

CITY OF KINSTON
COMPLIANCE REPORTS
FOR THE FISCAL YEAR ENDED
JUNE 30, 1995



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McGLADREY & PULLEN, LLP

Certified Public Accountants and Consultants

**INDEPENDENT AUDITOR'S REPORT ON THE INTERNAL CONTROL STRUCTURE
BASED ON AN AUDIT OF THE GENERAL PURPOSE FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Honorable Mayor and
Members of the City Council
City of Kinston, North Carolina

We have audited the general purpose financial statements of City of Kinston, North Carolina, as of and for the year ended June 30, 1995, and have issued our report thereon dated September 30, 1995.

We conducted our audit in accordance with generally accepted auditing standards and 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 general purpose financial statements are free of material misstatement.

The management of City of Kinston, North Carolina, is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of general purpose financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the general purpose financial statements of City of Kinston, North Carolina, for the year ended June 30, 1995, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the City's ability to record, process, summarize, and report financial data consistent with the assertions of management in the general purpose financial statements. These reportable conditions are described in the accompanying schedule of internal control structure reportable conditions and other matter.

A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the general purpose 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 structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe the reportable conditions described in the accompanying schedule of internal control structure reportable conditions and other matter are not material weaknesses as defined above.

We also noted an other matter involving the internal control structure and its operation which is described in the accompanying schedule of internal control structure reportable conditions and other matter.

This report is intended for the information of the governing board, management, the cognizant audit agency, and other federal and State agencies. However, this report is also a matter of public record, and its distribution is not limited.

McGladrey & Pullen, LLP

New Bern, North Carolina
September 30, 1995

CITY OF KINSTON, NORTH CAROLINA

SCHEDULE OF INTERNAL CONTROL STRUCTURE REPORTABLE CONDITIONS
AND OTHER MATTER

REPORTABLE CONDITIONS:

MATERIAL WEAKNESSES:

None noted.

CONDITIONS DEEMED NOT TO BE MATERIAL WEAKNESSES:

Electronic Data Processing

Data processing is a vital area of the City's operations. The City has automated many of its operations and virtually all departments are dependent on the computer. As a result of this dependence, continuous analysis of internal controls over electronic data processing is essential.

1. Condition: Due to the limited number of employees in the City's electronic data processing department, there is a lack of segregation of duties. Specifically, persons with programming capabilities have access to the system's data files (database), which contains all of the City's transactions.

Recommendation: When a lack of segregation of employee duties is present, management must implement supervisory and review controls to mitigate the control problem.

Management response: As part of the City's review of the implementation of a new computer system in FY 95-96, appropriate system security and system access will be implemented.

2. Condition: The City has a significant investment in its management information system and is dependent upon the system for daily operations, from both an operational and a financial perspective. Due to this dependence on the computer system, the City is exposed to a significant operating and financial risk should the system be down for a significant period of time. This risk is increased because the City has no comprehensive disaster recovery plan which would minimize the effects of such a disaster or system failure.

Recommendation: The City should place high priority on the development of a comprehensive disaster recovery plan, including thorough testing of an alternate processing facility.

Management response: Disaster recovery planning is a significant part of the new computer system implementation plan.

Inventory

Condition: The City does not maintain adequate accounting and physical controls over its electrical inventory which is located in the outside storage yard. Access to certain high-dollar electrical transformers and other items is not restricted to authorized employees because of the placement of these items within the general confines of the yard. Public Utilities employees can easily access these transformers without first placing a requisition with the finance department's warehouse personnel.

Recommendation: The City should keep its electrical transformers in a secure area to prevent loss due to unauthorized use and to insure proper accounting of authorized inventory requisitions. These items should be placed in a separate locked section of the inventory yard where access is controlled by the finance department's warehouse personnel.

Management response: The City has approved plans to restructure the inventory yard in order to properly safeguard these assets and is currently implementing the restructure.

