STATE OF
NORTH CAROLINA

ELIZABETH CITY STATE UNIVERSITY

ELIZABETH CITY, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2009

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR

ELIZABETH CITY STATE UNIVERSITY

ELIZABETH CITY, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2009

STATE OF NORTH CAROLINA
Office of the State Auditor

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AUDITOR'S TRANSMITTAL

The Honorable Beverly E. Perdue, Governor
The General Assembly of North Carolina
Board of Trustees, Elizabeth City State University

We have completed a financial statement audit of Elizabeth City State University for the year ended June 30, 2009, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

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

North Carolina General Statutes require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.

Beth A. Wood

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State Auditor

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Elizabeth City State University
Elizabeth City, North Carolina

We have audited the accompanying basic financial statements of Elizabeth City State University, a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina, as of and for the year ended June 30, 2009, as listed in the table of contents. 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 did not audit the financial statements of Elizabeth City State University Foundation, Inc. and Subsidiary, which represent seven percent, six percent, and one percent, respectively, of the assets, net assets, and revenues of the University. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for Elizabeth City State University Foundation, Inc. and Subsidiary, is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of Elizabeth City State University as of June 30, 2009, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

As discussed in Note 15 to the financial statements, the University implemented Governmental Accounting Standards Board Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* and Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*, during the year ended June 30, 2009.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 22, 2010 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, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis, as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Beth A. Wood

Beth A. Wood, CPA
State Auditor

October 22, 2010

This section of the Elizabeth City State University (the "University") annual financial report presents our discussion and analysis of the financial performance of the University during the fiscal year ended June 30, 2009. This discussion has been prepared by University management along with the financial statements and notes to the financial statements and should be read in conjunction with, and is qualified in its entirety by, the financial statements and notes. The Management's Discussion and Analysis has comparative data for the applicable years (past and current) with emphasis on the current year. The financial statements, notes, and this discussion are the responsibility of University management.

Using the Annual Report

This annual report consists of a series of financial statements, prepared in accordance with the Governmental Accounting Standards Board (GASB). GASB statements establish standards for external financial reporting for public colleges and universities and require that financial statements be presented on a consolidated basis for the University as a whole, with resources classified for accounting and reporting purposes into four net asset categories. One of the most important questions asked is whether the University, as a whole, is better or worse off as a result of the year's activities. The key to understanding this question is the Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets. These statements present financial information in a form similar to that used by corporations. They are prepared under the accrual basis of accounting, whereby revenues and assets are recognized when the service is provided and expenses and liabilities are recognized when others provide the service, regardless of when cash is exchanged.

The Statement of Net Assets includes all assets and liabilities. The University's net assets (the difference between assets and liabilities) are an indicator of the University's financial health. Over time, increases or decreases in net assets is one indicator of the improvement or erosion of the University's financial health when considered with nonfinancial facts such as enrollment levels and the condition of the facilities.

The Statement of Revenues, Expenses, and Changes in Net Assets presents the revenues earned and expenses incurred during the year. Activities are reported as either operating or nonoperating. All things being equal, a public University's dependency on State appropriations and gifts will result in operating deficits, because GASB Statement No. 35 classifies State appropriations and gifts as nonoperating revenues.

Reporting Entity

The financial statements report information about the University as a whole using accounting methods similar to those used by private-sector companies. The University's supporting organization, the Elizabeth City State University Foundation, Inc. and Subsidiary, (the "Foundation"), is an independent nonprofit corporation formed for the exclusive benefit of the University. According to Governmental Accounting Standards Board Statement No. 39, *Determining Whether Certain Organizations are Component Units*, the Foundation meets the requirements to be blended in these financial statements.

Financial Highlights

The University's financial position, as a whole, remained relatively stable during the fiscal year ended June 30, 2009. The combined net assets decreased $1,602,596.03 from the previous year, which is a decrease of approximately 2 percent.

Condensed Financial Information

Statement of Net Assets

The Statement of Net Assets presents the assets (current and noncurrent), liabilities (current and noncurrent), and the net assets (total assets less total liabilities) of the University. This financial statement provides a comparative University fiscal snapshot as of June 30, 2009 and June 30, 2008. This provides the readers of this statement with information on assets available to continue operations.

Comparative Condensed Statements of Net Assets
June 30, 2009 and June 30, 2008

	2009	2008	Percentage Change
Assets			
Current Assets	$ 12,412,979.00	$ 16,773,729.32	-26%
Noncurrent Assets			
Capital	102,550,983.85	100,617,577.14	2%
Other	13,347,341.74	14,252,512.13	-6%
Total Assets	128,311,304.59	131,643,818.59	-3%
Liabilities			
Current Liabilities	4,958,837.47	5,893,450.58	-15.9%
Noncurrent Liabilities	20,578,936.74	21,374,241.60	-4%
Total Liabilities	25,537,774.21	27,267,692.18	-6%
Net Assets*			
Invested in Capital Assets, Net of Related Debt	86,011,365.12	82,301,912.59	5%
Restricted:			
Nonexpendable	5,231,397.97	4,384,726.36	19%
Expendable	9,259,286.80	13,065,472.36	-29%
Unrestricted	2,271,480.49	4,624,015.10	-51%
Total Net Assets	$ 102,773,530.38	$ 104,376,126.41	-2%

*Net Asset categories are defined in Note 1-L of the Notes to the Financial Statements.

As of June 30, 2009, total University assets were $128,311,304.59. The University's largest asset is investment in capital assets of $102,550,983.85 at June 30, 2009. Buildings, less accumulated depreciation, make up $83,463,192.33 of this total. The University's current construction in progress is $6,040,201.24. The increase in capital assets, nondepreciable, is the direct result of progress towards the implementation of the University's master plan. Currently, the Aviation Building and School of Education Building are in their planning phases. As of June 30, 2009, the Pharmacy Building is 17% complete.

Cash and investments decreased by $5,624,381.46 due primarily to reduced support from the State in appropriations and grants for operating and capital purposes. The University also returned $847,490.90 to the State as part of a mandatory refund of prior year capital appropriations.

The $12,412,979.00 in current assets covered the current liabilities of $4,958,837.47, as the current ratio was $2.50 in current assets to every $1 in current liabilities.

The University's liabilities totaled $25,537,774.21 as of June 30, 2009. Bonds payable of $17,687,056.96 was the largest liability, representing 69 percent of the University's total liabilities.

