STATE OF NORTH CAROLINA

JOHNSTON COMMUNITY COLLEGE

SMITHFIELD, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2007

OFFICE OF THE STATE AUDITOR

LESLIE W. MERRITT, JR., CPA, CFP

STATE AUDITOR

JOHNSTON COMMUNITY COLLEGE

SMITHFIELD, NORTH CAROLINA

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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, 2007, 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 Responses 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

May 30, 2008

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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, 2007, which collectively comprise the College's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the 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, the College's discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinions, insofar as they relate to the amounts included for those entities, are 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 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, 2007, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 30, 2008, 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 30, 2008

The Management Discussion and Analysis for Johnston Community College (JCC) for fiscal year ended June 30, 2007, provides the reader with a narrative introduction and a summary overview of the financial operations of the College. This allows the reader to easily interpret the College's financial operations by comparing the current year with prior year operations.

The basic financial statements focus on the College as a whole and consist of three basic components: Statement of Net Assets; Statement of Revenues, Expenses, and Change in Net Assets; and Statement of Cash Flows.

The Statement of Net Assets presents the College's Assets and Liabilities with differences being reported as Net Assets. Net Assets reflect the differences in revenues and expenses over the life of the College. The review of a comparison of Net Assets over a number of years will help the user determine the growth and stability of the College.

- The Statement of Revenues, Expenses, and Changes in Net Assets displays revenue and expense activities of the College. The net effect of revenues and expenses roll into the Net Assets which reflects the current year activities.
- The Statement of Cash Flows is prepared using the direct method. This statement reports the net changes in cash resulting from operating, investing, and financing activities.

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

Financial Position

The College experienced a 25% growth in net assets during 2007 reflecting a strong financial position. The majority of the growth was the result of capital expenditures for buildings and an adjustment to restate capital assets.

Statement of Net Assets

The Statement of Net Assets presents the financial position of the College at year end, includes all assets and liabilities and segregates the assets and liabilities into current and noncurrent components. Net assets represent the difference between assets and liabilities.

A consolidated Statement of Net Assets with comparative figures is presented below.

Statement of Net Assets

	2007	2006	Increase (Decrease)
Assets:			
Current Assets	$ 4,300,943.71	$ 3,137,880.03	$ 1,163,063.68
Noncurrent Assets	127,367.55	648,639.94	(521,272.39)
Capital Assets, net	38,105,173.87	31,054,367.45	7,050,806.42
Total Assets	42,533,485.13	34,840,887.42	7,692,597.71
Liabilities:			
Current Liabilities	1,540,841.63	1,414,251.94	126,589.69
Noncurrent Liabilities	2,286,321.65	2,439,024.40	(152,702.75)
Total Liabilities	3,827,163.28	3,853,276.34	(26,113.06)
Net Assets:			
Invested in Capital Assets Net of Related Debt	37,077,416.84	29,887,495.07	7,189,921.77
Restricted - Expendable	1,553,802.35	834,202.46	719,599.89
Unrestricted	75,102.66	265,913.55	(190,810.89)
Total Net Assets	$ 38,706,321.85	$ 30,987,611.08	$ 7,718,710.77

Current assets include cash, receivables, inventories and notes receivables. Current assets increased by $1,163,063.68 in 2007 compared to 2006. The increase is partly due to cash that is directly related to the timing of year end reimbursements for State capital expenditures and an increased accounts payable liability due to outstanding construction payables at year end. There was also an increase of $509,407 in intergovernmental receivables due from Johnston County for construction of the Health Additions and Public Safety projects. The construction is a result of the $10M bond financed by Johnston County to construct a new facility for emergency services and an addition to the Allied Health building.

Capital Assets

The College experienced a $7.0 million increase in Capital Assets in 2007 compared to the 2006 balance. Construction expenditures capitalized during 2007 of $3.0 million included the Public Services building, Campus Improvements, the Wilson Addition and other building renovations. The College completed the Wilson building addition and the renovations to the Art and Elsee buildings during the year, which resulted in an increase to depreciable assets of $6.5 million. A recalculation of capital asset lives took place in 2007 resulting in a restatement of net assets in the amount of $4.2 million reducing accumulated depreciation and thus increasing the 2007 net capital assets. This correction was made due to errors occurring in the establishment of useful lives of capital assets when the new reporting model was implemented.

