



STATE OF NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT OF NORTH CAROLINA CENTRAL UNIVERSITY

DURHAM, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2001

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR

FINANCIAL STATEMENT AUDIT REPORT OF

NORTH CAROLINA CENTRAL UNIVERSITY

DURHAM, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2001

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Ralph Campbell, Jr.
State Auditor

STATE OF NORTH CAROLINA
Office of the State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601
Telephone: (919) 807-7500
Fax: (919) 807-7647
Internet <http://www.osa.state.nc.us>

AUDITOR'S TRANSMITTAL

The Honorable Michael F. Easley, Governor
The General Assembly of North Carolina
Board of Trustees, North Carolina Central University

This report presents the results of our financial statement audit of North Carolina Central University, a component unit of the State of North Carolina, for the year ended June 30, 2001. Our audit was made by authority of Article 5A of G.S. §147.

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

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

The purpose of this report is to present the results of our audit on the accompanying financial statements and supplementary information that relate solely to North Carolina Central University. A summary of our reporting objectives and audit results are:

- 1. Objective** - Express an opinion on the accompanying financial statements and supplementary information that relate solely to North Carolina Central University.

Results - The accompanying financial statements present fairly, in all material respects, the amounts and disclosures made in accordance with accounting principles generally accepted in the United States of America. The accompanying supplementary information presents information that is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

AUDITOR'S TRANSMITTAL (CONTINUED)

2. **Objective** - Present instances of noncompliance, if any, with laws, regulations, contracts, or grants.

Results - The following instance of noncompliance was detected:

Finding

4. Bank Reconciliations Not Timely

This matter is described in the Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting and the Audit Findings and Recommendations section of this report.

3. **Objective** - Present significant deficiencies, if any, in internal control over financial reporting which could adversely affect the University's ability to record, process, summarize, and report financial data in the financial statements.

Results - The following significant deficiencies were detected in internal control over financial reporting:

Findings

1. Financial Statements Required Several Material Audit Adjustments
2. Cash Receipt Documentation Not Maintained Adequately
3. Failure to Safeguard Bookstore Cash and Inventory
4. Bank Reconciliations Not Timely
5. Accounts Receivable Reconciliations Not Performed Timely
6. Data Input to Leave System Prone to Error
7. Adequate Student Refund Documentation Not Maintained

These matters are described in the Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting and the Audit Findings and Recommendations section of this report.

General Statute 147-64.6(c)(12) requires the State Auditor to provide the Governor, the Attorney General, and other appropriate officials with written notice of apparent instances of violations of penal statutes or apparent instances of malfeasance, misfeasance, or nonfeasance by an officer or employee. Given the nature of finding number three and in accordance with this mandate, and our standard operating practice,

AUDITOR'S TRANSMITTAL (CONCLUDED)

we will provide copies of the audit report to the Governor, the Attorney General, the Director of the State Bureau of Investigation, and other appropriate officials.

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.

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

Ralph Campbell, Jr.
State Auditor

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Ralph Campbell, Jr.
State Auditor

STATE OF NORTH CAROLINA
Office of the State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601
Telephone: (919) 807-7500
Fax: (919) 807-7647
Internet <http://www.osa.state.nc.us>

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
North Carolina Central University
Durham, North Carolina

We have audited the accompanying Balance Sheet of North Carolina Central University, a component unit of the State of North Carolina, as of June 30, 2001, and the related Statement of Changes in Fund Equity and Statement of Current Funds Revenues, Expenditures, and Other Changes for the year then ended. These financial statements are the responsibility of the University'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 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. 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 Central University as of June 30, 2001, and the changes in fund equity and the current funds revenues, expenditures, and other changes for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 17A to the financial statements, the University changed its method of accounting for securities lending transactions allocated from the State Treasurer's Cash and Investment Pool during the year ended June 30, 2001. As discussed in Note 17B to the financial statements, the University implemented Governmental Accounting Standards Board, Statement #33, *Accounting and Financial Reporting for Nonexchange Transactions*, during the year ended June 30, 2001.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

In accordance with *Government Auditing Standards*, we have also issued our report dated August 30, 2002 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with the independent auditor's report in considering the results of our audit.

Schedules 1, 2 and 3 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Ralph Campbell, Jr.
State Auditor

August 30, 2002

North Carolina Central University
Balance Sheet
June 30, 2001

Exhibit A

	Current Funds			Fiduciary Funds			Plant Funds		
	Unrestricted		Restricted	Loan	Endowment	Agency	Unexpended	Debt Service	Investment in Plant
	General	Proprietary							
ASSETS									
Cash and Cash Equivalents	\$ 2,012,345	\$ 4,136,475	\$ (2,319,086)	\$ 144,174	\$ 7,366	\$ 96,940	\$ 19,784,893	\$ 158,098	\$ 0
Investments			733,167		12,803,552			523,910	
Receivables:									
Accounts Receivable (Net)	600,407	857,832	680,316	5,741	61,000	22,750			
Intergovernmental Receivables	867,736		3,754,076						
Interest Receivable	13,860	2,221	763	417	32		1,416	660	
Due from Other Funds	1,004,699	3,182,776	2,390,418			97,351		114,955	
Due from Other Universities in UNC System			315,022						
Notes Receivable (Net)				1,951,590					
Inventories	91,037	368,466							
Prepaid Items	100,441							242,489	
Fixed Assets (Note 4)									166,125,871
Total Assets	\$ 4,690,525	\$ 8,547,770	\$ 5,554,676	\$ 2,101,922	\$ 12,871,950	\$ 217,041	\$ 19,786,309	\$ 1,040,112	\$ 166,125,871

North Carolina Central University
Balance Sheet
June 30, 2001

Exhibit A
Page 2

	Current Funds			Fiduciary Funds			Plant Funds		
	Unrestricted			Loan	Endowment	Agency	Unexpended	Debt Service	Investment in Plant
	General	Proprietary	Restricted						
LIABILITIES AND FUND EQUITY									
Liabilities:									
Accounts Payable and Accrued Liabilities:									
Accounts Payable	\$ 368,735	\$ 834,228	\$ 158,099	\$ 0	\$ 4,000	\$ 2,178	\$ 287,194	\$ 5,972	\$ 0
Accrued Payroll	1,837,380	51,782	296,717						
Due to Other Funds	2,831,316	241,443	1,203,708	95,985	2,399,747	18,000			
Due to Primary Government	72,745	37,258							
Capital Leases Payable									106,753
Bonds Payable (Note 5B)								20,758	11,242,900
Interest Payable								114,955	
Deposits Payable		400							
Accrued Vacation Leave	1,729,558	263,232	110,750						
Deferred Revenue	99,772	86,332							
Funds Held for Others						196,863			
Total Liabilities	6,939,506	1,514,675	1,769,274	95,985	2,403,747	217,041	287,194	141,685	11,349,653
Fund Equity:									
Net Investment in Plant									154,776,218
Fund Balances:									
Restricted:									
U. S. Government Grants Refundable				1,801,075					
Endowment					8,248,273				
Quasi-Endowment					1,692,869				
Restricted for Debt Retirement								102,500	
Restricted for Repair and Replacement								488,400	
Other Restricted Funds			3,785,402	200,119			18,648,211		
Unrestricted Funds	(2,248,981)	7,033,095		4,743	527,061		850,904	307,527	
Total Fund Equity (Deficit)	(2,248,981)	7,033,095	3,785,402	2,005,937	10,468,203	217,041	19,499,115	898,427	154,776,218
Total Liabilities and Fund Equity	\$ 4,690,525	\$ 8,547,770	\$ 5,554,676	\$ 2,101,922	\$ 12,871,950	\$ 217,041	\$ 19,786,309	\$ 1,040,112	\$ 166,125,871

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

North Carolina Central University
Statement of Changes in Fund Equity
Year Ended June 30, 2001