OTHER MATTER:

Payroll: We noted several documents, related to payroll pay rate increases, that were not filed in the employee personnel files. We recommend all such documents be signed by the appropriate supervisor/department head and be filed timely in the employee personnel files.

Management Response: City agrees with recommendation and Human Resources Department will enforce policy more thoroughly and timely.



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**INDEPENDENT AUDITOR'S SINGLE AUDIT REPORT ON THE
INTERNAL CONTROL STRUCTURE USED IN ADMINISTERING
FEDERAL AND STATE FINANCIAL ASSISTANCE PROGRAMS**

To the Honorable Mayor and
Members of the City Council
City of Kinston, North Carolina

We have audited the general purpose financial statements of City of Kinston, North Carolina, as of and for the year ended June 30, 1995, and have issued our report thereon dated September 30, 1995. We have also audited City of Kinston, North Carolina's compliance with requirements applicable to its major State financial assistance program and have issued our report thereon dated September 30, 1995.

We conducted our audits in accordance with generally accepted auditing standards; Government Auditing Standards, issued by the Comptroller General of the United States; Office of Management and Budget (OMB) Circular A-128, Audits of State and Local Governments; and the State Single Audit Implementation Act. Those standards, OMB Circular A-128, and the State Single Audit Implementation Act require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement and about whether City of Kinston, North Carolina, complied with laws and regulations, noncompliance with which would be material to its major State or a federal financial assistance program.

In planning and performing our audits for the fiscal year ended June 30, 1995, we considered the City's internal control structure in order to determine our auditing procedures for the purpose of expressing our opinions on the City's general purpose financial statements and on its compliance with requirements applicable to its major program, and to report on the internal control structure in accordance with OMB Circular A-128 and the State Single Audit Implementation Act. This report addresses our consideration of internal control structure policies and procedures relevant to compliance with requirements applicable to federal and State financial assistance programs. We have addressed internal control structure policies and procedures relevant to our audit of the general purpose financial statements in a separate report dated September 30, 1995.

The management of City of Kinston, North Carolina, is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of general purpose financial statements in accordance with generally accepted accounting principles, and that federal and State financial assistance programs are managed in compliance with applicable laws and regulations. Because of inherent limitations in any internal control structure, errors, irregularities, or instances of noncompliance may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures used in administering federal and State financial assistance programs in the following categories:

Accounting Applications

- Revenue/receipts cycle
- Expenditure cycle, purchases/disbursements
- Expenditure cycle, payroll segment
- Financial reporting

General Requirements:

- Political activity
- Civil rights
- Relocation assistance and real property acquisition
- Federal financial reports
- Allowable costs/cost principles
- Drug-free workplace
- Administrative requirements

Specific Requirements:

- Types of services allowed or unallowed
- Reporting
- Special tests and provisions as listed in the Audit Manual for Governmental Auditors in North Carolina, issued by the Local Government Commission.

Claims for Advances and Reimbursements

Amounts Claimed or Used for Matching

For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and determined whether they have been placed in operation, and we assessed control risk.

During the year ended June 30, 1995, City of Kinston, North Carolina, had no major federal financial assistance programs and expended 60 percent of its total federal financial assistance under the following nonmajor federal financial assistance program:

Grant	CFDA Number
Community Development Block Grant	14.219

We performed tests of controls, as required by OMB Circular A-128 and the State Single Audit Implementation Act, to evaluate the effectiveness of the design and operation of internal control structure policies and procedures that we have considered relevant to preventing or detecting material noncompliance with specific requirements, general requirements, and requirements governing claims for advances and reimbursements and amounts claimed or used for matching that are applicable to the City's major State financial assistance program, which is identified in the accompanying schedule of federal and State financial assistance, and the aforementioned nonmajor federal program. Our procedures were less in scope than would be necessary to render an opinion on these internal control structure policies and procedures. Accordingly, we do not express such an opinion.

