



STATE OF NORTH CAROLINA

FINANCIAL STATEMENT REVIEW REPORT OF

JOHNSTON COMMUNITY COLLEGE

SMITHFIELD, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2002

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR

FINANCIAL STATEMENT REVIEW REPORT OF

JOHNSTON COMMUNITY COLLEGE

SMITHFIELD, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2002

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THE NORTH CAROLINA COMMUNITY COLLEGE SYSTEM

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Ralph Campbell, Jr.
State Auditor

STATE OF NORTH CAROLINA
Office of the State Auditor

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Raleigh, NC 27699-0601
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REVIEWER'S TRANSMITTAL

The Honorable Michael F. Easley, Governor
The General Assembly of North Carolina
Board of Trustees, Johnston Community College

This report presents the results of our financial statement review of Johnston Community College, a component unit of the State of North Carolina, for the year ended June 30, 2002. Our review was made by authority of Article 5A of Chapter 147 of the General Statutes.

The accounts and operations of the College are an integral part of the State's reporting entity represented in the State's *Comprehensive Annual Financial Report (CAFR)* and the State's *Single Audit Report*. In those reports, the State Auditor expresses an opinion on the State's financial statements. In the *Single Audit Report*, the State Auditor also presents the audit results on the State's internal controls and on the State's compliance with laws, regulations, contracts, and grants applicable to the State's financial statements and to its federal financial assistance programs.

As part of the work necessary for the CAFR and the *Single Audit Report*, the accounts and operations of the College were subjected to review procedures as we considered necessary. In addition, we performed review procedures that we considered necessary for us to report on the accompanying financial statements that relate solely to Johnston Community College. The review procedures were conducted in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States.

The purpose of this report is to present the results of our review of the accompanying financial statements that relate solely to Johnston Community College. Our reporting objectives and review results are:

- 1. Objective** - To disclose any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

Results - We are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America. These matters are more fully described in the Independent Accountant's Review Report on the financial statements.

REVIEWER'S TRANSMITTAL (CONCLUDED)

2. **Objective** – To present significant deficiencies, if any, in internal control over financial reporting which could adversely affect the College's ability to record, process, summarize, and report financial data in the financial statements and present instances of noncompliance, if any, with laws, regulations, contracts, or grants that came to our attention during our review of the financial statements.

Results - The following significant deficiency in internal control over financial reporting was noted as a result of our review of the financial statements:

Finding

1. Financial Reporting Process

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



Ralph Campbell, Jr.
State Auditor

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INDEPENDENT ACCOUNTANT'S REVIEW REPORT

Board of Trustees
Johnston Community College
Smithfield, North Carolina

We have reviewed the accompanying Statement of Net Assets of Johnston Community College, a component unit of the State of North Carolina, as of June 30, 2002, and the related Statement of Revenues, Expenses, and Changes in Net Assets and Statement of Cash Flows for the year then ended, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the College's management.

A review consists principally of inquiries of College personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis (MD&A) on pages 3 to 6 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. Such information has been subjected to the inquiry and analytical procedures applied in the review of the basic financial statements, and we are not aware of any material modifications that should be made thereto.

Our review was conducted for the purpose of expressing limited assurance that there are no material modifications that should be made to the basic financial statements in order for them to be in conformity with generally accepted accounting principles. Schedule 1 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the inquiry and analytical procedures applied in the review of the basic financial statements, and we are not aware of any material modifications that should be made thereto.

A handwritten signature in cursive script that reads "Ralph Campbell, Jr.".

Ralph Campbell, Jr.
State Auditor

May 27, 2003

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Basic Financial Statements

The basic financial statements include Statement of Net Assets, Statement of Revenues, Expenses, and Changes in Net Assets, and Statement of Cash Flows. The Financial Statements are accompanied by Notes to the Financial Statements that provide detail and explain some of the information in the financial statements.

Exhibit A - Statement of Net Assets: Assets and liabilities are presented in a format that distinguishes between current and noncurrent assets and liabilities.

Exhibit B - Statement of Revenues, Expenses, and Changes in Net Assets: Revenues and expenses are presented in a format that distinguishes between operating and nonoperating revenues and expenses.

Statement of Cash Flows: The direct method is used to present cash flows.

Notes to the Financial Statements: The notes provide additional information that is essential to a full understanding of the data provided.

Financial Analysis

Comparative data is not required in the first year that MD&A is presented. In future years, prior year and current year comparative data will be presented.