The College liabilities are divided between current liabilities payable within 12 months and noncurrent liabilities that extend beyond a year. Long-term liabilities include the portion of accrued employee annual leave that will not be paid within the next fiscal year, as well as remaining balances of capital leases payable.

Result of Operations

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

Statement of Revenues, Expenses, and Changes in Net Assets

	2007	2006	Increase (Decrease)
Operating Revenue:			
Student Tuition and Fees, Net	$ 1,703,992.64	$ 2,354,286.80	$ (650,294.16)
Grants and Contracts	3,332,574.30	4,313,268.25	(980,693.95)
Sales and Services, Net	1,346,204.55	1,346,739.60	(535.05)
Other Operating Revenue	792.00	510.00	282.00
Total Operating Revenues	6,383,563.49	8,014,804.65	(1,631,241.16)
Operating Expenses			
Personal Services	19,499,537.60	17,627,338.43	1,872,199.17
Supplies and Materials	2,924,454.06	3,227,902.45	(303,448.39)
Services	2,587,465.77	2,492,183.79	95,281.98
Other Operating Expenses	2,939,786.98	3,842,890.10	(903,103.12)
Total Operating Expenses	27,951,244.41	27,190,314.77	760,929.64
Operating Loss	(21,567,680.92)	(19,175,510.12)	(2,392,170.80)
Nonoperating Revenues			
State Aid	16,432,043.49	14,145,716.46	2,286,327.03
County Appropriations	3,268,223.00	3,083,791.00	184,432.00
Other Nonoperating Revenues	607,873.72	1,229,356.84	(621,483.12)
Net Nonoperating Revenues	20,308,140.21	18,458,864.30	1,849,275.91
State Capital Aid	2,214,618.90	1,539,730.88	674,888.02
County Capital Appropriations	2,523,860.26	992,952.04	1,530,908.22
Capital Grants	9,983.71	642,952.04	(632,968.33)
Increase in Net Assets	3,488,922.16	2,458,989.14	1,029,933.02
Net Assets - July 1	30,987,611.08	29,171,573.98	1,816,037.10
Restatement	4,229,788.61		4,229,788.61
Net Assets - June 30	$ 38,706,321.85	$ 31,630,563.12	$ 7,075,758.73

Operating Revenues

Operating Revenues include Student Tuition and Fees (net of scholarship discount), federal, State, local and private grants and revenue received from sales and services.

The College experienced a reduction in Operating Revenues in 2007 compared to 2006. This reduction of $1.6 million was primarily the result of reductions in grant awards in 2007. The majority of these reductions were the result of one time start up grants for the Work Force Development Center and Bio Technology Programs received in 2006. Also contributing to the reduction in Operating Revenues was a decrease in Student Tuition and Fees, Net. The College experienced only a slight increase of 0.5% in Spring and Fall FTE for 2007 and Summer FTE decreased by 7%. The College also began recording an Allowance for Uncollectible Accounts during 2007 adding to the decrease as this amount is netted against Student Tuition and Fees.

Nonoperating Revenues

Nonoperating revenues are comprised of state aid for current expense and capital construction, funds appropriated from Johnston County and proceeds from the Johnston County Construction Bond issuances. Nonoperating revenues experienced a $3.4 million increase in 2007 compared to 2006. This increase was the result of a $2.3 million increase in State Aid. The increase in State Aid was for the most part a combination of a 0.5% increase in FTE in 2007 and an increase in the formula allocations from the North Carolina State Board of Community College's for current expense, equipment and capital improvements. Also adding to the increase was an additional $675,000 in State Capital Aid for increases in State Bond Construction revenue for the Wilson Building and an increase in State Capital appropriated by the State. Completing the increase in nonoperating revenues is a $1.5 million increase in County Construction bond revenue that for the most part was funding the Public Safety Building, a new construction project in 2007.

