STATE OF NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT OF

JOHNSTON COMMUNITY COLLEGE

SMITHFIELD, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2005

OFFICE OF THE STATE AUDITOR

LESLIE W. MERRITT, JR., CPA, CFP

STATE AUDITOR

FINANCIAL STATEMENT AUDIT REPORT OF

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FOR THE YEAR ENDED JUNE 30, 2005

STATE OF NORTH CAROLINA
Office of the State Auditor

Leslie W. Merritt, Jr., CPA, CFP
State Auditor

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AUDITOR'S TRANSMITTAL

The Honorable Michael F. Easley, 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, 2005, 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.

Our consideration of internal control over financial reporting and compliance and other matters based on an audit of the financial statements disclosed certain deficiencies that are detailed in the Audit Findings and Recommendations section of this report. The College's response is included following each finding.

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.

Leslie W. Merritt, Jr.

Leslie W. Merritt, Jr., CPA, CFP
State Auditor

June 21, 2006

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Johnston Community College
Smithfield, North Carolina

We have audited the accompanying financial statements of Johnston Community College, a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 2005, which collectively comprise the College's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of Johnston Community College's management. 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., which represent 100% of the College's discretely presented component units. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for that entity, is based 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 of material misstatement. The financial statements of Johnston Community College Foundation, Inc., were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of 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, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 14 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures*, during the year ended June 30, 2005.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 10, 2006 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis, as listed in the table of contents, 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. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Leslie W. Merritt, Jr.

Leslie W. Merritt, Jr., CPA, CFP
State Auditor

May 10, 2006

The Management's Discussion and Analysis presents Johnston Community College's financial activity during fiscal year June 30, 2005 with comparative totals for June 30, 2004. This analysis is provided to give the reader an introduction and overview of the financial statements based on currently known facts, decisions, or conditions. For additional information contact Administrative Services Division at 919-209-2070.

Introduction to the 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 supplement information provided in the statements.

Exhibit A-1 – Statement of Net Assets: Assets and liabilities are presented in a format that distinguishes between current and noncurrent assets and liabilities.

Exhibit A-2 – 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.

Exhibit A-3 – 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.

Comparative Condensed Financial Statements

The Statement of Net Assets presents balances for assets, liabilities, and net assets at June 30, 2005. The purpose of this statement is to measure the value of the College's net assets at year end. Condensed data from the Statement of Net Assets is presented below.

Statement of Net Assets

	2005	2004	Change
Assets			
Current Assets	$ 2,408,859.04	$ 2,333,845.32	3 %
Noncurrent Assets	1,591,904.19	5,275,637.61	(70) %
Capital Assets, Net	29,088,427.44	26,148,697.11	11 %
Total Assets	33,089,190.67	33,758,180.04	(2) %
Liabilities			
Current Liabilities	1,596,604.44	1,320,656.60	21 %
Noncurrent Liabilities	2,321,012.25	2,411,630.57	(4) %
Total Liabilities	3,917,616.69	3,732,287.17	5 %
Net Assets			
Invested in Capital Assets, Net of Related Debt	27,790,287.43	24,726,692.71	12 %
Restricted - Expendable	1,469,708.32	5,813,934.93	(75) %
Unrestricted	(88,421.77)	(514,734.77)	(83) %
Total Net Assets	$ 29,171,573.98	$ 30,025,892.87	(3) %

The Wilson Building construction project, funded with State bond funds, was well under way at year end resulting in an increase in capital assets and a decrease in the amount due from State as reflected in the decrease in noncurrent assets in the amount of $3.7 million. Progress on the Wilson construction project also affected net assets by increasing invested in capital assets and decreasing restricted – expendable and increased current liabilities for construction invoices payable at year end.

The Statement of Revenues, Expenses, and Changes in Net Assets provides results of the College's operations for the fiscal year. A condensed version of this statement is presented below.