Condensed Financial Statements

	<u>2002</u>
Assets	
Current Assets	\$ 2,515,596.41
Noncurrent Assets	
Capital Assets, Net	22,270,182.43
Other	<u>107,005.90</u>
Total Assets	<u>24,892,784.74</u>
Liabilities	
Current Liabilities	664,007.88
Noncurrent Liabilities	<u>2,093,287.14</u>
Total Liabilities	<u>2,757,295.02</u>
Net Assets	
Invested in Capital Assets, Net of Related Debt	20,621,012.42
Restricted - Expendable	892,739.61
Unrestricted	<u>621,737.69</u>
Total Net Assets	<u>\$ 22,135,489.72</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Condensed Financial Statements

	<u>2002</u>
Operating Revenues	
Student Tuition and Fees, Net	\$ 1,633,338.84
Federal Grants and Contracts	2,129,101.66
State Grants and Contracts	561,275.33
Auxiliary	<u>1,123,736.42</u>
Total Operating Revenues	<u>5,447,452.25</u>
Nonoperating Revenues	
State Aid	11,135,061.76
County Appropriations	1,758,543.94
Investment Income	40,978.44
Other Nonoperating Revenues	<u>507,546.79</u>
Net Nonoperating Revenues	<u>13,442,130.93</u>
Total Revenue Before Capital Revenues	<u>18,889,583.18</u>
Capital Revenues	
State Capital Aid	838,413.58
County Capital Appropriations	629,592.06
Capital Grants	<u>2,012,488.45</u>
Total Capital Revenues	<u>3,480,494.09</u>
Total Revenues	<u>22,370,077.27</u>
Operating Expenses	
Personal Services	12,837,224.42
Supplies and Materials	2,238,878.43
Services	2,005,585.55
Scholarships and Fellowships	1,175,429.69
Utilities	539,518.65
Depreciation	<u>1,088,244.72</u>
Total Operating Expenses	<u>19,884,881.46</u>
Change in Net Assets	
Net Assets - Beginning of Year	29,904,996.31
Restatements	(10,254,702.40)
Increase in Net Assets	<u>2,485,195.81</u>
Net Assets - End of Year	<u><u>\$ 22,135,489.72</u></u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Analysis of the College's Overall Financial Position

The College has seen consistent enrollment growth of 3.6% (FTE) in 2000–2002 and is projected to have an increase of 12.6% in fiscal year 2003 with increases forecasted to continue into the future. This increase along with a 13% increase in tuition rates in the fall of 2001 has created a significant increase in tuition and fees.

The College received commitments from the State of North Carolina for Capital construction in the amount of \$10,180,492.00 through fiscal year 2007. The first construction projects are underway. A \$3 million county bond issue was approved for capital expenditures and has funded construction of the Smith Building that was recently completed. A second \$2 million county bond issue was approved for work on other Capital projects. The county continues to support the capital needs of the College with bond issues and yearly capital appropriations.

The College and Johnston County entered into a \$1.8 million capital contract with Johnson Controls to improve the energy efficiency of campus buildings. Yearly payments in the amount of \$208,856.06 will be made through 2012. The first payment was made September 2001. Funding for payments is provided by the county as a part of the yearly appropriation.

Accumulated depreciation was reflected in the financial statements for the first time in fiscal year 2001/2002 in order to comply with GASB 34/35. The prior period adjustment required for accumulated depreciation at June 30, 2001 was in the amount of \$9,083,123.81.

Wetlands Mitigation funding was received from the State Department of Environmental and Natural Resources in the amount of \$237,762 in October 2001 for property at Howell Woods.

Johnston Community College actively seeks alternate funding sources as appropriate for meeting the mission of the College. This activity not only results in increases in revenues but also demonstrates the soundness of the College. Various grants and contracts have been received for fiscal year 2002 and subsequent years as listed below:

- Student Support Services Grant funded by the federal government for fiscal year 2002 in the amount of \$190,000. This grant has been continued for fiscal year 2003 in the amount of \$210,700.
- Pell grant increased during fiscal year 2002 over the prior year by \$216,942 and has increased for the fiscal year 2003 over fiscal year 2002 by \$401,041, reflecting a continued growth in enrollment.
- H1-B Technical Skills Grant was awarded in fiscal year 2003 to the College for 2 years and is funded by the federal government through Wake County. The total over 2 years is \$1,198,020.00 with a required match of \$477,034.00.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

Other Grants:

Fiscal Year 2003 - Collaborative Efforts for Horticulture Education	\$	27,965
Fiscal Year 2003 - College Tech Prep Enhancement Grant		28,305
Fiscal Year 2002/2003 - CT and MRI Training Grant		125,000
NC Community Foundation Library Grant (Annual)		6,000 - 8,000
Fiscal Year 2003 - NC Technology Enhancement Grant		10,000
Fiscal Year 2002 - Video Conferencing Grant		25,000
Fiscal Year 2002 Community Connections Grant		50,057
Fiscal Year 2002 - Gold Leaf Tuition Grant	\$	9,230

Johnston Community College
Statement of Net Assets
June 30, 2002

Exhibit A

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 1,487,775.94
Restricted Cash and Cash Equivalents	141,272.18
Receivables, Net (Note 3)	580,210.93
Inventories	301,751.79
Notes Receivable, Net (Note 3)	4,585.57

Total Current Assets 2,515,596.41

Noncurrent Assets:

Restricted Due from Primary Government	107,005.90
Capital Assets, Net (Note 4)	22,270,182.43

Total Noncurrent Assets 22,377,188.33

Total Assets 24,892,784.74

LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 5)	260,780.86
Deferred Revenue	22,684.00
Funds Held for Others	85,454.72
Long-Term Liabilities - Current Portion (Note 6)	295,088.30