Operating Expenses

Operating expenses of the College are comprised mainly of the direct cost of personnel and their fringe benefits. Personal services increase of $1.8 million is due to a 7% increase in staff salaries and a 6% increase in faculty and professional staff salaries. Faculty and professional staff also received a 2% bonus.

Economic Outlook

The College has experienced a slight growth in enrollment. FTE increased to a total 3,813 in 2007 up from 3,794 in 2006, an increase of 1.0%. The College has experienced growth for the fall semester 2007 with an increase in enrollment of 6.8% over the fall semester 2006.

To help meet the needs of the growing enrollment county voters demonstrated their support by approving a $10 million construction bond issue in May 2007. These funds will be used for completion of the Public Services Building with a January 2008 completion date. Funds will also be used for a Health Education addition with a planned start date of January 2008 and completion date of January 2009. With this bond issue county voters have approved a total of $25 million for College construction over the last eight years.

The College takes every opportunity to acquire alternative funding. Alternative funding for 2007 included several sources:

- The Johnston Community College Foundation provided funds to the College in the form of ten $500 mini grants for funding faculty projects. The Foundation also provided $30,000 to be used by the College for institutional support.

- Grants received during 2007 included:
  - Web-based Technology Training to Enhance Vocational Education Faculty Technical Skills and Curriculum ($20,000)
  - Licensed Practical Nurse to Associate Degree Nursing – An Accelerated Healthcare Option ($100,000)
  - Softwall Aseptic Enclosure ($41,500)
  - Bioprocessing in the Workplace pilot ($94,111)
  - Educational Broadband Service Clearwire ($60,000)

Johnston Community College
Statement of Net Assets
June 30, 2007 ***Exhibit A-1***

ASSETS		
Current Assets:		
Cash and Cash Equivalents	$	1,760,763.32
Restricted Cash and Cash Equivalents		693,406.59
Receivables, Net (Note 3)		1,457,144.41
Due from State of North Carolina Component Units		35,000.00
Inventories		329,301.25
Notes Receivable, Net (Note 3)		25,328.14
Total Current Assets		4,300,943.71
Noncurrent Assets:		
Restricted Due from Primary Government		127,367.55
Capital Assets - Nondepreciable (Note 4)		7,838,798.72
Capital Assets - Depreciable, Net (Note 4)		30,266,375.15
Total Noncurrent Assets		38,232,541.42
Total Assets		42,533,485.13
LIABILITIES		
Current Liabilities:		
Accounts Payable and Accrued Liabilities (Note 5)		1,025,955.43
Unearned Revenue		107,696.26
Funds Held for Others		132,502.15
Long-Term Liabilities - Current Portion (Note 6)		274,687.79
Total Current Liabilities		1,540,841.63
Noncurrent Liabilities:		
Long-Term Liabilities (Note 6)		2,286,321.65
Total Liabilities		3,827,163.28
NET ASSETS		
Invested in Capital Assets, Net of Related Debt		37,077,416.84
Restricted for:		
Expendable:		
Scholarships and Fellowships		109,908.76
Loans		83,350.72
Capital Projects		643,161.36
Restricted for Specific Programs		695,342.92
Other		22,038.59
Unrestricted		75,102.66
Total Net Assets	$	38,706,321.85