Statement of Revenues, Expenses, and Net Assets

	2005	2004	Change
Operating Revenue			
Student Tuition and Fees, Net	$ 2,164,374.65	$ 1,594,055.17	36 %
Federal Grants and Contracts	2,884,938.88	2,776,238.93	4 %
Other Operating Revenue	1,600,458.30	1,477,069.40	8 %
Total Operating Revenue	6,649,771.83	5,847,363.50	14 %
Operating expenses			
Personal Services	16,022,860.24	15,309,969.09	5 %
Supplies and Materials	3,320,779.76	2,950,666.84	13 %
Services	2,307,685.72	2,344,790.25	(2) %
Other Operating Expenses	3,130,194.74	3,047,415.06	3 %
Total Operating Expenses	24,781,520.46	23,652,841.24	5 %
Operating Loss	(18,131,748.63)	(17,805,477.74)	2 %
Nonoperating Revenues (Expenses)			
State Aid	13,556,575.52	12,392,671.58	9 %
County Appropriations	2,635,532.00	2,418,080.00	9 %
Other Nonoperating Revenues (Expenses)	438,731.47	576,290.74	(24) %
Net Nonoperating Revenues	16,630,838.99	15,387,042.32	8 %
State Capital Aid	278,622.75	5,834,219.93	(95) %
County Capital Appropriations	349,468.00	50,590.00	591 %
Capital Grants	18,500.00	1,596,607.39	(99) %
Increase (Decrease) in Net Assets	(854,318.89)	5,062,981.90	(117) %
Net Assets			
Net Assets - July 1	30,025,892.87	24,962,910.97	20 %
Net Assets - June 30	$ 29,171,573.98	$ 30,025,892.87	(3) %

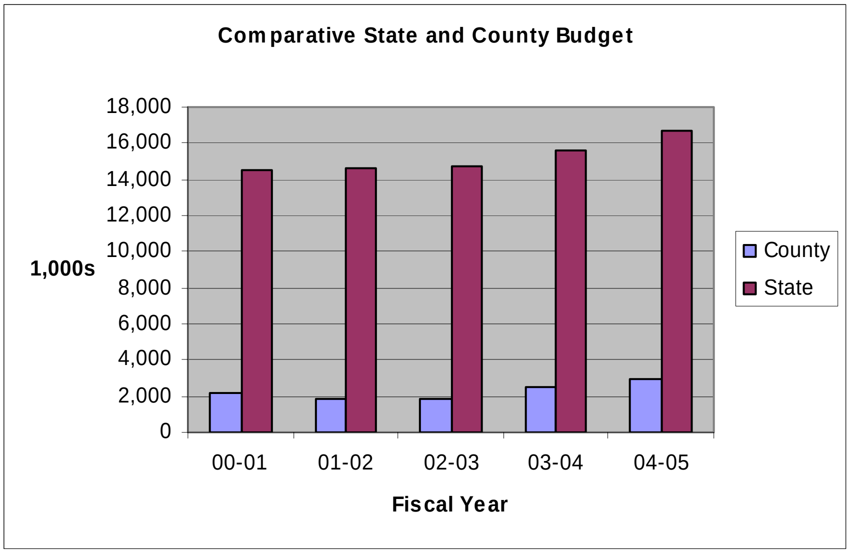
State capital aid decreased as compared to the prior year due to State bond funds for the Wilson construction project being allotted by the State in the prior year. No major projects were allotted by the State in this fiscal year. The County increased capital appropriations to continue their support of the College's capital needs. Student tuition and fees increased in the current year due to a state mandated increase in tuition rates, changes in calculation formulas for student activity fees, and the process for charging tuition fees to financial aid awards.

Capital Assets

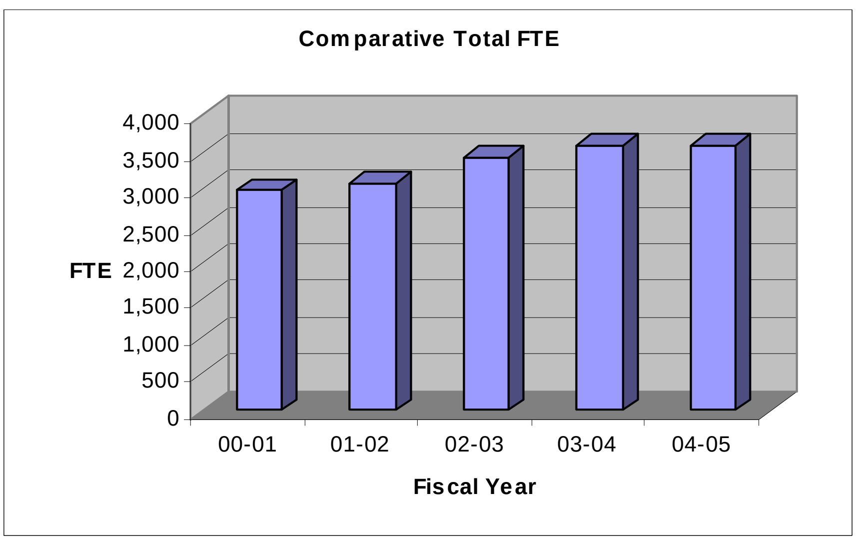
The Wilson building addition and the Wilson, Elsie, and Truck Driver Training building renovations are in process and will add $5,983,544 to campus facilities when completed in the summer of 2006. In May 2005 Johnston County voters approved a $10 million bond referendum to finance construction of a new facility for emergency services training and an addition to the allied health building.