Total Current Liabilities 664,007.88

Noncurrent Liabilities:

Long-Term Liabilities (Note 6)	2,093,287.14
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Total Noncurrent Liabilities 2,093,287.14

Total Liabilities 2,757,295.02

NET ASSETS

Invested in Capital Assets, Net of Related Debt 20,621,012.42

Restricted For:

Expendable:

Loans	29,457.20
Capital Projects	767,887.28
Other	95,395.13

Unrestricted 621,737.69

Total Net Assets \$ 22,135,489.72

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

See Independent Accountant's Review Report

Johnston Community College		
Statement of Revenues, Expenses, and		
Changes in Net Assets		
For the Fiscal Year Ended June 30, 2002		Exhibit B
REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net (Note 8)	\$	1,633,338.84
Federal Grants and Contracts		2,129,101.66
State and Local Grants and Contracts		561,275.33
Sales and Services, Net (Note 8)		1,123,736.42
Total Operating Revenues		5,447,452.25
EXPENSES		
Operating Expenses:		
Personal Services		12,837,224.42
Supplies and Materials		2,238,878.43
Services		2,005,585.55
Scholarships and Fellowships		1,175,429.69
Utilities		539,518.65
Depreciation		1,088,244.72
Total Operating Expenses		19,884,881.46
Operating (Loss)		(14,437,429.21)
NONOPERATING REVENUES (EXPENSES):		
State Aid		11,135,061.76
County Appropriations		1,758,543.94
Noncapital Gifts, Net (Note 8)		23,931.77
Investment Income, Net		40,978.44
Other Nonoperating Revenues (Expenses)		488,615.02
Net Nonoperating Revenues		13,442,130.93
Income Before Other Revenues, Expenses, Gains, and Losses		(995,298.28)
State Capital Aid		838,413.58
County Capital Appropriations		629,592.06
Capital Grants		2,012,488.45
Increase in Net Assets		2,485,195.81
NET ASSETS		
Net Assets, July 1, 2001 as Restated		19,650,293.91
Net Assets, June 30, 2002	\$	22,135,489.72
The accompanying notes to the financial statements are an integral part of this statement.		
See Independent Accountant's Review Report		

Johnston Community College		
Statement of Cash Flows		
For the Fiscal Year Ended June 30, 2002		Exhibit C
CASH FLOWS FROM OPERATING ACTIVITIES		
Received from Customers	\$	5,323,190.52
Payments to Employees and Fringe Benefits		(12,804,581.10)
Payments to Vendors and Suppliers		(4,783,978.89)
Payments for Scholarships and Fellowships		(1,155,823.63)
Loans Issued to Students		382.23
Other Receipts (Payments)		347,087.01
Net Cash (Used) by Operating Activities		(13,073,723.86)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State Aid Received		11,135,061.76
County Appropriations		1,758,543.94
Noncapital Grants Received		(6,027.79)
Noncapital Gifts and Endowments Received		23,931.77
Net Cash Provided by Noncapital Financing Activities		12,911,509.68
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
ACTIVITIES		
State Capital Aid Received		891,429.76
County Capital Appropriations		629,592.06
Capital Grants Received		1,730,621.02
Proceeds from Sale of Capital Assets		189,973.90
Acquisition and Construction of Capital Assets		(2,590,712.46)
Principal Paid on Capital Debt and Leases		(146,664.99)
Net Cash Provided by Capital and Related Financing Activities		704,239.29
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on Investments		37,369.95
Net Cash Provided by Investing Activities		37,369.95
Net Increase in Cash and Cash Equivalents		579,395.06
Cash and Cash Equivalents, July 1, 2001		1,049,653.06
Cash and Cash Equivalents, June 30, 2002	\$	1,629,048.12

<i>Name of Community College</i>		
<i>Statement of Cash Flows</i>		<i>Exhibit C</i>
<i>For the Fiscal Year Ended June 30, 2002</i>		<i>Page 2</i>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating (Loss)		\$ (14,437,429.21)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense		1,088,244.72
Miscellaneous Nonoperating Income		293,641.12
Changes in Assets and Liabilities:		
Receivables, Net		(103,450.95)
Inventories		3,276.41
Notes Receivable, Net		382.23
Accounts Payable and Accrued Liabilities		8,498.91
Due to Primary Government		(3,499.95)
Deferred Revenue		9,358.68
Funds Held for Others		42,882.49
Compensated Absences		24,371.69
Net Cash Used by Operating Activities		\$ (13,073,723.86)
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES		
Increase in Receivables Related to Nonoperating Income		282,463.25
The accompanying notes to the financial statements are an integral part of this statement.		
See Independent Accountant's Review Report		

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002

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, the financial reporting entity includes both the primary government and all of its component units. An organization other than a primary government serves as a nucleus for a reporting entity when it issues separate financial statements. Johnston Community College is a component unit of the State of North Carolina and an integral part of the State's *Comprehensive Annual Financial Report*.

