

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, 2019

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 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, 2019, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

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

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

A handwritten signature in black ink that reads "Beth A. Wood".

Beth A. Wood, CPA
State Auditor



Beth A. Wood, CPA
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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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, 2019, 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, 2019, 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 11, 2020 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, CPA
State Auditor

Raleigh, North Carolina

February 11, 2020



MANAGEMENT'S DISCUSSION AND ANALYSIS

Introduction

The Management Discussion and Analysis for Johnston Community College (College) for fiscal year ended June 30, 2019 is intended to provide 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 user is encouraged to reference the appropriate section of the financial statements for supporting detailed information.

The Financial Statements

In accordance with Governmental Accounting Standards Board (GASB) Statements No. 34 and No. 35, the enclosed report focuses on the financial position of the College as a whole. The full scope of the College's activities is considered to be a single business-type activity and is presented in a single column in the basic financial statements. The basic financial statements 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.

The financial statements also include a Statement of Financial Position, Statement of Activities, and certain note disclosures for the College's discretely presented component unit, the Johnston Community College Foundation, Inc. (Foundation); however, the Foundation is not included in management's discussion and analysis. More information describing the relationship between the College and Foundation can be found in Note 1A.

Financial Position

The College experienced an increase in net position of \$5,941,149.98, or 65.9%, during 2019. The largest single factor in this increase was the receipt in 2019 of \$4,623,912.67 in state capital aid which was an increase from 2018 of \$3,905,132.90. This was primarily due to receipt of \$3,701,470.00 in Connect NC bond proceeds authorized in 2016. The funds were used to partially fund the construction of a Student Success Center located in the Tart Building. Another factor in this increase in net position was the noncash recognition of a decrease in pension and other postemployment benefits (OPEB) expense of \$1,748,994.00 resulting from the recognition of the change in the College's proportionate share of the Teachers' and State Employees' Retirement System (TSERS) net pension and OPEB liabilities, deferred outflows of resources, and deferred inflows of resources.

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				
	2019	2018	Increase (Decrease)	% Change
Assets:				
Current Assets	\$ 12,162,443.81	\$ 9,587,233.37	\$ 2,575,210.44	26.9%
Noncurrent Assets	820,620.42	919,215.76	(98,595.34)	-10.7%
Capital Assets, Net	60,015,710.69	52,097,728.42	7,917,982.27	15.2%
Total Assets	72,998,774.92	62,604,177.55	10,394,597.37	16.6%
Deferred Outflows:				
Deferred Outflows Related to Pensions	6,427,431.00	4,738,156.00	1,689,275.00	35.7%
Deferred Outflows Related to OPEB	2,050,005.00	1,061,435.00	988,570.00	93.1%
Total Deferred Outflows	8,477,436.00	5,799,591.00	2,677,845.00	46.2%
Liabilities:				
Long-Term Liabilities - Current Portion	357,895.25	208,663.07	149,232.18	71.5%
Other Current Liabilities	4,507,309.63	1,831,937.77	2,675,371.86	146.0%
Long-Term Liabilities	44,725,485.60	42,851,112.25	1,874,373.35	4.4%
Total Liabilities	49,590,690.48	44,891,713.09	4,698,977.39	10.5%
Deferred Inflows:				
Deferred Inflows Related to Pensions	316,121.00	529,618.00	(213,497.00)	-40.3%
Deferred Inflows Related to OPEB	16,606,532.00	13,960,720.00	2,645,812.00	19.0%
Total Deferred Inflows	16,922,653.00	14,490,338.00	2,432,315.00	16.8%
Net Position:				
Net Investment in Capital Assets	56,843,487.85	52,097,728.42	4,745,759.43	9.1%
Restricted - Expendable	3,041,159.98	2,214,003.17	827,156.81	37.4%
Unrestricted	(44,921,780.39)	(45,290,014.13)	368,233.74	0.8%
Total Net Position	\$ 14,962,867.44	\$ 9,021,717.46	\$ 5,941,149.98	65.9%

Assets

Current assets include cash, receivables, and inventories. Total current assets increased significantly by \$2,575,210.44, or 26.9%, from the prior period. This is mostly attributable to \$2,992,861.10 of unspent proceeds from the long-term financing of the Energy Performance Project, of which \$2,833,868.94 was classified as current restricted cash to cover current capital-related payables.

The following schedule compares capital assets for the fiscal years 2019 and 2018, net of accumulated depreciation:

Capital Assets, Net of Accumulated Depreciation

	2019	2018	Increase (Decrease)	% Change
Land	\$ 5,456,219.54	\$ 5,456,219.54	\$ 0.00	0.0%
Construction in Progress	9,035,224.39	1,554,751.57	7,480,472.82	481.1%
Buildings, Net	36,420,808.71	36,126,001.94	294,806.77	0.8%
Machinery and Equipment, Net	3,669,066.13	3,934,681.17	(265,615.04)	-6.8%
General Infrastructure, Net	5,434,391.92	5,026,074.20	408,317.72	8.1%
Total Capital Assets, Net	<u>\$ 60,015,710.69</u>	<u>\$ 52,097,728.42</u>	<u>\$ 7,917,982.27</u>	15.2%

Net capital assets increased in the amount of \$7,917,982.27, or 15.2%, from the prior period. As shown by the schedule above, this change was primarily due to a large amount of spending on construction projects that were incomplete at June 30, 2019. Construction in progress had a net increase of \$7,480,472.82. The two largest projects currently under construction and included in construction in progress are the Student Success Center project with expenditures during 2019 of \$5,583,217.88 and the Energy Savings Performance Project with 2019 expenditures of \$2,453,520.40. Capital expenditures on machinery and equipment were only \$408,154.96. Depreciation recorded against the value of machinery and equipment was \$665,845.14, which drove the net decrease of \$265,615.04 in net machinery and equipment for the year. General infrastructure increased by \$408,317.72 primarily due to the completion of the 2018-2019 Jaguar Drive Paving Project during the year at a final cost of \$518,568.22.

Deferred Outflows/Inflows of Resources

The College reported \$8,477,436.00 in deferred outflows for pensions and OPEB in 2019, an increase of \$2,677,845.00 over 2018. The College also reported \$16,922,653.00 in deferred inflows for pensions and OPEB in 2019, an increase of \$2,432,315.00 over 2018. Changes in deferred outflows and deferred inflows were due to updated actuarial valuations for the TSERS plan, the Retiree Health Benefit Fund, and the Disability Income Plan of North Carolina. Refer to Note 12 and Note 13 in the Notes to the Financial Statements for additional information on the pension plan and other postemployment benefits reporting.

Liabilities

Other current liabilities totaled \$4,507,309.63 at June 30, 2019, an increase of \$2,675,371.86, or 146.0%. This is mostly related to an increase in capital activity and related year-end accruals, as capital asset payables increased by \$2,626,976.50.

The College reported \$44,725,485.60 in long-term liabilities in 2019, an increase of \$1,874,373.35 from the prior year. The majority of this increase is due to the new financing for the Energy Savings Performance Project of \$3,194,763.00 and a \$2,266,286.00 increase in the College's proportionate share of the TSERS net pension liability, offset by a \$3,597,367.00 decrease in the College's proportionate share of the net OPEB Liability. Long-term liabilities are discussed in Note 7 to the financial statements. Additional discussion of the College's proportionate share of the net pension and OPEB liabilities are discussed in Notes 12 and 13 to the financial statements.

Net Position

The College's total net position increased by \$5,941,149.98, or 65.9%, for the reporting period. The increase in net investment in capital assets of \$4,745,759.43, or 9.1%, was due mainly to expenditures for the construction of the Student Success Center. Restricted expendable net position increased by \$827,156.81, or 37.4%, from the prior year, predominantly due to an increase in amounts restricted for capital spending.