The combination of the decrease in total assets of $3,332,514.00 and the decrease in total liabilities of $1,729,917.97 yields an overall decrease in net assets of $1,602,596.03. This change consists primarily of a decrease of $2,352,534.61 in unrestricted net assets, a decrease in restricted, expendable net assets of $3,806,185.56 and an increase of $3,709,452.53 in invested in capital assets, net of related debt. The decrease in unrestricted net assets is due to constant revenue in sales and services and tuition and fees with increased unrestricted expenditures. The decrease in restricted, expendable net assets resulted primarily from a reduction in assets on hand for capital and maintenance projects.

Statement of Revenues, Expenses, and Changes in Net Assets

The Statement of Revenues, Expenses, and Changes in Net Assets presents the activity that shows the changes in net assets. The activity is represented by the revenues received by the University, both operating and nonoperating, and the expenses paid by the University, operating and nonoperating, as well as any other revenues, expenses, gains or losses incurred by the University.

Operating revenues are received for providing goods and services to the various customers of the University. Operating expenses are used to acquire goods and services provided in return for the operating revenues and to carry out the mission of the University. Nonoperating revenues are revenues received for nonexchange transactions, i.e., State appropriations and investment income. Nonoperating expenses are expenses other than those involved in the normal operation of the University and can include interest expense.

Total operating loss for fiscal year 2009 was $58,499,915.90. Since the State of North Carolina appropriation is not included within operating revenue per GASB Statement No. 35, the University will show a significant operating loss on a continuing basis.

The major sources of operating revenue for the University are tuition and fees, federal grants, auxiliary services, and other educational activities.

Comparative Condensed Statement of Revenues, Expenses, and Changes in Net Assets
For the Year Ended June 30, 2009 and June 30, 2008

	2009	As Restated 2008	Percentage Change
Operating Revenues:			
Student Tuition and Fees, Net	$ 6,489,254.60	$ 6,705,057.37	-3%
Grants and Contracts	4,007,514.77	4,234,194.28	-5%
Sales and Services, Net	6,539,592.50	6,419,309.56	2%
Other	144,960.31	701,692.97	-79%
Total Operating Revenues	17,181,322.18	18,060,254.18	-5%
Operating Expenses:			
Salaries and Benefits	44,414,258.78	41,315,175.65	8%
Supplies and Materials	6,393,362.87	5,317,824.70	20%
Services	14,449,874.69	15,143,778.80	-5%
Scholarships and Fellowships	3,929,086.04	4,394,590.06	-11%
Utilities	3,165,273.24	2,745,795.68	15%
Depreciation	3,329,382.46	3,293,515.32	1%
Total Operating Expenses	75,681,238.08	72,210,680.21	5%
Operating Loss	(58,499,915.90)	(54,150,426.03)	8%
Nonoperating Revenues and Expenses:			
State Appropriations	33,024,078.75	33,674,502.79	-2%
State Aid - Federal Recovery Funds	1,024,952.00		100%
Noncapital Grants - Federal Student Financial Aid	8,657,847.78	6,911,218.52	25%
Other Noncapital Grants	11,480,739.81	9,651,866.83	19%
Noncapital Gifts	750,931.01	1,141,109.08	-34%
Investment Income (Net of Expense)	216,297.00	165,465.43	31%
Interest and Fees on Debt	(1,019,227.55)	(950,208.64)	7%
Other Nonoperating Revenues and Expenses	(546,997.08)	(62,752.03)	772%
Net Nonoperating Revenues	53,588,621.72	50,531,201.98	6%
Loss Before Other Revenues	(4,911,294.18)	(3,619,224.05)	
Capital Appropriations/(Refund Prior Year)	(847,490.90)	4,106,000.00	-121%
Capital Grants	3,888,709.20	6,088,285.08	-36%
Additions to Permanent Endowment	267,479.85	112,613.96	138%
Total Other Revenues	3,308,698.15	10,306,899.04	-68%
Increase/(Decrease) in Net Assets	(1,602,596.03)	6,687,674.99	-124%
Net Assets at the Beginning of the Year	104,376,126.41	97,688,451.42	7%
Net Assets at the End of the Year	$ 102,773,530.38	$ 104,376,126.41	-2%

The University strives to provide students with the opportunity to obtain a quality education. Future university enrollments may be affected by a number of factors, including any material increase in tuition and other mandatory charges, stemming from any material decrease in appropriation funding from the State of North Carolina.

Operating expenses, including depreciation of $3,329,382.46 totaled $75,681,238.08. Of this total, $40,166,164.83 or 53 percent was used for instruction, institutional support and auxiliary enterprises.

Salaries and benefits increased by $3,099,083.13 due to increase in staffing due to enrollment growth. Supplies and materials increased by $1,075,538.17 due to the enrollment growth and completion of several repair and renovation projects in the prior year. Utilities increased by $419,477.56 due to fluctuation in utility usage and fuel prices.

Total revenues were $76,521,575.92 for fiscal year 2009, compared to $79,941,215.72 for fiscal year 2008, resulting in a decrease of $3,419,639.80.

The changes in revenues and expenses are caused by the following:

- Other operating revenues decreased by a total of $556,732.66 due to reduced revenues related to the Foundation and decreased interest earnings on loans.
- The University received State aid - federal recovery funds of $1,024,952.00 to fund salaries expenses in the current year.
- In fiscal year 2009, noncapital grants increased by $3,575,502.24 in total. In 2009, the University made changes in the way these grants are presented on the Statement of Revenues, Expenses and Changes in Net Assets to better represent the nature of these grants. A new reporting caption, noncapital grants - federal student financial aid, totaling $8,657,847.78, represents Pell, SEOG, College Work Study and other federal student financial aid grants. Pell grants represent the majority of federal student financial aid. Pell grants increased from $6,105,917.50 in 2008 and to $7,375,970.51 in 2009 due to increased student need and award amounts. The remaining other noncapital grants totaling $11,480,739.81 represents other nonexchange federal, State and private grants and contracts. In addition, the University recognized revenues and expenses for certain State student financial aid grants in 2009. The 2008 amounts for scholarships and fellowships expense and revenues from federal grants and contracts and noncapital grants have been restated in the condensed Statement of Revenues, Expenses and Changes in Net Assets above to provide a more accurate comparison between fiscal years.
- Noncapital gifts decreased by $390,178.07 due to the University receiving a lesser amount of private gifts and donations.
- No capital appropriation funding was received this year as compared to $4,106,000 received in the last fiscal year. Additionally, the University completed a mandatory reversion of capital improvement funds to the Office of State Budget and Management of $847,490.90.
- Capital grants reflect a $2,199,575.88 decrease due to reduced funding from the State of North Carolina for capital projects.

