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, 2017

A COMPONENT UNIT OF THE STATE OF NORTH CAROLINA

NCOSA

The Taxpayers' Watchdog

STATE OF NORTH CAROLINA
Office of the State Auditor

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State Auditor

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AUDITOR'S TRANSMITTAL

The Honorable Roy Cooper, 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, 2017, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

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

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

Beth A. Wood

Beth A. Wood, CPA
State Auditor

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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 and any organization that receives public funding. 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 (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, 2017, 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, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters – Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 28, 2018 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 28, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Management Discussion and Analysis for Johnston Community College (College) for fiscal year ended June 30, 2017 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 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, noncapital financing, capital and related financing, and investing activities.

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

Financial Position

The College experienced an increase in net position of $387,812.77, or 0.7%, during 2017. This resulted from an increase in revenues (as restated) of $836,268.18 and an increase in expenses of $1,850,982.39. The largest single factor in the increase in expenses was the increase in pension expense of $1,591,868.00 resulting from the recognition of the College's proportionate share of the Teachers' and State Employees' Retirement System (TSERS) net pension liability.

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 consolidated Statement of Net Position with comparative figures is presented below.

Statement of Net Position

	2017	2016 (as Restated)	Increase (Decrease)	% Change
Assets:				
Current Assets	$ 8,783,239.03	$ 8,899,533.96	$ (116,294.93)	-1.3%
Noncurrent Assets	462,429.62	804,207.57	(341,777.95)	-42.5%
Capital Assets, Net	51,567,874.01	50,836,226.71	731,647.30	1.4%
Total Assets	60,813,542.66	60,539,968.24	273,574.42	0.5%
Deferred Outflows:				
Deferred Outflows Related to Pensions	7,372,144.00	1,596,426.00	5,775,718.00	361.8%
Liabilities:				
Current Liabilities	1,853,563.75	1,888,472.39	(34,908.64)	-1.8%
Long-Term Liabilities	11,742,972.02	5,689,378.73	6,053,593.29	106.4%
Total Liabilities	13,596,535.77	7,577,851.12	6,018,684.65	79.4%
Deferred Inflows:				
Deferred Inflows Related to Pensions	712,751.00	1,069,956.00	(357,205.00)	-33.4%
Net Position:				
Net Investment in Capital Assets	51,505,982.46	50,705,517.29	800,465.17	1.6%
Restricted - Expendable	1,969,957.06	2,950,860.47	(980,903.41)	-33.2%
Unrestricted	400,460.37	(167,790.64)	568,251.01	338.7%
Total Net Position	$ 53,876,399.89	$ 53,488,587.12	$ 387,812.77	0.7%

Assets

Current assets include cash, receivables, and inventories. Total current assets (as restated) decreased slightly by $116,294.93, or 1.3%, from the prior period.

Noncurrent assets, comprised of noncurrent restricted cash and cash equivalents, decreased by $341,777.95, or 42.5%, caused primarily by a reduction in cash held for county construction projects due to the current year activity discussed below.

The following schedule compares capital assets for the fiscal years 2017 and 2016, net of accumulated depreciation:

Capital Assets, Net of Accumulated Depreciation

	2017	2016 (as Restated)	Increase (Decrease)
Land	$ 5,456,219.54	$ 5,456,219.54	$ 0.00
Construction in Progress	1,194,689.58	560,901.44	633,788.14
Buildings, Net	35,634,425.42	36,454,352.14	(819,926.72)
Machinery and Equipment, Net	4,657,288.88	4,905,067.91	(247,779.03)
General Infrastructure, Net	4,625,250.59	3,459,685.68	1,165,564.91
Total Capital Assets, Net	$ 51,567,874.01	$ 50,836,226.71	$ 731,647.30

Net capital assets increased in the amount of $731,647.30, or 1.4%, from the prior period. As shown by the schedule above, this change was due to a net decrease in the value of buildings and machinery and equipment offset by a larger net increase in the value of construction in progress and general infrastructure. Construction in progress had a net increase of $633,788.14, or 113.0%, primarily driven by the Tart Building renovation project increases of $802,804.44. The depreciation recorded against the value of the buildings was $1,014,035.17, which is the primary cause of the net decrease of $819,926.72 for the year. General infrastructure increased by $1,165,564.91 primarily due to the completion of the Southeast Parking Lot project during the year at a final cost of $1,088,645.29.

Deferred Outflows/Inflows of Resources

The College reported $7,372,144.00 in deferred outflows for pensions in 2017 which reflects an increase of $5,775,718.00, or 361.8%, from the prior year. The College reported $712,751.00 in deferred inflows for pensions in 2017 which reflects a decrease of $357,205.00, or 33.4% from the prior year. Changes in deferred outflows and deferred inflows were due to updated actuarial valuations. Refer to Note 11 in the Notes to the Financial Statements for additional information on the pension plan reporting.

Liabilities

Long-term liabilities increased dramatically by $6,053,593.29, or 106.4%, from the prior period. This is mostly due to the increase in the College's proportionate share of the TSERS net pension liability of $6,341,719.00, offset by a modest decrease in long-term compensated absences of $288,125.71, or 23%. The net pension liability is discussed in Note 11 to the financial statements.