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

	2019	2018	Increase (Decrease)	% Change
Operating Revenues:				
Student Tuition and Fees, Net	\$ 3,687,791.79	\$ 3,694,507.41	\$ (6,715.62)	-0.2%
Sales and Services, Net	585,870.83	1,011,023.98	(425,153.15)	-42.1%
Other Operating Revenues	74,235.16	74,095.16	140.00	0.2%
Total Operating Revenues	4,347,897.78	4,779,626.55	(431,728.77)	-9.0%
Operating Expenses:				
Salaries and Benefits	25,856,836.99	26,355,381.83	(498,544.84)	-1.9%
Supplies and Materials	2,749,418.94	2,350,820.21	398,598.73	17.0%
Services	3,759,122.54	3,954,020.48	(194,897.94)	-4.9%
Scholarships and Fellowships	3,528,922.66	3,698,473.22	(169,550.56)	-4.6%
Utilities	955,253.36	993,185.36	(37,932.00)	-3.8%
Depreciation	1,950,683.54	2,029,755.87	(79,072.33)	-3.9%
Total Operating Expenses	38,800,238.03	39,381,636.97	(581,398.94)	-1.5%
Operating Loss	(34,452,340.25)	(34,602,010.42)	149,670.17	0.4%
Nonoperating Revenues (Expenses):				
State Aid	20,468,750.00	19,009,652.60	1,459,097.40	7.7%
County Appropriations	4,440,682.71	4,455,488.81	(14,806.10)	-0.3%
Noncapital Grants - Student Financial Aid	6,002,161.95	6,131,851.01	(129,689.06)	-2.1%
Interest and Fees on Debt	(80,057.70)		(80,057.70)	
Other Nonoperating Revenues	1,972,941.06	1,779,702.93	193,238.13	10.9%
Net Nonoperating Revenues	32,804,478.02	31,376,695.35	1,427,782.67	4.6%
State Capital Aid	4,623,912.67	718,779.77	3,905,132.90	543.3%
County Capital Aid	2,864,166.85	2,348,543.74	515,623.11	22.0%
Capital Grants	95,932.69	30,996.55	64,936.14	209.5%
Capital Gifts	5,000.00	207,262.67	(202,262.67)	-97.6%
Net Position - July 1	9,021,717.46	8,941,449.80	80,267.66	0.9%
Net Position - June 30	\$ 14,962,867.44	\$ 9,021,717.46	\$ 5,941,149.98	65.9%
Reconciliation of Change in Net Position				
Total Revenues	\$ 44,821,445.71	\$ 39,461,904.63	\$ 5,359,541.08	13.6%
Less: Total Expenses	38,880,295.73	39,381,636.97	(501,341.24)	-1.3%
Increase in Net Position	\$ 5,941,149.98	\$ 80,267.66	\$ 5,860,882.32	7301.7%

Total Revenues

Revenues from all sources (operating, nonoperating, and capital) totaled \$44,821,445.71 for the current period, representing an increase of \$5,359,541.08, or 13.6%, from the prior period total of \$39,461,904.63. See below for a discussion of variances in certain revenue captions.

Operating Revenues

Operating revenues include student tuition and fees (net), sales and services (net), and other operating revenues. Student tuition and fees (net) remained flat with a small decrease of \$6,715.62, or 0.2%. Revenue from sales and services decreased by \$425,153.15. Below are listed the three major causes of this decrease:

- End of sand mining at Howell Woods: \$100,000 decrease
- Reduction in bookstore commissions: \$106,000 decrease
- No performing arts revenue: \$205,000 decrease
 - (due to closure of Tart Auditorium during construction)

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. Increases in these revenues were due to an increase in state aid by \$1,459,097.40, or 7.7%, caused by an increase in the North Carolina Community College System Office formula funding rate. Other nonoperating revenues also increased by \$193,238.13, or 10.9%, predominantly due to an increase in surplus sales from year to year.

Other Revenues

Other revenues are made up of state and county capital aid, capital grants, and capital gifts. State capital aid increased by \$3,905,132.90, or 543.3%, in the current year. County capital aid increased by \$515,623.11, or 22.0%, for the current year. These increases were due to the construction of an addition to the Tart Building to house our Student Success Center. It is being funded by a combination of State of NC "Connect NC" bonds and county issued General Obligation Community College Bond funds. Capital gifts decreased by \$202,262.67, or 97.6%, due to decreased capital gift funding from the Foundation.

Operating Expenses

For 2019, total operating expenses decreased by \$581,398.94 or 1.5%. Operating expenses for the College are comprised primarily of the direct cost of personnel and related fringe benefits. Salaries and benefits decreased by \$498,544.84, or 1.9%, due to the decrease in the proportionate share of the TSERS pension expense and OPEB expense. Supplies and materials increased by \$398,598.73, or 17.0%, due to increased spending on noncapital equipment, such as desktop computers.

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 72.3% of total revenues for the College in 2019. As of this report, the State legislature has not yet established a budget for the upcoming fiscal year (2020). The enrollment figures that drive the College's state allotment (budgeted full-time equivalents) decreased by

35, or 0.1%, from 4,188 to 4,153 for 2020. Budgeted county current appropriations for 2020 increased by \$177,506.00, or 3.9%, from the previous year to \$4,728,931 due to a projected increase in operating expenses. Annual county capital appropriations for 2020 increased from the previous year by \$155,000, or 28.4%, to \$700,000. The College has a variety of projects for improvements and additions to the campus 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 is completing a major upgrade to the College's auditorium, funded with a combination of Foundation gifts and county capital funding.

The Johnston County Board of Commissioners on May 7, 2018 approved an application to the North Carolina Local Government Commission to issue up to \$15,000,000 in General Obligation Community College Bonds. The application has been approved by the Local Government Commission and approved in a referendum of voters in Johnston County on the November 2018 ballot. We expect the county to issue these bonds in 2020 and the proceeds will be used to fund the construction of a new building on the main campus to house our engineering program.

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, 2019

Exhibit A-1
Page 1 of 2

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 6,114,773.19
Restricted Cash and Cash Equivalents	4,256,737.03
Receivables, Net (Note 4)	1,713,049.98
Inventories	57,133.49
Notes Receivable, Net (Note 4)	20,750.12

Total Current Assets	<u>12,162,443.81</u>
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Noncurrent Assets:

Restricted Cash and Cash Equivalents	789,925.42
Net Other Postemployment Benefits Asset	30,695.00
Capital Assets - Nondepreciable (Note 5)	14,491,443.93
Capital Assets - Depreciable, Net (Note 5)	45,524,266.76

Total Noncurrent Assets	<u>60,836,331.11</u>
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Total Assets	<u>72,998,774.92</u>
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DEFERRED OUTFLOWS OF RESOURCES

Deferred Outflows Related to Pensions	6,427,431.00
Deferred Outflows Related to Other Postemployment Benefits (Note 13)	2,050,005.00

Total Deferred Outflows of Resources	<u>8,477,436.00</u>
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LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 6)	4,054,774.28
Unearned Revenue	350,847.75
Funds Held for Others	101,687.60
Long-Term Liabilities - Current Portion (Note 7)	357,895.25

Total Current Liabilities	<u>4,865,204.88</u>
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Noncurrent Liabilities:

Long-Term Liabilities (Note 7)	44,725,485.60
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Total Liabilities	<u>49,590,690.48</u>
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DEFERRED INFLOWS OF RESOURCES

Deferred Inflows Related to Pensions	316,121.00
Deferred Inflows Related to Other Postemployment Benefits (Note 13)	16,606,532.00

Total Deferred Inflows of Resources	<u>16,922,653.00</u>
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Johnston Community College
Statement of Net Position
June 30, 2019

Exhibit A-1
Page 2 of 2

NET POSITION

Net Investment in Capital Assets	56,843,487.85
Restricted for:	
Expendable:	
Scholarships and Fellowships	418,675.36
Loans	100,322.99
Capital Projects	1,413,380.94
Restricted for Specific Programs	1,108,780.69
Unrestricted	<u>(44,921,780.39)</u>
Total Net Position	<u><u>\$ 14,962,867.44</u></u>

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

Johnston Community College
Statement of Revenues, Expenses, and
Changes in Net Position
For the Fiscal Year Ended June 30, 2019

Exhibit A-2

OPERATING REVENUES

Student Tuition and Fees, Net (Note 10)	\$ 3,687,791.79
Sales and Services, Net (Note 10)	585,870.83
Other Operating Revenues	74,235.16
	<hr/>
Total Operating Revenues	4,347,897.78
	<hr/>

OPERATING EXPENSES

Salaries and Benefits	25,856,836.99
Supplies and Materials	2,749,418.94
Services	3,759,122.54
Scholarships and Fellowships	3,528,922.66
Utilities	955,253.36
Depreciation	1,950,683.54
	<hr/>
Total Operating Expenses	38,800,238.03
	<hr/>
Operating Loss	(34,452,340.25)
	<hr/>

NONOPERATING REVENUES (EXPENSES)

State Aid	20,468,750.00
County Appropriations	4,440,682.71
Noncapital Grants - Student Financial Aid	6,002,161.95
Noncapital Grants	1,314,268.26
Noncapital Gifts	1,300.00
Investment Income	128,822.61
Interest and Fees on Debt	(80,057.70)
Other Nonoperating Revenues	528,550.19
	<hr/>
Net Nonoperating Revenues	32,804,478.02
	<hr/>
Loss Before Other Revenues	(1,647,862.23)
	<hr/>

State Capital Aid	4,623,912.67
County Capital Aid	2,864,166.85
Capital Grants	95,932.69
Capital Gifts	5,000.00
	<hr/>
Increase in Net Position	5,941,149.98