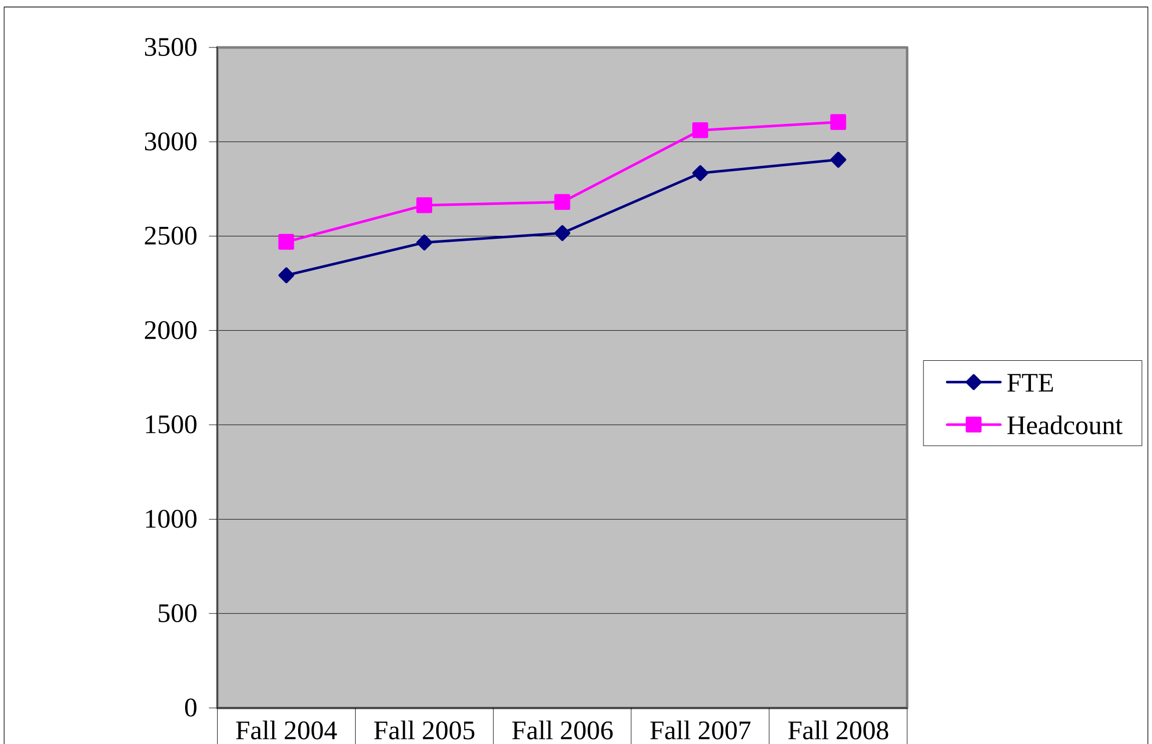
- Additions to endowments reflect a $154,865.89 increase that is attributable to increased gifts to University endowment funds.

Capital Assets

With new construction projects, the amount committed to contractors at June 30th increased a total of $19,370,010.23, as reflected in the change in construction commitments from $875,287.45 in 2008 to $20,245,297.68.

Comparative Enrollment Data

The future years appear to be promising and the University expects enrollment to continue to increase; therefore, projected tuition and fee and sales and service revenues look favorable.



	Fall 2004	Fall 2005	Fall 2006	Fall 2007	Fall 2008
FTE	2292	2466	2516	2834	2904.5
Headcount	2470	2664	2681	3061	3104

Factors Impacting Future Periods

Several factors impact a positive economic outlook for the University, such as campus expansion, research funding, private gifts and support from the State of North Carolina.

A crucial element to the University's future will continue to be our relationship with the State of North Carolina, as we work to manage tuition to make it competitive while providing an outstanding college education for our students. There is a direct relationship between the growth of State support and the University's ability to control tuition growth, as declines in State appropriations generally result in increased tuition levels.

The University continues to execute its long-range plan to modernize and expand its complement of facilities with a balance of new construction. This strategy addresses the University's growth and the continuing effects of technology on teaching methodologies.

Private gifts are an important supplement to the fundamental support from the State and student tuition, and a significant factor in the growth of academic units. Economic pressures affecting donors may also affect the future level of support the University receives from corporate and individual giving.

The University will continue to employ its long-term investment strategy to maximize total returns, at an appropriate level of risk, while utilizing a spending rate policy to insulate the University's operations from temporary market volatility.

One of the University's greatest strengths is the diverse streams of revenues which supplement its student tuition and fees, including voluntary private support from individuals, foundations, and corporations, along with government and other sponsored programs, State appropriations and investment income. The University has and will continue to seek funding aggressively from all possible sources consistent with its mission to supplement student tuition and manage prudently the financial resources realized from these efforts to fund its operating activities.

Elizabeth City State University
Statement of Net Assets
June 30, 2009 ***Exhibit A-1***

ASSETS	
Current Assets:	
Cash and Cash Equivalents	$ 724,644.36
Restricted Cash and Cash Equivalents	5,009,461.76
Short-Term Investments	1,734,439.73
Receivables, Net (Note 4)	3,931,203.15
Inventories	996,510.09
Notes Receivable (Note 4)	16,719.91
Total Current Assets	12,412,979.00
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	6,195,285.14
Receivables, Net (Note 4)	137,323.51
Restricted Due from Primary Government	384,590.49
Endowment Investments	2,944,437.52
Other Investments	1,394,748.37
Notes Receivable, Net (Note 4)	1,143,518.48
Bond Issuance Costs	1,147,438.23
Capital Assets - Nondepreciable (Note 5)	8,028,112.56
Capital Assets - Depreciable, Net (Note 5)	94,522,871.29
Total Noncurrent Assets	115,898,325.59
Total Assets	128,311,304.59
LIABILITIES	
Current Liabilities:	
Accounts Payable and Accrued Liabilities (Note 6)	3,225,333.81
Due to Primary Government	33,616.53
Unearned Revenue	717,464.60
Interest Payable	110,596.36
Long-Term Liabilities - Current Portion (Note 7)	871,826.17
Total Current Liabilities	4,958,837.47
Noncurrent Liabilities:	
Deposits Payable	60,756.86
Funds Held for Others	338,772.76
U. S. Government Grants Refundable	683,072.26
Long-Term Liabilities (Note 7)	19,496,334.86
Total Noncurrent Liabilities	20,578,936.74
Total Liabilities	25,537,774.21