Our consideration of the internal control structure policies and procedures used in administering federal and State financial assistance would not necessarily disclose all matters in the internal control structure that might constitute material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that noncompliance with laws and regulations that would be material to a federal or State financial assistance program may occur and not be detected within a timely period

by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operations that we consider to be material weaknesses as defined above.

This report is intended for the information of the governing board, management, the cognizant audit agency, and other federal and State agencies. However, this report is also a matter of public record, and its distribution is not limited.

McGladrey & Pullen, LLP

New Bern, North Carolina
September 30, 1995



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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
BASED ON AN AUDIT OF THE GENERAL PURPOSE FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Honorable Mayor and
Members of the City Council
City of Kinston, North Carolina

We have audited the general purpose financial statements of City of Kinston, North Carolina, as of and for the year ended June 30, 1995, and have issued our report thereon dated September 30, 1995.

We conducted our audit in accordance with generally accepted auditing standards and 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 general purpose financial statements are free of material misstatement.

Compliance with laws, regulations, contracts and grants applicable to City of Kinston, North Carolina, is the responsibility of City of Kinston, North Carolina's management. As part of obtaining reasonable assurance about whether the general purpose financial statements are free of material misstatement, we performed tests of the City's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our audit of the general purpose financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance that are required to be reported herein under Government Auditing Standards. However, we noted certain immaterial instances of noncompliance that are described in the accompanying schedule of compliance findings.

This report is intended for the information of the governing board, management, the cognizant audit agency, and other federal and State agencies. However, this report is also a matter of public record and its distribution is not limited.

McGladrey & Pullen, LLP

New Bern, North Carolina
September 30, 1995



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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
WITH THE GENERAL REQUIREMENTS APPLICABLE
TO FEDERAL FINANCIAL ASSISTANCE PROGRAMS**

To the Honorable Mayor and
Members of the City Council
City of Kinston, North Carolina

We have audited the general purpose financial statements of City of Kinston, North Carolina, as of and for the year ended June 30, 1995, and have issued our report thereon dated September 30, 1995.

We have applied procedures to test City of Kinston, North Carolina's compliance with the following requirements applicable to its federal financial assistance programs, which are identified in the schedule of federal and State financial assistance, for the fiscal year ended June 30, 1995:

- Political activity
- Civil rights
- Relocation assistance and real property management
- Federal financial reports
- Allowable costs/cost principles
- Drug-free workplace
- Administrative requirements

Our procedures were limited to the applicable procedures described in the Office of Management and Budget's Compliance Supplement for Single Audits of State and Local Governments. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on City Of Kinston, North Carolina's compliance with the requirements listed in the preceding paragraph. Accordingly, we do not express such an opinion.

With respect to the items tested, the results of those procedures disclosed no material instances of noncompliance with the requirements listed in the second paragraph of this report. With respect to items not tested, nothing came to our attention that caused us to believe that City of Kinston, North Carolina, had not complied, in all material respects, with those requirements.

This report is intended for the information of the governing board, management, the cognizant audit agency, and other federal and State agencies. However, this report is also a matter of public record, and its distribution is not limited.

McGladrey & Pullen, LLP

New Bern, North Carolina
September 30, 1995

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McGLADREY & PULLEN, LLP
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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH
SPECIFIC REQUIREMENTS APPLICABLE TO MAJOR STATE AND CERTAIN
NONMAJOR FEDERAL AND STATE FINANCIAL ASSISTANCE PROGRAMS**

To the Honorable Mayor and
Members of the City Council
City of Kinston, North Carolina

We have audited the general purpose financial statements of the City of Kinston, North Carolina, as of and for the year ended June 30, 1995, and have issued our report thereon dated September 30, 1995.

