

**NORTH CAROLINA
OFFICE OF THE STATE AUDITOR**

**Financial Statements
and
Supplemental Information**

For the Fiscal Year Ended June 30, 2001

**NORTH CAROLINA
OFFICE OF THE STATE AUDITOR
Financial Statements and Supplemental Information
For the Fiscal Year Ended June 30, 2001**

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**A.T. ALLEN
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CERTIFIED PUBLIC ACCOUNTANTS

A Registered Limited Liability Partnership

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INDEPENDENT AUDITOR'S REPORT

TO NORTH CAROLINA
OFFICE OF THE STATE AUDITOR

We have audited the accompanying financial statements of NORTH CAROLINA OFFICE OF THE STATE AUDITOR as of and for the year ended June 30, 2001, as listed in the table of contents. These financial statements are the responsibility of NORTH CAROLINA OFFICE OF THE STATE AUDITOR'S management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. 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 significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of NORTH CAROLINA OFFICE OF THE STATE AUDITOR as of June 30, 2001, and the results of its operations and changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of NORTH CAROLINA OFFICE OF THE STATE AUDITOR. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

A. T. Allen & Company, L.L.P.

Raleigh, North Carolina
September 27, 2001

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***North Carolina Office of the State Auditor
Combined Balance Sheet - All Fund Types and Account Groups
June 30, 2001***

Exhibit A

	Governmental Fund Types		Account Groups		Totals (Memorandum Only)	Prior Year Totals (Information Only)
	General	General Fixed Assets	General Long- Term Debt			
<i>ASSETS</i>						
Cash and Cash Equivalents	\$ 180,710.00	\$	\$	\$ 180,710.00	\$ 656,288.00	
Accounts Receivable	731,422.98			731,422.98	529,619.60	
Inventory of Supplies	29,803.31			29,803.31	30,138.16	
Inventory of Postage	23.80			23.80	33.00	
Prepaid Items	2,744.78			2,744.78	0.00	
General Fixed Assets:						
Furniture		374,375.20		374,375.20	348,973.68	
Data Processing Equipment		985,820.76		985,820.76	948,168.97	
Amount to be Provided for Accrued Vacation Leave			808,439.00	808,439.00	761,109.00	
Total Assets	\$ 944,704.87	\$ 1,360,195.96	\$ 808,439.00	\$ 3,113,339.83	\$ 3,274,330.41	

LIABILITIES AND FUND EQUITY

Liabilities:

Accounts Payable	\$ 29,402.96	\$	\$	\$ 29,402.96	\$ 79,343.02	
Accrued Salaries and Wages	25,800.00			25,800.00	0.00	
Accrued Payroll Taxes	1,974.85			1,974.85	0.00	
Due to Employees	4,144.77			4,144.77	4,588.41	
Due to Internal Service Funds	19,549.84			19,549.84	24,630.64	
Deferred Revenue	504,420.00			504,420.00	509,773.00	
Vacation Leave Payable			808,439.00	808,439.00	761,109.00	

Total Liabilities	<u>\$ 585,292.42</u>	<u>\$ 0.00</u>	<u>\$ 808,439.00</u>	<u>\$ 1,393,731.42</u>	<u>\$ 1,379,444.07</u>
Fund Equity					
Investment in General Fixed Assets	\$	\$ 1,360,195.96	\$	\$ 1,360,195.96	\$ 1,297,142.65
Fund Balance:					
Reserved for Inventories	29,827.11			29,827.11	30,171.16
Reserved for Outstanding Purchase Orders	180,710.00			180,710.00	252,379.00
Designated for Subsequent Years' Expenditures				0.00	403,909.00
Unreserved and Undesignated	<u>148,875.34</u>			<u>148,875.34</u>	<u>-88,715.47</u>
Total Fund Equity	<u>\$ 359,412.45</u>	<u>\$ 1,360,195.96</u>	<u>\$ 0.00</u>	<u>\$ 1,719,608.41</u>	<u>\$ 1,894,886.34</u>
Total Liabilities and Fund Equity	<u><u>\$ 944,704.87</u></u>	<u><u>\$ 1,360,195.96</u></u>	<u><u>\$ 808,439.00</u></u>	<u><u>\$ 3,113,339.83</u></u>	<u><u>\$ 3,274,330.41</u></u>