Analysis of the College's Overall Financial Position

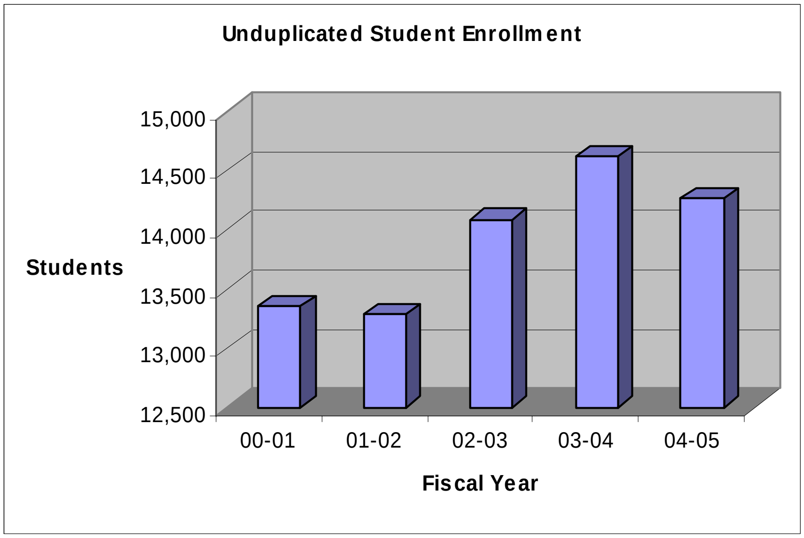
State and County governments have continued to support the College with 2004-2005 budgets of $16,736,415 and $2,926,689 respectively. Fiscal year 2004-2005 budget increases over the prior year were $1,171,249 State and $458,019 County.



FTE has increased each year for the last four previous years. Fiscal year 2004-2005 had an FTE of 3,598 which was a decrease of 8 FTE over the prior year.



The number of students enrolled decreased in 2004-2005 to a total of 14,263 which was a decrease of 359 students or 2.5% from the prior year.



Johnston Community College actively seeks alternative funding sources as appropriate for meeting the mission of the College. This activity not only results in increased services provided but also demonstrates the desire of the College to meet the needs of the community. Various grants and contracts are active FY 2005 and subsequent years as listed below:

- Student Support Services Grant funded by the Federal government has provided funding for the last three years in the amount of $615,514. Funding was provided for FY 2005 in the amount of $209,814. The program has been approved for 4 more years.
- The Health Care Works Grant, funded by The Duke Endowment and Johnston Memorial Hospital, was award to the College in FY 2004. The total funded was $1,126,530 to be paid out over a two year period.

Other Grants:

FY 2005 Native Woodland Trails	$ 50,000.00
FY 2005 Golden Leaf Pathways to Employment	55,900.00
FY 2005 Golden Leaf BioProcess Technology	210,295.00
FY 2005 Hispanic/Latino Initiative	150,365.00

Johnston Community College
Statement of Net Assets
June 30, 2005 ***Exhibit A-1***