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, 2007 — *Exhibit A-2*

REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net (Note 8)	$	1,703,992.64
Federal Grants and Contracts		2,332,975.60
State and Local Grants and Contracts		999,598.70
Sales and Services, Net (Note 8)		1,346,204.55
Other Operating Revenues		792.00
Total Operating Revenues		6,383,563.49
EXPENSES		
Operating Expenses:		
Personal Services		19,499,537.60
Supplies and Materials		2,924,454.06
Services		2,587,465.77
Scholarships and Fellowships		1,211,193.04
Utilities		802,809.51
Depreciation		925,784.43
Total Operating Expenses		27,951,244.41
Operating Loss		(21,567,680.92)
NONOPERATING REVENUES		
State Aid		16,432,043.49
County Appropriations		3,268,223.00
Noncapital Grants		323,634.68
Noncapital Gifts		2,247.87
Investment Income		88,628.42
Other Nonoperating Revenues		193,362.75
Net Nonoperating Revenues		20,308,140.21
Loss Before Other Revenues		(1,259,540.71)
State Capital Aid		2,214,618.90
County Capital Aid		2,523,860.26
Capital Grants		9,983.71
Increase in Net Assets		3,488,922.16
NET ASSETS		
Net Assets, July 1, 2006 as Restated (Note 14)		35,217,399.69
Net Assets, June 30, 2007	$	38,706,321.85

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, 2007 ***Exhibit A-3***

CASH FLOWS FROM OPERATING ACTIVITIES	
Received from Customers	$ 6,785,960.32
Payments to Employees and Fringe Benefits	(19,372,561.72)
Payments to Vendors and Suppliers	(6,126,329.83)
Payments for Scholarships and Fellowships	(1,318,360.00)
Loans Issued to Students	(4,477.22)
Other Receipts	178,164.29
Net Cash Used by Operating Activities	(19,857,604.16)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Aid Received	16,432,043.49
County Appropriations	3,268,223.00
Noncapital Grants Received	313,855.19
Noncapital Gifts	2,247.87
Cash Provided by Noncapital Financing Activities	20,016,369.55
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
State Capital Aid Received	2,735,891.29
County Capital Aid	2,042,742.32
Capital Grants Received	9,983.71
Acquisition and Construction of Capital Assets	(3,793,520.14)
Principal Paid on Capital Leases	(139,113.35)
Net Cash Provided by Capital and Related Financing Activities	855,983.83
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment Income	88,628.42
Cash Provided by Investing Activities	88,628.42
Net Increase in Cash and Cash Equivalents	1,103,377.64
Cash and Cash Equivalents, July 1, 2006	1,350,792.27
Cash and Cash Equivalents, June 30, 2007	$ 2,454,169.91

RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES

Operating Loss	$	(21,567,680.92)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense		925,784.43
Provision for Uncollectible Loans and Write-Offs		337,374.38
Miscellaneous Nonoperating Income		193,362.75
Changes in Assets and Liabilities:		
Receivables, Net		103,091.42
Inventories		5,443.32
Notes Receivable, Net		(4,477.22)
Accounts Payable and Accrued Liabilities		231,937.09
Unearned Revenue		(145,235.93)
Funds Held for Others		(15,198.46)
Compensated Absences		77,994.98
Net Cash Used by Operating Activities	$	(19,857,604.16)

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:		
Cash and Cash Equivalents	$	1,760,763.32
Restricted Cash and Cash Equivalents		693,406.59
Total Cash and Cash Equivalents - June 30, 2007	$	2,454,169.91

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through Assumption of a Liability	$	85,995.83
Increase in Receivables Related to Nonoperating Income		778,775.44

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

Johnston Community College Foundation
Statement of Financial Position
June 30, 2007 ***Exhibit B-1***

ASSETS		
Current Assets:		
Cash and Cash Equivalents	$	28,257
Investments		12,166
Unconditional Promises to Give		1,417
Total Current Assets		41,840
Endowment Investments:		
Cash and Cash Equivalents		121,268
Investments		3,354,138
Total Endowment Investments		3,475,406
Other Assets:		
Land		778,790
Total Assets		4,296,036
LIABILITIES		
Accounts Payable		4,947
Total Liabilities		4,947
NET ASSETS		
Unrestricted		90,861
Temporarily Restricted		959,141
Permanently Restricted		3,241,087
Total Net Assets	$	4,291,089

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

Johnston Community College Foundation
Statement of Activities
For the Fiscal Year Ended June 30, 2007 ***Exhibit B-2***