NET POSITION

Net Position - July 1, 2018	9,021,717.46
	<hr/>
Net Position - June 30, 2019	\$ 14,962,867.44
	<hr/>

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, 2019

Exhibit A-3
Page 1 of 2

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 4,356,042.76
Payments to Employees and Fringe Benefits	(27,298,440.29)
Payments to Vendors and Suppliers	(7,602,899.66)
Payments for Scholarships and Fellowships	(3,528,922.66)
Loans Issued to Students	(7,801.56)
Collection of Loans to Students	8,136.07
Other Receipts	547,517.32
	<hr/>
Net Cash Used by Operating Activities	(33,526,368.02)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Aid Received	20,468,750.00
County Appropriations	4,440,682.71
Noncapital Grants - Student Financial Aid	6,002,420.55
Noncapital Grants	1,314,268.26
Noncapital Gifts	1,300.00
	<hr/>
Total Cash Provided by Noncapital Financing Activities	32,227,421.52

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

State Capital Aid	4,623,912.67
County Capital Aid	2,370,386.42
Capital Grants	95,932.69
Capital Gifts	55,000.00
Proceeds from Capital Debt	3,331,215.00
Acquisition and Construction of Capital Assets	(7,249,614.17)
	<hr/>
Net Cash Provided by Capital and Related Financing Activities	3,226,832.61

CASH FLOWS FROM INVESTING ACTIVITIES

Investment Income	128,822.61
	<hr/>
Cash Provided by Investing Activities	128,822.61
	<hr/>
Net Increase in Cash and Cash Equivalents	2,056,708.72
Cash and Cash Equivalents - July 1, 2018	9,104,726.92
	<hr/>
Cash and Cash Equivalents - June 30, 2019	\$ 11,161,435.64

Johnston Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2019

Exhibit A-3
Page 2 of 2

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

Operating Loss	\$ (34,452,340.25)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	1,950,683.54
Provision for Uncollectible Loans and Write-Offs	46,700.78
Other Nonoperating Income	536,475.05
Changes in Assets and Deferred Outflows of Resources:	
Receivables, Net	(31,167.76)
Inventories	10,232.18
Notes Receivable, Net	334.51
Net Other Postemployment Benefits Asset	31,556.00
Deferred Outflows Related to Pensions	(1,689,275.00)
Deferred Outflows Related to Other Postemployment Benefits	(988,570.00)
Changes in Liabilities and Deferred Inflows of Resources:	
Accounts Payable and Accrued Liabilities	(116,057.61)
Unearned Revenue	39,312.74
Funds Held for Others	11,042.27
Net Pension Liability	2,266,286.00
Net Other Postemployment Benefits Liability	(3,597,367.00)
Compensated Absences	23,471.53
Deferred Inflows Related to Pensions	(213,497.00)
Deferred Inflows Related to Other Postemployment Benefits	2,645,812.00
Net Cash Used by Operating Activities	<u><u>\$ (33,526,368.02)</u></u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through Assumption of a Liability	\$ 2,833,868.94
Increase in Receivables Related to Nonoperating Income	493,521.83
Loss on Disposal of Capital Assets	(7,924.86)

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, 2019

Exhibit B-1

	Without Donor Restrictions	With Donor Restrictions	Total
ASSETS			
Cash and Cash Equivalents	\$ 529,694	\$ 1,149,470	\$ 1,679,164
Investments		6,973,635	6,973,635
Accrued Interest		67,383	67,383
Prepaid Expenses		93	93
Pledges Receivable	6,050	105,465	111,515
Other Receivables	1,631	118	1,749
Land and Building		778,790	778,790
Total Assets	<u>\$ 537,375</u>	<u>\$ 9,074,954</u>	<u>\$ 9,612,329</u>
LIABILITIES			
Scholarships Payable	\$ 221,990	\$ 0	\$ 221,990
Accounts Payable	1,673		1,673
Agency Fund Liability	31,803		31,803
Deferred Event Revenue	31,510		31,510
Deferred Grant Revenue		169,575	169,575
Total Liabilities	<u>286,976</u>	<u>169,575</u>	<u>456,551</u>
NET ASSETS			
Without Donor Restrictions	250,399		250,399
With Donor Restrictions		8,905,379	8,905,379
Total Net Assets	<u>250,399</u>	<u>8,905,379</u>	<u>9,155,778</u>
Total Liabilities and Net Assets	<u>\$ 537,375</u>	<u>\$ 9,074,954</u>	<u>\$ 9,612,329</u>

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

Johnston Community College Foundation, Inc.
Statement of Activities
For the Fiscal Year Ended June 30, 2019

Exhibit B-2

	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUES:			
Contributions	\$ 692,877	\$ 458,599	\$ 1,151,476
Golf Tournament	69,493		69,493
Special Events	93,776		93,776
Grant Revenue		64,411	64,411
Interest and Dividends, Net	25,724	174,070	199,794
Net Realized and Unrealized Gains on Investments		256,657	256,657
Total Support and Revenues	881,870	953,737	1,835,607
Net Assets Released from Restrictions	423,236	(423,236)	
Total Support and Revenues and Net Assets Released from Restrictions	1,305,106	530,501	1,835,607
EXPENSES:			
Program Services	838,336		838,336
Management and General	220,457		220,457
Fundraising	180,007		180,007
Total Expenses	1,238,800		1,238,800
Change in Net Assets	66,306	530,501	596,807
Net Assets, Beginning of Year	184,093	8,374,878	8,558,971
Net Assets, End of Year	\$ 250,399	\$ 8,905,379	\$ 9,155,778

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, 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 23 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, 2019, the Foundation distributed \$398,681.00 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, money market 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:

<u>Asset Class</u>	<u>Estimated Useful Life</u>
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.
- J. Noncurrent Long-Term Liabilities** - Noncurrent long-term liabilities include principal amounts of long-term debt and other long-term liabilities that will not be paid within the next fiscal year. Debt is defined as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. Long-term debt includes notes from direct borrowings. Other long-term liabilities include: compensated absences, net pension liability, and net other postemployment benefits (OPEB) liability.

The net pension liability represents the College's proportionate share of the collective net pension liability reported in the State of North Carolina's 2018 *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 12 for further information regarding the College's policies for recognizing liabilities, expenses, deferred outflows of resources, and deferred inflows of resources related to pensions.

The net OPEB liability represents the College's proportionate share of the collective net OPEB liability reported in the State of North Carolina's 2018 *Comprehensive Annual Financial Report*. This liability represents the College's portion of the collective total OPEB liability less the fiduciary net position of the Retiree Health Benefit Fund. See Note 13 for further information regarding the College's policies for recognizing liabilities, expenses, deferred outflows of resources, and deferred inflows of resources related to OPEB.

- J. Compensated Absences** - The College's policy is to record the cost of vacation leave when earned. The policy provides for a maximum accumulation of unused vacation leave of 30 days which can be carried

forward each July 1 or for which an employee can be paid upon termination of employment. When classifying compensated absences into current and noncurrent, leave is considered taken using a last-in, first-out (LIFO) method. Also, any accumulated vacation leave in excess of 30 days at year-end is converted to sick leave. Under this policy, the accumulated vacation leave for each employee at June 30 equals the leave carried forward at the previous June 30 plus the leave earned, less the leave taken between July 1 and June 30.

In addition to the vacation leave described above, compensated absences include the accumulated unused portion of the special annual leave bonuses awarded by the North Carolina General Assembly. The bonus leave balance on 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. The College has the following items that qualify for reporting in this category: deferred outflows related to pensions and deferred outflows related to other postemployment benefits.

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. The College has the following items that qualify for reporting in this category: deferred inflows related to pensions and deferred inflows related to other postemployment benefits.

- 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. It also includes the net position of accrued employee benefits such as compensated absences, pension plans, and other postemployment benefits.

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. See Note 9 for further information regarding deferred outflows of resources and deferred inflows of resources that had a significant effect on unrestricted net position.

- 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 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, savings and loan association, or trust company 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 \$790.00, and deposits in private financial institutions with a carrying value of \$4,807,498.46 and a bank balance of \$4,985,062.41.

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, 2019, 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, 2019, the amount shown on the Statement of Net Position as cash and cash equivalents includes \$6,353,147.18, 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 1.3 years as of June 30, 2019. 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	\$ 419,049
Mutual Funds	6,348,193
Money Market Mutual Funds	206,393
Total Investments	\$ 6,973,635

NOTE 3 - FAIR VALUE MEASUREMENTS

College - To the extent available, the College's investments are recorded at fair value as of June 30, 2019. 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 \$6,353,147.18 were held in the STIF. Ownership interests of the STIF are 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. Pool investments are measured at fair value in accordance with GASB 72. The College's position in the pool is measured and reported at fair value and the STIF is not required to be categorized within the fair value hierarchy.