ASSETS	
Current Assets:	
Cash and Cash Equivalents	$ 669,867.54
Restricted Cash and Cash Equivalents	416,508.39
Receivables (Note 3)	1,017,032.82
Due from State of North Carolina Component Units	24,500.00
Inventories	261,264.71
Notes Receivable (Note 3)	19,685.58
Total Current Assets	2,408,859.04
Noncurrent Assets:	
Restricted Due from Primary Government	1,591,904.19
Capital Assets - Nondepreciable (Note 4)	8,730,840.36
Capital Assets - Depreciable, Net (Note 4)	20,357,587.08
Total Noncurrent Assets	30,680,331.63
Total Assets	33,089,190.67
LIABILITIES	
Current Liabilities:	
Accounts Payable and Accrued Liabilities (Note 5)	825,101.58
Deferred Revenue	314,124.05
Funds Held for Others	146,652.51
Long-Term Liabilities - Current Portion (Note 6)	310,726.30
Total Current Liabilities	1,596,604.44
Noncurrent Liabilities:	
Long-Term Liabilities (Note 6)	2,321,012.25
Total Liabilities	3,917,616.69
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	27,790,287.43
Restricted for:	
Expendable:	
Scholarships and Fellowships	75,269.04
Loans	60,158.37
Capital Projects	1,334,280.91
Unrestricted	(88,421.77)
Total Net Assets	$ 29,171,573.98

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 Assets
For the Fiscal Year Ended June 30, 2005

Exhibit A-2

REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net (Note 8)	$	2,164,374.65
Federal Grants and Contracts		2,884,938.88
State and Local Grants and Contracts		429,383.05
Sales and Services, Net (Note 8)		1,171,075.25
Total Operating Revenues		6,649,771.83
EXPENSES		
Operating Expenses:		
Personal Services		16,022,860.24
Supplies and Materials		3,320,779.76
Services		2,307,685.72
Scholarships and Fellowships		1,394,847.63
Utilities		498,922.24
Depreciation		1,236,424.87
Total Operating Expenses		24,781,520.46
Operating Loss		(18,131,748.63)
NONOPERATING REVENUES (EXPENSES)		
State Aid		13,556,575.52
County Appropriations		2,635,532.00
Noncapital Grants		328,193.72
Noncapital Gifts		8,056.48
Investment Income		14,082.24
Interest and Fees on Debt		(84,991.67)
Other Nonoperating Revenues		173,390.70
Net Nonoperating Revenues		16,630,838.99
Loss Before Other Revenues		(1,500,909.64)
State Capital Aid		278,622.75
County Capital Appropriations		349,468.00
Capital Grants		18,500.00
Decrease in Net Assets		(854,318.89)
NET ASSETS		
Net Assets, July 1, 2004		30,025,892.87
Net Assets, June 30, 2005	$	29,171,573.98

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, 2005 ***Exhibit A-3***

CASH FLOWS FROM OPERATING ACTIVITIES	
Received from Customers	$ 6,529,896.79
Payments to Employees and Fringe Benefits	(16,052,503.54)
Payments to Vendors and Suppliers	(6,260,393.90)
Payments for Scholarships and Fellowships	(1,348,729.66)
Loans Issued to Students	(15,670.08)
Other Receipts	187,046.64
Net Cash Used by Operating Activities	(16,960,353.75)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Aid Received	13,556,575.52
County Appropriations	2,635,532.00
Noncapital Grants Received	328,193.72
Noncapital Gifts Received	8,056.48
Cash Provided by Noncapital Financing Activities	16,528,357.72
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
State Capital Aid Received	3,962,356.17
County Capital Appropriations	349,468.00
Capital Grants Received	783,333.99
Proceeds from Sale of Capital Assets	53,437.89
Acquisition and Construction of Capital Assets	(3,785,734.86)
Principal Paid on Capital Leases	(123,864.39)
Interest Paid on Capital Leases	(84,991.67)
Net Cash Provided by Capital and Related Financing Activities	1,154,005.13
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment Income	14,082.24
Cash Provided by Investing Activities	14,082.24
Net Increase in Cash and Cash Equivalents	736,091.34
Cash and Cash Equivalents, July 1, 2004	350,284.59
Cash and Cash Equivalents, June 30, 2005	$ 1,086,375.93
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES	
Operating Loss	$ (18,131,748.63)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities	
Depreciation Expense	1,236,424.87
Miscellaneous Nonoperating Income	173,390.70
Changes in Assets and Liabilities:	
Receivables	(38,225.99)
Inventories	(49,860.30)
Notes Receivable	(15,670.08)
Accounts Payable and Accrued Liabilities	(102,018.10)
Deferred Revenue	(40,967.22)
Funds Held for Others	19,092.08
Compensated Absences	(10,771.08)
Net Cash Used by Operating Activities	$ (16,960,353.75)