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

***North Carolina Office of the State Auditor
Combined Statement of Revenues, Expenditures and Changes in Fund Balance
General Fund
For the Fiscal Year Ended June 30, 2001***

Exhibit B

	<u>General Fund</u>	<u>Prior Year (Information Only)</u>
Revenues:		
Sale of Equipment	\$ 50.00	\$ 50.00
Rental of Space for Teller Machine	1,200.00	0.00
Total Revenues	<u>\$ 1,250.00</u>	<u>\$ 50.00</u>
Expenditures:		
Personal Services	\$ 9,357,730.76	\$ 9,177,064.01
Employee Benefits	1,938,337.01	2,059,236.99
Contracted Audits and Services	995,262.87	1,499,168.98
Supplies and Materials	75,347.33	93,189.98
Travel	295,591.18	313,510.88
Communications	99,564.95	99,709.64
Utilities	3,050.71	3,210.30
Data Processing Service	93,408.87	133,150.03
Employee Education	121,033.69	126,898.18
Other Services	34,858.03	45,998.00
Rent of Property and Equipment	32,617.80	28,731.51
Service and Maintenance	90,888.27	78,367.37
Other Fixed Charges	39,616.80	39,487.53
Insurance and Bonding	15,606.36	0.00
Capital Outlay	<u>325,363.33</u>	<u>693,331.39</u>

Total Expenditures	<u>\$ 13,518,277.96</u>	<u>\$ 14,391,054.79</u>
Excess of Revenues Under Expenditures	<u>\$ -13,517,027.96</u>	<u>\$ -14,391,004.79</u>
Other Financing Sources (Uses):		
State Appropriations	\$ 10,723,441.77	\$ 11,790,197.59
Operating Transfers In:		
Office of the Governor	120,465.50	0.00
ITS-Wireless	14,500.00	0.00
Department of Administration	25,037.50	17,902.50
Department of Agriculture	89,897.50	23,512.00
Department of Community Colleges	13,830.00	21,422.50
Department of Commerce	146,605.00	120,220.00
Department of Correction	25,010.00	37,362.50
Department of Crime Control and Public Safety	186,792.50	133,558.50
Department of Cultural Resources	0.00	1,467.00
Employment Security Commission	98,875.00	142,039.00
Wildlife Resources Commission	47,215.00	65,502.00
Department of Human Resources (all Divisions)	769,867.50	629,403.50
Department of Insurance	0.00	3,401.50
Department of Environment and Natural Resources	83,912.00	96,027.50

North Carolina Office of the State Auditor

Combined Statement of Revenues, Expenditures and Changes in Fund Balance

General Fund

Exhibit B

For the Fiscal Year Ended June 30, 2001

Page 2

	General Fund	Prior Year (Information Only)
Other Financing Sources (Uses) (continued):		
Operating Transfers In (continued):		
Department of Public Instruction	\$ 156,140.00	\$ 153,312.50
Department of Transportation	168,995.00	114,351.50
Global TransPark	29,735.00	37,702.50
School of Science and Math	3,300.00	489.50
N. C. School of the Arts	9,237.50	14,047.50
N. C. A & T State University	21,735.00	21,254.00
Appalachian State University	39,012.50	18,058.50
East Carolina University	29,675.00	19,440.00
Elizabeth City State University	15,362.50	12,372.50
Fayetteville State University	9,652.50	9,570.00
N. C. State University	68,702.50	65,530.00
North Carolina Central University	36,032.50	15,062.50
Pembroke State University	8,722.50	11,147.00
Western Carolina University	22,467.50	14,184.50
Winston Salem State University	28,140.00	5,553.00
UNC - Asheville	9,247.50	10,137.00
UNC - Chapel Hill	53,930.00	81,282.50
UNC - Charlotte	22,440.00	5,803.00
UNC - Greensboro	22,827.50	11,671.50
UNC - Wilmington	8,460.00	13,167.50
Various Community Colleges & Technical Institutes	131,460.00	158,082.00