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	Observable inputs that reflect quoted prices for identical securities, traded in active markets that the Foundation has the ability to access.
Level 2	Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in inactive markets; inputs other than quoted market prices that are observable for the asset or liability; and inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) terms, the Level 2 input must be observable for substantially the full term of the asset or liability.
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, 2019:

	Fair Value as of June 30, 2019			
	Level 1	Level 2	Level 3	Total
Stocks	\$ 419,049	\$ 0	\$ 0	\$ 419,049
Mutual Funds	6,348,193			6,348,193
Money Market Mutual Funds	206,393			206,393
Total Investments at Fair Value	\$ 6,973,635	\$ 0	\$ 0	\$ 6,973,635

NOTE 4 - RECEIVABLES

Receivables at June 30, 2019, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Receivables:			
Students	\$ 596,888.53	\$ 506,625.76	\$ 90,262.77
Student Sponsors	11,524.03	9,781.34	1,742.69
Accounts	526,267.69		526,267.69
Intergovernmental	1,094,776.83		1,094,776.83
Total Receivables	\$ 2,229,457.08	\$ 516,407.10	\$ 1,713,049.98
Notes Receivable:			
Institutional Student Loan Programs	\$ 70,951.00	\$ 50,200.88	\$ 20,750.12

NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2019, is presented as follows:

	Balance July 1, 2018	Increases	Decreases	Balance June 30, 2019
Capital Assets, Nondepreciable:				
Land	\$ 5,456,219.54	\$ 0.00	\$ 0.00	\$ 5,456,219.54
Construction in Progress	1,554,751.57	9,250,979.88	1,770,507.06	9,035,224.39
Total Capital Assets, Nondepreciable	7,010,971.11	9,250,979.88	1,770,507.06	14,491,443.93
Capital Assets, Depreciable:				
Buildings	52,493,904.96	1,398,447.03		53,892,351.99
Machinery and Equipment	10,570,230.66	408,154.96	14,849.35	10,963,536.27
General Infrastructure	6,906,689.04	589,515.86		7,496,204.90
Total Capital Assets, Depreciable	69,970,824.66	2,396,117.85	14,849.35	72,352,093.16
Less Accumulated Depreciation for:				
Buildings	16,367,903.02	1,103,640.26		17,471,543.28
Machinery and Equipment	6,635,549.49	665,845.14	6,924.49	7,294,470.14
General Infrastructure	1,880,614.84	181,198.14		2,061,812.98
Total Accumulated Depreciation	24,884,067.35	1,950,683.54	6,924.49	26,827,826.40
Total Capital Assets, Depreciable, Net	45,086,757.31	445,434.31	7,924.86	45,524,266.76
Capital Assets, Net	\$ 52,097,728.42	\$ 9,696,414.19	\$ 1,778,431.92	\$ 60,015,710.69

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2019, were as follows:

	Amount
Accounts Payable and Accrued Liabilities:	
Accounts Payable	\$ 407,908.43
Accounts Payable - Capital Assets	2,833,868.94
Accrued Interest	80,057.70
Accrued Payroll	732,939.21
Total Accounts Payable and Accrued Liabilities	\$ 4,054,774.28

NOTE 7 - LONG-TERM LIABILITIES**A. Changes in Long-Term Liabilities** - A summary of changes in the long-term liabilities for the year ended June 30, 2019, is presented as follows:

	Balance July 1, 2018	Additions	Reductions	Balance June 30, 2019	Current Portion
Long-Term Debt:					
Notes from Direct Borrowings	\$ 0.00	\$ 3,331,215.00	\$ 0.00	\$ 3,331,215.00	\$ 136,452.00
Other Long-Term Liabilities:					
Employee Benefits:					
Net Pension Liability	9,211,093.00	2,266,286.00		11,477,379.00	
Net Other Postemployment Benefits Liability	32,385,407.00		3,597,367.00	28,788,040.00	
Compensated Absences	1,463,275.32	978,621.06	955,149.53	1,486,746.85	221,443.25
Total Other Long-Term Liabilities	43,059,775.32	3,244,907.06	4,552,516.53	41,752,165.85	221,443.25
Total Long-Term Liabilities	\$ 43,059,775.32	\$ 6,576,122.06	\$ 4,552,516.53	\$ 45,083,380.85	\$ 357,895.25

Additional information regarding the net pension liability is included in Note 12.

Additional information regarding the net other postemployment benefits liability is included in Note 13.

B. Notes from Direct Borrowings - The College was indebted for notes from direct borrowings for the purposes shown in the following table:

Purpose	Financial Institution	Interest Rate	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2019	Principal Outstanding June 30, 2019
Energy Savings Project	Sterling National Bank	4.25%	12/1/2035	\$ 3,331,215.00	\$ 0.00	\$ 3,331,215.00

The annual requirements to pay principal and interest on notes from direct borrowings at June 30, 2019, are as follows:

Fiscal Year	Principal	Interest
2020	\$ 44,525.26	\$ 91,926.74
2021	122,416.45	150,643.55
2022	130,303.50	144,958.50
2023	146,727.14	138,818.86
2024	164,153.86	131,832.14
2025-2029	1,012,892.35	534,975.65
2030-2034	1,254,426.16	285,293.84
2034-2036	455,770.28	24,055.72
Total Requirements	\$ 3,331,215.00	\$ 1,502,505.00

C. Terms of Debt Agreements - The College's debt agreement is subject to the following collateral requirements and terms with finance-related consequences:

Notes from Direct Borrowings - On December 13, 2018, the College ("Purchaser") entered into an Installment Financing Contract with Piedmont

Service Group and its assignee, Sterling National Bank, to finance the purchase of energy conservation measures (ECMs) pursuant to Part 2 of Article 3B of Chapter 143 of the *North Carolina General Statutes*. The purpose of the contract was to finance the purchase and installation of equipment utilized in connection with the Energy Cost Savings Measures. The equipment was installed in multiple facilities located on the main campus of Johnston Community College at 245 College Road, Smithfield, NC 27577 and a security interest is granted to the lender for such equipment.

At the same time, the College also entered into an Energy Savings Agreement with Piedmont Services Group in which they guarantee a level of savings resulting from the performance of this agreement to equal or exceed the total cost of the agreement over the sixteen (16) year term of the agreement.

The financing contract calls for repayment by monthly installments for 16 years, beginning January 1, 2020 with a final payment on December 1, 2035. In the event of default by the borrower, the lender may declare the entire principal plus accrued interest immediately due and payable and proceed by appropriate court action to enforce the performance by the purchaser which could include taking possession of the equipment.

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, 2019:

<u>Fiscal Year</u>	<u>Amount</u>
2020	<u>\$ 1,598.05</u>

Rental expense for all operating leases during the year was \$6,631.21.

NOTE 9 - NET POSITION

The deficit in unrestricted net position of \$44,921,780.39 has been significantly affected by transactions that resulted in the recognition of deferred outflows of resources and deferred inflows of resources. A summary of the balances reported within unrestricted net position relating to the reporting of net pension liability and net other postemployment benefits (OPEB) liability, and the related deferred outflows of resources and deferred inflows of resources is presented as follows:

	TSERS	Retiree Health Benefit Fund	Total
Deferred Outflows Related to Pensions	\$ 6,427,431.00	\$ 0.00	\$ 6,427,431.00
Deferred Outflows Related to OPEB		1,941,430.00	1,941,430.00
Noncurrent Liabilities:			
Long-Term Liabilities:			
Net Pension Liability	11,477,379.00		11,477,379.00
Net OPEB Liability		28,788,040.00	28,788,040.00
Deferred Inflows Related to Pensions	316,121.00		316,121.00
Deferred Inflows Related to OPEB		16,606,517.00	16,606,517.00
Net Effect on Unrestricted Net Position	\$ (5,366,069.00)	\$ (43,453,127.00)	\$ (48,819,196.00)

See Notes 12 and 13 for detailed information regarding the amortization of the deferred outflows of resources and deferred inflows of resources relating to pensions and OPEB, respectively.