RECONCILIATION OF CASH AND CASH EQUIVALENTS		
Current Assets:		
Cash and Cash Equivalents	$	669,867.54
Restricted Cash and Cash Equivalents		416,508.39
Total Cash and Cash Equivalents - June 30, 2005	$	1,086,375.93
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES		
Assets Acquired through Assumption of a Liability	$	443,858.23

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, 2005 — *Exhibit B-1*

ASSETS		
Cash and Cash Equivalents	$	1,415,965.00
Investments		869,895.00
Pledges Receivable/Promises		25,085.00
Total Assets		2,310,945.00
NET ASSETS		
Unrestricted		118,661.00
Temporarily Restricted		39,566.00
Permanently Restricted		2,152,718.00
Total Net Assets	$	2,310,945.00

See Note 1 in the Notes to the Financial Statements

Johnston Community College Foundation, Inc.
Statement of Activities
For the Fiscal Year Ended June 30, 2005 — *Exhibit B-2*

CHANGES IN UNRESTRICTED NET ASSETS		
Revenues:		
Contributions	$	11,635.00
Other Investment Income		6,799.00
Other		37,710.00
Total Unrestricted Revenues		56,144.00
Expenses:		
Scholarships		15,551.00
Mini Grants		4,517.00
Special Events		3,084.00
Management and General		46,684.00
Fund Raising		21,249.00
Total Expenses		91,085.00
Decrease in Unrestricted Net Assets		(34,941.00)
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS		
Contributions		24,372.00
Other		105.00
Income on Long-Term Investments		46,680.00
Net Assets Released from Restrictions:		
Satisfaction of Program Restrictions		(56,420.00)
Increase in Temporarily Restricted Net Assets		14,737.00
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS		
Contributions		299,056.00
Net Unrealized and Realized Gains on Long-Term Investments		48,767.00
Increase in Permanently Restricted Net Assets		347,823.00
Increase in Net Assets		327,619.00
Net Assets at Beginning of Year		1,983,326.00
Net Assets at End of Year	$	2,310,945.00

See Note 1 in the Notes to the Financial Statements

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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 of the College and the component unit for which the College's Board of Trustees is financially accountable. The College's component unit is discretely presented in the financial statements. The discretely presented component unit's financial data is reported in separate financial statements because of its use of a different GAAP reporting model and to emphasize its legal separateness.

Discretely Presented Component Unit – The Johnston Community College Foundation, Inc. is a legally separate not-for-profit corporation and is reported as a discretely presented component unit based on the nature and significance of its relationship to the College. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the College in support of its programs. The Foundation board consists of 31 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 not-for-profit organization that reports its financial results under Financial Accounting Standards Board (FASB) Statements. As such, certain revenue recognition criteria and presentation features are different from 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, 2005, the Foundation distributed $76,488 to the College for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from Johnston Community College Foundation office, 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 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*, 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.

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.

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.

D. **Cash and Cash Equivalents –** This classification includes undeposited receipts, petty cash, cash on deposit with private bank accounts, and deposits held by the State Treasurer in the short-term investment portfolio. 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 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.

F. **Inventories** – Inventories, consisting of expendable supplies and merchandise for resale, are valued at cost or market 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 more than one year. Library books are generally not considered to have a useful life of more than one year unless part of a collection and are expensed in the year of acquisition.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 15 to 24 years for general infrastructure, 15 to 40 years for buildings, and 2 to 25 years for equipment.

H. **Restricted Assets** – Unexpended capital contributions are classified as restricted assets because their use is limited by donor/grantor agreements. Certain other assets are classified as restricted because their use is limited by external parties or statute.

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.

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 1 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 30 equals the leave carried forward at the previous December 31 plus the leave earned, less the leave taken between January 1 and June 30.

In addition to the vacation leave described above, compensated absences includes the accumulated unused portion of the special annual leave bonuses awarded by the College to all full-time permanent employees as of September 30, 2002, and as of July 1, 2003. The unused portion of this leave remains available until used, notwithstanding the limitation on annual leave carried forward described above.

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

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

N. Internal Sales Activities – Certain institutional auxiliary operations provide goods and services to College departments, as well as to its customers. These institutional auxiliary operations include activities such as central stores, print shop, and postal services. In addition, the College has other miscellaneous sales and service units that operated either on a reimbursement or charge basis. All internal sales activities to College departments from auxiliary operations and sales and service units have been eliminated in the accompanying financial statements. These eliminations are recorded by removing the revenue and expense in the auxiliary operations and sales and service units and, if significant, allocating any residual balances to those departments receiving the goods and services during the year.