Exhibit B

	Current Funds			Fiduciary Funds		Plant Funds		
	Unrestricted			Loan	Endowment	Unexpended	Debt Service	Investment in Plant
	General	Proprietary	Restricted					
Revenues and Other Additions:								
Tuition and Fees	\$ 10,776,872	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
State Appropriations	45,405,753					10,313,600		
Federal Contracts and Grants	682,719		13,146,755					
State Contracts and Grants	770,216		1,442,966					
Nongovernmental Contracts and Grants	1,850	50	773,326					
Gifts	2,422,185		227,777		218,621			161,606
Investment Income	203,272	26,894	(625)	118,219	(741,435)	20,284	38,432	
Endowment Income	13,482		245,267					
Sales and Services	342,171	15,859,883						
Expended for Plant Facilities								2,994,005
Retirement of Indebtedness								837,615
Other Revenues and Additions	372,934	27,175	(25)	109,108				
Total Revenues and Other Additions	60,991,454	15,914,002	15,835,441	227,327	(522,814)	10,333,884	38,432	3,993,226
Expenditures and Other Deductions:								
Educational and General	59,952,254		15,031,784					
Auxiliary Enterprises		13,371,954						
Internal Service Funds		356,101						
Indirect Costs Recovered			834,936					
Expended for Plant Facilities						5,398,669		
Retirement of Indebtedness							837,615	
Interest on Indebtedness							629,007	
Disposal of Plant Facilities								515,133
Other Expenditures and Deductions				141,912			11,077	
Total Expenditures and Other Deductions	59,952,254	13,728,055	15,866,720	141,912		5,398,669	1,477,699	515,133
Transfers:								
Mandatory Transfers In (Out)	(544,663)	(933,315)	17,794				1,460,164	
Non-Mandatory Transfers In (Out)	813,128	(2,924)	218,734		(168,156)	(860,706)	(76)	
Net Transfers In (Out)	268,465	(936,239)	236,528		(168,156)	(860,706)	1,460,108	
Net Increase (Decrease) for the Year	1,307,665	1,249,708	205,249	85,415	(690,970)	4,074,509	20,841	3,478,093
Fund Equity (Deficit) July 1, 2000	(3,556,646)	5,783,387	3,580,153	1,920,522	11,159,173	15,424,606	877,586	151,298,125
Fund Equity (Deficit) June 30, 2001	\$ (2,248,981)	\$ 7,033,095	\$ 3,785,402	\$ 2,005,937	\$ 10,468,203	\$ 19,499,115	\$ 898,427	\$ 154,776,218

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

North Carolina Central University
Statement of Current Funds Revenues, Expenditures, and Other Changes
Year Ended June 30, 2001, with Comparative Totals for 2000

Exhibit C

	Unrestricted			Restricted	Year Ended June 30,	
	General	Proprietary	Total		2001	2000
Revenues:						
Tuition and Fees	\$ 10,776,872	\$ 0	\$ 10,776,872	\$ 0	\$ 10,776,872	\$ 10,074,780
State Appropriations	45,405,753		45,405,753		45,405,753	44,519,632
Federal Contracts and Grants	682,719		682,719	12,464,246	13,146,965	11,358,416
State Contracts and Grants	770,216		770,216	1,292,179	2,062,395	2,157,455
Nongovernmental Contracts and Grants	1,850	50	1,900	771,686	773,586	833
Gifts	2,422,185		2,422,185	227,777	2,649,962	2,507,480
Investment Income	203,272	26,894	230,166	(625)	229,541	287,894
Endowment Income	13,482		13,482	245,267	258,749	289,031
Sales and Services	342,171	15,859,883	16,202,054		16,202,054	16,235,061
Other Sources	372,934	27,175	400,109	(25)	400,084	293,039
Total Revenues	60,991,454	15,914,002	76,905,456	15,000,505	91,905,961	87,723,621
Expenditures:						
Educational and General:						
Instruction	28,777,440		28,777,440	3,982,020	32,759,460	33,650,953
Organized Research	216,143		216,143	1,815,458	2,031,601	1,413,688
Public Service	416,475		416,475	896,269	1,312,744	888,875
Academic Support	10,132,337		10,132,337	653,260	10,785,597	10,373,768
Student Services	2,482,356		2,482,356	190,208	2,672,564	2,965,076
Institutional Support	9,440,686		9,440,686	358,820	9,799,506	8,765,198
Plant Maintenance and Operations	6,668,065		6,668,065		6,668,065	5,941,450
Student Financial Aid	1,818,752		1,818,752	7,135,749	8,954,501	7,887,788
Auxiliary Enterprises		13,371,954	13,371,954		13,371,954	13,401,753
Internal Service Funds		356,101	356,101		356,101	373,485
Total Expenditures	59,952,254	13,728,055	73,680,309	15,031,784	88,712,093	85,662,034
Transfers and Additions/(Deductions):						
Mandatory Transfers In (Out)	(544,663)	(933,315)	(1,477,978)	17,794	(1,460,184)	(1,555,665)
Non-Mandatory Transfers In (Out)	813,128	(2,924)	810,204	218,734	1,028,938	799,151
Net Increase in Fund Equity	\$ 1,307,665	\$ 1,249,708	\$ 2,557,373	\$ 205,249	\$ 2,762,622	\$ 1,305,073

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

NORTH CAROLINA CENTRAL UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001

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. North Carolina Central University is a constituent institution of the sixteen campus University of North Carolina System which 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 belonging to the University. While the Board of Governors of the University of North Carolina System has ultimate responsibility, the Chancellor, the Board of Trustees, and the Board of Trustees of the Endowment Fund have delegated responsibilities for financial accountability of the University's funds. Related foundations and similar non-profit corporations for which the University is not financially accountable are not part of the accompanying financial statements. These entities are not included because they are separately incorporated and there are neither common directors nor other evidence of common control.

- B. Basis of Presentation** - The accompanying financial statements are presented in accordance with accounting principles generally accepted in the United States of America applicable to governmental colleges and universities as promulgated by the Governmental Accounting Standards Board (GASB). In accordance with GASB Statement #15 *Governmental College and University Accounting and Financial Reporting Models*, the University has elected to follow the fund accounting and reporting guidelines set forth by the American Institute of Certified Public Accountants in its Industry Audit Guide, *Audits of Colleges and Universities*.
- C. Fund Structure** - The accompanying financial statements are structured into three categories of funds: Current, Fiduciary, and Plant Funds.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The **Current Funds** are used to account for the revenues and expenditures resulting from operations, with the Unrestricted Funds and Restricted Fund shown separately. The Restricted Fund represents resources that are restricted to use by either an outside donor or grantor. Current funds that are internally designated for specific purposes by the governing board or management having delegated authority are reported as Unrestricted Funds. The Unrestricted Proprietary Fund reflecting the operations of the student supply store, dormitories, other auxiliary enterprises, internal service funds, student activity funds and intercollegiate athletics is shown separately from the Unrestricted General Fund.

The **Fiduciary Funds** are used to account for additions to and deductions from fund equity of the Loan Fund and Endowment Fund. In addition, the Fiduciary Funds are used to account for funds of students and organizations held by the University as custodian in the Agency Fund. The transactions of the Agency Fund increase and decrease assets and liabilities but do not effect fund equity. As a result, the Agency Fund is not reflected in the Statement of Changes in Fund Equity.

The **Plant Funds** are used to account for additions to and deductions from fund equity of the Unexpended Plant Fund, Debt Service Fund, and the Investment in Plant Fund. The Debt Service Fund includes the Repair and Replacement reserves as well as the reserves for Retirement of Indebtedness.

- D. Basis of Accounting** - The financial statements of the University have been prepared on the accrual basis except that, in accordance with accounting practices customarily followed by public educational institutions, no provision is made for depreciation of fixed assets, interest on loans to students is recorded when collected, and revenue from tuition and student fees for summer sessions is reported totally within the fiscal year in which the session is primarily conducted. Otherwise, revenues are recorded when earned and expenditures are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the University receives value without directly giving equal value in exchange, include grants, state appropriations, and private donations. On an accrual basis, revenues from these transactions are recognized in the fiscal year in which all eligibility requirements (resource provider conditions) have been satisfied, if measurable and probable of collection.

The Statement of Current Funds Revenues, Expenditures, and Other Changes is a statement of financial activities of current funds related to the current reporting period. It does not purport to present the results of

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

operations or the net income or loss for the period as would a statement of income or a statement of revenues and expenses.

- E. Cash and Cash Equivalents** - In addition to cash on deposit with private bank accounts and petty cash, this classification includes money market accounts and short-term investments with the State Treasurer's Cash and Investment Pool (a governmental external investment pool). All other short-term investments are reported as investments.
- F. Investments** - This classification includes mutual funds and money market funds held by the University. Mutual fund investments are reported at fair value for year-end financial reporting purposes. Fair value is the amount at which an investment could be exchanged between two willing parties. Fair value for financial reporting purposes is based on quoted market prices. The net increase (decrease) in the fair value of investments is recognized as a part of investment income.