CHANGES IN UNRESTRICTED NET ASSETS		
Revenues		
Contributions	$	151,545
Interest and Dividends		9,864
Total Unrestricted Revenues		161,409
Net Assets Released from Restrictions:		
Satisfaction of Program Restrictions		165,180
Total Net Assets Released from Restrictions		165,180
Total Unrestricted Revenues, Gains, and Other Support		326,589
Expenses		
Scholarships		127,554
Mini Grants		4,930
Special Events		50,537
Management and General		174,100
Fund Raising		22,953
Total Expenses		380,074
Decrease in Unrestricted Net Assets		(53,485)
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS		
Contributions		839,161
Special Events		54,760
Interest and Dividends		151,325
Net Assets Released from Restrictions:		
Satisfaction of Program Restrictions		(165,180)
Increase in Temporarily Restricted Net Assets		880,066
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS		
Contributions		241,632
Net Unrealized and Realized Gains on Long-Term Investments		162,973
Increase in Permanently Restricted Net Assets		404,605
Increase in Net Assets		1,231,186
Net Assets at Beginning of Year		3,059,903
Net Assets at End of Year	$	4,291,089

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

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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 its 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 units' financial data is reported in separate financial statements because of its use of different GAAP reporting models and to emphasize its legal separateness.

Discretely Presented Component Unit – Johnston Community College Foundation (Foundation) is a legally separate not-for-profit corporation and is reported as a discretely presented component unit based on the nature and significance of its relationship to the College. The Foundation 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 36 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 Governmental Accounting Standards Board (GASB) revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information in the College's financial reporting entity for these differences.

During the year ended June 30, 2007, the Foundation distributed $95,960.00 to the College for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from Johnston Community College Foundation, Inc. PO Box 2350, Smithfield, NC 27577.

B. **Basis of Presentation –** The accompanying financial statements are presented in accordance with accounting principles generally accepted in the United States of America as prescribed by the 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 fund. The short-term investment fund maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.

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

F. Inventories – Inventories, consisting of expendable supplies and merchandise for resale, are valued at cost using either 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 50 to 75 years for general infrastructure, 30 to 50 years for buildings, and 5 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 include the accumulated unused portion of the special annual leave bonuses awarded by the North Carolina General Assembly. The bonus leave balance on December 31 is retained by employees and transferred into the next calendar year. It is not subject to the limitation on annual leave carried forward described above and is not subject to conversion to sick leave.

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 $950.00, and deposits in private financial institutions with a carrying value of $1,529,221.46 and a bank balance of $1,645,503.73.

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, 2007, 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, 2007, the amount shown on the Statement of Net Assets as cash and cash equivalents includes $923,998.45 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 1.6 years as of June 30, 2007. 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.

Component Units – Investments of the College's discretely presented component unit, the Johnston Community College Foundation are subject to and restricted by G.S. 36B "Uniform Management of Institutional Funds Act" (UMIFA) and any requirements placed on them by contract or donor agreements. Because the Foundation reports under the FASB reporting model, disclosures of the various investment risks are not required. The following is an analysis of investments held by the Foundation by type:

Investment Type	Cost	Fair Value
Unrestricted:		
BB&T Investments	$ 1,880.00	$ 2,052.00
Fidelity Magellan	3,745.00	4,167.00
First Citizens Investment	4,007.00	4,144.00
Certificate of Deposit	1,803.00	1,803.00
Total Unrestricted	$ 11,435.00	$ 12,166.00
Permanently Restricted:		
NC State Treasurer	$ 719,084.00	$ 719,084.00
BB&T Investments	620,813.00	677,687.00
Fidelity Magellan	28,603.00	31,822.00
First Citizens Investment	708,482.00	732,623.00
Edward Jones	45,667.00	49,659.00
Certificate of Deposits	1,143,263.00	1,143,263.00
Total Permanently Restricted	$ 3,265,912.00	$ 3,354,138.00

NOTE 3 - RECEIVABLES

Receivables at June 30, 2007, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	$ 831,309.37	$ 337,374.38	$ 493,934.99
Accounts	200,440.95	24,296.29	176,144.66
Intergovernmental	787,064.76		787,064.76
Total Current Receivables	$ 1,818,815.08	$ 361,670.67	$ 1,457,144.41
Notes Receivable - Current:			
Institutional Student Loan Programs	$ 27,335.89	$ 2,007.75	$ 25,328.14