Various University & Community College Grants & Foundations	45,308.50	25,699.75
Operating Transfers In:		
Division of Mental Health	0.00	22,000.00
Department of Revenue	0.00	100,000.00
Operating Transfers Out:		
State Reserve for Hurricane Floyd	0.00	-807,210.00
Office of the State Controller-DCAP	<u>-6,992.00</u>	<u>-6,470.00</u>
Total Financing Sources (Uses)	<u>\$ 13,279,040.77</u>	<u>\$ 13,208,254.84</u>
Excess Revenues and Other Sources Under Expenditures and Other Uses	\$ -237,987.19	\$ -1,182,749.95
Fund Balance July 1, 2000	597,743.69	1,789,553.15
Decrease in Reserve for Inventory	<u>-344.05</u>	<u>-9,059.51</u>
Fund Balance June 30, 2001	<u><u>\$ 359,412.45</u></u>	<u><u>\$ 597,743.69</u></u>

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

North Carolina Office of the State Auditor
Combined Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual - General Fund
For the Fiscal Year Ended June 30, 2001

Exhibit C

	General Fund		
	Authorized Budget	Actual (Cash Basis)	Under (Over) Authorized Budget
Revenues:			
Auditing Fees	\$ 2,074,872.00	\$ 2,357,208.50	\$ -282,336.50
Rental of Space for Teller Machine	0.00	1,200.00	-1,200.00
Sale of Equipment	50.00	50.00	0.00
Total Revenues	\$ 2,074,922.00	\$ 2,358,458.50	\$ -283,536.50
Expenditures:			
Personal Services	\$ 10,018,760.00	\$ 9,357,730.76	\$ 661,029.24
Employee Benefits	2,095,907.00	1,936,362.16	159,544.84
Contracted Audits and Services	1,354,333.00	1,023,658.96	330,674.04
Supplies and Materials	75,747.00	75,411.66	335.34
Travel	310,075.00	301,343.07	8,731.93
Communications	111,514.00	100,464.71	11,049.29
Utilities	3,197.00	3,176.06	20.94
Data Processing Service	113,255.00	92,398.34	20,856.66
Other Services	175,621.00	171,328.77	4,292.23
Other Fixed Charges	90,116.00	89,746.72	369.28
Capital Outlay	335,445.00	324,126.42	11,318.58
Reserve for Moving Expenses	112,864.00	0.00	112,864.00
Other Expenditures	77,415.00	74,738.64	2,676.36
Total Expenditures	\$ 14,874,249.00	\$ 13,550,486.27	\$ 1,323,762.73
Excess Revenues Under Expenditures	\$ -12,799,327.00	\$ -11,192,027.77	\$ -1,607,299.23

Other Financing Sources (Uses):			
State Appropriations	\$ 12,330,883.00	\$ 10,723,441.77	\$ 1,607,441.23
Intra-Departmental Transfers:			
Cash Carry Forward from Prior Year	656,288.00	656,288.00	0.00
Cash Carry Forward to Subsequent Year	-180,710.00	-180,710.00	0.00
Operating Transfers Out:			
Office of the State Controller-DCAP	<u>-7,134.00</u>	<u>-6,992.00</u>	<u>-142.00</u>
Total Other Financing Sources (Uses)	<u>\$ 12,799,327.00</u>	<u>\$ 11,192,027.77</u>	<u>\$ 1,607,299.23</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	\$ 0.00	\$ 0.00	\$ 0.00
Fund Balance July 1, 2000	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
Fund Balance June 30, 2001	<u><u>\$ 0.00</u></u>	<u><u>\$ 0.00</u></u>	<u><u>\$ 0.00</u></u>

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

NORTH CAROLINA OFFICE OF THE STATE AUDITOR
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001

Note 1 - Summary of Significant Accounting Policies

- A. Reporting Entity** - The accompanying financial statements present all funds under the authority of the department. The basic criterion for inclusion is the exercise of oversight responsibility. Oversight responsibility is derived from the ability to significantly influence operations and accountability for fiscal matters.
- B. Basis of Presentation** - The accompanying financial statements are presented on a fund basis, and generally follow the form recommended by the Governmental Accounting Standards Board (GASB).
- C. Fund Structure** - The accompanying financial statements are structured into funds and account groups. The column entitled "Total (Memorandum Only)" is included for the reader's convenience only. The fund categories consist of governmental fund types. The account groups include general fixed assets and general long-term debt. The governmental fund types of the department include:

The General Fund - Used to account for all financial transactions not accounted for in another fund. Its chief source of support is state appropriations.