The accompanying financial statements present all funds for which the College's Board of Trustees is financially accountable. Related foundations and similar non-profit corporations for which the College is not financially accountable are not part of the accompanying financial statements. These entities are not included because they are separately incorporated and there are neither common directors nor other evidence of common control.

- 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 Governmental Accounting Standards Board (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* effective for the College's year ended June 30, 2002, the full scope of the College's activities is considered to be a single business-type activity (BTA) 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. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

- D. Cash and Cash Equivalents** – This classification appears on the Statement of Net Assets and the Statement of Cash Flows and includes petty cash, cash on deposit with private bank accounts, overnight repurchase agreements, and short-term investments with the State Treasurer’s Cash and Investment Pool (a governmental external investment pool). The short-term investment portfolio maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.
- E. Receivables** – Receivables consist of tuition and fees charges 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.
- F. Inventories** – Inventories, consisting of expendable supplies and merchandise for resale, are stated at the lower of cost or market value using the first-in, first-out method.
- G. Capital Assets** – Capital assets are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. The College capitalizes assets that have a value or cost in excess of \$5,000 at the date of acquisition and an expected useful life of one or more years. Library books are expensed.
- Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 15 to 25 years for infrastructure, 10 to 40 years for buildings, and 3 to 15 years for equipment.
- H. Restricted Assets** – Restricted assets represent assets whose use is restricted by external parties or by law through constitutional provisions or enabling legislation.
- I. Noncurrent Long-Term Liabilities** – Noncurrent long-term liabilities include capital lease obligations and compensated absences that will not be paid within the next fiscal year.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- J. Compensated Absences** - The College's policy is to record the cost of vacation leave when earned. The policy provides for a maximum accumulation of unused vacation leave of 30 days which can be carried forward each January 1st or for which an employee can be paid upon termination of employment. 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 30th equals the leave carried forward at the previous December 31st plus the leave earned, less the leave taken between January 1st and June 30th.

When classifying compensated absences into current and noncurrent, leave is considered taken using a last in, first out method.

- K. Net Assets** – The College's net assets are classified as follows:

Invested in Capital Assets, Net of Related Debt – This represents the College's total investment in capital assets, net of outstanding debt obligations related to those capital assets.

Restricted Net Assets – Expendable – Expendable restricted net assets include resources for which the College is legally or contractually obligated to spend in accordance with restrictions imposed by external parties.

Unrestricted Net Assets – Unrestricted net assets include resources derived from student tuition and fees, sales and services, unrestricted gifts, and interest income.

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

revenues from these programs are used to satisfy tuition, fees, and other charges, the College has recorded a scholarship discount.

- M. Revenue and Expense Recognition** – The College presents its revenues and expenses as operating or nonoperating based on recognition definitions from GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*. Operating activities are those activities that are necessary and essential to the mission of the College. Operating revenues include all charges to customers, grants received for student financial assistance, and interest earned on loans. Grants received for student financial assistance are considered operating revenues because they provide resources for student charges, and such programs are necessary and essential to the mission of the College. Revenues from nonexchange transactions and State appropriations that represent subsidies or gifts to the College, as well as investment income, are considered nonoperating since these are either capital or noncapital financing or investing activities. Operating expenses are all expense transactions incurred other than those related to capital or noncapital financing or investing activities. Revenues received for capital financing activities, as well as related expenses, are considered neither operating nor nonoperating activities and are presented after nonoperating activities on the accompanying Statement of Revenues, Expenses, and Changes in Net Assets.
- N. Internal Sales Activities** – Certain institutional auxiliary operations provide goods and services to College departments, as well as to its customers. These institutional auxiliary operations include activities such as Central stores and Print Shop. In addition, the College has other miscellaneous sales and service units that operated either on a reimbursement or charge basis. All internal sales activities to College departments from auxiliary operations and sales and service units have been eliminated in the accompanying financial statements. These eliminations are recorded by removing the revenue and expense in the auxiliary operations and sales and service units and, if significant, allocating any residual balances to those departments receiving the goods and services during the year.
- O. County Appropriations** - County Appropriations are provided to the College primarily to fund its plant operation and maintenance function and to fund construction projects, motor vehicles purchases, and maintenance of equipment. Unexpended county current appropriation and county capital appropriation do not revert and are available for future use by the College.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 2 - DEPOSITS

All funds of the College are deposited in board-designated official depositories and are required to be collateralized in accordance with General Statute 115D-58.7. Official depositories may be established with any bank or savings and loan association whose principal office is located in North Carolina or with the State Treasurer’s Cash and Investment Pool. Also, the College may establish time deposit accounts, money market accounts, and certificates of deposit. At year-end, cash on hand was \$775.00. The carrying amount of cash on deposit was \$1,628,273.12 and the bank balance was \$1,963,006.15.

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.