NOTE 10 - REVENUES

A summary of eliminations, discounts, 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	\$ 6,305,901.87	\$ 0.00	\$ 2,581,382.41	\$ 36,727.67	\$ 3,687,791.79
Sales and Services:					
Sales and Services of Auxiliary Enterprises:					
Bookstore	\$ 378,092.24	\$ 0.00	\$ 0.00	\$ 0.00	\$ 378,092.24
Howell Woods	120,848.38				120,848.38
Other	61,018.87	21,200.67			39,818.20
Sales and Services of Education and Related Activities	47,112.01				47,112.01
Total Sales and Services, Net	\$ 607,071.50	\$ 21,200.67	\$ 0.00	\$ 0.00	\$ 585,870.83

NOTE 11 - OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	\$ 14,669,606.60	\$ 1,696,975.97	\$ 997,782.16	\$ 14,960.20	\$ 0.00	\$ 0.00	\$ 17,379,324.93
Public Service	411,975.95	91,767.18	77,427.45				581,170.58
Academic Support	2,708,706.99	139,494.58	150,648.19				2,998,849.76
Student Services	2,377,230.80	30,223.79	271,311.23	32,066.80			2,710,832.62
Institutional Support	3,436,081.46	472,972.76	1,228,832.88				5,137,887.10
Operations and Maintenance of Plant	1,847,785.35	285,698.82	893,341.48		955,253.36		3,982,079.01
Student Financial Aid	217,853.36	7,077.72	87,404.66	3,481,895.66			3,794,231.40
Auxiliary Enterprises	187,596.48	25,208.12	52,374.49				265,179.09
Depreciation						1,950,683.54	1,950,683.54
Total Operating Expenses	\$ 25,856,836.99	\$ 2,749,418.94	\$ 3,759,122.54	\$ 3,528,922.66	\$ 955,253.36	\$ 1,950,683.54	\$ 38,800,238.03

NOTE 12 - 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, 2019 was 12.29% of covered payroll. Employee contributions to the pension plan were \$1,070,525.42, and the College's contributions were \$2,192,793.00 for the year ended June 30, 2019.

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 2018 *Comprehensive Annual Financial Report*. An electronic version of this report is available on the North Carolina Office of the State Controller's website at <https://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. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the TSERS plan, and additions to/deductions from the TSERS plan's fiduciary net position have been determined on the same basis as they are reported by TSERS.

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 External Investment Pool. TSERS and other pension plans of the State of North Carolina are the sole participants in the Long-Term Investment, Fixed Income Investment, Equity Investment, Real Estate Investment, Alternative Investment, Opportunistic Fixed Income Investment, and Inflation Sensitive Investment Portfolios. The Fixed Income Asset Class includes the Long-Term Investment and 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 value of the net position of the various portfolios within the External Investment Pool. Detailed descriptions of the methods and significant assumptions regarding investments of the State Treasurer are provided in the 2018 *Comprehensive Annual Financial Report*.

Net Pension Liability: At June 30, 2019, the College reported a liability of \$11,477,379.00 for its proportionate share of the collective net pension liability.

The net pension liability was measured as of June 30, 2018. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2017, and update procedures were used to roll forward the total pension liability to June 30, 2018. 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, 2018, the College's proportion was 0.11528%, which was a decrease of 0.00081 from its proportion measured as of June 30, 2017, which was 0.11609%.

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	12/31/2017
Inflation	3%
Salary Increases*	3.50% - 8.10%
Investment Rate of Return**	7.00%

* Salary increases include 3.5% inflation and productivity factor.

** Investment rate of return includes inflation assumption and is net of pension plan investment expense.

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 mortality rates also contain a provision to reflect future mortality improvements.

The actuarial assumptions used in the December 31, 2017 valuations were based on the results of an actuarial experience review for the period January 1, 2010 through December 31, 2014.

Future ad hoc Cost of Living Adjustment 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, 2018 (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%
Opportunistic Fixed Income	6.0%
Inflation Sensitive	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. The long-term expected real rate of return for the Bond Index Investment Pool as of June 30, 2018 is 1.5%.

Discount Rate: The discount rate used to measure the total pension liability was lowered from 7.20% to 7.00% for the December 31, 2017 valuation. This discount rate is in line with the long-term nominal expected return on pension plan investments. The calculation of the net pension liability is a present value calculation of the future net pension payments. These net pension payments assume that contributions from plan members will be made at the current statutory contribution rate and that contributions from employers will be made at the contractually 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, 2018 calculated using the discount rate of 7.00%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.00%) or 1-percentage point higher (8.00%) than the current rate:

Net Pension Liability		
1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
\$ 21,889,307.00	\$ 11,477,379.00	\$ 2,740,740.00

Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions: For the year ended June 30, 2019, the College recognized pension

expense of \$2,554,314.00. At June 30, 2019, 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	\$ 837,627.00	\$ 115,183.00
Changes of Assumptions	2,303,215.00	
Net Difference Between Projected and Actual Earnings on Plan Investments	1,093,796.00	
Change in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions		200,938.00
Contributions Subsequent to the Measurement Date	2,192,793.00	
Total	\$ 6,427,431.00	\$ 316,121.00

The amount of \$2,192,793.00 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be included as a reduction of the net pension liability in the fiscal year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as 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
2020	\$ 2,318,098.00
2021	1,451,072.00
2022	169,433.00
2023	(20,086.00)
Total	\$ 3,918,517.00

NOTE 13 - OTHER POSTEMPLOYMENT BENEFITS

The College participates in two postemployment benefit plans, the Retiree Health Benefit Fund and the Disability Income Plan of North Carolina, that are administered by the State of North Carolina as pension and other employee benefit trust funds. Each plan's financial information, including all information

about the plans' 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 2018 *Comprehensive Annual Financial Report*. An electronic version of this report is available on the North Carolina Office of the State Controller's website at <https://www.osc.gov/> or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

A. Summary of Significant Accounting Policies and Plan Asset Matters

Basis of Accounting: The financial statements of these plans were prepared using the accrual basis of accounting. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits are recognized when due and payable in accordance with the terms of each plan. For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of each plan, and additions to/deductions from each plans' fiduciary net position have been determined on the same basis as they are reported by the plans.

Methods Used to Value Plan Investments: Pursuant to *North Carolina General Statutes*, the State Treasurer is the custodian and administrator of the other postemployment benefits funds. The State Treasurer maintains various investment portfolios in its External Investment Pool. The Retiree Health Benefit Fund participates in the External Investment Pool. The Disability Income Plan of North Carolina is invested in the Short-Term Investment Portfolio of the External Investment Pool and the Bond Index External Investment Pool. The investment balance of each other employee benefit trust fund represents its share of the fair 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 2018 *Comprehensive Annual Financial Report*.

B. Plan Descriptions

1. Health Benefits

Plan Administration: The State of North Carolina administers the North Carolina State Health Plan for Teachers and State Employees, referred to as the State Health Plan (the Plan), a healthcare plan exclusively for the benefit of employees of the State, the University of North Carolina System, community colleges, and certain other component units. In addition, Local Education Agencies (LEAs), charter schools, and some select local governments that are not part of the State's financial reporting entity also participate. Health benefit programs and premium rates are determined by the State Treasurer upon approval of the Plan Board of Trustees.

The Retiree Health Benefit Fund (RHBF) has been established as a fund to provide health benefits to retired and disabled employees and

their applicable beneficiaries. RHBF is established by General Statute 135-7, Article 1. RHBF is a cost-sharing, multiple-employer, defined benefit healthcare plan, exclusively for the benefit of eligible former employees of the State, the University of North Carolina System, and community colleges. In addition, LEAs, charter schools, and some select local governments that are not part of the State's financial reporting entity also participate.

By statute, RHBF is administered by the Board of Trustees of the Teachers' and State Employees' Retirement System (TSERS). RHBF is supported by a percent of payroll contribution from participating employing units. Each year the percentage is set in legislation, as are the maximum per retiree contributions from RHBF to the Plan. The State Treasurer, with the approval of the Plan Board of Trustees, then sets the employer contributions (subject to the legislative cap) and the premiums to be paid by retirees, as well as the health benefits to be provided through the Plan.

Benefits Provided: Plan benefits received by retired employees and disabled employees from RHBF are OPEB. The healthcare benefits for retired and disabled employees who are not eligible for Medicare are the same as for active employees as described in Note 14. The plan options change when former employees become eligible for Medicare. Medicare retirees have the option of selecting one of two fully-insured Medicare Advantage/Prescription Drug Plan options or the self-funded Traditional 70/30 Preferred Provider Organization plan option that is also offered to non-Medicare members. If the Traditional 70/30 Plan is selected by a Medicare retiree, the self-funded State Health Plan coverage is secondary to Medicare.

Those former employees who are eligible to receive medical benefits from RHBF are long-term disability beneficiaries of the Disability Income Plan of North Carolina and retirees of TSERS, the Consolidated Judicial Retirement System, the Legislative Retirement System, the Optional Retirement Program (ORP), and a small number of local governments, with five or more years of contributory membership service in their retirement system prior to disability or retirement, with the following exceptions: for employees first hired on or after October 1, 2006, and members of the North Carolina General Assembly first taking office on or after February 1, 2007, future coverage as retired employees and retired members of the North Carolina General Assembly is subject to the requirement that the future retiree have 20 or more years of retirement service credit in order to receive coverage on a noncontributory basis. Employees first hired on or after October 1, 2006 and members of the North Carolina General Assembly first taking office on or after February 1, 2007 with 10 but less than 20 years of retirement service credit are eligible for coverage on a partially contributory basis. For such future retirees, the State will pay 50% of the State Health Plan's total noncontributory premium.