O. County Appropriations – County appropriations are provided to the College primarily to fund its plant operation and maintenance function and to fund construction projects, motor vehicle purchases, and maintenance of equipment. Unexpended county current appropriation and county capital appropriation do not revert and are available for future use by the College.

NOTE 2 - DEPOSITS AND INVESTMENTS

All funds of the College are deposited in board-designated official depositories and are required to be collateralized in accordance with *North Carolina General Statute* 115D-58.7. Official depositories may be established with any bank or savings and loan association whose principal office is located in North

Carolina. Also, the College may establish time deposit accounts, money market accounts, and certificates of deposit. The amount shown on the Statement of Net Assets as cash and cash equivalents includes cash on hand totaling $1,175.00, and deposits in private financial institutions with a carrying value of $820,374.06 and a bank balance of $986,918.21.

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, 2005, 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 the form of investments pursuant to G.S. 159-30(c), as follows: a commingled investment pool established and administered by the State Treasurer pursuant to G.S. 147-69.3, obligations of or fully guaranteed by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain nonguaranteed federal agencies; prime quality commercial paper bearing specified ratings and banker's acceptances; 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.

At June 30, 2005, the amount shown on the Statement of Net Assets as cash and cash equivalents includes $264,826.87 which represents the College's equity position in the State Treasurer's Short-Term Investment Fund. The Short-Term Investment Fund (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission and does not have a credit rating) had a weighted average maturity of 1.41 years as of June 30, 2005. Assets and shares of the Short-Term Investment Fund are valued at amortized cost, which approximates fair value. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's Short-Term Investment Fund) are included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page http://www.ncosc.net/ and clicking on "Financial Reports", or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

NOTE 3 - RECEIVABLES

Receivables at June 30, 2005, were as follows:

	Amount
Current Receivables:	
Students	$ 954,620.01
Accounts	61,330.23
Intergovernmental	1,050.00
Other	32.58
Total Current Receivables	$ 1,017,032.82
Notes Receivable:	
Notes Receivable - Current:	
Institutional Student Loan Programs	$ 19,685.58

NOTE 4 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2005, is presented as follows:

	Balance July 1, 2004	Adjustments	Increases	Decreases	Balance June 30, 2005
Capital Assets, Nondepreciable:					
Land	$ 4,840,941.54	$ 0.00	$ 115,278.00	$ 0.00	$ 4,956,219.54
Construction in Progress	1,125,224.76	(1,038,182.81)	3,687,578.87		3,774,620.82
Total Capital Assets, Nondepreciable	5,966,166.30	(1,038,182.81)	3,802,856.87		8,730,840.36
Capital Assets, Depreciable:					
Buildings	22,774,523.04	1,038,182.81	39,107.33		23,851,813.18
Machinery and Equipment	4,665,452.57		317,435.42	342,475.03	4,640,412.96
General Infrastructure	3,579,063.81		70,193.47		3,649,257.28
Total Capital Assets, Depreciable	31,019,039.42	1,038,182.81	426,736.22	342,475.03	32,141,483.42
Less Accumulated Depreciation:					
Buildings	5,969,816.85		633,298.70		6,603,115.55
Machinery and Equipment	2,943,328.83		373,074.52	289,037.14	3,027,366.21
General Infrastructure	1,923,362.93		230,051.65		2,153,414.58
Total Accumulated Depreciation	10,836,508.61		1,236,424.87	289,037.14	11,783,896.34
Total Capital Assets, Depreciable, Net	20,182,530.81	1,038,182.81	(809,688.65)	53,437.89	20,357,587.08
Capital Assets, Net	$ 26,148,697.11	$ 0.00	$ 2,993,168.22	$ 53,437.89	$ 29,088,427.44

NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2005, were as follows:

	Amount
Accounts Payable	$ 629,650.18
Accrued Payroll	21,757.26
Contract Retainage	173,694.14
Total Accounts Payable and Accrued Liabilities	$ 825,101.58