Cash on deposit at year end consisted of the following:

	Book Balance	Bank Balance
Cash on Deposit with State Treasurer	\$ 888,458.66	\$ 888,458.66
Cash on Deposit with Private Financial Institutions	739,814.46	1,074,547.49
	\$ 1,628,273.12	\$ 1,963,006.15

The cash on deposit with the State Treasurer is pooled with State agencies and similar institutions in short-term investments with the State Treasurer’s Cash and Investment Pool. These moneys are invested in accordance with General Statutes 147-69.1(c) and 147-69.2, and as required by law are “readily convertible into cash.” All investments of the fund are held either by the Department of State Treasurer or its agent in the State’s name. The fund’s uninvested cash is either covered by federal depository insurance or, pursuant to 20 NCAC 7, is collateralized under either the dedicated or pooling method.

The financial statements and disclosures for the State Treasurer’s Cash and Investment Pool are included in the State of North Carolina’s *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller’s Internet home

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

page <http://www.osc.state.nc.us/> and clicking on “Financial Reports”, or by calling the State Controller’s Financial Reporting Section at (919) 981-5454.

Of the cash on deposit with private financial institutions at June 30, 2002, \$100,000.00 of the bank balance was covered by federal depository insurance and \$974,547.49 was covered by collateral held by an authorized escrow agent in the name of the State Treasurer (pooling method)

NOTE 3 - RECEIVABLES

Receivables at June 30, 2002 were as follows:

	Amount
Current Receivables:	
Student Accounts	\$ 216,957.86
Intergovernmental	282,463.25
Other	80,789.82
Total Current Receivables	\$ 580,210.93
 Notes Receivables:	
Notes Receivable - Current	
Institutional Student Loan Programs	4,585.57
Total Notes Receivable Current	\$ 4,585.57

NOTE 4 - CAPITAL ASSETS

A summary of changes in the capital assets is presented as follows:

	Balance July 1, 2001	Adjustments	Increases	Decreases	Balance June 30, 2002
Capital Assets, Non-Depreciable:					
Land	\$ 4,840,941.54	\$ 0.00	\$ 0.00	\$ 0.00	\$ 4,840,941.54
Construction in Progress	501,836.37	(523,559.11)	2,210,447.63		2,188,724.89
Total Capital Assets, Non-Depreciable	5,342,777.91	(523,559.11)	2,210,447.63		7,029,666.43
Capital Assets, Depreciable:					
Buildings	15,988,545.74	523,559.11			16,512,104.85
Machinery and Equipment	5,030,273.31		380,264.83	908,517.14	4,502,021.00
General Infrastructure	3,489,241.54				3,489,241.54
Total Capital Assets, Depreciable	24,508,060.59	523,559.11	380,264.83	908,517.14	24,503,367.39
Less Accumulated Depreciation:					
Buildings	4,449,792.77		446,663.40		4,896,456.17
Machinery and Equipment	3,385,500.53		417,440.22	908,517.14	2,894,423.61
General Infrastructure	1,247,830.51		224,141.10		1,471,971.61
Total Accumulated Depreciation	9,083,123.81		1,088,244.72	908,517.14	9,262,851.39
Total Capital Assets, Depreciable, Net	15,424,936.78	523,559.11	(707,979.89)		15,240,516.00
Capital Assets, Net	\$ 20,767,714.69	\$ 0.00	\$ 1,502,467.74	\$ 0.00	\$ 22,270,182.43

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2002 were as follows:

	Amount
Accounts Payable	\$ 227,834.78
Accrued Payroll	32,089.03
Other	857.05
Total Accounts Payable and Accrued Liabilities	\$ 260,780.86

NOTE 6 - LONG-TERM LIABILITIES

A summary of changes in the long-term liabilities is presented as follows:

	Balance July 1, 2001	Additions	Reductions	Balance June 30, 2002	Current Portion
Capital Leases Payable	\$ 1,917,903.90	\$ 0.00	\$ 268,733.89	\$ 1,649,170.01	\$ 110,286.94
Compensated Absences	714,833.74	450,402.39	426,030.70	739,205.43	184,801.36
Total Long-Term Liabilities	\$ 2,632,737.64	\$ 450,402.39	\$ 694,764.59	\$ 2,388,375.44	\$ 295,088.30

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 7 - LEASE OBLIGATIONS

Capital Lease Obligations - Capital lease obligations relating to HVAC equipment are recorded at the present value of the minimum lease payments. Future minimum lease payments under capital lease obligations consist of the following at June 30, 2002:

<u>Fiscal Year</u>	<u>Amount</u>
2003	\$ 208,856.06
2004	208,856.06
2005	208,856.06
2006	208,856.06
2007	208,856.06
2008-2013	<u>1,253,136.36</u>
Total Minimum Lease Payments	<u>\$ 2,297,416.66</u>
Amount Representing Interest (5.716% Rate of Interest)	<u>648,246.65</u>
Present Value of Future Lease Payments	<u>\$ 1,649,170.01</u>

Leased assets amounted to \$1,710,711.74 at June 30, 2002.