NET ASSETS

Invested in Capital Assets, Net of Related Debt		86,011,365.12
Restricted for:		
Nonexpendable:		
Scholarships and Fellowships		3,581,450.02
Endowed Professorships		1,649,947.95
Expendable:		
Scholarships and Fellowships		2,440,952.71
Endowed Professorships		256,458.07
Loans		224,315.98
Capital Projects		3,429,014.44
Debt Service		2,908,545.60
Unrestricted		2,271,480.49
Total Net Assets	$	102,773,530.38

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

Elizabeth City State University
Statement of Revenues, Expenses, and Changes in Net Assets
For the Fiscal Year Ended June 30, 2009

Exhibit A-2

REVENUES	
Operating Revenues:	
Student Tuition and Fees, Net (Note 9)	$ 6,489,254.60
Federal Grants and Contracts	4,006,014.77
State and Local Grants and Contracts	1,500.00
Sales and Services, Net (Note 9)	6,539,592.50
Interest Earnings on Loans	9,247.26
Other Operating Revenues	135,713.05
Total Operating Revenues	17,181,322.18
EXPENSES	
Operating Expenses:	
Salaries and Benefits	44,414,258.78
Supplies and Materials	6,393,362.87
Services	14,449,874.69
Scholarships and Fellowships	3,929,086.04
Utilities	3,165,273.24
Depreciation	3,329,382.46
Total Operating Expenses	75,681,238.08
Operating Loss	(58,499,915.90)
NONOPERATING REVENUES (EXPENSES)	
State Appropriations	33,024,078.75
State Aid - Federal Recovery Funds	1,024,952.00
Noncapital Grants - Federal Student Financial Aid	8,657,847.78
Other Noncapital Grants	11,480,739.81
Noncapital Gifts, Net (Note 9)	750,931.01
Investment Income (Net of Investment Expense of $29,218.34)	216,297.00
Interest and Fees on Debt	(1,019,227.55)
Other Nonoperating Expenses	(546,997.08)
Net Nonoperating Revenues	53,588,621.72
Loss Before Other Revenues and Expenses	(4,911,294.18)
Refund of Prior Years Capital Appropriations	(847,490.90)
Capital Grants	3,888,709.20
Additions to Endowments	267,479.85
Decrease in Net Assets	(1,602,596.03)
NET ASSETS	
Net Assets - July 1, 2008	104,376,126.41
Net Assets - June 30, 2009	$ 102,773,530.38

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

Elizabeth City State University
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2009 — *Exhibit A-3*

CASH FLOWS FROM OPERATING ACTIVITIES		
Received from Customers	$	16,513,710.80
Payments to Employees and Fringe Benefits		(43,235,036.85)
Payments to Vendors and Suppliers		(24,216,146.60)
Payments for Scholarships and Fellowships		(3,929,086.04)
Loans Issued		(112,069.34)
Collection of Loans		143,691.77
Other Payments		(1,361,829.94)
Net Cash Used by Operating Activities		(56,196,766.20)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State Appropriations		33,024,078.75
State Aid - Federal Recovery Funds		1,024,952.00
Noncapital Grants - Federal Student Financial Aid		8,657,847.78
Noncapital Grants		9,957,081.55
Noncapital Gifts		744,971.88
Additions to Endowments		267,479.85
Federal Family Education Loan Receipts		1,951,470.00
Federal Family Education Loan Disbursements		(1,951,470.00)
William D. Ford Direct Lending Receipts		7,901,840.00
William D. Ford Direct Lending Disbursements		(7,901,840.00)
Net Cash Provided by Noncapital Financing Activities		53,676,411.81
CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES		
Refund of Prior Years Capital Appropriations		(847,490.90)
Capital Grants		3,888,709.20
Proceeds from Sale of Capital Assets		1,854.08
Acquisition and Construction of Capital Assets		(5,345,129.43)
Principal Paid on Capital Debt		(630,000.00)
Interest and Fees Paid on Capital Debt		(1,022,854.82)
Other Receipts		600,249.14
Net Cash Used by Capital Financing and Related Financing Activities		(3,354,662.73)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Sales and Maturities of Investments		4,562,141.69
Investment Income		548,638.34
Purchase of Investments and Related Fees		(4,336,529.90)
Net Cash Provided by Investing Activities		774,250.13
Net Decrease in Cash and Cash Equivalents		(5,100,766.99)
Cash and Cash Equivalents - July 1, 2008		17,030,158.25
Cash and Cash Equivalents - June 30, 2009	$	11,929,391.26

RECONCILIATION OF NET OPERATING EXPENSES TO NET CASH USED BY OPERATING ACTIVITIES

Operating Loss	$	(58,499,915.90)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense		3,329,382.46
Allowances, Write-Offs, and Amortizations		169,854.18
Miscellaneous Nonoperating Revenue		(474,437.08)
Changes in Assets and Liabilities:		
Receivables (Net)		(904,739.93)
Inventories		156,290.30
Prepaids		6,702.50
Accounts Payable and Accrued Liabilities		410,834.42
Due to Primary Government		(3,572.88)
Unearned Revenue		(219,648.75)
Compensated Absences		225,917.57
Deposits Payable		(324,241.03)
Note Principal Repayments		42,877.28
Notes Issued		(112,069.34)
Net Cash Used by Operating Activities	$	(56,196,766.20)

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:		
Cash and Cash Equivalents	$	724,644.36
Restricted Cash and Cash Equivalents		5,009,461.76
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		6,195,285.14
Total Cash and Cash Equivalents - June 30, 2009	$	11,929,391.26

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through the Assumption of a Liability	$	636,264.63
Assets Acquired through a Gift		6,175.58
Change in Fair Value of Investments		(270,628.67)
Loss on Disposal of Capital Assets		8,967.00

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

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 (GAAP), 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. Elizabeth City State University is a constituent institution of the multi-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 and its component unit. 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. The University's component unit is blended in the University's financial statements. The blended component unit, although legally separate, is, in substance, part of the University's operations and therefore, is reported as if it were part of the University.

