling method.

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

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

At June 30, 2015, the amount shown on the Statement of Net Position as cash and cash equivalents includes $4,865,329.85 which represents the College's equity position in the State Treasurer's Short-Term Investment Fund (STIF). The STIF (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission or subject to any other regulatory oversight and does not have a credit rating) had a weighted average maturity of 1.5 years as of June 30, 2015. Assets and shares of the STIF are valued at amortized cost, which approximates fair value. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's STIF) are included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page http://www.osc.nc.gov/ and clicking on "Reports" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

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

Investment Type	Cost	Fair Value
Mutual Funds	$ 3,020,355	$ 2,955,617
Stocks and Options	1,884,514	2,075,943
Money Market Mutual Funds	91,616	91,616
Total Marketable Securities	$ 4,996,485	$ 5,123,176

NOTE 3 - RECEIVABLES

Receivables at June 30, 2015, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	$ 1,357,330.59	$ 1,201,435.92	$ 155,894.67
Student Sponsors	16,545.11	3,585.36	12,959.75
Accounts	324,390.28		324,390.28
Intergovernmental	31,823.26		31,823.26
Total Current Receivables	$ 1,730,089.24	$ 1,205,021.28	$ 525,067.96
Notes Receivable - Current:			
Institutional Student Loan Programs	$ 74,462.19	$ 4,015.50	$ 70,446.69

NOTE 4 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2015 is presented as follows:

	Balance July 1, 2014	Increases	Decreases	Balance June 30, 2015
Capital Assets, Nondepreciable:				
Land and Permanent Easements	$ 5,456,219.54	$ 0.00	$ 0.00	$ 5,456,219.54
Construction in Progress	121,399.83	62,557.32	105,330.22	78,626.93
Total Capital Assets, Nondepreciable	5,577,619.37	62,557.32	105,330.22	5,534,846.47
Capital Assets, Depreciable:				
Buildings	50,180,766.79	113,790.22	5,000.00	50,289,557.01
Machinery and Equipment	9,302,614.16	797,285.27	364,620.71	9,735,278.72
General Infrastructure	5,038,869.24	16,032.30		5,054,901.54
Total Capital Assets, Depreciable	64,522,250.19	927,107.79	369,620.71	65,079,737.27
Less Accumulated Depreciation for:				
Buildings	12,328,513.76	992,014.96	3,200.00	13,317,328.72
Machinery and Equipment	4,191,817.75	717,611.29	269,068.61	4,640,360.43
General Infrastructure	1,397,860.49	98,506.72		1,496,367.21
Total Accumulated Depreciation	17,918,192.00	1,808,132.97	272,268.61	19,454,056.36
Total Capital Assets, Depreciable, Net	46,604,058.19	(881,025.18)	97,352.10	45,625,680.91
Capital Assets, Net	$ 52,181,677.56	$ (818,467.86)	$ 202,682.32	$ 51,160,527.38

NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2015, were as follows:

	Amount
Accounts Payable and Accrued Liabilities:	
Accounts Payable	$ 222,640.11
Accrued Payroll	634,212.87
Other	279,199.04
Total Accounts Payable and Accrued Liabilities	$ 1,136,052.02

NOTE 6 - LONG-TERM LIABILITIES

Changes in Long-Term Liabilities - A summary of changes in the long-term liabilities for the year ended June 30, 2015, is presented as follows:

	Balance July 1, 2014 (As Restated)	Additions	Reductions	Balance June 30, 2015	Current Portion
Net Pension Liability	$ 7,012,027.00	$ 0.00	5,593,515.00	$ 1,418,512.00	$ 0.00
Compensated Absences	1,464,898.25	1,106,573.85	1,013,767.83	1,557,704.27	277,271.36
Total Long-Term Liabilities	$ 8,476,925.25	$ 1,106,573.85	$ 6,607,282.83	$ 2,976,216.27	$ 277,271.36

Additional information regarding the net pension liability is included in Note 9.

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	$ 6,071,123.20	$ 0.00	$ 3,009,199.48	$ 309,184.26	$ 2,752,739.46
Sales and Services:					
Sales and Services of Auxiliary Enterprises:					
Bookstore Commissions	$ 665,531.32	$ 0.00	$ 0.00	$ 0.00	$ 665,531.32
Other	348,316.23	28,000.07			320,316.16
Sales and Services of Education and Related Activities	208,550.58				208,550.58
Total Sales and Services	$ 1,222,398.13	$ 28,000.07	$ 0.00	$ 0.00	$ 1,194,398.06