NOTE 8 - REVENUES

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

	<u>Gross Revenues</u>	<u>Internal Sales Eliminations</u>	<u>Less Scholarship Discounts</u>	<u>Net Revenues</u>
Operating revenues:				
Student tuition and fees	<u>\$ 1,970,302.81</u>	<u>\$ 0.00</u>	<u>\$ (336,963.97)</u>	<u>\$ 1,633,338.84</u>
Sales and services:				
Sales and services of auxiliary enterprises:				
Bookstore	\$ 831,957.53	\$ 0.00	\$ (136,380.96)	\$ 695,576.57
Other	406,704.49	(89,747.11)		316,957.38
Sales and services of educational and related activities	<u>111,202.47</u>			<u>111,202.47</u>
Total sales and services	<u>\$ 1,349,864.49</u>	<u>\$ (89,747.11)</u>	<u>\$ (136,380.96)</u>	<u>\$ 1,123,736.42</u>
Nonoperating - Noncapital gifts	<u>\$ 23,931.77</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 23,931.77</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 9 - OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	\$ 7,677,019.21	\$ 423,511.19	\$ 404,246.05	\$ 0.00	\$ 0.00	\$ 0.00	\$ 8,504,776.45
Public Service	247,222.20	57,341.62	348,359.09				652,922.91
Academic Support	1,359,887.93	43,915.37	132,173.46				1,535,976.76
Student Services	846,850.98	59,046.51	248,521.60				1,154,419.09
Institutional Support	2,022,337.32	98,123.54	628,780.79				2,749,241.65
Operations and Maintenance of Plant	637,658.50	922,152.54	198,157.98		539,518.65		2,297,487.67
Student Financial Aid				1,175,429.69			1,175,429.69
Auxiliary Enterprises	46,248.28	634,787.66	45,346.58				726,382.52
Depreciation						1,088,244.72	1,088,244.72
Total Operating Expenses	\$ 12,837,224.42	\$ 2,238,878.43	\$ 2,005,585.55	\$ 1,175,429.69	\$ 539,518.65	\$ 1,088,244.72	\$ 19,884,881.46

NOTE 10 - PENSION PLANS

A. Retirement Plans - Each permanent full-time employee, as a condition of employment, is a member of the Teachers' and State Employees' Retirement System. The Teachers' and State Employees' Retirement System (System) is a multiple-employer cost sharing defined benefit pension plan administered by the North Carolina State Treasurer.

After five years of creditable service, members of the Teachers' and State Employees' Retirement System qualify for a vested deferred benefit. Employees who retire on or after age 65 and complete 5 years of membership service (age 55 and 5 years of creditable service for law enforcement officers), reach age 60 with 25 years of membership service, or complete 30 years of creditable service receive a retirement allowance of 1.81% of an average final compensation (based on the 4 consecutive years that produce the highest average) multiplied by the number of years of creditable service. Employees may retire with reduced benefits if they reach age 50 with 20 years of creditable service or reach age 60 with 5 years of creditable service (age 50 with 15 years creditable service for law enforcement officers).

Benefit and contribution provisions for the Teachers' and State Employees' Retirement System are established by North Carolina General Statute 135-5 and 135-8 and may be amended only by the North Carolina General Assembly. Employer and member contributions rates are set each year by the North Carolina General Assembly based on annual actuarial valuations. For the year ended June 30, 2002, these rates were set at 1.97% of covered payroll for employers and 6% of covered payroll for members.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended June 30, 2002, the College had a total payroll of \$11,127,458.87 of which \$9,559,889.98 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were \$573,593.40 and \$188,329.83, respectively. The College made one hundred percent of its annual required contributions for the years ended June 30, 2002, 2001, and 2000, which were \$188,329.83, \$493,760.52, and \$652,470.51, respectively.

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

B. Deferred Compensation and Supplemental Retirement Income Plans

IRC Section 457 Plan - The State of North Carolina offers its permanent employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 through the North Carolina Public Employee Deferred Compensation Plan (the Plan). The Plan permits each participating employee to defer a portion of his or her salary until future years. The deferred compensation is available to employees upon separation from service, death, disability, retirement, or financial hardships if approved by the Board of Trustees of the Plan. The Board, a part of the North Carolina Department of Administration, maintains a separate fund for the exclusive benefit of the participating employees and their beneficiaries, *the North Carolina Public Employee Deferred Compensation Trust Fund*. The Board also contracts with an external third party to perform certain administrative requirements and to manage the trust fund's assets. All costs of administering and funding the Plan are the responsibility of the Plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to \$54,252.96 for the year ended June 30, 2002.

IRC Section 401(k) Plan - All members of the Teachers' and State Employees' Retirement System are eligible to enroll in the Supplemental Retirement Income Plan, a defined contribution plan, created under Internal Revenue Code Section 401(k). All costs of administering the plan are the responsibility of the Plan participants. No costs are incurred by the College except for a 5% employer contribution for the College's law enforcement officers, which is mandated under General Statute 143-166.30(e). The voluntary contributions by employees amounted to \$137,298.00 for the year ended June 30, 2002.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

IRC Section 403(b) and 403(b)(7) Plans - Eligible College employees can participate in tax sheltered annuity plans created under Internal Revenue Code Sections 403(b) and 403(b)(7). The employee's eligible contributions, made through salary reduction agreements, are exempt from federal and State income taxes until the annuity is received or the contributions are withdrawn. These plans are exclusively for employees of colleges and certain charitable and other non-profit institutions. All costs of administering and funding these plans are the responsibility of the Plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to \$19,287.00 for the year ended June 30, 2002.