Net Position

The College's total net position increased by $387,812.77, or 0.7%, for the reporting period. The increase of $800,465.17, or 1.6%, in net investment in capital assets was due mainly to the Tart Building renovation project increases of $802,804.44. Restricted expendable net position decreased by $980,903.41, or 33.2%, from the prior year due to the decrease in capital gifts of $500,000.00 discussed below and the decrease in noncurrent restricted cash and cash equivalents of $341,777.95 discussed above. Unrestricted net position increased by $568,251.01, or 338.7%, from the prior year, primarily due to increases in operating revenues of $404,686.94.

Results of Operations

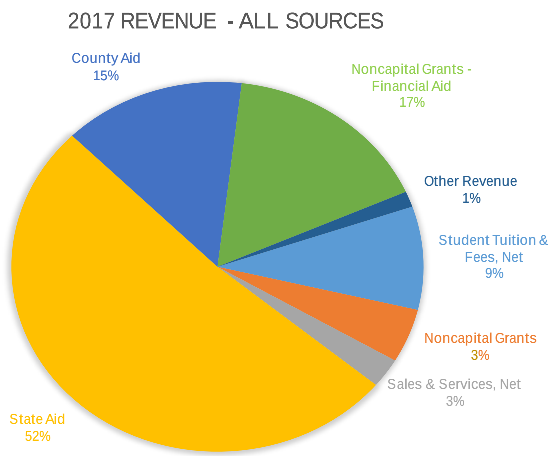
The Statement of Revenues, Expenses, and Changes in Net Position presents the results of the College's operations. A consolidated Statement of Revenues, Expenses, and Changes in Net Position with comparative figures is presented below.

Statement of Revenues, Expenses, and Changes in Net Position

	2017	2016 (as Restated)	Increase (Decrease)	% Change
Operating Revenues:				
Student Tuition and Fees, Net	$ 3,443,184.97	$ 3,359,884.91	$ 83,300.06	2.5%
Sales and Services, Net	978,368.21	733,745.57	244,622.64	33.3%
Other Operating Revenues	76,764.24		76,764.24	
Total Operating Revenues	4,498,317.42	4,093,630.48	404,686.94	9.9%
Operating Expenses:				
Salaries and Benefits	24,722,634.62	23,290,656.07	1,431,978.55	6.1%
Supplies and Materials	2,870,071.62	2,438,623.33	431,448.29	17.7%
Services	3,523,104.88	3,281,795.81	241,309.07	7.4%
Scholarships and Fellowships	3,781,215.00	4,030,682.13	(249,467.13)	-6.2%
Utilities	931,443.30	986,903.91	(55,460.61)	-5.6%
Depreciation	1,931,923.13	1,880,748.91	51,174.22	2.7%
Total Operating Expenses	37,760,392.55	35,909,410.16	1,850,982.39	5.2%
Operating Loss	(33,262,075.13)	(31,815,779.68)	(1,446,295.45)	-4.5%
Nonoperating Revenues:				
State Aid	18,079,680.38	17,982,349.46	97,330.92	0.5%
County Appropriations	4,090,335.68	4,135,510.23	(45,174.55)	-1.1%
Noncapital Grants - Student Financial Aid	6,579,937.73	6,825,256.91	(245,319.18)	-3.6%
Other Nonoperating Revenues	1,743,082.75	1,457,681.51	285,401.24	19.6%
Total Nonoperating Revenues	30,493,036.54	30,400,798.11	92,238.43	0.3%
State Capital Aid	1,563,713.69	977,328.28	586,385.41	60.0%
County Capital Aid	1,593,137.67	1,299,841.22	293,296.45	22.6%
Capital Grants		40,339.07	(40,339.07)	-100.0%
Capital Gifts		500,000.00	(500,000.00)	-100.0%
Increase in Net Position	387,812.77	1,402,527.00	(1,014,714.23)	-72.3%
Net Position - July 1	53,488,587.12	52,086,060.12	1,402,527.00	2.7%
Net Position - June 30	$ 53,876,399.89	$ 53,488,587.12	$ 387,812.77	0.7%

Total Revenues

Revenues from all sources (operating, nonoperating, and capital) totaled $38,148,205.32 for the current period, representing an increase of $836,268.16 from the prior period total of $37,311,937.16. The revenue sources are depicted below by type.



Operating Revenues

Operating revenues include student tuition and fees (net), sales and services (net), and other operating revenues. Sales and services (net) increased by $244,622.64, or 33.3%, primarily due to an increase in bookstore commissions of $191,012.79. This increase was caused by an expanded inventory of apparel and other soft goods as well as students purchasing laptops and computer supplies with financial aid.

Nonoperating Revenues

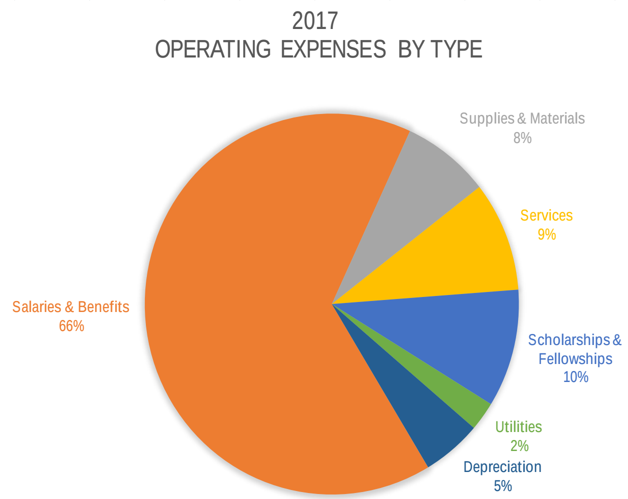
Nonoperating revenues are comprised of state and county aid for current expenses, student financial aid revenues, other noncapital grants, interest income, and other miscellaneous revenues. Financial aid revenues decreased by $245,319.18, or 3.6%, from the prior year largely due to a reduction in Pell revenues of $143,863.88. This reduction is a result of fewer students being eligible for such awards due to a recent change in federal regulations. Other nonoperating revenues increased by $285,401.24, or 19.6%, largely due to an increase in noncapital grants of $156,940.97. This increase was caused by increased activity in the Workforce Development and Student Supplemental Services grants in the current period.