Blended Component Unit - Although legally separate, Elizabeth City State University Foundation, Inc. and Subsidiary (Foundation), a component unit of the University, is reported as if it were part of the University.

The Foundation is governed by a 25-member board consisting of 14 ex officio directors and 11 elected directors. The Foundation's purpose is to aid, support, and promote teaching, research, and service in the various educational, scientific, scholarly, professional, artistic, and creative endeavors of the University. Because the elected directors of the Foundation are appointed by the members of the Elizabeth City State University Board of Trustees and the Foundation's sole purpose is to benefit Elizabeth City State University, its financial statements have been blended with those of the University.

Separate financial statements for the Foundation may be obtained from the University Controller's Office, 1704 Weeksville Road, Elizabeth City, NC 27909**,** or by calling 252-335-3211. Other related foundations and similar nonprofit corporations for which the University is not financially accountable are not part of the accompanying financial statements.

B. Basis of Presentation - The accompanying financial statements are presented in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

Pursuant to the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis - for State and Local Governments*, as amended by GASB Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities*, the full scope of the University's activities is considered to be a single business-type activity and accordingly, is reported within a single column in the basic financial statements.

In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the University does not apply Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless the GASB amends its pronouncements to specifically adopt FASB pronouncements issued after that date.

C. Basis of Accounting - The financial statements of the University have been prepared using the economic resource measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred, regardless of the timing of the cash flows.

Nonexchange transactions, in which the University receives (or gives) value without directly giving (or receiving) equal value in exchange includes State appropriations, certain grants, and donations. Revenues are recognized, net of estimated uncollectible amounts, as soon as all eligibility requirements imposed by the provider have been met, if probable of collection.

D. Cash and Cash Equivalents - This classification includes undeposited receipts, petty cash, cash on deposit with private bank accounts, cash on deposit with fiscal agents, and deposits held by the State Treasurer in the short-term investment fund. The short-term investment fund maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.

E. **Investments** - Investments generally are reported at fair value, as determined by quoted market prices or an estimated amount determined by management if quoted market prices are not available. Because of the inherent uncertainty in the use of estimates, values that are based on estimates may differ from the values that would have been used had a ready market existed for the investments. The net decrease in the fair value of investments is recognized as a component of investment income.

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

Endowment investments include the principal amount of gifts and bequests that, according to donor restrictions, must be held in perpetuity or for a specified period of time, along with any accumulated investment earnings on such amounts. Further, endowment investments also include amounts internally designated by the University for investment in an endowment capacity (i.e. quasi-endowments), along with accumulated investment earnings on such amounts.

F. **Receivables** - Receivables consist of tuition and fees charged to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from the federal government, State and local governments, private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants, and pledges that are verifiable, measurable, and expected to be collected and available for expenditures for which the resource provider's conditions have been satisfied. Receivables are recorded net of estimated uncollectible amounts.

G. **Inventories** - Inventories, consisting of expendable supplies, are valued at cost using first-in, first-out cost method. Merchandise for resale is valued at the lower of cost or market using the retail inventory method. Textbooks for rental are valued at the lower of cost or market.

H. **Capital Assets** - Capital assets are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. The value of assets constructed includes all material direct and indirect construction costs. Interest costs incurred are capitalized during the period of construction.

The University capitalizes assets that have a value or cost in excess of $5,000 at the date of acquisition and an estimated useful life of more than one year. Library books are generally not considered to have a useful life of more than one year unless part of a collection and are expensed in the year of acquisition.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 10 to 75 years for general infrastructure, 10 to 50 years for buildings, and 2 to 25 years for equipment.

I. Restricted Assets - Certain resources are reported as restricted assets because restrictions on asset use change the nature or normal understanding of the availability of the asset. Resources that are not available for current operations and are reported as restricted include resources restricted or designated for the acquisition or construction of capital assets and resources legally segregated for the payment of principal and interest as required by debt covenants.

J. Noncurrent Long-Term Liabilities - Noncurrent long-term liabilities include principal amounts of bonds payable and compensated absences that will not be paid within the next fiscal year.

Bonds payable are reported net of unamortized premiums or discounts and deferred losses on refunds. The University amortizes bond premiums/discounts over the life of the bonds using the straight-line method. The deferred losses on refunds are amortized over the life of the new debt using the straight-line method. Issuance costs are expensed when not material. The issuance costs associated with the Elizabeth City State University Housing Foundation are capitalized and amortized using the straight-line method over the life of the bond which is 30 years.

K. Compensated Absences - 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 1 or for which an employee can be paid upon termination of employment. When classifying compensated absences into current and noncurrent, leave is considered taken using a last-in, first-out (LIFO) method. Also, any accumulated vacation leave in excess of 30 days at year-end is converted to sick leave. Under this policy, the accumulated vacation leave for each employee at June 30 equals the leave carried forward at the previous December 31 plus the leave earned, less the leave taken between January 1 and June 30.

In addition to the vacation leave described above, compensated absences include the accumulated unused portion of the special annual leave bonuses awarded by the North Carolina General Assembly. The bonus leave balance on December 31 is retained by employees and transferred into the next calendar year. It is not subject to the limitation on annual leave carried forward described above and is not subject to conversion to sick leave.

There is no liability for unpaid accumulated sick leave because the University has no obligation to pay sick leave upon termination or retirement. However, additional service credit for retirement pension benefits is given for accumulated sick leave upon retirement.

L. Net Assets - The University's net assets are classified as follows:

Invested in Capital Assets, Net of Related Debt - This represents the University's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.

Restricted Net Assets - Nonexpendable - Nonexpendable restricted net assets include endowments and similar type assets whose use is limited by donors or other outside sources, and, as a condition of the gift, the principal is to be maintained in perpetuity.

Restricted Net Assets - Expendable - Expendable restricted net assets include resources for which the University is legally or contractually obligated to spend in accordance with restrictions imposed by external parties.