NOTE 11 - OTHER POSTEMPLOYMENT BENEFITS

- A. Health Care for Long-Term Disability Beneficiaries and Retirees -** The College participates in State-administered programs which provide postemployment health insurance to eligible former employees. Eligible former employees include long-term disability beneficiaries of the Disability Income Plan of North Carolina and retirees of the Teachers' and State Employees' Retirement System. These benefits were established by Chapter 135, Article 3, Part 3, of the General Statutes and may be amended only by the North Carolina General Assembly. Funding for the health care benefit for long-term disability beneficiaries and retirees is financed on a pay-as-you-go basis. The College contributed 2.35% of the covered payroll under the Teachers' and State Employees' Retirement System for these health care benefits. For the fiscal year ended June 30, 2002, the College's total contribution to the Plan was \$224,657.41. The College assumes no liability for retiree health care benefits provided by the programs other than its required contribution. Additional detailed information about these programs can be located in the State of North Carolina's *Comprehensive Annual Financial Report*.
- B. Long-Term Disability -** The College participates in the Disability Income Plan of North Carolina (DIPNC). Established by Chapter 135, Article 6, of the General Statutes, DIPNC provides short-term and long-term disability benefits to eligible members of the Teachers' and State Employees' Retirement System. Long-term disability income benefits are advance funded on an actuarially determined basis using the one-year term cost method. The College contributes .52% of covered payroll under the Teachers' and State Employees' Retirement System and the Optional Retirement Program to the DIPNC. For the fiscal year ended June 30, 2002, the College's total contribution to the DIPNC was \$49,711.43. The College assumes no liability for long-term disability benefits under the plan other than its contribution. Additional detailed information about the DIPNC is disclosed in the State of North Carolina's *Comprehensive Annual Financial Report*.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 12 - RISK MANAGEMENT

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

Tort claims of up to \$500,000 are self-insured under the authority of the State Tort Claims Act. In addition, the State provides excess public officers' and employees' liability insurance up to \$11,000,000 via contract with a private insurance company. The premium, based on a composite rate, is paid by the North Carolina Community College System Office directly to the private insurer.

Fire and other property losses are covered by the Public School Insurance Fund, a State-administered public entity risk pool. This fund is financed by premiums and interest and reinsures losses greater than \$10,000,000 per occurrence. The excess insurer provides property coverage up to \$30,000,000 per location annually. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

State-owned vehicles used for instructional purposes are covered by liability insurance handled by the State Department of Insurance. Liability insurance for other college-owned vehicles is covered by contracts with private insurance companies.

The College is protected for losses from employee dishonesty and computer fraud for employees paid in whole or in part from State funds. The blanket honesty bond is with a private insurance company and is handled by the North Carolina Department of Insurance with coverage of \$5,000,000 per occurrence and a \$50,000 deductible. The College is protected for losses from County and Institutional fund paid employees by a blanket honesty bond with a private insurance company.

Employees and retirees are provided health care coverage by the Comprehensive Major Medical Plan (Plan), a component unit of the State. The Plan is funded by employer and employee contributions and is administered by a third-party contractor. Effective for the October 1, 2001 through September 30, 2002 year, the Plan no longer offers health coverage through HMO plans.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

Term life insurance of \$25,000 to \$50,000 is provided to eligible workers. This self-insured death benefit program is administered by the State Treasurer and funded via employer contributions.

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

NOTE 13 - COMMITMENTS AND CONTINGENCIES

A. 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 \$2,922,606.47 and on other purchases were \$161,759.83 at June 30, 2002.

B. Community College General Obligation Bonds - The 1999-2000 Session of the General Assembly of North Carolina authorized the issuance of six hundred million dollars of general obligation bonds of the State, as subsequently approved by a vote of qualified voters of the State, to provide funds for capital improvements for the North Carolina Community College System. The funds authorized are to be used solely to construct new buildings and to renovate and modernize existing buildings on the North Carolina Community College System campuses. The bond legislation specifies the amount of bond funding for each College campus as well as the intended amount for new construction and repair and replacement. The legislation further provides that the State Board of Community Colleges shall be responsible for the approval of projects in accordance with provisions of the legislation. The bonds are authorized to be issued over a six-year period beginning in 2001 at a level not to exceed amounts provided in the legislation. Using a cash flow financing approach, The Community College System's Office (CCSO), establishes annual amounts not to exceed for each approved project. The amounts not to exceed are subject to change due to actual cash availability and needs during the year. Subsequent to the bond sales and the availability of bond proceeds, CCSO notifies the Office of State Budget and Management (OSBM) of the amount not to exceed for the total of the approved projects. Within this amount, based on an official request of cash needs from the State Board of Community Colleges, OSBM authorizes allotments. These allotments are then recorded to specific

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

community college allotment accounts by the CCSO. The College records the allotments as revenue on the accompanying financial statements. The College's remaining authorization \$9,761,517.00 is contingent on future bond sales and CCSO allotment approval. Because of uncertainty and time restrictions the remaining authorization is not recorded as an asset or revenue on the accompanying financial statements.