Money market funds are reported at cost, if purchased, or at fair market value or appraised value at date of gift, if donated.

- G. Receivables and Allowance for Doubtful Accounts** – Accounts receivable in the Unrestricted General Fund and the Unrestricted Proprietary Fund are shown in the accompanying financial statements net of allowances for doubtful accounts of \$583,919 and \$735,076, respectively. In addition, notes receivable in the Loan Fund is shown net of the allowance for doubtful accounts of \$3,989,708. The accounts and notes receivable for other funds are shown at book value with no provision for doubtful accounts considered necessary.
- H. Inventories** - Inventories held by the University are priced at the lower of cost or market value using the first-in, first-out method. The inventories for the Unrestricted General Fund consist of expendable supplies, postage and fuel oil held for consumption. Inventories for the Unrestricted Proprietary Fund consist of textbooks and other merchandise for resale.
- I. Fixed Assets and Depreciation** – Fixed Assets are stated at cost at date of acquisition or fair market value at date of donation in the case of gifts. The University capitalizes fixed assets that have a value or cost in excess of \$5,000 at the date of acquisition and an expected useful life of one or more years. Depreciation is not recorded.

To the extent that current funds are used to finance plant assets, the amounts provided are accounted for as: (1) expenditures, in the case of normal replacement of furniture and movable equipment; (2) mandatory transfers, in the case of required provisions for debt retirement and

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

renewal and replacement; and (3) transfers of a non-mandatory nature for all other cases.

Fixed assets financed with debt proceeds are reported in the Investment in Plant Fund subgroup when expenditures are incurred.

Fixed assets, such as roads, parking lots, decks, sidewalks, and other non-building structures and improvements are capitalized as other structures and improvements.

- J. Vacation and Sick Leave** - The University's policy is to record the cost of vacation leave when earned. The policy provides for a maximum accumulation of unused vacation leave of 30 days which can be carried forward each January 1st (for SPA employees) and July 1st (for EPA employees) 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 (calendar year-end for SPA employees and fiscal year-end for EPA employees) is converted to sick leave. Under this policy, the accumulated vacation leave for each SPA employee at June 30th equals the leave carried forward at the previous December 31st plus the leave earned, less the leave taken between January 1st and June 30th.

The University has the policy of recording the cost of sick leave when taken and paid rather than when the leave is earned. The policy provides for unlimited accumulation of sick leave, but the employee cannot be compensated for any unused sick leave upon termination of employment.

- K. Revenue Recognition** – Current Funds revenues, as reflected on Exhibit C, include all exchange and non-exchange transactions earned and in which all eligibility requirements (resource provider conditions) have been satisfied, if measurable and probable of collection.

Certain Unrestricted Proprietary Fund auxiliary operations provide goods and services to activities reported in the Unrestricted General Fund. These auxiliary operations include activities such as central stores, the print shop, and other auxiliaries with interdepartmental activities. Because the University reports its Unrestricted General and Proprietary Fund activities separately on the financial statements, inter-departmental charges between the Unrestricted General and Proprietary Funds have not been eliminated. The total internal transactions related to these operations totaled approximately \$401,111 for the fiscal year ended June 30, 2001. These internal charges have been reported as a part of sales and service revenue and the related costs as internal service operation expenses or auxiliary enterprise expenses.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Tuition remission and waivers are recorded as “Tuition and Fees” revenue and as “Student Financial Aid” expenditures on the accompanying financial statements.

Student fees pledged under bond indentures are reported as unrestricted revenues when received unless such fees are not legally available for other purposes, in which case they are reported as an addition to Debt Service Fund equity.

- L. Endowment Investment Return** – Investments of the University’s endowment funds are separately invested, except for scholarship and professorship endowments with less than \$50,000 which are pooled in a separate investment account. Investments of endowment funds are predicated on the total return concept (yield plus appreciation). Annual payouts from the University’s endowment funds are determined by 5.5% of the five-year moving average of the fund’s market value. If current year earnings do not meet the payout requirements, the University uses accumulated income and appreciation to make up the difference. Expenditures in excess of the payout are authorized by the University’s Board of Trustees Endowment Committee.

Endowments are classified as either “true” or “quasi”. True endowments are funds that the donor has specified, as a condition of the gift, that the principal be maintained indefinitely. Quasi-endowments are funds on which there is no such restriction placed by the donor. For classification purposes, the income and appreciation added to principal is classified as quasi-endowment, unless the donor has stipulated otherwise.

NOTE 2 - DEPOSITS AND INVESTMENTS

- A. Deposits** - The University is required by General Statute 147-77 to deposit its budget code cash and by the University of North Carolina Board of Governors pursuant to General Statute 116-36.1 to deposit its institutional trust funds in the State Treasurer’s Cash and Investment Pool. In addition, the University may voluntarily deposit endowment funds, special funds, revenue bond proceeds, and debt service funds with the State Treasurer’s Cash and Investment Pool. Special funds consist of moneys for intercollegiate athletics and agency funds held directly by the University.

Deposits include cash and cash equivalents, and certificates of deposit totaling \$24,017,694. At year-end, cash on hand was \$3,511. The University’s portion of the State Treasurer’s Cash and Investment Pool was \$24,016,505. It is the State Treasurer’s policy and practice for deposits not covered by federal depository insurance to be covered by

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

collateral held by the State of North Carolina's agent in the name of the State and for its investments to be held by the State's agent in the State's name. The carrying amount of the University's deposits not with the State Treasurer was \$1,189 and the bank balance was \$1,189. Of the bank balance, \$1,189 was covered by federal depository insurance.

North Carolina General Statutes 147-69.1(c) and 147-69.2 authorize the State Treasurer to invest in the following: obligations of or fully guaranteed by the United States; obligations of certain federal agencies; repurchase agreements; obligations of the State of North Carolina; certificates of deposit of specified institutions; prime quality commercial paper; specified bills of exchange; asset-backed securities, corporate bonds and notes with specified ratings; general obligations of other states; general obligations of North Carolina local governments; certain venture capital limited partnerships; and the obligations or securities of the North Carolina Enterprise Corporation.

The financial statements and disclosures for the State Treasurer's Cash and Investment Pool are included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home 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. Investments** - The University is authorized by The University of North Carolina Board of Governors pursuant to General Statute 116-36.2 to invest its special funds and funds received for services rendered by health care professionals in the same manner as the State Treasurer is required to invest, as previously discussed.

In accordance with the bond resolutions, bond proceeds and debt service funds are invested in obligations which will by their terms mature on or before the date funds are expected to be required for expenditure or withdrawal.

General Statute 116-36(e) provides that the trustees of the Endowment Fund shall be responsible for the prudent investment of the Fund in the exercise of their sound discretion, without regard to any statute or rule of law relating to the investment of funds by fiduciaries but in compliance with any lawful condition placed by the donor upon that part of the Endowment Fund to be invested.

Investments of various funds may be pooled unless prohibited by statute or by terms of the gift or contract. The University utilizes investment

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

pools to manage investments and distribute investment income. The University utilizes the following investment pools:

Scholarship/Professorship Endowment Pool - This is an internal investment pool that is utilized for the investment of the scholarship and professorship endowment funds with less than \$50,000. These funds are invested in a mutual fund. Purchases in the fund are allowed at the beginning of every month. Fund ownership is measured based on the participating funds purchases and accumulated gain/loss reinvestment. The investment strategy is based on the directives of the University's Endowment Board.

Credit Risk Categories - The University's investments (pooled and non-pooled) are categorized below to give an indication of the level of risk assumed by the entity at year-end. The credit risk categories are concerned with custodial credit risk, which is the risk that a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party if the counterparty to the investment transaction fails. There are three categories of credit risk. Category 1 includes investments that are insured or registered or for which the securities are held by the University or its agent in the University's name. Category 2 includes uninsured and unregistered investments for which the securities are held by a counterparty's trust department or agent in the University's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by a counterparty's trust department or agent but not in the University's name.