The Plan's and RHBF's benefit and contribution provisions are established by Chapter 135-7, Article 1, and Chapter 135, Article 3B of the General Statutes and may be amended only by the North Carolina General Assembly. RHBF does not provide for automatic post-retirement benefit increases.

Contributions: Contribution rates to RHBF, which are intended to finance benefits and administrative expenses on a pay-as-you-go basis, are determined by the North Carolina General Assembly in the Appropriations Bill. The College's contractually-required contribution rate for the year ended June 30, 2019 was 6.27% of covered payroll. The College's contributions to the RHBF were \$1,118,699.00 for the year ended June 30, 2019.

2. Disability Income

Plan Administration: As discussed in Note 14, short-term and long-term disability benefits are provided through the Disability Income Plan of North Carolina (DIPNC), a cost-sharing, multiple-employer, defined benefit plan, to the eligible members of TSERS which includes employees of the State, the University of North Carolina System, community colleges, certain participating component units, LEAs which are not part of the reporting entity, and the ORP. By statute, DIPNC is administered by the Department of State Treasurer and the Board of Trustees of TSERS.

Benefits Provided: Long-term disability benefits are payable as an OPEB from DIPNC after the conclusion of the short-term disability period or after salary continuation payments cease, whichever is later, for as long as an employee is disabled. An employee is eligible to receive long-term disability benefits provided the following requirements are met: (1) the employee has five or more years of contributing membership service in TSERS or the ORP, earned within 96 months prior to the end of the short-term disability period or cessation of salary continuation payments, whichever is later; (2) the employee must make application to receive long-term benefits within 180 days after the conclusion of the short-term disability period or after salary continuation payments cease or after monthly payments for Workers' Compensation cease (excluding monthly payments for permanent partial benefits), whichever is later; (3) the employee must be certified by the Medical Board to be mentally or physically disabled for the further performance of his/her usual occupation; (4) the disability must have been continuous, likely to be permanent, and incurred at the time of active employment; (5) the employee must not be eligible to receive an unreduced retirement benefit from TSERS; and (6) the employee must terminate employment as a permanent, full-time employee. An employee is eligible to receive an unreduced retirement benefit from TSERS after (1) reaching the age of 65 and completing five years of membership service, or (2) reaching the age of 60 and completing 25 years of creditable service, or (3) completing 30 years of creditable service, at any age.

For employees who had five or more years of membership service as of July 31, 2007, during the first 36 months of the long-term disability period, the monthly long-term disability benefit is equal to 65% of one-twelfth of an employee's annual base rate of compensation last payable to the participant or beneficiary prior to the beginning of the short-term disability period, plus the like percentage of one-twelfth of the annual longevity payment and local supplements to which the participant or beneficiary would be eligible. The monthly benefits are subject to a maximum of \$3,900 per month reduced by any primary Social Security disability benefits and by monthly payments for Workers' Compensation to which the participant or beneficiary may be entitled, but the benefits payable shall be no less than \$10 a month. After the first 36 months of the long-term disability, the long-term benefit is calculated in the same manner as described above except the monthly benefit is reduced by an amount equal to a monthly primary Social Security disability benefit to which the participant or beneficiary might be entitled had Social Security disability benefits been awarded. When an employee qualifies for an unreduced service retirement allowance from TSERS, the benefits payable from DIPNC will cease, and the employee will commence retirement under TSERS or the ORP.

For employees who had less than five years of membership service as of July 31, 2007, and meet the requirements for long-term disability on or after August 1, 2007, during the first 36 months of the long-term disability period, the monthly long-term benefit shall be reduced by an amount equal to the monthly primary Social Security retirement benefit to which the employee might be entitled should the employee become age 62 during the first 36 months. This reduction becomes effective as of the first day of the month following the month of initial entitlement to Social Security benefits. After the first 36 months of the long-term disability, no further benefits are payable under the terms of this section unless the employee has been approved and is in receipt of primary Social Security disability benefits.

Contributions: Although DIPNC operates on a calendar year, disability income benefits are funded by actuarially determined employer contributions that are established in the Appropriations Bill by the North Carolina General Assembly and coincide with the State's fiscal year. The College's contractually-required contribution rate for the year ended June 30, 2019 was 0.14% of covered payroll. The College's contributions to DIPNC were \$24,979.00 for the year ended June 30, 2019.

C. Net OPEB Liability (Asset)

Net OPEB Liability: At June 30, 2019, the College reported a liability of \$28,788,040.00 for its proportionate share of the collective net OPEB liability for RHBF. The net OPEB liability was measured as of June 30, 2018. The total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2017,

and update procedures were used to roll forward the total OPEB liability to June 30, 2018. The College's proportion of the net OPEB 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, 2018, the College's proportion was 0.10105%, which was an increase of 0.00227 from its proportion measured as of June 30, 2017, which was 0.09878%.

Net OPEB Asset: At June 30, 2019, the College reported an asset of \$30,695.00 for its proportionate share of the collective net OPEB asset for DIPNC. The net OPEB asset was measured as of June 30, 2018. The total OPEB asset used to calculate the net OPEB asset was determined by an actuarial valuation as of December 31, 2017, and update procedures were used to roll forward the total OPEB asset to June 30, 2018. The College's proportion of the net OPEB asset 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, 2018, the College's proportion was 0.10105%, which was a decrease of 0.0008 from its proportion measured as of June 30, 2017, which was 0.10185%.

Actuarial Assumptions: The total OPEB liabilities (assets) for RHBF and DIPNC were determined by actuarial valuations as of December 31, 2017, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified. The total OPEB liabilities (assets) were then rolled forward to June 30, 2018 utilizing update procedures incorporating the actuarial assumptions.

	Retiree Health Benefit Fund	Disability Income Plan of N. C.
Valuation Date	12/31/2017	12/31/2017
Inflation	3.00%	3.00%
Salary Increases*	8.10% grading down to 3.50% depending on employee class	3.50% - 8.10%
Investment Rate of Return**	7.00%	3.75%
Healthcare Cost Trend Rate - Medical	6.50% grading down to 5.00% by 2024	6.50% grading down to 5.00% by 2024
Healthcare Cost Trend Rate - Prescription Drug	7.25% grading down to 5.00% by 2027	N/A
Healthcare Cost Trend Rate - Medicare Advantage	5.00%	N/A
Healthcare Cost Trend Rate - Administrative	3.00%	N/A

* Salary increases include 3.5% inflation and productivity factor.

** Investment rate of return is net of pension plan investment expense, including inflation.

N/A - Not Applicable

The OPEB plans currently use 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 studies that cover significant portions of the U.S.

population. The healthy mortality rates also contain a provision to reflect future mortality improvements.

The projected long-term investment returns and inflation assumptions are developed through a 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 projects 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. DIPNC is primarily invested in the Bond Index Investment Pool as of June 30, 2018.

Best estimates of real rates of return for each major asset class included in RHBF's target asset allocation as of June 30, 2018 (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%
Opportunistic Fixed Income	6.0%
Inflation Sensitive	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. The long-term expected real rate of return for the Bond Index Investment Pool as of June 30, 2018 is 1.5%.

Actuarial valuations of the plans involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

The actuarial assumptions used for RHBF are consistent with those used to value the pension benefits of TSERS where appropriate. These assumptions are based on the most recent pension valuations available. The discount rate used for RHBF reflects a pay-as-you-go approach.

Projections of benefits for financial reporting purposes of the plans are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and historical pattern of sharing of benefit costs between the employer and plan members to that point. Historically, the benefits funded solely by employer contributions applied equally to all retirees. Currently, as described earlier in the note, benefits are dependent on membership requirements.

The actuarial methods and assumptions used for DIPNC include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The actuarial assumptions used in the December 31, 2017 valuations were generally based on the results of an actuarial experience study prepared as of December 31, 2014, as amended for updates to certain assumptions (such as the long-term investment return, medical claims, and medical trend rate assumptions) implemented based on annual reviews that have occurred since that experience study.

Discount Rate: The discount rate used to measure the total OPEB liability for RHBF was 3.87%. The projection of cash flows used to determine the discount rate assumed that contributions from employers will be made at the current statutorily determined contribution rate. Based on the above assumptions, the plan's fiduciary net position was not projected to be available to make projected future benefit payments of current plan members. As a result, a municipal bond rate of 3.87% was used as the discount rate used to measure the total OPEB liability. The 3.87% rate is based on the Bond Buyer 20-year General Obligation Index as of June 30, 2017.