We have also audited City of Kinston, North Carolina's compliance with the requirements governing types of services allowed or unallowed; reporting; special tests and provisions as listed in the Audit Manual for Governmental Auditors in North Carolina, issued by the Local Government Commission; claims for advances and reimbursements; and amounts claimed or used for matching that are applicable to its major State financial assistance program, which is identified in the accompanying schedule of federal and State financial assistance, for the year ended June 30, 1995. The management of the City of Kinston, North Carolina is responsible for City of Kinston, North Carolina's compliance with those requirements. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit of compliance with those requirements in accordance with generally accepted auditing standards; Government Auditing Standards, issued by the Comptroller General of the United States; Office of Management and Budget Circular A-128, Audits of State and Local Governments, and the State Single Audit Implementation Act. Those standards, OMB Circular A-128; and the State Single Audit Implementation Act require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about City of Kinston, North Carolina's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed an immaterial instance of noncompliance with the requirements referred to above, which is disclosed in the accompanying schedule of compliance findings. We considered this instance of noncompliance in forming our opinion on compliance, which is expressed in the following paragraph.

In our opinion, City of Kinston, North Carolina, complied, in all material respects, with the requirements governing types of services allowed or unallowed; reporting; special tests and provisions as listed in the Audit Manual for Governmental Auditors in North Carolina, issued by the Local Government Commission; claims for advances and reimbursements; and amounts claimed or used for matching that are applicable to its major State financial assistance program for the fiscal year ended June 30, 1995.

In connection with our audit of the general purpose financial statements of City of Kinston, North Carolina, and with our consideration of City of Kinston, North Carolina's control structure used to administer federal and State financial assistance programs, as required by Office of Management and Budget Circular A-128, Audits of State and Local Governments, and the State Single Audit Implementation Act, we selected certain transaction applicable to certain nonmajor federal and State financial assistance programs for the fiscal year ended June 30, 1995.

As required by OMB Circular A-128 and the Single Audit Implementation Act, we have performed auditing procedures to test compliance with the requirements governing types of services allowed or unallowed and special tests and provisions as listed in the Audit Manual for Governmental Auditors in North Carolina, issued by the Local Government Commission, that are applicable to those transactions. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on City of Kinston, North Carolina's compliance with these requirements. Accordingly, we do not express such an opinion.

With respect to the items tested, the results of those procedures disclosed no instances of noncompliance with the requirements listed in the preceding paragraph. With respect to items not tested, nothing came to our attention that caused us to believe that City of Kinston, North Carolina, had not complied, in all material respects, with those requirements.

This report is intended for the information of the governing board, management, the cognizant audit agency, and other federal and State agencies. However, this report is also a matter of public record, and its distribution is not limited.

McGladrey & Pullen, LLP

New Bern, North Carolina
September 30, 1995

CITY OF KINSTON, NORTH CAROLINA
SCHEDULE OF COMPLIANCE FINDINGS
Year Ended June 30, 1995

CURRENT YEAR FINDINGS:

MATERIAL FINDINGS

None.

IMMATERIAL FINDINGS

STATUTE VIOLATION - Government Auditing Standards Compliance Report.

Finding 1 - Exceeded budgeted expenditures

Condition:

For the year ended June 30, 1995, City of Kinston, North Carolina overexpended its budget authority in the following cost centers (departments), which is the legal level of control.

General Fund	
Parks and recreation	\$ 46,653
Debt service	202
Operating transfers out	2,125
	\$ 48,980
Electric Fund	
Electrical operations	\$ 50,139
Parking Facilities Authority Enterprise Fund	\$ 10
Internal Service Fund	\$ 73,198

Criteria: North Carolina general statutes (G.S. 159-28(a))

GRANT VIOLATION - Government Auditing Standards and OMB-A128 Compliance Reports.

Finding 2 - Powell Bill

Condition:

The City is allocating street department labor and fringe benefits to Powell Bill based on estimated percentages, which is not in accordance with GS 136-41.3.

Questioned costs: None, excess qualifying expenditures exist.