NOTE 4 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2007, is presented as follows:

	Balance July 1, 2006 (as restated)	Increases	Decreases	Balance June 30, 2007
Capital Assets, Nondepreciable:				
Land	$ 5,456,219.54	$ 0.00	$ 0.00	$ 5,456,219.54
Construction in Progress	5,809,226.50	3,097,405.64	6,524,052.96	2,382,579.18
Total Capital Assets, Nondepreciable	11,265,446.04	3,097,405.64	6,524,052.96	7,838,798.72
Capital Assets, Depreciable:				
Buildings	23,875,745.98	6,524,052.96		30,399,798.94
Machinery and Equipment	4,919,828.04	540,806.16	351,112.58	5,109,521.62
General Infrastructure	3,810,613.07	116,988.02		3,927,601.09
Total Capital Assets, Depreciable	32,606,187.09	7,181,847.14	351,112.58	39,436,921.65
Less Accumulated Depreciation:				
Buildings	5,797,583.72	549,670.95		6,347,254.67
Machinery and Equipment	2,099,269.44	301,241.52	342,715.00	2,057,795.96
General Infrastructure	690,623.91	74,871.96		765,495.87
Total Accumulated Depreciation	8,587,477.07	925,784.43	342,715.00	9,170,546.50
Total Capital Assets, Depreciable, Net	24,018,710.02	6,256,062.71	8,397.58	30,266,375.15
Capital Assets, Net	$ 35,284,156.06	$ 9,353,468.35	$ 6,532,450.54	$ 38,105,173.87

NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2007, were as follows:

	Amount
Accounts Payable	$ 919,318.47
Accrued Payroll	54,568.90
Contract Retainage	41,847.55
Intergovernmental Payables	10,220.51
Total Accounts Payable and Accrued Liabilities	$ 1,025,955.43

NOTE 6 - LONG-TERM LIABILITIES

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

	Balance July 1, 2006	Additions	Reductions	Balance June 30, 2007	Current Portion
Capital Leases Payable	$ 1,166,872.38	$ 0.00	$ 139,113.35	$ 1,027,759.03	$ 147,428.01
Compensated Absences	1,455,255.43	536,026.15	458,031.17	1,533,250.41	127,259.78
Total Long-Term Liabilities	$ 2,622,127.81	$ 536,026.15	$ 597,144.52	$ 2,561,009.44	$ 274,687.79

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

NOTE 7 - CAPITAL LEASE OBLIGATIONS

Capital lease obligations relating to building renovations for energy savings 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, 2007:

Fiscal Year	Amount
2008	$ 208,856.06
2009	208,856.06
2010	208,856.06
2011	208,856.06
2012	208,856.06
2013-2017	208,856.06
Total Minimum Lease Payments	1,253,136.36
Amount Representing Interest (5.976% Rate of Interest)	225,377.33
Present Value of Future Lease Payments	$ 1,027,759.03

Building renovations for energy savings acquired under capital lease amounted to $1,550,332.52 at June 30, 2007.

NOTE 8 - REVENUES

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

	Gross Revenues	Internal Sales Eliminations	Less Scholarship Discounts	Less Allowance for Uncollectibles	Net Revenues
Operating Revenues:					
Student Tuition and Fees	$ 2,693,897.75	$ 0.00	$ 652,530.73	$ 337,374.38	$ 1,703,992.64
Sales and Services:					
Sales and Services of Auxiliary Enterprises:					
Bookstore	$ 1,442,312.72	$ 0.00	$ 447,112.91	$ 0.00	$ 995,199.81
Other	290,721.16	47,846.53			242,874.63
Sales and Services of Education and Related Activities	108,130.11				108,130.11
Total Sales and Services	$ 1,841,163.99	$ 47,846.53	$ 447,112.91	$ 0.00	$ 1,346,204.55