The discount rate used to measure the total OPEB asset for DIPNC was 3.75%. 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 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 plan investments was applied to all periods of projected benefit payments to determine the total OPEB asset.

Sensitivity of the Net OPEB Liability (Asset) to Changes in the Discount Rate: The following presents the College's proportionate share of the net OPEB liability (asset) of the plans, as well as what the plans' net OPEB

liability (asset) would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current discount rate:

Net OPEB Liability (Asset)					
	1% Decrease (2.87%)		Current Discount Rate (3.87%)		1% Increase (4.87%)
RHBF	\$ 34,012,499.00	\$	28,788,040.00	\$	24,598,763.00
	1% Decrease (2.75%)		Current Discount Rate (3.75%)		1% Increase (4.75%)
DIPNC	\$ (23,519.00)	\$	(30,695.00)	\$	(37,578.00)

Sensitivity of the Net OPEB Liability (Asset) to Changes in the Healthcare Cost Trend Rates: The following presents the net OPEB liability (asset) of the plans, as well as what the plans' net OPEB liability (asset) would be if it were calculated using healthcare cost trend rates that are 1-percentage point lower or 1-percentage point higher than the current healthcare cost trend rates:

	1% Decrease (Medical - 4.00% - 5.50%, Pharmacy - 4.00% - 6.25%, Med. Advantage - 4.00%, Administrative - 2.00%)	Current Healthcare Cost Trend Rates (Medical - 5.00% - 6.50%, Pharmacy - 5.00% - 7.25%, Med. Advantage - 5.00%, Administrative - 3.00%)	1% Increase (Medical - 6.00% - 7.50%, Pharmacy - 6.00% - 8.25%, Med. Advantage - 6.00%, Administrative - 4.00%)
RHBF Net OPEB Liability	\$ 23,748,782.00	\$ 28,788,040.00	\$ 35,401,913.00
	1% Decrease (5.50% grading down to 4.00% in 2024)	Current Healthcare Cost Trend Rates (6.50% grading down to 5.00% in 2024)	1% Increase (7.50% grading down to 6.00% in 2024)
DIPNC Net OPEB Asset	\$ (30,784.00)	\$ (30,695.00)	\$ (37,578.00)

Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB: For the year ended June 30, 2019, the College recognized OPEB contra-expense of \$767,053.00 for RHBF and expense of \$1,971.00 for DIPNC. At June 30, 2019, the College reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

Employer Balances of Deferred Outflows of Resources
Related to OPEB by Classification:

	RHBF	DIPNC	Total
Differences Between Actual and Expected Experience	\$ 0.00	\$ 53,544.00	\$ 53,544.00
Changes of Assumptions		5,796.00	5,796.00
Net Difference Between Projected and Actual Earnings on Plan Investments	3,096.00	23,905.00	27,001.00
Changes in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	819,635.00	351.00	819,986.00
Contributions Subsequent to the Measurement Date	1,118,699.00	24,979.00	1,143,678.00
Total	\$ 1,941,430.00	\$ 108,575.00	\$ 2,050,005.00

Employer Balances of Deferred Inflows of Resources
Related to OPEB by Classification:

	RHBF	DIPNC	Total
Differences Between Actual and Expected Experience	\$ 1,968,653.00	\$ 0.00	\$ 1,968,653.00
Changes of Assumptions	12,471,644.00		12,471,644.00
Changes in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	2,166,220.00	15.00	2,166,235.00
Total	\$ 16,606,517.00	\$ 15.00	\$ 16,606,532.00

Amounts reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability related to RHBF and an increase of the net OPEB asset related to DIPNC in the fiscal year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB 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 OPEB Expense:

<u>Year Ended June 30:</u>	<u>RHBF</u>	<u>DIPNC</u>
2020	\$ (3,725,680.00)	\$ 20,528.00
2021	(3,725,680.00)	20,526.00
2022	(3,725,680.00)	14,887.00
2023	(3,722,602.00)	11,507.00
2024	(884,144.00)	8,067.00
Thereafter		8,066.00
Total	<u>\$ (15,783,786.00)</u>	<u>\$ 83,581.00</u>

NOTE 14 - 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 \$10,000,000 deductible per occurrence. Reinsurance is purchased by the Fund to cover catastrophic events in excess of the \$10,000,000 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 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 contributions. Certain plans also require contributions from employees. The Plan has contracted with third parties to process claims. See Note 13, Other Postemployment Benefits, for additional information regarding retiree health benefits.

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 0.16% for the current fiscal year.

3. Disability Income Plan

Short-term and long-term disability benefits are provided to College employees through the Disability Income Plan of North Carolina (DIPNC), part of the State's Pension and Other Employee Benefit Trust Funds. Short-term benefits are paid by the College up to the first six months of benefits and reimbursed by DIPNC for any additional short-term benefits. As discussed in Note 13, long-term disability benefits are payable as other postemployment benefits from DIPNC after the conclusion of the short-term disability period or after salary continuation payments cease, whichever is later, for as long as an employee is disabled.

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 \$2,000,000 per claim and \$10,000,000 in the aggregate per fiscal

year 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 15 - 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 \$729,819.56 and on other purchases were \$168,264.20 at June 30, 2019.

NOTE 16 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

College - For the fiscal year ended June 30, 2019, the College implemented the following pronouncement issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*

GASB Statement No. 88 improves the information that is disclosed in the notes to government financial statements related to debt, including direct borrowings and direct placements. It defines debt for purposes of disclosure in notes to

financial statements and requires disclosure of additional essential information, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events with finance-related consequences or significant subjective acceleration clauses. Additionally, this Statement requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt.

Component Unit - For the fiscal year ended June 30, 2019, the Foundation implemented Financial Accounting Standards Board Update No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. This update amends the requirements related to net asset classifications for not-for-profit entities. With this update, net assets on the face of the statement of financial position and changes in net assets on the face of the statement of activities are presented using two classes: *net assets with donor restrictions* and *net assets without donor restrictions*, in addition to the previously required total net assets and changes in total net assets.



REQUIRED SUPPLEMENTARY INFORMATION

Johnston Community College
Required Supplementary Information
Schedule of the Proportionate Share of the Net Pension Liability
Cost-Sharing, Multiple-Employer, Defined Benefit Pension Plan
Last Six Fiscal Years*

Exhibit C-1

Teachers' and State Employees' Retirement System	2019	2018	2017
Proportionate Share Percentage of Collective Net Pension Liability	0.11528%	0.11609%	0.11725%
Proportionate Share of TSERS Collective Net Pension Liability	\$ 11,477,379.00	\$ 9,211,093.00	\$ 10,776,486.00
Covered Payroll	\$ 16,651,411.69	\$ 18,489,191.32	\$ 15,838,994.32
Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	68.93%	49.82%	68.04%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	87.61%	89.51%	87.32%
	2016	2015	2014
Proportionate Share Percentage of Collective Net Pension Liability	0.12034%	0.12099%	0.11550%
Proportionate Share of TSERS Collective Net Pension Liability	\$ 4,434,767.00	\$ 1,418,512.00	\$ 7,012,027.00
Covered Payroll	\$ 15,788,856.15	\$ 15,306,909.10	\$ 15,495,758.13
Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	28.09%	9.27%	45.25%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	94.64%	98.24%	90.60%

Note: Information is presented for all years that were measured in accordance with the requirements of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - An Amendment of GASB Statement No. 27*, as amended.

* The amounts presented for each fiscal year were determined as of the prior fiscal year ending June 30.