NOTE 14 - JOHNSTON COMMUNITY COLLEGE FOUNDATION, INC.

The Johnston Community College Foundation, Inc. is a separately incorporated non-profit foundation associated with the College. This organization serves as the primary fundraising arm of the College through which individuals, corporations, and other organizations support College programs by providing scholarships, fellowships, faculty salary supplements, and unrestricted funds to specific departments and the College's overall academic environment. The College's financial statements do not include the assets, liabilities, net assets, or operational transactions of the Foundation, except for the distributions made and benefits provided by the Foundation. The distributions received and/or benefits provided approximated \$55,000.00 for the year ended June 30, 2002.

NOTE 15 - ACCOUNTING CHANGES

Effective July 1, 2001, the College implemented 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 financial statement presentation required by these Statements is a single-column enterprise activity rather than the fund-group perspective previously reported. Significant accounting changes in order to comply with the new requirements include adopting depreciation on capital assets, reporting revenues net of discounts and allowances, eliminating inter-fund activities, classifying activities as operating or nonoperating, classifying assets and liabilities as current or noncurrent, and prorating summer school activities to periods earned.

In addition, the College implemented GASB Statement No. 38, *Certain Financial Statement Note Disclosures*. Changes in existing disclosures include more detailed information on debt service requirements, obligations under leases, and short-term debt. New disclosures include variable debt interest information and the major components of receivable and payable balances.

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

NOTE 16 - NET ASSET RESTATEMENT

As referred to in Note 15, the College implemented 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*.

July 1, 2001 Fund Equity as previously reported	29,904,996.31
Implementation of GASB 34/35	<u>(10,254,702.40)</u>
July 1, 2001 Net Assets as Restated	<u><u>19,650,293.91</u></u>

**Johnston Community College
Schedule of General Obligation Bond Project Authorizations,
Budgets, and Expenditures
For Project-to-Date as of June 30, 2002**

Schedule 1

Capital Improvement Projects	Projected Start Date	General Obligation Bonds Authorized	Other Sources	Total Project Budget	Amount Expended	Percent Completed	Expected Completion Date
Projects Approved by the State Board							
New Truck Driver Training/Auto Tech Building	Jul 2001	\$ 2,299,625.00	\$ 0.00	\$ 2,299,625.00	\$ 98,096.83	4.27%	Jan 2004
Renovation of Wilson, Elsie, and TDT Vacated Space	Jul 2001	922,824.00		922,824.00	45,668.25	4.95%	Sep 2003
Life Safety and Electrical Upgrade	Dec 2001	200,000.00		200,000.00	175,530.32	87.77%	Jan 2004
Projects Pending Approval by the State Board							
Wilson Addition	Feb 2002	3,154,788.00		3,154,788.00			Feb 2005
Library/Auditorium Addition	Mar 2003	1,511,910.00		1,511,910.00			Mar 2006
Library/Auditorium Renovations	Mar 2003	270,924.00		270,924.00			Sep 2007
Purchase Continuing Ed Center	Jul 2006	1,509,276.00		1,509,276.00			Jul 2006
Wilson Renovations	Feb 2002	311,145.00		311,145.00			Sep 2005
Total All Projects		\$ 10,180,492.00	\$ 0.00	\$ 10,180,492.00	\$ 319,295.40		

Note: The 1999-2000 Session of the General Assembly of North Carolina authorized the issuance of six hundred million dollars of general obligation bonds of the State, as subsequently approved by a vote of qualified voters of the State, to provide funds for capital improvements for the North Carolina Community College System. The projects listed on this schedule are those funded or to be funded by bond proceeds from the general obligation bonds authorized by Senate Bill 912.

REVIEW FINDINGS AND RECOMMENDATIONS

Matters Related to Financial Reporting

Current Year Findings and Recommendations - The following finding and recommendation was identified during the current review and represents a significant deficiency in internal controls.

1. FINANCIAL REPORTING PROCESS

The College's financial statements and notes presented for review contained material errors requiring correction. Adequate documentation was not maintained for all financial statement amounts and disclosures.

Management is responsible for the fair presentation of its financial position and results of operations in accordance with accounting principles generally accepted in the United States of America and the policies of the Office of the State Controller. Management is also responsible for establishing and maintaining internal controls over financial reporting to detect and correct material errors and misstatements in a timely manner.

Recommendation: We recommend that the College implement controls to ensure that the year-end financial statements are adequately prepared and reviewed to ensure misstatements and presentation errors are detected and corrected prior to submission of the statements and related notes to the Office of the State Controller and the Office of the State Auditor. Adequate documentation should be maintained to support all financial statement amounts and disclosures.

College's Response: Accurate reporting has always been and continues to be a top priority of Johnston Community College. The growth that the College has experienced, the lack of adequate personnel, and the vast changes in financial reporting required by GASB 34/35 has strained our resources. Actions were taken that will improve financial reporting months before the review but will not be in full effect until the winter of 2003.

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August 5, 2003

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