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	$ 12,011,534.73	$ 1,028,454.45	$ 569,716.27	$ 0.00	$ 0.00	$ 0.00	$ 13,609,705.45
Public Service	240,892.73	77,557.74	192,887.03				511,337.50
Academic Support	1,755,864.41	109,826.82	108,050.12		61,011.48		2,034,752.83
Student Services	1,190,392.99	49,415.44	198,921.84				1,438,730.27
Institutional Support	3,046,980.33	153,524.86	821,927.38				4,022,432.57
Operations and Maintenance of Plant	949,407.92	276,678.49	545,087.70		741,798.03		2,512,972.14
Student Financial Aid	212,159.94	2,906.16	73,364.13	1,211,193.04			1,499,623.27
Auxiliary Enterprises	92,304.55	1,226,090.10	77,511.30				1,395,905.95
Depreciation						925,784.43	925,784.43
Total Operating Expenses	$ 19,499,537.60	$ 2,924,454.06	$ 2,587,465.77	$ 1,211,193.04	$ 802,809.51	$ 925,784.43	$ 27,951,244.41

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, 2007, these rates were set at 2.66% of covered payroll for employers and 6% of covered payroll for members.

For the year ended June 30, 2007, the College had a total payroll of $16,324,756.47, of which $13,682,323.36 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were $820,939.40 and $363,949.80, respectively. The College made 100% of its annual required contributions for the years ended June 30, 2007, 2006, and 2005, which were $363,949.80, $282,260.19, and $243,686.13, 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.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 $30,025.02 for the year ended June 30, 2007.

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. The voluntary contributions by employees amounted to $224,981.00 for the year ended June 30, 2007.

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 $6,646.00 for the year ended June 30, 2007.

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 3.8% of the covered payroll under the Teachers' and State Employees' Retirement System for these health care benefits. For the fiscal year ended June 30, 2007, the College's total contribution to the Plan was $519,928.29. 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. Disability Income – 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 to the DIPNC. For the year ended June 30, 2007, the College's total contribution to the DIPNC was $71,148.08. 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 million 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 Director and Officers Liability Coverage in the amount of $1 million; General Liability coverage in the amount of $2 million; and a Commercial Umbrella Policy in the amount of $5 million.

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 million per occurrence and a $75,000 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. The employer contribution rate was .16% 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

The College has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were $3,378,226.07 and on other purchases were $167,043.36 at June 30, 2007.

NOTE 14 - NET ASSETS RESTATEMENT

As of July 1, 2006, net assets as previously reported was restated as follows:

	Amount
July 1, 2006, Net Assets as Previously Reported	$ 30,987,611.08
Error in Establishing Useful Lives of Capital Assets When New Reporting Model Implemented	4,229,788.61
July 1, 2006, Net Assets as Restated	$ 35,217,399.69

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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, 2007, which collectively comprise the College's basic financial statements and have issued our report thereon dated May 30, 2008. Our report was modified to include a reference to 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. Other auditors audited the financial statements of the discretely presented component unit, as described in our report on the College's financial statements. The financial statements of the discretely presented component unit were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the College's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the College's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the College's financial statements that is more than inconsequential will not be prevented or detected by the College's internal control. We consider the deficiencies described in the Audit Findings and Responses section of this report to be significant deficiencies internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the College's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies 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*.

The College's responses to the findings identified in our audit are described in the Audit Findings and Responses section of this report. We did not audit the College's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management of the College the Board of Trustees, the State Board of Community Colleges, the Governor, the State Controller, and the General Assembly, 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 30, 2008

Matters Related to Financial Reporting

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

1. FINANCIAL STATEMENTS REQUIRED SIGNIFICANT CORRECTIONS

The financial statements prepared by the College contained significant misstatements. Numerous adjustments were necessary for fair presentation of the financial statements. Misstatements noted during our audit included the following:

- Net Assets – Capital Projects – Expendable was overstated and Invested in Capital Assets, Net of Related Debt, was understated by $4,229,788.61, due to an error in posting the restatement for the correction of the estimated useful lives of capital assets. Additionally, the College failed to reduce Invested in Capital Assets, Net of Related Debt, for a capital-related lease and erroneously recorded equipment deletions, resulting in misstatements to net asset accounts aggregating to $685,042.03.