Other Revenues

State capital aid increased by $586,385.41, or 60.0%, in the current year due to the College's emphasis on updating its technology infrastructure. County capital aid increased by $293,296.45, or 22.6%, for the same reason. Capital gifts decreased by $500,000.00, or 100%, due to a one-time capital gift from the Johnston Community College Foundation, Inc. (Foundation) in the prior year to support current construction projects.

Operating Expenses

For 2017, total operating expenses (which represent all expenses) increased by $1,850,982.39, or 5.2%. Operating expenses for the College are comprised primarily of the direct cost of personnel and related fringe benefits. Salaries and benefits increased by $1,431,978.55, or 6.1%, largely due to an increase in the proportionate share of the TSERS pension expense. The State legislature also awarded a 1.5% recurring annual salary increase and nonrecurring one-time bonus equivalent to 0.5% of annual salary for all full-time employees. The legislature also increased the College's share of health insurance by $15.80 per person per month. Scholarships and fellowships decreased by $249,467.13, or 6.2%, primarily due to the reduction in Pell financial aid revenues discussed above. Supplies and materials increased by $431,448.29, or 17.7%, due primarily to increased capital spending.



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, including capital portions, constituted 67% of total revenues for the College in 2017. The State legislature has established a budget for the upcoming fiscal year. The College received a small decrease in the total formula allotment of $108,025.00. The enrollment figures that drive the College's state allotment (budget full-time equivalents) decreased from 4,045 to 4,000 in the current year. Budgeted county current appropriations were increased by $15,081.00 due to an increase in operating expenses. County capital appropriations increased $213,876.00. The College has a variety of projects for improvements to the physical plant that need to be completed in order to maintain the overall operations of the College and safety of the students and staff.

During the upcoming year, the College plans to re-seal and re-stripe the parking lots in front of the Elsee, Wilson, and Health Buildings. The College also expects to begin construction of a new Student Success Center which is being funded by Connect NC bond proceeds from the State of North Carolina, county capital contributions, and local funding.

Johnston Community College takes every opportunity to acquire alternative funding to help support the mission and strategic goals of the College.

FINANCIAL STATEMENTS

Johnston Community College
Statement of Net Position
June 30, 2017 — *Exhibit A-1*

ASSETS	
Current Assets:	
Cash and Cash Equivalents	$ 6,291,479.23
Restricted Cash and Cash Equivalents	1,637,063.90
Receivables, Net (Note 4)	721,482.15
Inventories	69,064.30
Notes Receivable, Net (Note 4)	64,149.45
Total Current Assets	8,783,239.03
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	462,429.62
Capital Assets - Nondepreciable (Note 5)	6,650,909.12
Capital Assets - Depreciable, Net (Note 5)	44,916,964.89
Total Noncurrent Assets	52,030,303.63
Total Assets	60,813,542.66
DEFERRED OUTFLOWS OF RESOURCES	
Deferred Outflows Related to Pensions	7,372,144.00
LIABILITIES	
Current Liabilities:	
Accounts Payable and Accrued Liabilities (Note 6)	1,065,103.13
Unearned Revenue	275,121.38
Funds Held for Others	77,903.16
Long-Term Liabilities - Current Portion (Note 7)	435,436.08
Total Current Liabilities	1,853,563.75
Noncurrent Liabilities:	
Long-Term Liabilities (Note 7)	11,742,972.02
Total Liabilities	13,596,535.77
DEFERRED INFLOWS OF RESOURCES	
Deferred Inflows Related to Pensions	712,751.00
NET POSITION	
Net Investment in Capital Assets	51,505,982.46
Restricted for:	
Expendable:	
Scholarships and Fellowships	44,544.29
Loans	145,845.35
Capital Projects	462,429.62
Restricted for Specific Programs	1,317,137.80
Unrestricted	400,460.37
Total Net Position	$ 53,876,399.89

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, 2017 — *Exhibit A-2*

REVENUES	
Operating Revenues:	
Student Tuition and Fees, Net (Note 9)	$ 3,443,184.97
Sales and Services, Net (Note 9)	978,368.21
Other Operating Revenues	76,764.24
Total Operating Revenues	4,498,317.42
EXPENSES	
Operating Expenses:	
Salaries and Benefits	24,722,634.62
Supplies and Materials	2,870,071.62
Services	3,523,104.88
Scholarships and Fellowships	3,781,215.00
Utilities	931,443.30
Depreciation	1,931,923.13
Total Operating Expenses	37,760,392.55
Operating Loss	(33,262,075.13)
NONOPERATING REVENUES	
State Aid	18,079,680.38
County Appropriations	4,090,335.68
Noncapital Grants - Student Financial Aid	6,579,937.73
Noncapital Grants	1,298,534.93
Noncapital Gifts	100.00
Investment Income	65,742.08
Other Nonoperating Revenues	378,705.74
Total Nonoperating Revenues	30,493,036.54
Loss Before Other Revenues	(2,769,038.59)
State Capital Aid	1,563,713.69
County Capital Aid	1,593,137.67
Increase in Net Position	387,812.77
NET POSITION	
Net Position, July 1, 2016, as Restated (Note 16)	53,488,587.12
Net Position, June 30, 2017	$ 53,876,399.89