- D. Basis of Accounting** - The State's annual budget is prepared principally on the cash basis. The 1985 General Assembly enacted certain special provisions which state that the budget as certified in the appropriations act is the legal budget for all agencies. These special provisions also state that agencies may spend more than was certified in various line items provided the over-expenditure meets certain criteria and is authorized by the Director of the Budget. The process of approving these over-expenditures results in the authorized budget amounts. The authorized budget and all comparisons thereto are included in these statements for informational purposes only. The department's records are maintained on a cash basis throughout the year, but adjustments are made at fiscal year-end to convert to generally accepted accounting principles (GAAP) for government entities. The financial statements are prepared according to GAAP as follows:

Governmental Fund Types - The modified accrual basis of accounting is used by all governmental fund types. Under the modified basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within 31 days. Expenditures are recorded when the related fund liability is incurred. If the revenue is measurable but not available (i.e., within 31 days), the revenue will be reclassified as Deferred Revenue.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 1 - Summary of Significant Accounting Policies (concluded)

- E. Cash and Cash Equivalents** - This classification includes all cash on deposit with the State Treasurer, undeposited receipts, and authorized cash carryforward.
- F. Accounts Receivable** - These are composed of amounts due from other departments and organizations outside the department.
- G. Inventories** - Inventory for the general fund consists of expendable supplies and postage held for consumption. The amount thereof has been recorded, at cost, for information purposes only, as an asset, offset by a reserve in an equal amount. The cost value of such inventory has been recorded as an expenditure at the time the individual inventory items were purchased.
- H. Fixed Assets** - General fixed assets are recorded as expenditures in the governmental funds at the time of purchase. These assets are also recorded in the General Fixed Assets group of accounts. No depreciation is recorded for general fixed assets.
- I. Prior Year Totals** - Comparative totals for the prior year have been presented in the accompanying financial statements for information only and are not intended to be a complete presentation.

Note 2 - Budgetary (Cash) Basis vs. GAAP (Modified Accrual)

Because of the difference in the basis of accounting, the budgetary fund balance reported on Exhibit C for the General Fund differs from the GAAP fund balance reported on Exhibits A and B. A reconciliation is presented below.

	General Fund
Fund Balances (Budgetary Basis), June 30, 2001	\$ 0.00
Add (Deduct):	
Accrued Revenues	227,002.98
Inventories	29,827.11
Authorized Cash Carryforward	180,710.00
Prepaid Items	2,744.78
Accrued Expenditures	(80,872.42)
Fund Balances (GAAP Basis), June 30, 2001	\$ 359,412.45

Note 3 - Deposits

The amount shown on the balance sheet as cash and cash equivalents represents the department's equity position in the short-term investment fund managed by the North Carolina State Treasurer. Credit and custodial risk disclosures and the authorized investments for funds managed by the State Treasurer can be found in the State Of North Carolina's *Comprehensive Annual Financial Report*.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 4 - Pension Plans

A. Teachers' and State Employees' Retirement System

Each permanent full-time employee, as a condition of employment, is a member of the Teachers' and State Employees' Retirement System of North Carolina (System), a multiple-employer, cost-sharing, defined benefit pension plan which is administered by the North Carolina State Treasurer. Additional detailed information about the System can be located in the State of North Carolina's Comprehensive Annual Financial Report. Employees contributed 6% of gross wages for the year ended June 30, 2001. The department contributed, for pension benefits, 5.33% of covered wages. Pursuant to Executive Order No. 3 issued by Governor Mike Easley on February 8, 2001 Section 8. Paragraph 1.--the employer portion of the retirement contributions for state funded retirement systems (for the months of February through June 2001) were escrowed in a special reserve account established by the Office of State Budget and Management. The disposition of these funds has yet to be determined. The department has no pension plan obligations beyond the matching already paid into the System.

For the year ended June 30, 2001, the department had a total payroll of \$9,563,188.00 of which \$9,510,979.51 was covered under the Teachers' and State Employees' Retirement System. Employee contributions totaled \$570,658.77. The following presents the three-year trend of annual required contributions (ARC) made by the department to the plan:

Year	ARC by Department	% of ARC Contributed
2001	506,935.21	100%
2000	756,283.87	100%
1999	654,452.29	100%

Of the annual required contributions for the 2001 year \$209,046 was deposited in the special reserve account established by the Office of State Budget and Management.