Unrestricted Net Assets - Unrestricted net assets include resources derived from student tuition and fees, sales and services, unrestricted gifts, royalties, and interest income.

Restricted and unrestricted resources are tracked using a fund accounting system and are spent in accordance with established fund authorities. Fund authorities provide rules for the fund activity and are separately established for restricted and unrestricted activities. When both restricted and unrestricted funds are available for expenditure, the decision for funding is transactional based within the departmental management system in place at the University. For projects funded by tax-exempt debt proceeds and other sources, the debt proceeds are always used first.

M. Scholarship Discounts - Student tuition and fees revenues and certain other revenues from University charges are reported net of scholarship discounts in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. The scholarship discount is the difference between the actual charge for goods and services provided by the University and the amount that is paid by students or by third parties on the students' behalf. Student financial assistance grants, such as Pell grants, and other federal, State, or nongovernmental programs, are recorded as nonoperating revenues in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. To the extent that revenues from these programs are used to satisfy tuition, fees, and other charges, the University has recorded a scholarship discount.

N. Revenue and Expense Recognition - The University classifies its revenues and expenses as operating or nonoperating in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the University's principal ongoing operations. Operating revenues include activities that have characteristics of exchange transactions, such as (1) student tuition and fees, (2) sales and services of auxiliary enterprises, (3) certain federal, State, and local grants and contracts that are essentially contracts for services, and (4) interest earned on loans. Operating expenses are all expense transactions incurred other than those related to capital and noncapital financing or investing activities as defined by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*.

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

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

NOTE 2 - DEPOSITS AND INVESTMENTS

A. Deposits - Unless specifically exempt, the University is required by *North Carolina General Statute* 147-77 to deposit moneys received with the State Treasurer or with a depository institution in the name of the State Treasurer. In addition, the University of North Carolina Board of Governors, pursuant to G.S. 116-36.1, requires the University to deposit its institutional trust funds, except for funds received for services rendered by health care professionals, with the State Treasurer. Although specifically exempted, the University may voluntarily deposit endowment funds, special funds, revenue bond proceeds, debt service funds, and funds received for services rendered by health care professionals with the State Treasurer. Special funds consist of moneys for intercollegiate athletics and agency funds held directly by the University.

At June 30, 2009, the amount shown on the Statement of Net Assets as cash and cash equivalents includes $11,225,866.27 which represents the University's equity position in the State Treasurer's Short-Term Investment Fund. The Short-Term Investment Fund (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission and does not have a credit rating) had a weighted average maturity of 1.8 years as of June 30, 2009. Assets and shares of the Short-Term Investment Fund are valued at amortized cost, which approximates fair value. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's Short-Term Investment Fund) are included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page http://www.ncosc.net/ and clicking on "Proceed directly to OSC's index page," then "Reports," or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

Cash on hand at June 30, 2009 was $700.00. The carrying amount of the University's deposits not with the State Treasurer was $702,824.99 and the bank balance was $501,786.14. Custodial credit risk is the risk that in the event of a bank failure, the University's deposits may not be returned to it. Pursuant to G.S. 116-36.1, funds received for health care services not deposited with the State Treasurer shall be fully secured in the manner as prescribed by the State Treasurer for the security of public deposits. The University does not have a deposit policy for custodial credit risk. As of June 30, 2009, $35,053.49 of the University's bank balances was uninsured and uncollateralized.

B. Investments - The University is authorized by The University of North Carolina Board of Governors pursuant to G.S. 116-36.2 and Section 600.2.4 of the Policy Manual of the University of North Carolina 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 discussed below.

G.S. 147-69.1(c), applicable to the State's General Fund, and G.S. 147-69.2, applicable to institutional trust funds, 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; time deposits of specified institutions; prime quality commercial paper; and asset-backed securities with specified ratings. Also, G.S. 147-69.1(c) authorizes the following: specified bills of exchange or time drafts and corporate bonds and notes with specified ratings. G.S. 147-69.2 authorizes the following: general obligations of other states; general obligations of North Carolina local governments; and obligations of certain entities with specified ratings.

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

G.S. 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 the University's component unit, the Foundation, are subject to and restricted by G.S. 36E "Uniform Prudent Management of Institutional Funds Act" (UPMIFA) and any requirements placed on them by contract or donor agreements.

Investments of various funds may be pooled unless prohibited by statute or by terms of the gift or contract. The University utilizes investment pools to manage investments and distribute investment income.

Investments are subject to the following risks.

Interest Rate Risk: Interest rate risk is the risk the University may face should interest rate variances affect the fair value of investments. The University does not have a formal policy that addresses interest rate risk.

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The University does not have a formal policy that addresses credit risk.

Long-Term Investment Pool - This is an internal investment pool that is utilized for the investment of the endowment funds. Fund ownership is measured using the unit value method. Under this method, each participating fund's investment balance is determined on a market value basis. The investment strategy, including the selection of investment managers, is based on the directives of the University's Endowment Board.

The following table presents the fair value of investments by type and investments subject to interest rate risk at June 30, 2009, for the Long-Term Investment Pool.

Long-Term Investment Pool

		Investment Maturities (in Years)			
	Fair Value	Less Than 1	1 to 5	6 to 10	More than 10
Investment Type					
Debt Securities					
Mutual Bond Funds	$ 1,094,520.90	$ 0.00	$ 448,975.74	$ 604,206.92	$ 41,338.24
Other Securities					
International Mutual Funds	324,437.59				
Other Mutual Funds	1,337,194.06				
Common Stock	6,040.74				
Total Long-Term Investment Pool	$ 2,762,193.29				

At June 30, 2009, investments in the Long-Term Investment Pool had the following credit quality distribution for securities with credit exposure:

	Fair Value	AAA Aaa	AA Aa	A	BBB Baa	BB/Ba and below
Mutual Bond Funds	$ 1,094,520.90	$ 651,000.17	$ 89,697.23	$ 143,998.49	$ 63,300.31	$ 146,524.70

Rating Agency: Standard & Poor's and Moody's

Non-Pooled Investments - The following table presents the fair value of investments by type and investments subject to interest rate risk at June 30, 2009, for the University's non-pooled investments.