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

Johnston Community College
Statement of Cash Flows — *Exhibit A-3*
For the Fiscal Year Ended June 30, 2017 — *Page 1 of 2*

CASH FLOWS FROM OPERATING ACTIVITIES	
Received from Customers	$ 4,551,569.61
Payments to Employees and Fringe Benefits	(24,588,723.02)
Payments to Vendors and Suppliers	(7,327,604.04)
Payments for Scholarships and Fellowships	(3,781,162.17)
Loans Issued to Students	(6,009.59)
Collection of Loans to Students	6,159.59
Other Receipts	347,136.87
Net Cash Used by Operating Activities	(30,798,632.75)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Aid Received	18,079,680.38
County Appropriations	4,090,335.68
Noncapital Grants - Student Financial Aid	6,283,077.55
Noncapital Grants	1,317,048.74
Noncapital Gifts	100.00
Total Cash Provided by Noncapital Financing Activities	29,770,242.35
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
State Capital Aid Received	1,563,713.69
County Capital Aid	1,376,623.09
Capital Gifts	500,000.00
Proceeds from Sale of Capital Assets	37,301.03
Acquisition and Construction of Capital Assets	(2,811,222.94)
Net Cash Provided by Capital and Related Financing Activities	666,414.87
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment Income	65,742.08
Cash Provided by Investing Activities	65,742.08
Net Decrease in Cash and Cash Equivalents	(296,233.45)
Cash and Cash Equivalents, July 1, 2016	8,687,206.20
Cash and Cash Equivalents, June 30, 2017	$ 8,390,972.75

Johnston Community College
Statement of Cash Flows — *Exhibit A-3*
For the Fiscal Year Ended June 30, 2017

RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES

Operating Loss	$	(33,262,075.13)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense		1,931,923.13
Provision for Uncollectible Loans and Write-Offs		3,564.28
Nonoperating Other Income		358,347.80
Changes in Assets and Deferred Outflows of Resources:		
Receivables, Net		(528.15)
Inventories		153,514.25
Notes Receivable, Net		150.00
Deferred Outflows for Pensions		(5,775,718.00)
Changes in Liabilities and Deferred Inflows of Resources:		
Accounts Payable and Accrued Liabilities		(124,924.55)
Unearned Revenue		53,833.17
Net Pension Liability		6,341,719.00
Funds Held for Others		(11,210.93)
Deferred Inflows for Pensions		(357,205.00)
Compensated Absences		(110,022.62)
Net Cash Used by Operating Activities	$	(30,798,632.75)

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:		
Cash and Cash Equivalents	$	6,291,479.23
Restricted Cash and Cash Equivalents		1,637,063.90
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		462,429.62
Total Cash and Cash Equivalents - June 30, 2017	$	8,390,972.75

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through Assumption of a Liability	$	61,891.55
Increase in Receivables Related to Nonoperating Income		513,374.76

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, 2017 — *Exhibit B-1*

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
ASSETS				
Cash and Cash Equivalents	$ 186,896	$ 1,155,573	$ 0	$ 1,342,469
Investments		691,793	5,297,754	5,989,547
Accrued Interest		3,305		3,305
Prepaid Expenses	4,802			4,802
Pledges Receivable	4,394	41,505	46,086	91,985
Software, Net	4,276			4,276
Land and Building		778,790		778,790
Total Assets	$ 200,368	$ 2,670,966	$ 5,343,840	$ 8,215,174
LIABILITIES				
Accounts Payable	$ 2,927	$ 0	$ 0	$ 2,927
Agency Fund Liability	7,260			7,260
Deferred Event Revenue	4,300			4,300
Total Liabilities	14,487			14,487
NET ASSETS				
Unrestricted	185,881			185,881
Temporarily Restricted		2,670,966		2,670,966
Permanently Restricted			5,343,840	5,343,840
Total Net Assets	185,881	2,670,966	5,343,840	8,200,687
Total Liabilities and Net Assets	$ 200,368	$ 2,670,966	$ 5,343,840	$ 8,215,174

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, 2017 — *Exhibit B-2*

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT AND REVENUES				
Contributions	$ 478,786	$ 287,561	$ 223,887	$ 990,234
Golf Tournament	78,899			78,899
Special Events	27,870			27,870
Miscellaneous Revenue	41,198			41,198
Interest and Dividends	20,256	75,419		95,675
Net Realized and Unrealized Gains on Investments	23,953	504,767	530	529,250
Net Assets Released from Restrictions	558,798	(558,798)		
Total Support and Revenues	1,229,760	308,949	224,417	1,763,126
EXPENSES				
Program Services	780,623			780,623
Management and General	212,359			212,359
Fund Raising	171,659			171,659
Total Expenses	1,164,641			1,164,641
Change in Net Assets	65,119	308,949	224,417	598,485
Transfers	(100)	3,225	(3,125)	
Net Assets at Beginning of Year	120,862	2,358,792	5,122,548	7,602,202
Net Assets at End of Year	$ 185,881	$ 2,670,966	$ 5,343,840	$ 8,200,687

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 unit. Other related foundations and similar nonprofit corporations for which the College is not financially accountable are not part of the accompanying financial statements.