- B. Deferred Compensation and Supplemental Retirement Income Plans - IRC Section 457 Plan** - All permanent employees are eligible to participate in the deferred compensation plan offered by the State of North Carolina in accordance with Internal Revenue Code Section 457. The plan permits each participant to defer a portion of his or her salary until future years. The deferred compensation is available to employees upon separation of service, death, disability, retirement or due to financial hardships if approved by the Board of Trustees of the plan. All administration and funding costs are the responsibility of the plan. Voluntary contributions by employees amounted to \$38,498.59 during the year ended June 30, 2001.

IRC Section 401(k) Plan - Effective January 1, 1985, Chapter 135, Article 5 of the North Carolina General Statutes authorized the creation of the Supplemental Retirement Income Plan of North Carolina in accordance with Internal Revenue Code Section 401(k). All employees who are members of the Teachers' and State Employees' Retirement System of North Carolina are eligible for enrollment in this plan. Members of the plan may receive their benefits upon retirement, disability, termination, hardship, or death. All costs of administering the plan are the responsibility of the plan's participants. Voluntary contributions by employees amounted to \$195,589.00 during the year ended June 30, 2001.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 5 - Other Postemployment Benefits

A. Health Care for Long-Term Disability Beneficiaries and Retirees

The department 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 participants of the Teachers' and State Employees' Retirement System of North Carolina. 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 department contributes 1.28% of covered payroll under the Teachers' and State Employees' Retirement System to the Plan. For the fiscal year ended June 30, 2001, the department's total contribution to the Plan was \$121,740.86. The department assumes no liability for retiree health care benefits provided by the programs other than its contribution. Additional detailed information about these programs can be located in the State of North Carolina's Comprehensive Annual Financial Report.

B. Long-Term Disability

The department participates in the Disability Income Plan of North Carolina (the Plan). The Plan provides disability income to eligible participants in accordance with Chapter 135, Article 6, of the General Statutes. Eligible participants are employees that are members of the Teachers' and State Employees' Retirement System. Additional detailed information about the Plan can be located in the State of North Carolina's Comprehensive Annual Financial Report. The department contributes .52% of covered payroll under the Teachers' and State Employees' Retirement System to the Plan. For the fiscal year ended June 30, 2001, the department's total contribution to the Plan was \$49,457.09. The department assumes no liability for long-term disability benefits under the Plan other than its contribution.

Note 6 - Commitments and Contingencies:

- A. Vacation and Sick Leave** - The department, in accordance with state policy, records the cost of vacation and sick leave when taken and paid rather than when the leave is earned. Employees earn vacation leave ranging from 0.98 to 2.15 days per month depending upon years of service. There is no requirement that vacation leave be taken; however, the maximum permissible accumulation of unused vacation leave which can be carried forward each January 1st or for which an employee can be paid upon termination of employment with the State is 30 days. Under this policy, the accumulated vacation leave for each employee at each June 30th would equal the leave carried forward at the previous December 31 plus the leave earned and less the leave taken between January 1 and June 30. Consequently, at June 30, 2001 the department has recorded a liability for unused vacation leave in the amount of \$808,439.00 based on salary rates effective June 30, 2001 including matching benefits for retirement and social security. Employees earn sick leave at the rate of one day per month with an unlimited accumulation. Employees are not paid for accumulated sick leave upon termination; however, additional service credit for retirement pension benefits is given for accumulated sick leave upon retirement. Since the State has no obligation to pay sick leave upon termination or retirement, the contingent liability for accumulated sick leave has not been recorded in the accompanying financial statements.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 6 - Commitments and Contingencies (concluded)

B. Operating Leases - The department has entered into contracts to lease office space in Greensboro, Elizabeth City, Wilmington, Greenville, Asheville and Winston-Salem, N. C. The Greensboro lease ends January 31, 2002 and is \$250.00 per month. The Elizabeth City lease ends December 31, 2003 and is \$442.03 per month. The Wilmington lease is through December 31, 2001 and is \$555.75 per month. The Greenville lease ends June 30, 2002 and increased to \$482.00 July 1, 2001 from \$465.00. The Winston-Salem lease ends October 31, 2003 and is \$415.00 per month. The Asheville lease ends December 31, 2002 and is \$600.00 per month. At June 30, 2001 the department has a total contingent liability in the amount as shown below for the unexpired term of these leases.