- Buildings were understated and construction in progress was overstated by $335,902.64 due to failure to reclassify two construction projects completed and put into service during the year.

- The College erroneously reversed the prior year contract retainage payable. As a result, supplies and materials expense was understated and construction in progress was overstated by $273,013.89.

- The College did not reasonably estimate its allowance for doubtful student accounts receivable based on documented historical information. As a result, the allowance was determined to be understated by $296,732.86.

Management is responsible for establishing and maintaining internal controls over financial reporting to detect and correct material misstatements in a timely manner. Management is also responsible for maintaining documentation to support amounts reported.

Recommendation: The College should place greater emphasis on the year end financial reporting process and implement controls to ensure complete and accurate financial statements.

College's Response: The College acknowledges the corrections needed to accurately present the financial report. With the continuous change in requirements in financial reporting it has become necessary to step outside the college and seek expertise needed to review the presentation of the financial report. For future years the college will contract with outside parties to conduct a review of the financial report prior to completion.

- The College acknowledges the oversight in the classification of the Net Assets. The College also acknowledges the need to reduce the capital net assets by any capital related debt as presented in Note 6. Additionally the College will take greater care in recording the Capital Net assets by verifying that the financial statements are in agreement with related notes to the financial statements.

- The College was mistaken in not moving capitalized Construction in Progress to Buildings upon completion of two construction projects. More care will be taken in the future to identify completed construction projects and make timely reclassification entries to buildings.

- The College made a clerical error in a worksheet used to prepare the proper Construction in Progress balance for transfer to Buildings. Greater care will be used in the future to verify the accuracy of these calculations.

- The College has not recorded an allowance for doubtful accounts in prior years. We acknowledge that our estimate for the year ended June 30, 2007 may have been optimistic. However we will reevaluate our calculation for future years by taking a less optimistic approach.

2. BOOKSTORE COLLECTIONS LOST OR MISAPPROPRIATED

Receipts in the amount of $13,605 were lost or misappropriated from monies collected by the bookstore. The missing funds were not immediately detected because the College did not have adequate procedures in place to ensure collections were properly deposited and recorded in the general ledger.

On two occasions, envelopes of receipts accumulated for deposit from one of the cash registers was missing. The College did not reconcile the collections to the amounts ultimately deposited or recorded in the general ledger, which would have detected that money was missing. The loss or misappropriation was discovered when customers complained that checks included in the missing envelopes had not cleared.

Recommendation: The College should implement adequate internal control to allow management or employees, in the normal course of performing their assigned functions, to prevent or detect loss or misappropriations on a timely basis.

College's Response: When the College detected the missing funds, controls were immediately implemented that verify the daily posting of bookstore deposits to the general ledger. To verify the controls are maintained, the Controller will monitor the verification process.

3. Cashier Receipts Misappropriated

An employee of the College misappropriated $1,522 from monies collected in the cashiering office. The theft was not prevented because the employee was able to void the receipts from the records without supervisory review and approval.

During peak collection periods, the College allowed certain employees with voiding authority to cashier without supervisory review and approval for voided receipts. The employee took receipts and then voided the transaction from the records to conceal the misappropriation. The theft was discovered when students who had registered for class were billed and complained that they had already paid.

Recommendation: The College should implement adequate internal control to allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misappropriation on a timely basis.

College's Response: When the College detected the weakness in controls, procedures were immediately implemented to provide approval of voids. Additional controls were added upon the recommendation of the auditors that carry that approval process further by verifying that all voids receive proper approval. In addition the Controller will monitor this process through a periodic review of supporting documentation.

In addition to the increased controls in 1 and 2 above, campus wide internal control training was provided, upon the request of the College, by the North Carolina State Auditor's Office to JCC employees. Plans have been made to continue this training in the future.

All missing funds were recovered by the College through the employee dishonesty bonding policy.

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