A summary of the University's investments at June 30, 2001 is presented below:

Scholarship/Professorship Investment Pool

Investments Not Categorized:	
Mutual Funds	<u>\$ 668,656</u>

Non-Pooled Investments

Investments Not Categorized:	
Money Market Funds	\$ 523,910
Mutual Funds	<u>12,868,063</u>
Total Non-Pooled Investments	<u>\$ 13,391,973</u>

Total Investments

Total Investments	<u>\$ 14,060,629</u>
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

C. Non-Current Funds Gains and Losses on Investments – The net change in fair value of investments is recorded as part of “Investment Income” on the accompanying financial statements. The additions and deductions to the non-current fund’s fund equity resulting from the net change in fair value of investments follow:

	<u>Net Unrealized Gains/Losses</u>	<u>Realized Gains</u>	<u>Realized Losses</u>	<u>Net Change in Fair Value</u>
Endowment Fund	\$ (788,016)	\$ 44,621	\$ 0	\$ (743,395)

D. Endowment Fund Investments - The Board of Trustees of the Endowment Fund of North Carolina Central University has established a policy that emphasizes growth orientation in the investment of endowment funds. The fair value of the Endowment Fund Investments as of June 30, 2001 as compared to the prior year was as follows:

	<u>Balance June 30, 2001</u>	<u>Balance June 30, 2000</u>
Investments by Fund:		
Endowment	\$ 8,365,632	\$ 8,057,524
Quasi-Endowment Unrestricted	536,391	773,981
Quasi-Endowment Restricted	<u>3,901,529</u>	<u>4,521,764</u>
Total	<u>\$ 12,803,552</u>	<u>\$ 13,353,269</u>
Investment by Type:		
Mutual Funds	<u>\$ 12,803,552</u>	<u>\$ 13,353,269</u>
Total	<u>\$ 12,803,552</u>	<u>\$ 13,353,269</u>

E. Derivative and Similar Transactions - A derivative is a financial instrument created from, or whose value depends on (is derived from), the value of one or more underlying assets, reference rates, or indexes of asset values. These instruments may include forwards, futures, currency and interest rate swaps, options, floaters/inverse floaters and caps/floors/collars. During the year the University did invest indirectly in derivatives. As required by accounting principles generally accepted in the United States of America, the nature of derivative or similar transactions entered into by the University, and the reasons for entering into those transactions follow:

Indirect Derivative Holdings - The University identifies various mutual funds that meet asset allocation and investment management objectives. The University invests in these funds to increase the yield and return on its investment portfolio given the available alternative investment

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

opportunities and to diversify its asset holdings. Investments of mutual funds generally include equity and bond funds. Certain funds expose the University to significant amounts of market risk by trading or holding derivative instruments and by leveraging the securities in the fund.

The mutual funds that utilized derivative securities for the fiscal year ending June 30, 2001 are summarized in the chart below. The amounts shown in the chart represent the market value of the University's investment in the mutual funds and the market value and percent of holdings held in derivatives by those funds.

**North Carolina Central University
Indirect Derivative Analysis
For Fiscal Year Ending June 30, 2001**

Mutual Fund Common Fund – Domestic Equity	Total Market Value	% Invested Derivatives	Amount
Multi-Strategy Equity Fund	\$ 10,501,149	10.7%	\$ 1,123,623
Multi-Strategy Bond Fund	3,035,570	11.0%	333,913
Total	13,536,719		\$ 1,457,536
Total Fund Market Value for Restricted and Endowment	\$ 13,536,719		
Total % of Market Value for Indirect Derivative Exposure		10.77%	

The Multi-Strategy Equity Fund and Multi-Strategy Bond Fund respectively invest in sub-funds that utilize derivatives for various reasons including: maintaining market exposure, improving liquidity, hedging foreign currency exposure, decreasing transactions costs or implementing investment strategies that will benefit the respective portfolios in certain market conditions. The sponsor of these funds provides the University with audited financial statements on an annual basis.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 3 - INTER-FUND RECEIVABLES AND PAYABLES

Due From/To Other Funds as of June 30, 2001 are summarized below:

Due From	Due To						Total Due From
	Unrestricted General	Unrestricted Proprietary	Restricted Fund	Loan Fund	Endowment Fund	Agency Fund	
Unrestricted General Fund	\$ 0	\$ 65,488	\$ 844,830	\$ 67,052	\$ 9,329	\$ 18,000	\$ 1,004,699
Unrestricted Proprietary Fund	2,795,667		358,176	28,933			3,182,776
Restricted Fund					2,390,418		2,390,418
Agency Fund	35,649	61,000	702				97,351
Debt Service Fund		114,955					114,955
Total Due To	\$ 2,831,316	\$ 241,443	\$ 1,203,708	\$ 95,985	\$ 2,399,747	\$ 18,000	\$ 6,790,199

These inter-fund receivables and payables are expected to be paid back during the next fiscal year at no interest.

In addition, other inter-fund borrowings of a temporary nature have occurred where one bank account is maintained for more than one fund. Because the fund making the temporary loan has not been determined by the University, these inter-fund borrowings are not reported as an asset of the fund making the advance or as a liability of the fund receiving the advance.

NOTE 4 - CHANGES IN FIXED ASSETS

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

	Balance July 1, 2000	Additions	Deletions	Balance June 30, 2001
Land	\$ 1,658,385	\$ 18,540	\$ 0	\$ 1,676,925
Buildings	93,262,997	16,995,097		110,258,094
Other Structures and Improvements	11,402,128	2,836,020		14,238,148
Furniture, Machinery and Equipment	9,226,111	578,806	261,369	9,543,548
Artwork, Artifacts and Literature	29,073,995	1,588,925	253,764	30,409,156
Construction in Progress	18,930,277	217,491	19,147,768	
Total Fixed Assets	\$ 163,553,893	\$ 22,234,879	\$ 19,662,901	\$ 166,125,871

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 5 - LONG-TERM OBLIGATIONS

A. Changes in Long-Term Obligations - A summary of changes in the long-term obligations is presented as follows:

	Balance July 1, 2000	Additions	Deletions	Balance June 30, 2001
Notes Payable	\$ 542,615	\$ 0	\$ 542,615	\$ 0
Bonds Payable (principal only)	11,660,000		295,000	11,365,000
Capital Leases	175,251		68,498	106,753
Total Long-Term Obligations	\$ 12,377,866	\$ 0	\$ 906,113	\$ 11,471,753

B. Bonds Payable - The University was indebted for bonds payable (net of discount and premium) in the amount of \$11,263,658 at June 30, 2001 for the purposes shown in the following table:

Purpose	Series	Interest Rate/ Ranges	Final Maturity Date	Original Amount of Issue	Principal Paid Through 6/30/01	Principal Outstanding 6/30/01
Housing System Revenue Bonds	1996	5.4% to 5.9%	11/01/2022	\$ 8,890,000	\$ 555,000	\$ 8,335,000
Stadium System Revenue Bonds	1998	4.4% to 5.0%	04/01/2023	3,320,000	290,000	3,030,000
Total Bonds Payable (principal only)				\$ 12,210,000	\$ 845,000	11,365,000
Less: Unamortized Discount						101,342
Total Bonds Payable						\$ 11,263,658

Designated student fees and revenue streams related to the systems financed have been pledged for the payment of these bonds. In addition, fund reservations required by the Bond Indentures have been established and recorded in the Debt Service Fund.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- C. Annual Requirements** - The annual requirements to pay principal and interest on the long-term obligations at June 30, 2001 are presented as follows:

<u>Fiscal Year</u>	Annual Requirements (Principal and Interest)	
	Bonds Payable	Capital Leases
2002	\$ 926,953	\$ 0
2003	925,772	45,228
2004	928,832	45,228
2005	920,913	33,921
2006	922,452	
2007-2011	4,453,254	
2012-2016	4,338,878	
2017-2021	4,370,611	
2022-2026	1,755,020	
Total Requirements	\$ 19,542,685	\$ 124,377

- D. Bond Defeasance** - The University has extinguished long-term debt obligations by the issuance of new long-term debt instruments as follows:

Dormitory System: On 3/2/95 the University defeased \$1,020,000 of outstanding *Dormitory Series A, B & C Revenue Bonds*. An irrevocable trust was established with an escrow agent to provide for all future debt service payments on the defeased bonds. The trust assets and the liability for the defeased bonds are not included in the University's balance sheet. As of June 30, 2001, the outstanding balance of the defeased *Dormitory System Revenue Bonds* was \$314,000.