Non-Pooled Investments

	Fair Value	Investment Maturities Less Than 1 Year
Investment Type		
Debt Securities		
Money Market Mutual Funds	$ 3,311,432.33	$ 3,311,432.33

At June 30, 2009, the University's non-pooled investments had the following credit quality distribution for securities with credit exposure:

	Fair Value	AAA Aaa	Unrated
Money Market Mutual Funds	$ 3,311,432.33	$ 3,089,189.45	$ 222,242.88

Rating Agency: Standard & Poor's and Moody's

Total Investments - The following table presents the fair value of the total investments at June 30, 2009:

	Fair Value
Investment Type	
Debt Securities	
Mutual Bond Funds	$ 1,094,520.90
Money Market Mutual Funds	3,311,432.33
Other Securities	
International Mutual Funds	324,437.59
Other Mutual Funds	1,337,194.06
Common Stock	6,040.74
Total Investments	$ 6,073,625.62

NOTE 3 - ENDOWMENT INVESTMENTS

Investments of the University's endowment funds are pooled, unless required to be separately invested by the donor. If a donor has not provided specific instructions, State law permits the Board of Trustees to authorize for expenditure the net appreciation, realized and unrealized, of the investments of the endowment funds. Under the "Uniform Prudent Management of Institutional Funds Act" (UPMIFA), authorized by the North Carolina General Assembly on March 19, 2009, the Board may also appropriate expenditures from eligible nonexpendable balances if deemed prudent and necessary to meet program outcomes and for which such spending is not specifically prohibited by the donor agreements. However, a majority of the University's endowment donor agreements prohibit spending of nonexpendable balances and therefore the related nonexpendable balances are not eligible for expenditure. During the year, the Board did not appropriate expenditures from eligible nonexpendable endowment funds.

Investment return of the University's endowment funds is predicated on the total return concept (yield plus appreciation). The non-mandatory spending policy is to take annual withdrawals on August 1 of each year in the annual amount of 5% of a three-year rolling average of the market value of the endowment. The investment manager is expected to liquidate such investments as may be necessary to accomplish this objective, while still maintaining a balanced portfolio. At June 30, 2009, endowment net assets of $1,092,041.88 were available to be spent, of which $1,084,055.96 was restricted to specific purposes.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2009, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	$ 1,072,387.90	$ 215,206.47	$ 857,181.43
Accounts	130,739.85		130,739.85
Intergovernmental	1,714,725.78		1,714,725.78
Pledges	30,000.00		30,000.00
Investment Earnings	186.00		186.00
Interest on Loans	354,948.53		354,948.53
Other	843,421.56		843,421.56
Total Current Receivables	$ 4,146,409.62	$ 215,206.47	$ 3,931,203.15
Noncurrent Receivables:			
Pledges	$ 242,409.94	$ 105,086.43	$ 137,323.51
Notes Receivable:			
Notes Receivable - Current:			
Institutional Student Loan Programs	$ 16,719.91	$ 0.00	$ 16,719.91
Notes Receivable - Noncurrent:			
Federal Loan Programs	$ 917,227.03	$ 439,662.37	$ 477,564.66
Institutional Student Loan Programs	716,085.23	50,131.41	665,953.82
Total Notes Receivable - Noncurrent	$ 1,633,312.26	$ 489,793.78	$ 1,143,518.48

NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2009, is presented as follows:

	Balance July 1, 2008	Increases	Decreases	Balance June 30, 2009
Capital Assets, Nondepreciable:				
Land	$ 1,987,911.32	$ 0.00	$ 0.00	$ 1,987,911.32
Construction in Progress	8,657,186.63	4,301,688.97	6,918,674.36	6,040,201.24
Total Capital Assets, Nondepreciable	10,645,097.95	4,301,688.97	6,918,674.36	8,028,112.56
Capital Assets, Depreciable:				
Buildings	107,696,982.05	3,859,702.26	14,700.00	111,541,984.31
Machinery and Equipment	8,871,139.63	1,288,463.04	505,085.91	9,654,516.76
General Infrastructure	6,725,125.31	2,806,023.34		9,531,148.65
Total Capital Assets, Depreciable	123,293,246.99	7,954,188.64	519,785.91	130,727,649.72
Less Accumulated Depreciation/Amortization for:				
Buildings	25,880,590.91	2,203,934.07	5,733.00	28,078,791.98
Machinery and Equipment	5,333,505.16	697,569.63	439,638.83	5,591,435.96
General Infrastructure	2,106,671.73	427,878.76		2,534,550.49
Total Accumulated Depreciation	33,320,767.80	3,329,382.46	445,371.83	36,204,778.43
Total Capital Assets, Depreciable, Net	89,972,479.19	4,624,806.18	74,414.08	94,522,871.29
Capital Assets, Net	$ 100,617,577.14	$ 8,926,495.15	$ 6,993,088.44	$ 102,550,983.85

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2009, were as follows:

	Amount
Accounts Payable	$ 1,418,413.16
Accrued Payroll	1,517,458.90
Contract Retainage	188,307.83
Other	101,153.92
Total Accounts Payable and Accrued Liabilities	$ 3,225,333.81

NOTE 7 - LONG-TERM LIABILITIES

A. Changes in Long-Term Liabilities - A summary of changes in the long-term liabilities for the year ended June 30, 2009, is presented as follows:

	Balance July 1, 2008	Additions	Reductions	Balance June 30, 2009	Current Portion
Bonds Payable	$ 18,375,000.00	$ 0.00	$ 630,000.00	$ 17,745,000.00	$ 650,000.00
Add/Deduct Premium/Discount	11,860.50		2,314.26	9,546.24	
Deduct Deferred Charge on Refunding	(71,238.68)		(3,749.40)	(67,489.28)	
Total Bonds Payable	18,315,621.82		628,564.86	17,687,056.96	650,000.00
Compensated Absences	2,455,186.50	1,579,878.97	1,353,961.40	2,681,104.07	221,826.17
Total Long-Term Liabilities	$ 20,770,808.32	$ 1,579,878.97	$ 1,982,526.26	$ 20,368,161.03	$ 871,826.17