NOTE 6 - CHANGES IN LONG-TERM LIABILITIES

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

	Balance July 1, 2004	Additions	Reductions	Balance June 30, 2005	Current Portion
Capital Leases Payable	$ 1,422,004.40	$ 0.00	$ 123,864.39	$ 1,298,140.01	$ 131,267.63
Compensated Absences	1,344,369.62	542,207.82	552,978.90	1,333,598.54	179,458.67
Total Long-Term Liabilities	$ 2,766,374.02	$ 542,207.82	$ 676,843.29	$ 2,631,738.55	$ 310,726.30

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

NOTE 7 - CAPITAL LEASE OBLIGATIONS

Capital lease obligations relating to energy savings 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, 2005:

Fiscal Year	Amount
2006	$ 208,856.06
2007	208,856.06
2008	208,856.06
2009	208,856.06
2010	208,856.06
2011-2013	626,568.18
Total Minimum Lease Payments	1,670,848.48
Amount Representing Interest (5.716% Rate of Interest)	372,708.47
Present Value of Future Lease Payments	$ 1,298,140.01

Machinery and equipment acquired under capital lease amounted to $1,496,872.76 at June 30, 2005.

NOTE 8 - REVENUES

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

	Gross Revenues	Less Scholarship Discounts	Net Revenues
Operating Revenues:			
Student Tuition and Fees	$ 2,835,334.80	$ 670,960.15	$ 2,164,374.65
Sales and Services:			
Sales and Services of Auxiliary Enterprises:			
Bookstore	$ 1,212,525.79	$ 361,068.40	$ 851,457.39
Other	229,758.87		229,758.87
Sales and Services of Education and Related Activities	89,858.99		89,858.99
Total Sales and Services	$ 1,532,143.65	$ 361,068.40	$ 1,171,075.25

NOTE 9 - OPERATING EXPENSES BY FUNCTION

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

	Personal Services	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	$ 9,730,602.94	$ 1,170,138.73	$ 476,685.10	$ 0.00	$ 0.00	$ 0.00	$ 11,377,426.77
Public Service	567,138.34	105,169.21	278,927.31				951,234.86
Academic Support	987,286.80	247,788.35	230,716.38				1,465,791.53
Student Services	1,083,274.17	20,943.57	245,850.21				1,350,067.95
Institutional Support	2,622,046.00	360,211.72	561,360.57				3,543,618.29
Operations and Maintenance of Plant	704,859.73	508,729.57	393,632.47		498,922.24		2,106,144.01
Student Financial Aid	267,010.67	7,994.83	71,929.16	1,394,847.63			1,741,782.29
Auxiliary Enterprises	60,641.59	899,803.78	48,584.52				1,009,029.89
Depreciation						1,236,424.87	1,236,424.87
Total Operating Expenses	$ 16,022,860.24	$ 3,320,779.76	$ 2,307,685.72	$ 1,394,847.63	$ 498,922.24	$ 1,236,424.87	$ 24,781,520.46

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 cost sharing multiple-employer defined benefit pension plan administered by the North Carolina State Treasurer.

Benefit and contribution provisions for the Teachers' and State Employees' Retirement System are established by *North Carolina General Statutes* 135-5 and 135-8 and may be amended only by the North Carolina General Assembly. Employer and member contribution rates are set each year by the North Carolina General Assembly based on annual actuarial valuations. For the year ended June 30, 2005, these rates were set at 2.17% of covered payroll for employers and 6% of covered payroll for members.

For the year ended June 30, 2005, the College had a total payroll of $13,663,532.83, of which $11,229,775.42 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were $673,786.53 and $243,686.13, respectively. The College made 100% of its annual required contributions for the years ended June 30, 2005, 2004, and 2003, which were $243,686.13, $23,728.47, and $0.00, respectively.

The Teachers' and State Employees' Retirement System's financial information is included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page http://www.ncosc.net/ 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 $26,466.98 for the year ended June 30, 2005.

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. The voluntary contributions by employees amounted to $128,585.00 for the year ended June 30, 2005.

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 nonprofit 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 $8,196.00 for the year ended June 30, 2005.

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 3.2% of the covered payroll under the Teachers' and State Employees' Retirement System for these health care benefits. For the fiscal year ended June 30, 2005, the College's total contribution to the Plan was $359,352.81. 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 .445% of covered payroll under the Teachers' and State Employees' Retirement System to the DIPNC. For the year ended June 30, 2005, the College's total contribution to the DIPNC was $49,972.50. The College assumes no liability for long-term disability benefits under the Plan other than its contribution. Additional detailed information about the DIPNC is disclosed in the State of North Carolina's *Comprehensive Annual Financial Report*.