NOTE 6 - CAPITAL LEASES

Capital lease obligations relating to educational equipment are recorded at the present value of the minimum lease payments. Future minimum lease payments under capital lease obligations consist of the following at June 30, 2001:

<u>Fiscal Year</u>	<u>Amount</u>
2002	\$ 0
2003	45,228
2004	45,228
2005	33,921
Total Minimum Lease Payments	\$ 124,377
Amount Representing Interest (6% Rate of Interest)	17,624
Present Value of Future Lease Payments	\$ 106,753

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Leased assets included in Plant Funds amounted to \$194,096 at June 30, 2001.

NOTE 7 - OPERATING LEASES

Future minimum lease payments under non-cancelable operating leases consist of the following at June 30, 2001:

<u>Fiscal Year</u>	<u>Amount</u>
2002	\$ 21,108
2003	<u>20,204</u>
Total Minimum Lease Payments	<u><u>\$ 41,312</u></u>

Rental expense for all operating leases during the year was \$220,769.

NOTE 8 - COMMITMENTS AND CONTINGENCIES

- A. Commitments** – The University has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were \$8,032,481.
- B. Pending Litigation and Claims** – The University is a party to litigation and claims in the ordinary course of its operations. Since it is not possible to predict the ultimate outcome of these matters, no provision for any liability has been made in the financial statements. University management is of the opinion that the liability, if any, for any of these matters will not have a material adverse effect on the financial position of the University.
- C. University Improvement General Obligation Bonds** – The 1999-2000 Session of the General Assembly of North Carolina authorized the issuance of two billion five hundred million dollars of general obligation bonds of the State, as subsequently approved by a vote of qualified voters of the State, to provide funds for capital improvements for the University of North Carolina. The funds authorized are to be used solely for capital facilities cost on the University of North Carolina campuses as specified in the legislation. The bond legislation specifies the amount of bond funding for each University campus and the level of bond funding intended for each project. The bonds are authorized to be issued over a six-year period beginning in 2001 at a level not to exceed amounts provided in the legislation. Using a cash flow financing approach, The University of North Carolina – General Administration (UNC-GA),

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

establishes annual amounts not to exceed for each approved project. The amounts not to exceed are subject to change due to actual cash availability and needs during the year. Subsequent to the bond sales and the availability of bond proceeds, UNC-GA notifies the Office of State Budget and Management (OSBM) of the amounts not to exceed for each approved project. Within these amounts, based on an official request of cash needs from the University, OSBM authorizes allotments. The University records the allotments as revenue on the accompanying financial statements. In addition, amounts not allotted but accrued as expended at year-end are recorded as revenue. The University's remaining authorization of \$121,246,203 is contingent on future bond sales and OSBM allotment approval. Because of uncertainty and time restrictions the remaining authorization is not recorded as an asset or revenue on the accompanying financial statements.

D. Other Contingent Receivables – The University has received notification of other gifts and grants for which funds have not been disbursed by the resource provider and for which conditions attached to the gift or grant have not been satisfied or, in the case of permanent endowments, cannot begin to be satisfied. In accordance with accounting principles generally accepted in the United States of America these amounts have not been recorded on the accompanying financial statements. The purpose and amount of other contingent receivables at year-end is as follows:

<u>Purpose</u>	<u>Amount</u>
Permanent Endowments - Kenan Title III	\$ 500,000
Permanent Endowments - CCB Professorship	30,000
Permanent Endowments - Duke Power Professorship	99,900
Permanent Endowments - First Union Professorship	<u>90,000</u>
Total	<u><u>\$ 719,900</u></u>

NOTE 9 - BUDGETING AND BUDGETARY CONTROL

The State of North Carolina operates on a biennial budget cycle with separate annual departmental and institutional certified budgets adopted by the General Assembly.

Chapter 116, Article 1, Part 2A of the North Carolina General Statutes authorizes the universities within the sixteen campus University of North Carolina System to apply for special responsibility status, which sets the legal level of budgetary control at the institution's budget code level. A budget code is a convention used in the State's accounting system to distinguish the type of fund and the responsible department or institution. Budget codes are also used

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

to segregate certain purposes within departments or institutions. Institutions with special responsibility status must still have certain budget revisions, primarily those associated with unanticipated revenues, approved by the Office of State Budget and Management. Additionally, universities must maintain programs and services in accordance with the guidelines established by the Board of Governors of the consolidated University of North Carolina System. North Carolina Central University has applied for and received special responsibility status.

After the budget is approved by the General Assembly and adopted by the Board of Governors, the University follows an established system of budgetary controls. Periodic interim budget statements to department heads guide them in managing budget allocations. Monthly financial reports, which include budget and actual data, are provided for each fund to individual managers responsible for the fund. When actual conditions require changes to the budget, revisions are prepared and communicated to those affected. Changes to the budget are reviewed and approved at the University or State level as required. The University maintains an encumbrance accounting system as another method to ensure that imposed expenditure constraints are observed. The state budgetary control is maintained on a cash basis of accounting.

NOTE 10 - RISK MANAGEMENT

The University 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 state-administered insurance programs, 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 excess liability coverage up to \$11,000,000 for public officers and employees via contract with a private insurance company. The premium, based on a composite rate, is paid by the University to the State's Agent of Record.

The State Property Fire Insurance Fund (Fund), an internal service fund of the State, insures all State owned buildings and contents for fire and various other property losses up to \$2,500,000 per occurrence. The Fund purchases excess insurance from private insurers to cover losses over the amounts insured by the Fund. Coverage for fire losses for operations supported by the State's General Fund is provided at no cost to the University. Other operations not supported by the State's General Fund are charged for fire coverage. The University also purchased through the Fund extended coverage, business interruption, vandalism, theft, flood and "all risks" for buildings and contents. Losses

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

covered by the Fund are subject to a \$500 per occurrence deductible except theft losses carry a \$1,000 per occurrence 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.

All State-owned vehicles are covered by liability insurance handled by the North Carolina Department of Insurance. The State is self-insured for the first \$500,000 of any loss through a retrospective rating plan. Excess insurance coverage is purchased through a private insurer to cover losses greater than \$500,000. The liability limits for losses occurring in state are \$500,000 per claimant and \$5,000,000 per occurrence. The University is charged premiums to cover the cost of excess insurance and to pay for those losses falling under the self-insured retention.

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

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

Employees and retirees are provided health care coverage by the Comprehensive Major Medical Plan, a component unit 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 and its component units are included in the program. When an employee is injured, the University's primary responsibility is to arrange for and provide the necessary treatment for work related injury. The University is responsible for paying medical benefits and compensation in accordance with the North Carolina Workers' Compensation Act. The University is self-insured for workers' compensation.

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.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 11 - DEFICIT FUND BALANCE

The deficit fund balance in the Current Unrestricted General Fund is attributable to the University adjusting its cash basis records to the accrual basis of accounting as required by accounting principles generally accepted in the United States of America (GAAP). In accordance with GAAP, receivables were not recognized for liabilities associated with future period appropriations or grant awards.

The University receives financial support from the State of North Carolina for its continuing operations. This support is authorized on a cash basis through an annual appropriation process. While GAAP prohibits the University from recording receivables from future period authorizations, the University continues to receive, as provided by annual State Appropriations, annual support for its financial needs.

NOTE 12 - PENSION PLANS

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

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

Benefit and contribution provisions for the Teachers' and State Employees' Retirement System are established by North Carolina General Statute 135-5 and 135-8 and may be amended only by the North Carolina General Assembly. Employer and member contribution rates are set each year by the North Carolina General Assembly based on annual actuarial valuations. For the year ended June 30, 2001, these rates were set at

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

5.33% of covered payroll for employers and 6% of covered payroll for members.

For the year ended June 30, 2001, the University had a total payroll of \$44,965,270 of which \$32,291,707 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were \$1,937,502 and \$1,721,148, respectively. The University made one hundred percent of its annual required contributions for the years ended June 30, 2001, 2000, and 1999, which were \$1,721,148, \$2,556,000, and \$2,355,000, respectively.