Criteria: North Carolina General Statutes GS 136-41.3 requires that Powell Bill expenditures be supported by detailed records and when allocations of time and expenses are involved, a three month study must be performed to use as an average for allocations.

Recommendation: The City should adhere to GS 136-41.3 to allocate streets department labor and fringe benefits. According to the General Statute - January, June and October are acceptable months to use for allocations.

Management response: The City has initiated action to comply with the provisions of GS 136-41.3 for the allocation of labor and fringe benefits within the streets division of Public Works Department.

Status of Prior Year Compliance Findings:

Current year compliance Findings 1 and 2 are both repeat findings from the prior year.



McGLADREY & PULLEN, LLP
Certified Public Accountants and Consultants

**INDEPENDENT AUDITOR'S REPORT ON THE SCHEDULE
OF FEDERAL AND STATE FINANCIAL ASSISTANCE**

To the Honorable Mayor and
Members of the City Council
City of Kinston, North Carolina

We have submitted, under separate cover, the general purpose financial statements of the City of Kinston, North Carolina, for the year ended June 30, 1995, and our report thereon, dated September 30, 1995, is as follows:

We have audited the general purpose financial statements of the City of Kinston, North Carolina, as of and for the year ended June 30, 1995 as listed in the table of contents. These general purpose financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and 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 general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the City of Kinston, North Carolina, as of June 30, 1995, and the results of its operations and the cash flows of its proprietary fund types for the year then ended, in conformity with generally accepted accounting principles.

Our audit was made for the purpose of forming an opinion on the general purpose financial statements of the City of Kinston, North Carolina, taken as a whole. The accompanying schedule of federal and State financial assistance is presented for purposes of additional analysis and is not a required part of the general purpose financial statements of the City of Kinston, North Carolina. The information in that schedule has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly presented in all material respects in relation to the general purpose financial statements taken as a whole and should be read in relation to those statements and related notes.

McGladrey & Pullen, LLP

New Bern, North Carolina
September 30, 1995

CITY OF KINSTON, NORTH CAROLINA
SCHEDULE OF FEDERAL AND STATE FINANCIAL ASSISTANCE
For the Year Ended June 30, 1995

Federal Grantor/Pass-Through Grantor Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Expenditures		
			Federal	State	Local
US Department of Housing and Urban Development					
Direct Program: Community Development Special Purpose Grant	14.228		\$ 20,736	\$ -	\$ -
Passed through State Department of Economic and Community Development Community Development Block Grant Small Cities Program: Lewis School Revitalization	14.219	93-C-8276	166,961	-	-
Total US Department Housing and Urban Development			187,697	-	-
US Department of Transportation					
Passed through State Department of Transportation UMTA Elderly/Handicapped Transportation Program	20.057	94-18-012	12,270	-	35,044
Passed through State Department of Transportation Governor's Highway Safety Program - State and Community Highway Safety DWI Task Force	22.600	AL-92-02-03	43,986	-	9,631
Total US Department of Transportation			56,256	-	44,675
US Department of Justice					
Direct Program: Public Safety and Community Policing Grants-School Resources	16.710	94-DMCX-0056	34,950	-	-
Total US Department of Justice			34,950	-	-
NC Department of Human Resources, Division of Health Service					
State aid for mosquito control			-	8,757	-
NC Department of Transportation					
Powell Bill Fund	(MS)		-	749,822	-
NC Department of Crime Control and Public Safety					
Victims Advocate Program		54-194-VC-V021		33,105	-
NC Department of Environment, Health and Natural Resources					
Water Pollution Control Revolving Fund		CS370527-02	-	87,276	-
NC Department of Commerce					
Governor's Discretionary Award			-	125,000	285,000
NC Air Cargo Airport Authority					
			-	100,000	-
Total federal expenditures			\$ 278,903		
Total state expenditures				\$ 1,103,960	
Total local expenditures					\$ 329,675
(MS) — Major State program					