Discretely Presented Component Unit - Johnston Community College Foundation, Inc. (Foundation) is a legally separate, tax-exempt nonprofit corporation and is reported as a discretely presented component unit based on the nature and significance of its relationship to the College.

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

The Foundation is a private nonprofit 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, 2017, the Foundation distributed $464,115.00 to the College for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from Johnston Community College Foundation, Inc., PO 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 aid, 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. The College's equity position in the STIF is recorded at fair value. Additional information regarding the fair value measurement of deposits held by the State Treasurer in the STIF is disclosed in Note 3.

E. Receivables - Receivables consist of tuition and fees charged to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from the federal government, state and local governments, and private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants. Receivables are recorded net of estimated uncollectible amounts.

F. Inventories - Inventories, consisting of expendable supplies, are valued at cost using the first-in, first-out method.

G. Capital Assets - Capital assets are stated at cost at date of acquisition or acquisition value at date of donation in the case of gifts. Donated capital assets acquired prior to July 1, 2015 are stated at fair value as of the date of donation. The value of assets constructed includes all material direct and indirect construction costs.

The College capitalizes assets that have a value or cost of $5,000 or greater at the date of acquisition and an estimated useful life of more than one year.

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

Asset Class	Estimated Useful Life
Buildings	30-70 years
Machinery and Equipment	5-30 years
General Infrastructure	20-75 years

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

I. Noncurrent Long-Term Liabilities - Noncurrent long-term liabilities include the net pension liability and compensated absences payable 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 2016 *Comprehensive Annual Financial Report.* This liability represents the College's portion of the collective total pension liability less the fiduciary net position of the Teachers' and State Employees' Retirement System. See Note 11 for further information regarding the College's policies for recognizing liabilities, expenses, and deferred outflows of resources and deferred inflows of resources related to pensions.

J. Compensated Absences - The College's policy is to record the cost of vacation leave when earned. The policy provides for a maximum accumulation of unused vacation leave of 30 days which can be carried forward each 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. Deferred Outflows/Inflows of Resources - In addition to assets, the Statement of Net Position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. Deferred outflows for pensions qualifies for reporting in this category.

In addition to liabilities, the Statement of Net Position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until then. Deferred inflows for pensions qualifies for reporting in this category.

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

Net Investment in Capital Assets - This represents the College's total investment in capital assets, net of outstanding liabilities related to those capital assets.

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 of resources and deferred inflows of resources.

M. Scholarship Discounts - Student tuition and fees 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.

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

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

O. **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, copy/printing centers, 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.

P. **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.

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 $1,920.00, and deposits in private financial institutions with a carrying value of $2,222,998.59 and a bank balance of $2,391,818.00.

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, 2017, 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 (STIF); 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, 2017, the amount shown on the Statement of Net Position as cash and cash equivalents includes $6,166,054.16, 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 1.6 years as of June 30, 2017. Assets and shares of the STIF are valued at fair value. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's STIF) are included in the North Carolina Department of State Treasurer Investment Programs' separately issued audit report. This separately issued report can be obtained from the Department of State Treasurer, 3200 Atlantic Avenue, Raleigh, NC 27604 or can be accessed from the Department of State Treasurer's website at https://www.nctreasurer.com/ in the Audited Financial Statements section.

Component Unit - Investments of the College's discretely presented component unit, the 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	Amount
Stocks	$ 808,316
Mutual Funds	5,013,049
Money Market Mutual Funds	168,182
Total	$ 5,989,547

NOTE 3 - FAIR VALUE MEASUREMENTS

College - To the extent available, the College's investments are recorded at fair value as of June 30, 2017. GASB Statement No. 72, *Fair Value Measurement and Application*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Inputs are used in applying the various valuation techniques and take into account the assumptions that market participants use to make valuation decisions. Inputs may include price information, credit data, interest and yield curve data, and other factors specific to the financial instrument. Observable inputs reflect market data obtained from independent sources. In contrast, unobservable inputs reflect the entity's assumptions about how market participants would value the financial instrument. Valuation techniques should maximize the use of observable inputs to the extent available.

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

Level 1 Investments whose values are based on quoted prices (unadjusted) for identical assets in active markets that a government can access at the measurement date.

Level 2 Investments with inputs – other than quoted prices included within Level 1 – that are observable for an asset, either directly or indirectly.

Level 3 Investments classified as Level 3 have unobservable inputs and may require a degree of professional judgment.

Short-Term Investment Fund - At year-end, all of the College's investments valued at $6,166,054.16 were held in the STIF which is a Level 2 investment. Ownership interest of the STIF is determined on a fair market valuation basis as of fiscal year end in accordance with the STIF operating procedures. Valuation of the underlying assets is performed by the custodian.

Component Unit - FASB ASC 820-10 and subsections *Fair Value Measurements*, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820-10 are described as follows:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Foundation has the ability to access.