In accordance with constitutional provisions requiring a balanced budget for the State of North Carolina, the Governor issued an executive order requiring the employers' share of retirement contributions for the months February 2001 through June 2001 to be transferred to a reserve account rather than paid to the Teachers' and State Employees' Retirement System. A portion of those funds was ultimately used by the State of North Carolina for general fund purposes and not released to the retirement system. The total amount of employer contributions paid by the University has been recognized as pension costs in the financial statements. The contributions which were not released to the Teachers' and State Employees' Retirement System are considered immaterial to the University's financial statements taken as whole. The University has no liability for pension costs beyond the contributions already made.

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

The Optional Retirement Program (Program) is a defined contribution retirement plan, which provides retirement benefits with options for payments to beneficiaries in the event of the participant's death. Administrators and eligible faculty of the University may join the Program instead of the Teachers' and State Employees' Retirement System. The Program offers plans administered by the Teachers' Insurance Annuity Association and College Retirement Equities Fund (TIAA-CREF), as well as Lincoln National Life Insurance Company, the Variable Annuity Life Insurance Company (VALIC) and Fidelity Investments. Participant eligibility and contributory requirements are established by General Statute 135-5.1. Participants contribute 6% of their salary and the University matches with a 6.84% contribution for

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

pension benefits. The University assumes no liability other than its contribution.

Participants in the Program are vested after five years of service but plan administrators must return the value of the participant's and University's contribution to both the participant and the University if termination occurs prior to five years of service. Participants may direct their contributions to TIAA-CREF, Lincoln National, VALIC, Fidelity Investment or combinations of the aforementioned. Participants in all four plans may choose to invest among several alternatives, including fixed and variable accounts. Employees may elect to have their contributions deposited by one provider and the matching benefit deposited by another, or they may elect to have both deposited by the same provider.

For the year ended June 30, 2001, the University had a total payroll of \$44,965,270 of which \$9,355,708 was covered under the Optional Retirement Program. Total employee and employer contributions for pension benefits for the year were \$561,342 and \$639,930, respectively.

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 University. The voluntary contributions by employees amounted to \$42,055 for the year ended June 30, 2001.

IRC Section 401(k) Plan - All members of the Teachers' and State Employees' Retirement System and the Optional Retirement Program are eligible to enroll in the Supplemental Retirement Income Plan, a defined contribution plan, created under Internal Revenue Code Section 401(k). All costs of administering the plan are the responsibility of the Plan participants. No costs are incurred by the University except for a 5% employer contribution for the University's law enforcement officers,

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

which is mandated under General Statute 143-163.30(e). Total employer contributions on behalf of University law enforcement officers for the year ended June 30, 2001 were \$23,781. The voluntary contributions by employees amounted to \$141,248 for the year ended June 30, 2001.

IRC Section 403(b) and 403(b)(7) Plans - All University employees who work 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 universities and certain charitable and other non-profit institutions. All costs of administering and funding these plans are the responsibility of the Plan participants. No costs are incurred by the University. The voluntary contributions by employees amounted to \$878,869 for the year ended June 30, 2001.

NOTE 13 - OTHER POSTEMPLOYMENT BENEFITS

- A. Health Care for Long-Term Disability Beneficiaries and Retirees -** The University 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 or the Optional Retirement Program. 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 University contributed 1.28% of the covered payroll under the Teachers' and State Employees' Retirement System and the Optional Retirement Program for these health care benefits. For the fiscal year ended June 30, 2001, the University's total contribution to the Plan was \$533,087. The University assumes no liability for retiree health care benefits provided by the programs other than its required contribution. Additional detailed information about these programs can be located in the State of North Carolina's *Comprehensive Annual Financial Report*.
- B. Long-Term Disability -** The University 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 or the Optional Retirement Program. Long-term disability income benefits are advance funded on an actuarially determined basis using the one-year term cost method. The

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

University contributes .52% of covered payroll under the Teachers' and State Employees' Retirement System and the Optional Retirement Program to the DIPNC. For the fiscal year ended June 30, 2001, the University's total contribution to the DIPNC was \$216,567. The University 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 14 - CONSTRUCTION COSTS PAID FROM DEBT PROCEEDS

Construction costs paid from University issued debt proceeds are not reflected as additions to fund equity of the Investment in Plant Fund but rather as an increase to the Investment in Plant Fund's assets and liabilities. During the year, \$35,446 was added to the Investment in Plant Fund's assets and liabilities for assets purchased from debt proceeds.

NOTE 15 - NORTH CAROLINA CENTRAL UNIVERSITY FOUNDATION, INC.

There is one separately incorporated non-profit foundation associated with the University. This foundation is the North Carolina Central University Foundation, Inc. (NCCU Foundation).

This organization serves as the primary fundraising arm of the University through which individuals, corporations and other organizations support University programs by providing scholarships, fellowships, faculty salary supplements, and unrestricted funds to specific colleges and the University's overall academic environment. The University's financial statements do not include the assets, liabilities, net assets or operational transactions of the foundation, except for support from the NCCU Foundation to the University. This support approximated \$2,481,030 for the year ended June 30, 2001. The University remitted \$85,489 in payroll deducted employee contributions and \$278,439 of other reimbursements to the NCCU Foundation.

NOTE 16 - PLEDGES RECEIVABLE

The University has pledges receivable in the amount of \$61,000. Pledges that are expected to be collected and available for expenditure, that are both verifiable and measurable, are reported on the accompanying financial statements as part of accounts receivable. The pledges are receivable annually over varying time periods ranging from 1 to 3 years. Due to the nature of the

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

donor organizations, the University considers these pledges to be collectible. Scheduled receipts and the discounted amount under these pledge commitments are as follows:

<u>Fiscal Year</u>	<u>Amount</u>
2002	\$ 30,000
2003	15,000
2004	<u>16,000</u>
Total Pledge Receipts Expected	<u>\$ 61,000</u>

Pledges not available for expenditure, such as additions to permanent endowments, are not recorded until received because the donor condition not to expend cannot start to be satisfied until received.

NOTE 17 - ACCOUNTING CHANGES

- A. Securities Lending Transactions** - The University deposits certain funds with the State Treasurer's Cash and Investment Pool, which participates in securities lending activities. In prior years it was the State's policy to allocate the risk associated with these transactions to each component unit. For the year ending June 30, 2001, the State changed its policy, as a result of discussion with the GASB technical staff, to report the associated risk as part of the State of North Carolina's fiduciary funds rather than to allocate the risk to component units. The effect of this change removes from the University issued financial statements the assets and liabilities associated with the State Treasurer's security lending program. This change does not affect the University's beginning fund equities.
- B. Governmental Accounting Standards Board, Statement #33, Accounting and Financial Reporting for Nonexchange Transactions** - Effective July 1, 2000, the University implemented the new accounting and reporting standards required in GASB #33. This standard provides accounting rules over non-exchange transactions and changes the University's standards for the recognition of revenues and the reporting of funds received but not earned in the University's restricted fund. In prior years, the University reported funds received but not expended in its restricted fund as an addition to fund equity. Based on this new standard, revenues are recognized when earned and when the resource provider's conditions have been satisfied. Amounts received not meeting the recognition requirements are now reported as deferred revenue. In

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

addition, the new standard requires promises to give (pledges) that are expected to be collected and available for expenditure, and that are verifiable and measurable, be recorded as a receivable and revenue, upon satisfying the resource provider's conditions. Prior to this year, pledges were not recorded as a receivable unless there was a legally enforceable right.