NOTE 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, and can include 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 $5,000,000 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. The College also maintains Directors and Officers Liability Coverage in the amount of $1,000,000; general liability coverage in the amount of $2,000,000; and a commercial umbrella policy in the amount of $5,000,000.

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 incurs a $10 million self-insured deductible per occurrence. Reinsurance is purchased by the fund to cover catastrophic events in excess of the $10 million deductible. 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. This deductible is insured through a private insurance company by the College. The College is protected from losses from county and institutional funds 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.

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. There were no employer contributions required for the current fiscal year.

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

NOTE 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 $1,775,548.50 and on other purchases were $62,020.98 at June 30, 2005.

B. Community College General Obligation Bonds – The 1999-2000 Session of the General Assembly of North Carolina authorized the issuance of $600 million 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 were authorized for issuance 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 community college allotment accounts by the CCSO. The College records the allotments as revenue on the accompanying financial statements. The College's remaining authorization of $2,028,295.00 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 - CHANGE IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2005, the College implemented Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures*. This Statement establishes and modifies disclosure requirements related to investment risks: credit risk, interest rate risk, and foreign currency risk. This statement also establishes and modifies disclosure requirements for deposit risks: custodial credit risk and foreign currency risk.

NOTE 15 - SUBSEQUENT EVENTS

Johnston County voters approved a $10 million bond issue for construction of an emergency services facility and additions to the health building at Johnston Community College. Bonds were sold on August 1, 2005, in the amount of $5 million. The date for the sale of the remaining $5 million will be determined at a later date.

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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 the financial statements of Johnston Community College, a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 2005, which collectively comprise the College's basic financial statements and have issued our report thereon dated May 10, 2006. We did not audit the financial statements of Johnston Community College Foundation, Inc., which represent 100% of the College's discretely presented component units. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for Johnston Community College Foundation, Inc., is based on the report of the other auditors.

As discussed in Note 14 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures,* during the year ended June 30, 2005.

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. The financial statements of Johnston Community College Foundation, Inc. were not audited in accordance with *Government Auditing Standards,* and accordingly, this report does not extend to Johnston Community College Foundation, Inc.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the College's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the College's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the Audit Findings and Recommendations section of this report.

Finding

1. Inadequate Controls over Voided Receipts
2. Internal Control Weaknesses over Payroll Functions

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

<u>Compliance and Other Matters</u>

As part of obtaining reasonable assurance about whether the College's financial statements are free of 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.*

This report is intended solely for the information and use of the Board of Trustees, the State Board of Community Colleges, management of the College, the Governor, the State Controller, the General Assembly, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Leslie W. Merritt, Jr.

Leslie W. Merritt, Jr., CPA, CFP
State Auditor

May 10, 2006

AUDIT FINDINGS AND RECOMMENDATIONS

Matters Related to Financial Reporting

The following findings and recommendations were identified during the current audit and describe conditions that represent significant deficiencies in internal control.

1. INADEQUATE CONTROLS OVER VOIDED RECEIPTS

   The College did not have adequate controls over voided receipts. Cashiers had the ability to void receipts, but there was no evidence of any review and approval by other individuals. In the absence of segregation of duties, adequate supervisory review is necessary to ensure proper processing of transactions and to detect errors and improper practices in a timely manner.

   Recommendation: The College should strengthen procedures over voided receipts.

   College's Response: Johnston Community College agrees with the auditor's recommendation that the receipt voiding process should be further segmented and initiated immediate action to improve procedures.

2. INTERNAL CONTROL WEAKNESSES OVER PAYROLL FUNCTIONS

   One individual had the ability to initiate, authorize and execute payroll transactions, and distribute payroll checks and deposit notices without adequate oversight.

   Segregation of duties is a basic internal control that requires assigning different people the responsibilities of authorizing transactions, recording transactions, and maintaining custody of assets to reduce the opportunities to allow any person to be in a position to both perpetrate and conceal errors or fraud in the normal course of his or her duties.

   Recommendation: The College should strengthen internal controls over payroll to assure that no one individual controls key aspects of payroll transactions.

   College's Response: Johnston Community College agrees with the auditor's recommendation that internal controls for payroll should be further segmented and initiated immediate action to make those improvements.

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