Level 2 Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Foundation believes its valuation methods are appropriate and consistent with the other market participants, the use of different methodologies or assumptions to determine fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth the level within the fair value hierarchy for the Foundation's investments at fair value as of June 30, 2017:

	Fair Value as of June 30, 2017			
	Level 1	Level 2	Level 3	Total
Stocks	$ 808,316	$ 0	$ 0	$ 808,316
Mutual Funds	5,013,049			5,013,049
Money Market Mutual Funds	168,182			168,182
Total	$ 5,989,547	$ 0	$ 0	$ 5,989,547

NOTE 4 - RECEIVABLES

Receivables at June 30, 2017, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	$ 1,561,734.22	$ 1,431,096.37	$ 130,637.85
Student Sponsors	31,780.11	1,516.72	30,263.39
Accounts	47,207.65	260.10	46,947.55
Intergovernmental	513,633.36		513,633.36
Total Current Receivables	$ 2,154,355.34	$ 1,432,873.19	$ 721,482.15
Notes Receivable:			
Institutional Student Loan Programs	$ 71,285.51	$ 7,136.06	$ 64,149.45

NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2017, is presented as follows:

	Balance July 1, 2016 (as Restated)	Increases	Decreases	Balance June 30, 2017
Capital Assets, Nondepreciable:				
Land	$ 5,456,219.54	$ 0.00	$ 0.00	$ 5,456,219.54
Construction in Progress	560,901.44	1,722,433.43	1,088,645.29	1,194,689.58
Total Capital Assets, Nondepreciable	6,017,120.98	1,722,433.43	1,088,645.29	6,650,909.12
Capital Assets, Depreciable:				
Buildings	50,773,104.01	197,603.48	14,562.59	50,956,144.90
Machinery and Equipment	10,297,358.23	554,736.72	123,874.16	10,728,220.79
General Infrastructure	5,054,901.54	1,294,385.18	5,113.33	6,344,173.39
Total Capital Assets, Depreciable	66,125,363.78	2,046,725.38	143,550.08	68,028,539.08
Less Accumulated Depreciation for:				
Buildings	14,318,751.87	1,014,035.17	11,067.56	15,321,719.48
Machinery and Equipment	5,392,290.32	793,362.87	114,721.28	6,070,931.91
General Infrastructure	1,595,215.86	124,525.09	818.15	1,718,922.80
Total Accumulated Depreciation	21,306,258.05	1,931,923.13	126,606.99	23,111,574.19
Total Capital Assets, Depreciable, Net	44,819,105.73	114,802.25	16,943.09	44,916,964.89
Capital Assets, Net	$ 50,836,226.71	$ 1,837,235.68	$ 1,105,588.38	$ 51,567,874.01

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2017, were as follows:

	Amount
Accounts Payable and Accrued Liabilities:	
Accounts Payable	$ 173,111.79
Accrued Payroll	713,938.66
Contract Retainage	35,851.55
Contracts Payable - Capital Assets	26,040.00
Other	116,161.13
Total Accounts Payable and Accrued Liabilities	$ 1,065,103.13

NOTE 7 - LONG-TERM LIABILITIES

A summary of changes in the long-term liabilities for the year ended June 30, 2017, is presented as follows:

	Balance July 1, 2016	Additions	Reductions	Balance June 30, 2017	Current Portion
Net Pension Liability	$ 4,434,767.00	$ 6,341,719.00	$ 0.00	$ 10,776,486.00	$ 0.00
Compensated Absences	1,511,944.72	850,845.48	960,868.10	1,401,922.10	435,436.08
Total Long-Term Liabilities	$ 5,946,711.72	$ 7,192,564.48	$ 960,868.10	$ 12,178,408.10	$ 435,436.08

Additional information regarding the net pension liability is included in Note 11.

NOTE 8 - OPERATING LEASE OBLIGATIONS

The College entered into operating leases for office equipment. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2017:

Fiscal Year	Amount
2018	$ 6,392.20
2019	6,392.20
2020	1,598.05
Total Minimum Lease Payments	$ 14,382.45

Rental expense for all operating leases during the year was $6,392.20.

NOTE 9 - 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, Net	$ 6,319,956.58	$ 0.00	$ 2,715,081.97	$ 161,689.64	$ 3,443,184.97
Sales and Services:					
Sales and Services of Auxiliary Enterprises:					
Bookstore	$ 505,884.20	$ 0.00	$ 0.00	$ 0.00	$ 505,884.20
Performing Arts	188,981.00				188,981.00
Other	220,114.18	21,941.55			198,172.63
Sales and Services of Education and Related Activities	85,330.38				85,330.38
Total Sales and Services, Net	$ 1,000,309.76	$ 21,941.55	$ 0.00	$ 0.00	$ 978,368.21

NOTE 10 - OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	$ 13,629,930.94	$ 1,960,271.51	$ 634,433.43	$ 24,114.39	$ 0.00	$ 0.00	$ 16,248,750.27
Public Service	350,302.73	19,769.00	155,676.12				525,747.85
Academic Support	2,534,443.74	162,240.96	204,364.17	5,000.00	62,567.56		2,968,616.43
Student Services	2,254,370.75	71,510.61	383,295.97	32,554.96			2,741,732.29
Institutional Support	4,140,418.46	373,458.33	1,215,409.36	265,605.87			5,994,892.02
Operations and Maintenance of Plant	1,541,500.01	248,931.60	729,308.12		868,875.74		3,388,615.47
Student Financial Aid	220,230.15	17,732.35	85,082.99	3,453,939.78			3,776,985.27
Auxiliary Enterprises	51,437.84	16,157.26	115,534.72				183,129.82
Depreciation						1,931,923.13	1,931,923.13
Total Operating Expenses	$ 24,722,634.62	$ 2,870,071.62	$ 3,523,104.88	$ 3,781,215.00	$ 931,443.30	$ 1,931,923.13	$ 37,760,392.55