North Carolina Central University
Revenue Bond Funds
Balance Sheet
June 30, 2001

Schedule 1

	Dormitory	Stadium
REVENUE FUND		
Assets:		
Cash and Cash Equivalents	\$ 526,468	\$ 577,260
Receivables	142,726	14,952
Due From Primary Government	83,436	15,655
Inventories	11,657	
Total Assets	\$ 764,287	\$ 607,867
Liabilities and Fund Equity:		
Liabilities:		
Accounts Payable and Accrued Liabilities	44,399	
Due to Other Funds	78,926	36,116
Accrued Vacation Leave	90,097	
Deferred Revenue		5,184
Total Liabilities	213,422	41,300
Fund Equity:		
Unrestricted	550,865	566,567
Total Liabilities and Fund Equity	\$ 764,287	\$ 607,867
BOND AND INTEREST SINKING FUND		
Assets:		
Cash and Cash Equivalents	\$ 112,276	\$ 1,342
Due from Other Funds	78,839	36,116
Prepaid Expense	164,927	77,563
Total Assets	\$ 356,042	\$ 115,021
Liabilities and Fund Equity:		
Liabilities:		
Accounts Payable and Accrued Liabilities	22,604	4,126
Interest Payable	78,839	36,116
Total Liabilities	101,443	40,242
Fund Equity:		
Restricted	102,500	
Unrestricted	152,099	74,779
Total Fund Equity	254,599	74,779
Total Liabilities and Fund Equity	\$ 356,042	\$ 115,021

<i>North Carolina Central University</i>			
<i>Revenue Bond Funds</i>			
<i>Balance Sheet</i>			<i>Schedule 1</i>
<i>June 30, 2001</i>			<i>Page 2</i>
		Dormitory	Stadium
<i>REPAIR AND REPLACEMENT RESERVE</i>			
Assets:			
Cash and Cash Equivalents		\$ 410,291	\$ 158,098
Receivables			661
Total Assets		\$ 410,291	\$ 158,759
Liabilities and Fund Equity:			
Fund Equity:			
Restricted		355,600	132,800
Unrestricted		54,691	25,959
Total Fund Equity		410,291	158,759
Total Liabilities and Fund Equity		\$ 410,291	\$ 158,759

<i>North Carolina Central University</i>			
<i>Revenue Bond Funds</i>			
<i>Schedule of Changes in Fund Equity</i>			
<i>Year Ended June 30, 2001</i>			
			<i>Schedule 2</i>
		Dormitory	Stadium
REVENUE FUND			
Additions:			
Tuition and Fees	\$	0	\$ 341,585
Investment Income			26,894
Sales and Services		4,680,449	
Other Revenues and Additions		(161)	
Total Additions		4,680,288	368,479
Deductions:			
Current Services		3,602,654	1,595
Miscellaneous		55,880	5,264
Mandatory Transfers		680,663	245,719
Non-Mandatory Transfers		281,881	
Total Deductions		4,621,078	252,578
Net Increase in Fund Equity		59,210	115,901
Fund Equity July 1, 2000		491,655	450,666
Fund Equity June 30, 2001	\$	550,865	\$ 566,567
BOND AND INTEREST SINKING FUND			
Additions:			
Investment Income	\$	5,401	\$ 2,038
Mandatory Transfers		671,850	245,719
Non-Mandatory Transfers (Out)		(76)	
Total Additions		677,175	247,757
Deductions:			
Retirement of Indebtedness		195,000	100,000
Interest on Indebtedness		479,917	149,090
Other Expenditures and Deductions		7,497	3,580
Total Deductions		682,414	252,670
Net Decrease in Fund Equity		(5,239)	(4,913)
Fund Equity July 1, 2000		259,838	79,692
Fund Equity June 30, 2001	\$	254,599	\$ 74,779

<i>North Carolina Central University</i>				
<i>Revenue Bond Funds</i>				
<i>Schedule of Changes in Fund Equity</i>				<i>Schedule 2</i>
<i>Year Ended June 30, 2001</i>				<i>Page 2</i>
			Dormitory	Stadium
REPAIR AND REPLACEMENT RESERVE				
Additions:				
	Investment Income	\$	21,917	\$ 9,076
	Net Increase in Fund Equity		21,917	9,076
	Fund Equity July 1, 2000		388,374	149,683
	Fund Equity June 30, 2001	\$	410,291	\$ 158,759

North Carolina Central University

Schedule of General Obligation Bond Project Authorizations, Budgets and Expenditures

For Project-to-Date as of June 30, 2001

Schedule 3

Capital Improvement Projects	Projected Start Date	General Obligation Bonds Authorized	Other Sources	Total Project Budget	Amount Expended	Percent Completed	Expected Completion Date
Projects Not Started - To Be Funded in Future Years							
Science Complex	Nov 2000	\$ 36,780,000	\$ 0	\$ 36,780,000	\$ 0	0.00%	Aug 2004
Baynes Hall Replace	Mar 2001	15,091,100		15,091,100			Jul 2004
Student Housing	Mar 2001	1,556,600		1,556,600			Aug 2003
Farrison-Newton, Classroom Building	Jun 2005	7,048,700		7,048,700			Sep 2008
Rush Residential Hall	Sep 2001	2,089,400		2,089,400			Aug 2005
Eagleson Hall	Oct 2001	6,869,500		6,869,500			Jul 2005
Shepard Residential Hall	Dec 2000	4,357,800		4,357,800			Aug 2003
Latham Residential Hall	Sep 2001	3,411,600		3,411,600			Aug 2004
McLean Residential Hall	Nov 2000	305,800		305,800			Aug 2002
Pearson Cafeteria	Mar 2001	1,263,600		1,263,600			Jul 2003
Student Residential Hall Fire	Feb 2002	1,541,000		1,541,000			Mar 2003
Turner Law Building	Sep 2001	7,028,800		7,028,800			Aug 2004
Shepard Library	Sep 2001	4,374,800		4,374,800			Sep 2004
Old Senior Dorm	Mar 2001	2,130,700		2,130,700			Aug 2003
Alexander Dunn	Sep 2002	1,779,300		1,779,300			May 2005
Campus Infrastructure	Nov 2000	10,263,800		10,263,800			Jan 2004
Hoey Administration Building	Mar 2003	2,867,700		2,867,700			Feb 2007
Code Compliance	Aug 2002	3,675,000		3,675,000			Dec 2004
Land Acquisition	Mar 2001	4,000,000		4,000,000			Nov 2005
Renovate Public Safety	Nov 2000	840,000		840,000			Apr 2003
Technology Infrastructure	May 2001	1,422,000		1,422,000			Mar 2005
B. N. Duke Auditorium Addition	Mar 2002	740,000		740,000			Apr 2003
Health and Repair 2000	Mar 2001	1,809,003		1,809,003			Jun 2003
Total All Projects		\$ 121,246,203	\$ 0	\$ 121,246,203	\$ 0		

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



Ralph Campbell, Jr.
State Auditor

STATE OF NORTH CAROLINA
Office of the State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601
Telephone: (919) 807-7500
Fax: (919) 807-7647
Internet <http://www.osa.state.nc.us>

**INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Board of Trustees
North Carolina Central University
Durham, North Carolina

We have audited the financial statements of North Carolina Central University, a component unit of the State of North Carolina, as of and for the year ended June 30, 2001, and have issued our report thereon dated August 30, 2002.

As discussed in Note 17A to the financial statements, the University changed its method of accounting for securities lending transactions allocated from the State Treasurer's Cash and Investment Pool during the year ended June 30, 2001. As discussed in Note 17B to the financial statements, the University implemented Governmental Accounting Standards Board, Statement #33, *Accounting and Financial Reporting for Nonexchange Transactions*, during the year ended June 30, 2001.

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.

Compliance

As part of obtaining reasonable assurance about whether the University's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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, which are reported in the Audit Findings and Recommendations section of this report, disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Finding

4. Bank Reconciliations Not Timely

**INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS (CONTINUED)**

Internal Control Over Financial Reporting

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

Findings

1. Financial Statements Required Several Material Audit Adjustments
2. Cash Receipt Documentation Not Maintained Adequately
3. Failure to Safeguard Bookstore Cash and Inventory
4. Bank Reconciliations Not Timely
5. Accounts Receivable Reconciliations Not Performed Timely
6. Data Input to Leave System Prone to Error
7. Adequate Student Refund Documentation Not Maintained

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider Findings 1 through 6 to be material weaknesses.

**INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS (CONCLUDED)**

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



Ralph Campbell, Jr.
State Auditor

August 30, 2002

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AUDIT FINDINGS AND RECOMMENDATIONS

Current Year Findings and Recommendations - The following findings and recommendations were identified during the current audit and represent significant deficiencies in internal control or noncompliance with laws, regulations, contracts, or grants.

1. FINANCIAL STATEMENTS REQUIRED SEVERAL MATERIAL AUDIT ADJUSTMENTS

The process to review the preparation of the annual financial statements was not sufficient to detect and correct material errors in the financial statements. Audit adjustments were necessary to correct errors in the following account balances: accounts receivable, intergovernmental receivables, tuition and fees, student financial aid, and funds held for others. These adjustments were necessary for the fair presentation of the financial statements in accordance with generally accepted accounting principles.

Recommendation: The University should improve controls over the financial reporting process.