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	$ 12,901,774.12	$ 1,696,310.54	$ 434,582.48	$ 10,615.28	$ 0.00	$ 0.00	$ 15,043,282.42
Public Service	344,615.30	25,441.36	230,349.45				600,406.11
Academic Support	2,275,787.73	80,810.04	108,317.09		58,691.52		2,523,606.38
Student Services	1,961,952.48	95,935.29	382,284.28	32,855.00			2,473,027.05
Institutional Support	3,732,218.52	188,309.16	1,069,378.72				4,989,906.40
Operations and Maintenance of Plant	1,364,147.06	588,404.85	682,413.76		1,053,427.69		3,688,393.36
Student Financial Aid	193,189.31	21,390.46	347,860.18	4,870,303.67			5,432,743.62
Auxiliary Enterprises	41,136.73	23,886.72	42,817.18				107,840.63
Depreciation						1,808,132.97	1,808,132.97
Pension Expense	659,941.00						659,941.00
Total Operating Expenses	$ 23,474,762.25	$ 2,720,488.42	$ 3,298,003.14	$ 4,913,773.95	$ 1,112,119.21	$ 1,808,132.97	$ 37,327,279.94

NOTE 9 - PENSION PLAN

Defined Benefit Plan

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

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

Contributions: Contribution provisions are established by General Statute 135-8 and may be amended only by the North Carolina General Assembly. Employees are required to contribute 6% of their compensation. The contribution rate for employers is set each year by the NC General Assembly in the Appropriations Act based on the actuarially-determined rate recommended by the actuary. The College's contractually-required contribution rate for the year ended June 30, 2015 was 9.15% of covered payroll. The College's contributions to the pension plan were $1,444,680.00, and employee contributions were $947,331.00 for the year ended June 30, 2015.

The TSERS Plan's financial information, including all information about the plan's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fiduciary net position, is included in the State of North Carolina's fiscal year 2014 *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.

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

Methods Used to Value TSERS Investment: Pursuant to *North Carolina General Statutes*, the State Treasurer is the custodian and administrator of the retirement systems. The State Treasurer maintains various investment portfolios in its Investment Pool. The pension trust funds are the primary participants in the Long-term Investment portfolio and the sole participants in the External Fixed Income Investment, Equity Investment, Real Estate Investment, Alternative Investment, Credit Investment, and Inflation Protection Investment portfolios. The investment balance of each pension trust fund represents its share of the fair market value of the net position of the various portfolios within the pool. Detailed descriptions of the methods and significant assumptions regarding investments of the State Treasurer are provided in the 2014 *Comprehensive Annual Financial Report*.

Net Pension Liability: At June 30, 2015, the College reported a liability of $1,418,512.00 for its proportionate share of the collective net pension liability. The net pension liability was measured as of June 30, 2014. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2013, and update procedures were used to roll forward the total pension liability to June 30, 2014. The College's proportion of the net pension liability was based on the present value of future salaries for the College relative to the present value of future salaries for all participating employers, actuarially-determined. As of June 30, 2014, the College's proportion was 0.12099%, which was an increase of 4.75% from its proportion measured as of June 30, 2013.

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

Valuation Date	12/31/2013
Inflation	3%
Salary Increases*	4.25% - 9.10%
Investment Rate of Return**	7.25%

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

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

The actuarial assumptions used in the December 31, 2013 valuations were based on the results of an actuarial experience study for the period January 1, 2005 through December 31, 2009.

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

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2014 (the valuation date) are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return
Fixed Income	2.5%
Global Equity	6.1%
Real Estate	5.7%
Alternatives	10.5%
Credit	6.8%
Inflation Protection	3.7%

The information above is based on 30-year expectations developed with the consulting actuary for the 2013 asset, liability and investment policy study for the North Carolina Retirement Systems. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.19%. All rates of return and inflation are annualized.

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

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

	Net Pension Liability (Asset)	
1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
10,183,064.00	1,418,512.00	(5,981,875.00)

Deferred Inflows of Resources and Deferred Outflows of Resources Related to Pensions: For the year ended June 30, 2015, the College recognized pension expense of $659,941.00. At June 30, 2015, the College reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Actual and Expected Experience	$ 0.00	$ 330,648.00
Changes of Assumptions		
Net Difference Between Projected and Actual Earnings on Pension Plan Investments		4,792,634.00
Change in Proportion and Differences Between Agency'sCcontributions and Proportionate Share of Contributions	199,903.00	
Contributions Subsequent to the Measurement Date	1,444,680.00	
Total	$ 1,644,583.00	$ 5,123,282.00

$1,644,583.00 of the amount reported as deferred outflows of resources related to pensions will be included as a reduction of the net pension liability in the fiscal year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

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

Year ended June 30:	Amount
2016	$ (1,232,656.00)
2017	(1,232,656.00)
2018	(1,232,656.00)
2019	(1,225,411.00)
Total	$ (4,923,379.00)

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 (TSERS). Coverage eligibility varies depending on years of contributory membership service in their retirement system prior to disability or retirement.