NOTE 11 - PENSION PLANS

Defined Benefit Plan

Plan Administration: The State of North Carolina administers the Teachers' and State Employees' Retirement System (TSERS) plan. This plan is a cost-sharing, multiple-employer, defined benefit pension plan established by the State to provide pension benefits for general employees and law enforcement officers (LEOs) of the State, general employees and LEOs of its component units, and employees of Local Education Agencies (LEAs) and charter schools not in the reporting entity. Membership is comprised of employees of the State (state agencies and institutions), universities, community colleges, and certain proprietary component units along with the LEAs and charter schools that elect to join the Retirement System. 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 annual pay. The contribution rate for employers is set each year by the North Carolina 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, 2017 was 9.98% of covered payroll. Employee contributions to the pension plan were $1,109,351.48, and the College's contributions were $1,845,221.00 for the year ended June 30, 2017.

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 2016 *Comprehensive Annual Financial Report*. An electronic version of this report is available on the North Carolina Office of the

State Controller's website at http://www.osc.nc.gov/ or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

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

Methods Used to Value TSERS Investment: Pursuant to *North Carolina General Statutes*, the State Treasurer is the custodian and administrator of the retirement systems. The State Treasurer maintains various investment portfolios in its Investment Pool. The pension trust funds are the primary participants in the Long-Term Investment portfolio and the sole participants in the External Fixed Income Investment, Equity Investment, Real Estate Investment, Alternative Investment, Credit Investment, and Inflation Protection Investment portfolios. The Fixed Income Asset Class includes the Long-Term Investment and External Fixed Income Investment Portfolios. The Global Equity Asset Class includes the Equity Investment Portfolio. 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 2016 *Comprehensive Annual Financial Report*.

Net Pension Liability: At June 30, 2017, the College reported a liability of $10,776,486.00 for its proportionate share of the collective net pension liability. The net pension liability was measured as of June 30, 2016. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2015, and update procedures were used to roll forward the total pension liability to June 30, 2016. 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, 2016, the College's proportion was .11725%, which was a decrease of .00309 from its proportion measured as of June 30, 2015.

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	12/31/2015
Inflation	3%
Salary Increases*	3.50% - 8.10%
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, 2015 valuations were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014.

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, 2016 (the valuation date) are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return
Fixed Income	1.4%
Global Equity	5.3%
Real Estate	4.3%
Alternatives	8.9%
Credit	6.0%
Inflation Protection	4.0%

The information in the preceding table is based on 30-year expectations developed with the consulting actuary and is part of the asset, liability, and investment policy of 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 3.05%. Return projections do not include any excess return expectations over benchmark averages. 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 at June 30, 2016 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		
1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
$ 20,268,488.00	$ 10,776,486.00	$ 2,795,014.00

Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions: For the year ended June 30, 2017, the College recognized pension expense of $2,053,120.00. At June 30, 2017, 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	$ 509,312.00
Changes of Assumptions	1,589,270.00	
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	3,843,240.00	
Change in Proportion and Differences Between Agency's Contributions and Proportionate Share of Contributions	94,413.00	203,439.00
Contributions Subsequent to the Measurement Date	1,845,221.00	
Total	$ 7,372,144.00	$ 712,751.00

The amount of $1,845,221.00 reported as deferred outflows of resources related to pensions will be included as a reduction of the net pension liability in the fiscal year ended June 30, 2018. 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
2018	$ 807,621.00
2019	814,302.00
2020	2,037,346.00
2021	1,154,903.00
Total	$ 4,814,172.00

NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS

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

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

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

For the period July 1, 2016 through December 31, 2016, the College contributed 5.60% of the covered payroll under TSERS to the Fund, and for the period January 1, 2017 through June 30, 2017, the College contributed 6.02% of the covered payroll under TSERS to the Fund. Required contribution rates for the years ended June 30, 2016, and 2015, were 5.60% and 5.49%, respectively. The College made 100% of its annual required contributions to the Plan for the years ended June 30, 2017, 2016, and 2015, which were $1,074,222.02, $886,983.68, and $866,808.20, respectively. The College assumes no liability for retiree health care benefits provided by the programs other than its required contribution.

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

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

Disability income benefits are funded by actuarially determined employer contributions that are established by the General Assembly. For the fiscal year ended June 30, 2017, the College made a statutory contribution of .38% of covered payroll under TSERS to the DIPNC. Required contribution rates for the years ended June 30, 2016, and 2015, were .41% in both years. The College made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2017, 2016, and 2015, which were $70,258.93, $64,939.88, and $64,734.31, respectively. The College assumes no liability for long-term disability benefits under the Plan other than its contribution.