University's Response: The University concurs with the finding. We have reviewed the audit adjustments that were made and properly recorded those entries for the fiscal year-ended June 30, 2002. The University recognizes the importance of an accurate presentation of our financial position. We have strengthened our review process and will continue to ensure that our year-end financial statements are free of material errors.

2. CASH RECEIPT DOCUMENTATION NOT MAINTAINED ADEQUATELY

In February 2002, we requested documentation for a forty-four day sample of cash receipts processed by the Cashier's Office during the audit year. The University was unable to locate documentation for a twenty-six day period between December 2000 and March 2001 which included some of our sample days. Receipts deposited for the twenty-six days totaled \$2,354,599.63. In August 2002, after our audit fieldwork, the University found the missing documentation, and consequently, we were able to complete our audit of cash receipts. Our audit of cash receipts processed by the Cashier's Office did not provide evidence of missing funds.

Our tests of cash receipts for the sample of 44 days revealed that three daily activity reports were not signed to indicate their review and approval. In addition, specific documentation for the audit year was not generated to account for the sequence of cash receipt numbers issued and to evidence the review and approval of void and missing receipts.

AUDIT FINDINGS AND RECOMMENDATIONS (CONTINUED)

Maintaining files in an orderly manner is necessary for operations to function in an efficient and effective manner and to support the amounts reported in the University's financial statements. The controls, for which execution was not adequately documented, are designed in part to ensure that cash receipts collected are deposited intact and daily as required by General Statute.

Recommendation: The University should strengthen internal control to ensure that cash receipting procedures are executed as designed. Documentation to support their execution should be maintained and filed in an orderly manner. The University should also consider developing detailed written procedures for the cash receipting process to ensure continuity of the application of procedures when personnel changes occur.

University's Response: The University concurs with the finding. The twenty-six (26) days of files containing cash receipts that were missing from the Cashier's Office resulted from filing errors. These documents were found, and submitted to the auditors, enabling them to complete their audit of the cash receipts. We have strengthened our filing system to ensure that all cash receipts documentation is maintained and all days are accounted for and reviewed by supervisors. Further, we continue to employ our electronic database that maintains and generates the sequence of cash receipt numbers issued as well as documentation of void and missing receipts. The University is committed to efficient and effective operations, including written procedures for cash receipts documentation.

3. FAILURE TO SAFEGUARD BOOKSTORE CASH AND INVENTORY

Documentation to support the validity of a portion of voided sales and a portion of refunded sales totaling \$23,580.58 was unavailable for the audit period. (We extended our tests to the period July 2001 through June 2002 and determined that documentation to support the validity of a portion of voided and refunded sales totaling \$54,386.85 was also unavailable. The total amount of undocumented voided and refunded sales during this two-year period totaled \$77,967.43). In addition, the gross margin of the bookstore declined from 15.49% in the previous fiscal year to -3.78% for the audit period, invoices were not paid timely due to an insufficient cash balance, recorded bookstore inventory was significantly different from the physical inventory count, and financial reports of bookstore operations prepared by Business Services' personnel and made available to the University management were materially misstated.

These conditions were caused by material weaknesses in the internal control over bookstore cash, cash receipts, inventory and financial reporting:

- Lack of management oversight to establish and maintain internal control over bookstore operations and bookstore financial report preparation.
- Improperly performed daily reconciliations of cash collected to amounts recorded during the audit period. Failure to perform reconciliations for the period September 2001 through June 2002.

AUDIT FINDINGS AND RECOMMENDATIONS (CONTINUED)

- No procedures in place for ensuring that voided sales were valid and properly authorized.
- No procedures in place for ensuring that cash refunds were valid and properly documented.
- No reconciliation of the year-end physical inventory count to the perpetual inventory system.
- Inadequate controls over the use of cashier operator codes.

Given the nature of this finding and our concern that cash and inventory may have been misappropriated for personal use, we are hereby providing written notice, as required by General Statute 147-64.6(c)(12), to the appropriate State officials of apparent instances of violations of penal statutes or apparent instances of malfeasance, misfeasance, or nonfeasance by an officer(s) or employee(s) of the University.

Recommendation: The University should immediately establish management oversight of the bookstore operations including the bookstore manager. The University must take the necessary actions to accurately reflect inventory balances and to establish control procedures to ensure the adequate safeguarding of bookstore cash and inventory from misappropriation. The University should also emphasize safeguarding controls over the cashier's office and all other cash receipting processes in addition to the bookstore.

University's Response: The University concurs with the finding. The University has taken immediate measures to ensure the safeguard of cash and inventory. The responsibility for Bookstore Operations has been placed under new management supervision with emphasis on day-to-day controls. Procedures have been established to ensure that daily reconciliations are performed. In addition, management must review and authorize all voided sales and refunds. Also, management strictly controls the cashiers' unique sign-on identifications. Currently, controls are being put in place to address the inventory reconciliation process.

4. BANK RECONCILIATIONS NOT TIMELY

Certain bank reconciliations, including the reconciliations for the University's State disbursing account, were not timely completed and reconciling items were not fully explained. Consequently, the University has not complied with 20 NCAC 1C.0402 which requires monthly reconciliation of disbursing accounts. This condition increases the risk of unrecorded transactions and transactions recorded in error. The University recently brought the bank reconciliations up to date and resolved the outstanding reconciling items.

Recommendation: The University should strengthen internal control to ensure that bank reconciliations are completed timely.

AUDIT FINDINGS AND RECOMMENDATIONS (CONTINUED)

University's Response: The University concurs with the finding. The State's disbursing account is currently being reconciled on a timely basis. The University has implemented procedures to ensure bank reconciliations are performed within a timely manner.

5. ACCOUNTS RECEIVABLE RECONCILIATIONS NOT PERFORMED TIMELY

Reconciliations of subsidiary accounts receivable records to general ledger control accounts were not performed on a timely basis during the fiscal year. Failure to perform reconciliations as prescribed by policy increases the risk of unrecorded transactions or transactions recorded in error. At the conclusion of our audit reconciliations were being performed timely.

Recommendation: The University should improve internal control to ensure that accounts receivable reconciliations are performed according to University procedure.

University's Response: The University concurs with the finding. Accounts receivable reconciliations are currently being performed in a timely manner. The University has implemented procedures to continuously monitor this process.

6. DATA INPUT TO LEAVE SYSTEM PRONE TO ERROR

Fifteen employees in a sample of fifty had leave balances at fiscal year end which were not accurately recorded in the University's leave system. Supervisors are not consistently verifying the accuracy of time sheets used as input data into the system and procedures are not adequate to identify keying errors. This condition increases the risk of employee leave balances and corresponding financial statement disclosures being inaccurate.

Recommendation: The University should improve internal control to ensure leave data is correctly input into its leave system.

University's Response: The University concurs with the finding. The University has taken measures to improve controls over leave accounting. At this time, timesheets have been automated and disseminated to employees. In addition, training will be provided for supervisors and employees to ensure compliance of leave rules and regulations.

7. ADEQUATE STUDENT REFUND DOCUMENTATION NOT MAINTAINED

University procedure for student refunds includes independent verification of student refund checks by Institutional Trust Funds staff before distribution to the student. Documentation to support the verification for four student refunds out of a sample of thirty-nine was not available.

AUDIT FINDINGS AND RECOMMENDATIONS (CONCLUDED)

Recommendation: The University should maintain documentation to demonstrate control procedures were properly followed.

University's Response: The University concurs with the finding. The Institutional Trust Office has instituted new filing procedures, which will ensure the maintenance of files for audit review.

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In accordance with G.S. § 147-64.5 and G.S. § 147-64.6(c)(14), copies of this report have been distributed to the public officials listed below. Additional copies are provided to other legislators, state officials, the press, and the general public upon request.

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The Honorable Beverly M. Perdue	Lieutenant Governor of North Carolina
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Majority Leader of the N. C. House of Representatives
Majority Leader of the N. C. Senate
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Minority Leader of the N. C. House of Representatives
N. C. House Speaker Pro-Tem
Director, Fiscal Research Division
District Attorney, 14th District

September 17, 2002

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State of North Carolina
2 South Salisbury Street
20601 Mail Service Center
Raleigh, North Carolina 27699-0601

Internet: <http://www.ncauditor.net>

Telephone: 919/807-7500

Facsimile: 919/807-7647