Johnston Community College
Required Supplementary Information
Schedule of College Contributions
Cost-Sharing, Multiple-Employer, Defined Benefit Pension Plan
Last Ten Fiscal Years

Exhibit C-2

Teachers' and State Employees' Retirement System	2019	2018	2017	2016	2015
Contractually Required Contribution	\$ 2,192,792.89	\$ 1,795,022.18	\$ 1,845,221.29	\$ 1,449,267.98	\$ 1,444,680.34
Contributions in Relation to the Contractually Determined Contribution	2,192,792.89	1,795,022.18	1,845,221.29	1,449,267.98	1,444,680.34
Contribution Deficiency (Excess)	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Covered Payroll	\$ 17,842,090.27	\$ 16,651,411.69	\$ 18,489,191.32	\$ 15,838,994.32	\$ 15,788,856.15
Contributions as a Percentage of Covered Payroll	12.29%	10.78%	9.98%	9.15%	9.15%
	2014	2013	2012	2011	2010
Contractually Required Contribution	\$ 1,330,170.40	\$ 1,290,796.65	\$ 1,096,346.82	\$ 751,615.96	\$ 563,826.39
Contributions in Relation to the Contractually Determined Contribution	1,330,170.40	1,290,796.65	1,096,346.82	751,615.96	563,826.39
Contribution Deficiency (Excess)	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Covered Payroll	\$ 15,306,909.10	\$ 15,495,758.13	\$ 14,735,844.42	\$ 15,245,759.89	\$ 15,793,456.29
Contributions as a Percentage of Covered Payroll	8.69%	8.33%	7.44%	4.93%	3.57%

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
Cost-Sharing, Multiple-Employer, Defined Benefit Pension Plan
Last Ten Fiscal Years

Changes of Benefit Terms:

	<u>Cost of Living Increase</u>									
Teachers' and State Employees' Retirement System	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
	1.00%	N/A	N/A	N/A	1.00%	N/A	N/A	N/A	2.20%	2.20%

Changes of Assumptions: In 2015, the North Carolina Retirement Systems' consulting actuaries performed the quinquennial investigation of each retirement system's 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 discount rate for the Teachers' and State Employees' Retirement System was lowered from 7.25% to 7.20% for the December 31, 2016 valuation. For the December 31, 2017 valuation, the discount rate was lowered to 7.00%.

The Board of Trustees also adopted a new asset valuation method for the Teachers' and State Employees' Retirement System. For determining plan funding requirements, the plan now uses a five-year smoothing method with a reset of the actuarial value of assets to market value as of December 31, 2014.

The Notes to Required Supplementary Information reflect information included in the State of North Carolina's 2018 *Comprehensive Annual Financial Report*.

N/A - Not Applicable

Johnston Community College
Required Supplementary Information
Schedule of the Proportionate Share of the Net OPEB Liability or Asset
Cost-Sharing, Multiple-Employer, Defined Benefit OPEB Plans
Last Three Fiscal Years*

Exhibit C-3

Retiree Health Benefit Fund	2019	2018	2017
Proportionate Share Percentage of Collective Net OPEB Liability	0.10105%	0.09878%	0.10624%
Proportionate Share of Collective Net OPEB Liability	\$ 28,788,040.00	\$ 32,385,407.00	\$ 46,218,011.00
Covered Payroll	\$ 16,651,411.69	\$ 18,489,191.32	\$ 15,838,994.32
Proportionate Share of the Net OPEB Liability as a Percentage of Covered Payroll	172.89%	175.16%	291.80%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	4.40%	3.52%	2.41%
Disability Income Plan of North Carolina			
Proportionate Share Percentage of Collective Net OPEB Asset	0.10105%	0.10185%	0.10435%
Proportionate Share of Collective Net OPEB Asset	\$ 30,695.00	\$ 62,251.00	\$ 64,801.00
Covered Payroll	\$ 16,651,411.69	\$ 18,489,191.32	\$ 15,838,994.32
Proportionate Share of the Net OPEB Asset as a Percentage of Covered Payroll	0.18%	0.34%	0.41%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Asset	108.47%	116.23%	116.06%

Note: Information is presented for all years that were measured in accordance with the requirements of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, as amended.

* The amounts presented for each fiscal year were determined as of the prior fiscal year ending June 30.

Johnston Community College
Required Supplementary Information
Schedule of College Contributions
Cost-Sharing, Multiple-Employer, Defined Benefit OPEB Plans
Last Ten Fiscal Years

Exhibit C-4

Retiree Health Benefit Fund	2019	2018	2017	2016	2015
Contractually Required Contribution	\$ 1,118,699.06	\$ 1,007,410.41	\$ 1,074,222.02	\$ 886,983.68	\$ 866,808.20
Contributions in Relation to the Contractually Determined Contribution	1,118,699.06	1,007,410.41	1,074,222.02	886,983.68	866,808.20
Contribution Deficiency (Excess)	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Covered Payroll	\$ 17,842,090.27	\$ 16,651,411.69	\$ 18,489,191.32	\$ 15,838,994.32	\$ 15,788,856.15
Contributions as a Percentage of Covered Payroll	6.27%	6.05%	5.81%	5.60%	5.49%
	2014	2013	2012	2011	2010
Contractually Required Contribution	\$ 826,573.09	\$ 821,275.18	\$ 736,792.22	\$ 747,042.23	\$ 710,705.53
Contributions in Relation to the Contractually Determined Contribution	826,573.09	821,275.18	736,792.22	747,042.23	710,705.53
Contribution Deficiency (Excess)	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Covered Payroll	\$ 15,306,909.10	\$ 15,495,758.13	\$ 14,735,844.42	\$ 15,245,759.89	\$ 15,793,456.29
Contributions as a Percentage of Covered Payroll	5.40%	5.30%	5.00%	4.90%	4.50%
Disability Income Plan of North Carolina	2019	2018	2017	2016	2015
Contractually Required Contribution	\$ 24,978.93	\$ 23,311.98	\$ 70,258.93	\$ 64,939.88	\$ 64,734.31
Contributions in Relation to the Contractually Determined Contribution	24,978.93	23,311.98	70,258.93	64,939.88	64,734.31
Contribution Deficiency (Excess)	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Covered Payroll	\$ 17,842,090.27	\$ 16,651,411.69	\$ 18,489,191.32	\$ 15,838,994.32	\$ 15,788,856.15
Contributions as a Percentage of Covered Payroll	0.14%	0.14%	0.38%	0.41%	0.41%
	2014	2013	2012	2011	2010
Contractually Required Contribution	\$ 67,350.40	\$ 68,181.34	\$ 76,626.39	\$ 79,277.95	\$ 82,125.97
Contributions in Relation to the Contractually Determined Contribution	67,350.40	68,181.34	76,626.39	79,277.95	82,125.97
Contribution Deficiency (Excess)	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Covered Payroll	\$ 15,306,909.10	\$ 15,495,758.13	\$ 14,735,844.42	\$ 15,245,759.89	\$ 15,793,456.29
Contributions as a Percentage of Covered Payroll	0.44%	0.44%	0.52%	0.52%	0.52%

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

Johnston Community College
Notes to Required Supplementary Information
Schedule of College Contributions
Cost-Sharing, Multiple-Employer, Defined Benefit OPEB Plans
Last Ten Fiscal Years

Changes of Benefit Terms: Effective January 1, 2016, benefit terms related to copays, out-of-pocket maximums, and deductibles were changed for three of four options of the Retiree Health Benefit Fund (RHBF). Most of the changes were an increase in the amount from the previous year.

Effective January 1, 2017, benefit terms related to copays, coinsurance maximums, out-of-pocket maximums, and deductibles were changed for two of four options of the RHBF. Most of the changes were an increase in the amount from the previous year.

Method and Assumptions Used in Calculations of Actuarially Determined Contributions: An actuarial valuation is performed for each plan each year. The actuarially determined contribution rates in the Schedule of Employer Contributions are calculated by the actuary as a projection of the required employer contribution for the fiscal year beginning six months following the date of the valuation results for the RHBF. The actuarially determined contribution rates in the Schedule of College Contributions are calculated by the actuary as a projection of the required employer contribution for the fiscal year beginning 18 months following the date of the valuation results for the Disability Income Plan of North Carolina (DIPNC). See Note 13 for more information on the specific assumptions for each plan. The actuarially determined contributions for those items with covered payroll were determined using the actuarially determined contribution rate from the actuary and covered payroll as adjusted for timing differences and other factors such as differences in employee class. Other actuarially determined contributions are disclosed in the schedule as expressed by the actuary in reports to the plans.

Changes of Assumptions: In 2015, the North Carolina Retirement Systems' consulting actuaries performed the quinquennial investigation of each retirement system's 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 Boards of Trustees of the Teachers' and State Employees' Retirement System and the State Health Plan adopted a number of new actuarial assumptions and methods for the RHBF and the DIPNC. 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 and rates of termination from active employment were reduced to more closely reflect actual experience.

In 2018, for the December 31, 2017 actuarial valuation, the discount rate for the RHBF was updated to 3.87% and the medical and prescription drug claims cost were changed based on most recent experience. Enrollment assumptions were updated to model expected migrations among RHBF plan options and trend assumptions for the RHBF include contribution changes for the 2019 period as those amounts have been finalized.

Additionally, the December 31, 2017 DIPNC actuarial valuation includes a liability for the State's potential reimbursement of health insurance premiums paid by employers during the second six months of the short-term disability benefit period.

The Notes to Required Supplementary Information reflect information included in the State of North Carolina's 2018 *Comprehensive Annual Financial Report*.



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 (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, 2019, 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 11, 2020. 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, CPA
State Auditor

Raleigh, North Carolina

February 11, 2020

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This audit required 365 hours at an approximate cost of \$37,960.