	Fiscal Year Ending June 30		
	2002	2003	2004
Elizabeth City	\$ 5,304.36	\$ 5,304.36	\$ 2652.18
Greensboro	1,750.00		
Wilmington	3,334.50		
Asheville	7,200.00	3,600.00	
Greenville	5,784.00		
Winston-Salem	4,980.00	4,980.00	1,660.00
Total	<u>\$ 28,352.86</u>	<u>\$ 13,884.36</u>	<u>\$ 4,312.18</u>

Note 7 - Transfers-In/Transfers-Out

Transfers-In

The department performs federal compliance audits as specified in Federal Circular A-133. State agencies, Universities and Community Colleges are billed for the audit work performed on a cost reimbursement basis. The total amount received for the fiscal year was \$2,517,282.50.

Also, the department, upon request, performs audits of specific grants and foundations on a cost reimbursement basis. The amount received during the fiscal year was \$45,308.50.

Note 8 - Changes in General Fixed Assets:

The Office of State Controller implemented a new policy and procedure for the recording and capitalization of fixed assets effective July 1, 1990. Under this policy, only assets with a value of \$5,000.00 and over are capitalized. A summary of changes in the General Fixed Asset Account Group is presented as follows:

	Balance July 1, 2000	Additions	Deletions/ Transfers	Balance June 30, 2001
Furniture	\$ 348,973.68	\$ 25,401.52	\$	\$ 374,375.20
Data Processing Systems	948,168.97	43,521.29	5,869.50	985,820.76
Total Fixed Assets	<u>\$ 1,297,142.65</u>	<u>\$ 68,922.81</u>	<u>\$ 5,869.50</u>	<u>\$ 1,360,195.96</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 9 - Risk Management

This Agency is exposed to various risks of loss related to torts; theft of, damage to, and the destruction of assets; errors and omissions; injuries to employees; and natural disasters. These exposures to loss are handled via a combination of methods, including participation in various state-administered risk pools, purchase of commercial insurance and self-retention of certain risks.

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

The State Property Fire Insurance Fund, an internal service fund of the State, insures all State owned buildings and contents for fire, extended coverage, and other property losses. Coverage for fire losses for all operations supported by the State's General Fund is provided at no cost to this Agency. The Agency also purchased through the Fund "all risk" coverage for contents. The Fund purchases this excess insurance from a private insurer to cover losses over the amounts insured by the Fund.

All State-owned vehicles are covered by liability insurance handled by the State Department of Insurance. The State is self-insured for the first \$500,000 of any loss through a retrospective rated plan. Excess insurance coverage is purchased through a private insurer to cover losses greater than \$500,000. The liability limits for losses incurring in state are \$500,000 per claimant and \$5,000,000 per occurrence. The liability limits for losses incurring out of state are \$1,000,000 per claimant and \$5,000,000 per occurrence.

The Agency 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 handled by the State Department of Insurance with coverage of \$5,000,000 per occurrence with a \$50,000 deductible and a 10% participation in each loss above the deductible.

Other coverage not handled by the State Department of Insurance is purchased through the State's insurance agent of record.

Note 9 - Risk Management (concluded)

Employees and retirees are provided health care coverage by the Comprehensive Major Medical Plan, an internal service fund of the State. The Plan is funded by employer and employee contributions and is administered by a third party contractor. Health care coverage is optionally available through contractual agreements with several HMO plans.

The North Carolina Workers' Compensation Program provides benefits to workers injured on the job. All employees of the State are included in the program. When an employee is injured, the Agency's primary responsibility is to arrange for and provide the necessary treatment for work related injuries. The Agency is responsible to pay medical benefits and compensation in accordance with the North Carolina Workers' Compensation Act.

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's Office and funded via employer contributions.