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

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

For the current fiscal year the College contributed 5.49% of the covered payroll under TSERS to the Fund. Required contribution rates for the years ended June 30, 2014, and 2013, were 5.4% and 5.3%, respectively. The College made 100% of its annual required contributions to the Plan for the years ended June 30, 2015, 2014, and 2013, which were $866,808.20, $826,573.09, and $821,275.18, 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 TSERS. Benefit and contribution provisions are established by Chapter 135, Article 6, of the General Statutes, and may be amended only by the North Carolina General Assembly. The Plan does not provide for automatic post-retirement benefit increases.

Disability income benefits are funded by actuarially determined employer contributions that are established by the General Assembly. For the fiscal year ended June 30, 2015, the College made a statutory contribution of .41% of covered payroll under TSERS to the DIPNC. Required contribution rates for the years ended June 30, 2014, and 2013, were .44% in both years. The College made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2015, 2014, and 2013, which were $64,734.31, $67,350.40, and $68,181.34, 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 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.

A. Public Entity Risk Pool

Public School Insurance Fund

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

B. Employee Benefit Plans

1. State Health Plan

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

2. Death Benefit Plan of North Carolina

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

C. Other Risk Management and Insurance Activities

1. Automobile, Fire, and Other Property Losses

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

2. Public Officers' and Employees' Liability Insurance

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

3. Employee Dishonesty and Computer Fraud

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

4. Statewide Workers' Compensation Program

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

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

NOTE 12 - COMMITMENTS

The College has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on other purchases were $137,561.54 at June 30, 2015.

NOTE 13 - NET POSITION RESTATEMENT

As of July 1, 2014, net position as previously reported was restated as follows:

		Amount
July 1, 2014 Net Position as Previously Reported	$	57,315,745.02
Restatement:		
Record the College's Net Pension Liability and Pension Related Deferred Outflows of Resources per GASB 68 Requirements		(5,681,950.00)
July 1, 2014 Net Position as Restated	$	51,633,795.02

REQUIRED SUPPLEMENTARY INFORMATION

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

Exhibit C-1

	2014	2013
Proportionate Share Percentage of Collective Net Pension Liability	0.12099%	0.11550%
Proportionate Share of TSERS Collective Net Pension Liability	$ 1,418,512.00	$ 7,012,027.00
Covered-Employee Payroll	$ 15,306,909.10	$ 15,495,758.13
Net Pension Liability as a Percentage of Covered-Employee Payroll	9.27%	45.25%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	98.24%	90.60%

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

	2015	2014	2013	2012	2011
Contractually Required Contribution	$ 1,444,680.34	$ 1,330,170.40	$ 1,290,796.65	$ 1,096,346.82	$ 751,615.96
Contributions in Relation to the Contractually Determined Contribution	1,444,680.34	1,330,170.40	1,290,796.65	1,096,346.82	751,615.96
Contribution Deficiency (Excess)	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Covered-Employee Payroll	$ 15,788,856.15	$ 15,306,909.10	$ 15,495,758.13	$ 14,735,844.42	$ 15,245,759.89
Contributions as a Percentage of Covered-Employee Payroll	9.15%	8.69%	8.33%	7.44%	4.93%

	2010	2009	2008	2007	2006
Contractually Required Contribution	$ 563,826.39	$ 531,888.64	$ 448,728.90	$ 363,949.80	$ 282,260.19
Contributions in Relation to the Contractually Determined Contribution	563,826.39	531,888.64	448,728.90	363,949.80	282,260.19
Contribution Deficiency (Excess)	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Covered-Employee Payroll	$ 15,793,456.29	$ 15,830,019.05	$ 14,712,422.85	$ 13,682,323.36	$ 12,062,401.37
Contributions as a Percentage of Covered-Employee Payroll	3.57%	3.36%	3.05%	2.66%	2.34%

Johnston Community College
Notes to Required Supplementary Information
Schedule of College Contributions
Teachers' and State Employees' Retirement System
For the Fiscal Year Ended June 30, 2015

Changes of Benefit Terms:

Cost of Living Increase

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

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

INDEPENDENT AUDITOR'S REPORT

STATE OF NORTH CAROLINA
Office of the State Auditor

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, 2015, 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 26, 2016. 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, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

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

Purpose of this Report

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

Beth A. Wood

Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

February 26, 2016

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For additional information contact:
Bill Holmes
Director of External Affairs
919-807-7513

This audit required 315 audit hours at an approximate cost of $31,185.00.