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

NOTE 13 - RISK MANAGEMENT

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

A. Public Entity Risk Pool

Public School Insurance Fund

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

B. Employee Benefit Plans

1. State Health Plan

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

2. Death Benefit Plan of North Carolina

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

C. Other Risk Management and Insurance Activities

1. Automobile Insurance

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

2. Public Officers' and Employees' Liability Insurance

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

3. Employee Dishonesty and Computer Fraud

The College is protected for losses from employee dishonesty and computer fraud for employees paid in whole or in part from state funds. This coverage is with a private insurance company and is handled by the North Carolina Department of Insurance. North Carolina Community College System Office is charged a premium by the private insurance company. Coverage limit is $5,000,000 per occurrence. The private insurance company pays 90% of each loss less a $100,000 deductible. The College is protected from losses for employees paid by county and institutional funds 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 14 - COMMITMENTS

The College has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were $32,294.00 and on other purchases were $19,053.00 at June 30, 2017.

NOTE 15 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2017, the College implemented the following pronouncement issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 82, *Pension Issues – An amendment of GASB Statement No. 67, No. 68, and No. 73*

GASB Statement No. 82 addresses certain issues with respect to Statements No. 67, *Financial Reporting for Pension Plans* , No. 68, *Accounting and Financial Reporting for Pensions,* and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68.* Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

NOTE 16 - NET POSITION RESTATEMENTS

As of July 1, 2016, net position as previously reported was restated as follows:

	Amount
July 1, 2016 Net Position as Previously Reported	$ 52,909,740.31
Restatements:	
To Correct Prior Period Capital Assets Error	78,846.81
To Record Capital Gifts from Foundation Earned in Prior Period	500,000.00
July 1, 2016 Net Position as Restated	$ 53,488,587.12

REQUIRED SUPPLEMENTARY INFORMATION

Johnston Community College
Required Supplementary Information
Schedule of the Proportionate Net Pension Liability
Teachers' and State Employees' Retirement System
Last Four Fiscal Years — *Exhibit C-1*

	2016	2015	2014	2013
Proportionate Share Percentage of Collective Net Pension Liability	0.11725%	0.12034%	0.12099%	0.11550%
Proportionate Share of TSERS Collective Net Pension Liability	$ 10,776,486.00	$ 4,434,767.00	$ 1,418,512.00	$ 7,012,027.00
Covered Payroll	$ 15,838,994.32	$ 15,788,856.15	$ 15,306,909.10	$ 15,495,758.13
Net Pension Liability as a Percentage of Covered Payroll	68.04%	28.09%	9.27%	45.25%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	87.32%	94.64%	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

	2017	2016	2015	2014	2013
Contractually Required Contribution	$ 1,845,221.00	$ 1,449,267.98	$ 1,444,680.34	$ 1,330,170.40	$ 1,290,796.65
Contributions in Relation to the Contractually Determined Contribution	1,845,221.00	1,449,267.98	1,444,680.34	1,330,170.40	1,290,796.65
Contribution Deficiency (Excess)	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Covered Payroll	$ 18,489,191.32	$ 15,838,994.32	$ 15,788,856.15	$ 15,306,909.10	$ 15,495,758.13
Contributions as a Percentage of Covered Payroll	9.98%	9.15%	9.15%	8.69%	8.33%

	2012	2011	2010	2009	2008
Contractually Required Contribution	$ 1,096,346.82	$ 751,615.96	$ 563,826.39	$ 531,888.64	$ 448,728.90
Contributions in Relation to the Contractually Determined Contribution	1,096,346.82	751,615.96	563,826.39	531,888.64	448,728.90
Contribution Deficiency (Excess)	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Covered Payroll	$ 14,735,844.42	$ 15,245,759.89	$ 15,793,456.29	$ 15,830,019.05	$ 14,712,422.85
Contributions as a Percentage of Covered Payroll	7.44%	4.93%	3.57%	3.36%	3.05%

Note: Changes in benefit terms, methods, and assumptions are presented in the Notes to Required Supplementary Information (RSI) schedule following the pension RSI tables.

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

Changes of Benefit Terms:

Cost of Living Increase

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

Changes of assumptions. In 2008, 2012, and 2015, the actuarial assumptions were updated to more closely reflect actual experience. In 2015, the North Carolina Retirement Systems' consulting actuaries performed the quinquennial investigation of each retirement systems' actual demographic and economic experience (known as the "Experience Review"). The Experience Review provides the basis for selecting the actuarial assumptions and methods used to determine plan liabilities and funding requirements. The most recent Experience Review examined each plan's experience during the period between January 1, 2010, and December 31, 2014. Based on the findings, the Board of Trustees of the Teachers' and State Employees' Retirement System adopted a number of new actuarial assumptions and methods. The most notable changes to the assumptions include updates to the mortality tables and the mortality improvement projection scales to reflect reduced rates of mortality and significant increases in mortality improvements. These assumptions were adjusted to reflect the mortality projection scale MP-2015, released by the Society of Actuaries in 2015. In addition, the assumed rates of retirement, salary increases, and rates of termination from active employment were reduced to more closely reflect actual experience.

The Notes to Required Supplementary Information reflects information included in the State of North Carolina’s 2016 *Comprehensive Annual Financial Report*.

INDEPENDENT AUDITOR'S REPORT

STATE OF NORTH CAROLINA
Office of the State Auditor

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20601 Mail Service Center
Raleigh, NC 27699-0600
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Beth A. Wood, CPA
State Auditor

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 (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, 2017, 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 28, 2018. 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.

<u>Compliance and Other Matters</u>

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.*

<u>Purpose of this Report</u>

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 28, 2018

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For additional information contact:
Brad Young
Director of External Affairs
919-807-7513

This audit required 350 hours at an approximate cost of $36,050.