Short-term and long-term disability benefits are provided to eligible members of the Teachers' and State Employees' Retirement System. Short-term benefits are payable after a waiting period of 60 continuous calendar days from the onset of disability. Long-term disability benefits are payable as an other postemployment benefit from the Disability Income Plan of North Carolina after the conclusion of the short-term disability period or after salary continuation payments cease, whichever is later, for as long as an employee is disabled. These benefits are established by Chapter 135, Article 6, of the General Statutes and may be amended only by the North Carolina General Assembly. The NC Department of State Treasurer administers the plan.

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.

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

SUPPLEMENTAL INFORMATION

***North Carolina Office of the State Auditor
Schedule of Expenditures by Purpose
General Fund
For the Fiscal Year Ended June 30, 2001***

Schedule 1

	<u>June 30, 2001</u>	<u>Prior Year (Information Only) June 30, 2000</u>
Administration and Budget Division	\$ 650,005.00	\$ 623,339.47
General Services Division	406,576.47	434,653.17
Field Audit Division	<u>12,461,696.49</u>	<u>13,333,062.15</u>
Total Expenditures	<u><u>\$ 13,518,277.96</u></u>	<u><u>\$ 14,391,054.79</u></u>

North Carolina Office of the State Auditor
Comparative Schedule of Actual Revenues, Expenditures and
Changes in Fund Balance - Cash Basis
For the Fiscal Years Ended June 30, 2001 and June 30, 2000

Schedule 2

	Actual Fiscal Year Ended 6-30-01	Actual Fiscal Year Ended 6-30-00	June 30, 2001 Over (Under) June 30, 2000
Revenues:			
Auditing Fees	\$ 2,357,208.50	\$ 2,406,210.75	\$ -49,002.25
Other Income	1,200.00		1,200.00
Sale of Equipment	50.00	50.00	0.00
Total Revenues	<u>\$ 2,358,458.50</u>	<u>\$ 2,406,260.75</u>	<u>\$ -47,802.25</u>
Expenditures:			
Personal Services	\$ 9,357,730.76	\$ 9,180,891.09	\$ 176,839.67
Employee Benefits	1,936,362.16	2,061,264.97	-124,902.81
Contracted Audits and Services	1,023,658.96	1,624,629.69	-600,970.73
Supplies and Materials	75,411.66	104,481.45	-29,069.79
Travel	301,343.07	311,467.78	-10,124.71
Communications	100,464.71	96,185.26	4,279.45
Utilities	3,176.06	3,016.80	159.26
Data Processing Service	92,398.34	143,303.65	-50,905.31
Other Services	171,328.77	169,746.31	1,582.46
Other Fixed Charges	89,746.72	76,067.92	13,678.80
Capital Outlay	324,126.42	718,615.43	-394,489.01
Other Expenditures	74,738.64	75,115.99	-377.35
Total Expenditures	<u>\$ 13,550,486.27</u>	<u>\$ 14,564,786.34</u>	<u>\$ -1,014,300.07</u>
Excess Revenues Under Expenditures	<u>\$ -11,192,027.77</u>	<u>\$ -12,158,525.59</u>	<u>\$ 966,497.82</u>
Other Financing Sources (Uses):			
State Appropriations	\$ 10,723,441.77	\$ 11,790,197.59	\$ -1,066,755.82
Intra-Departmental Transfers:			
Cash Carry Forward from Prior Year	656,288.00	1,716,296.00	-1,060,008.00
Cash Carry Forward to Subsequent Year	-180,710.00	-656,288.00	475,578.00
Operating Transfers In:			
Division of Mental Health		22,000.00	-22,000.00
Department of Revenue		100,000.00	-100,000.00
Operating Transfers Out:			
State Reserve for Hurricane Floyd		-807,210.00	807,210.00
Office of the State Controller - DCAP	-6,992.00	-6,470.00	-522.00
Total Other Financing Sources (Uses)	<u>\$ 11,192,027.77</u>	<u>\$ 12,158,525.59</u>	<u>\$ -966,497.82</u>

Excess of Revenues and Other Sources Under Expenditures and Other Uses	\$	0.00	\$	0.00	\$	-0.00
Fund Balance July 1, 2000		<u>0.00</u>		<u>0.00</u>		<u>0.00</u>
Fund Balance June 30, 2001	\$	<u>0.00</u>	\$	<u>0.00</u>	\$	<u>-0.00</u>