B. Bonds Payable - The University was indebted for bonds payable for the purposes shown in the following table:

Purpose	Series	Interest Rate/ Ranges	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2009	Principal Outstanding June 30, 2009	See Table Below
Revenue Bonds Payable							
Dormitory System Revenue Bonds of 1981							
Wamack Hall and Mitchell-Lewis Hall	A	3.00%	10/01/2017	$ 675,000.00	$ 465,000.00	$ 210,000.00	1
Wamack Hall and Mitchell-Lewis Hall	B	3.00%	10/01/2020	1,680,000.00	950,000.00	730,000.00	1
Total Dormitory System Revenue Bonds of 1981				2,355,000.00	1,415,000.00	940,000.00	
Educational Facilities Revenue Bonds							
Elizabeth City State University Housing Foundation	A	2.00%-5.25%	06/01/2033	13,895,000.00	1,110,000.00	12,785,000.00	2
Total Educational Facilities Revenue Bonds				13,895,000.00	1,110,000.00	12,785,000.00	
The University of North Carolina System Pool Revenue Bonds							
Refinance of Dormitory 200 Bed (1992 Series C Bond)	(B)	3.50%-5.375%	04/01/2027	3,410,000.00	926,631.00	2,483,369.00	
Bedell Cafeteria Renovations	(B)	3.50%-5.375%	04/01/2027	1,225,000.00	332,880.00	892,120.00	
Dormitory Furniture	(B)	3.50%-5.375%	04/01/2027	885,000.00	240,489.00	644,511.00	
Total The University of North Carolina System Pool Revenue Bonds				5,520,000.00	1,500,000.00	4,020,000.00	
Total Bonds Payable (principal only)				$ 21,770,000.00	$ 4,025,000.00	17,745,000.00	
Less: Unamortized Loss on Refunding						(67,489.28)	
Less: Unamortized Discount						(128,441.81)	
Plus: Unamortized Premium						137,988.05	
Total Bonds Payable						$ 17,687,056.96	

(B) The University of North Carolina System Pool Revenue Bonds, Series 2002B

The University has pledged future revenues, net of specific operating expenses, to repay revenue bonds as shown in the table below:

Ref	Revenue Source	Total Future Revenues Pledged	Current Year Revenues Net of Expenses	Current Year Principal & Interest	Estimate of % of Revenues Pledged
1	Dormitory Revenues	$ 1,108,450.00	$ 814,397.81	$ 99,250.00	16%
2	Electrical Facilities Revenues	22,148,197.50	1,258,453.61	921,195.00	74%

C. Annual Requirements - The annual requirements to pay principal and interest on the long-term obligations at June 30, 2009, are as follows:

	Annual Requirements Revenue Bonds Payable	
Fiscal Year	Principal	Interest
2010	$ 650,000.00	$ 855,848.76
2011	685,000.00	828,873.76
2012	715,000.00	799,611.26
2013	745,000.00	768,536.26
2014	780,000.00	738,466.26
2015-2019	4,320,000.00	3,082,737.52
2020-2024	3,045,000.00	2,154,245.00
2025-2029	3,530,000.00	1,353,000.00
2030-2034	3,275,000.00	419,250.00
Total Requirements	$ 17,745,000.00	$ 11,000,568.82

NOTE 8 - OPERATING LEASE OBLIGATIONS

The University entered into operating leases for equipment and temporary facilities. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2009:

Fiscal Year	Amount
2010	$ 896,154.03

Rental expense for all operating leases during the year was $739,454.03.

NOTE 9 - REVENUES

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

	Gross Revenues	Internal Sales Eliminations	Less Scholarship Discounts	Less Allowance for Uncollectibles	Net Revenues
Operating Revenues:					
Student Tuition and Fees	$ 12,960,155.13	$ 0.00	$ 6,432,416.28	$ 38,484.25	$ 6,489,254.60
Sales and Services:					
Sales and Services of Auxiliary Enterprises:					
Residential Life	$ 6,476,828.47	$ 0.00	$ 3,214,595.54	$ 58,340.46	$ 3,203,892.47
Dining	3,256,563.18		1,616,305.50	17,248.44	1,623,009.24
Bookstore	1,392,790.66		475,085.33	7,239.98	910,465.35
Parking	25,854.38				25,854.38
Athletic	115,749.75			2,094.31	113,655.44
Other	532,891.19				532,891.19
Independent Operations	339,999.06	132,041.90		78,132.73	129,824.43
Total Sales and Services	$ 12,140,676.69	$ 132,041.90	$ 5,305,986.37	$ 163,055.92	$ 6,539,592.50
Nonoperating - Noncapital Gifts	$ 751,147.46	$ 0.00	$ 0.00	$ 216.45	$ 750,931.01

NOTE 10 - OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	$ 18,641,101.96	$ 45,659.19	$ 37,394.25	$ 0.00	$ 0.00	$ 0.00	$ 18,724,155.40
Research	823,583.12	248,645.37	2,058,942.45				3,131,170.94
Public Service	838,275.90	44,378.26	216,664.32				1,099,318.48
Academic Support	3,961,050.35	865,342.51	941,689.75				5,768,082.61
Student Services	4,732,032.10	1,212,996.29	1,625,952.05				7,570,980.44
Institutional Support	7,068,264.87	252,491.05	2,013,803.15		1,363.72		9,335,922.79
Operations and Maintenance of Plant	4,686,732.37	2,543,093.02	997,943.33		2,459,283.56		10,687,052.28
Student Financial Aid				3,929,086.04			3,929,086.04
Auxiliary Enterprises	3,663,218.11	1,180,757.18	6,557,485.39		704,625.96		12,106,086.64
Depreciation						3,329,382.46	3,329,382.46
Total Operating Expenses	$ 44,414,258.78	$ 6,393,362.87	$ 14,449,874.69	$ 3,929,086.04	$ 3,165,273.24	$ 3,329,382.46	$ 75,681,238.08

NOTE 11 - 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. Eligible employees can elect to participate in the Optional Retirement Program at the time of employment, otherwise they are automatically enrolled in the Teachers' and State Employees' Retirement System.

The Teachers' and State Employees' Retirement System is a cost-sharing multiple-employer defined benefit pension plan established by the State to provide pension benefits for employees of the State, its component units and local boards of education. The plan is administered by the North Carolina State Treasurer.

Benefit and contribution provisions for the Teachers' and State Employees' Retirement System are established by *North Carolina General Statutes* 135-5 and 135-8 and may be amended only by the North Carolina General Assembly. Employer and member contribution rates are set each year by the North Carolina General Assembly based on annual actuarial valuations. For the year ended June 30, 2009, these rates were set at 3.36% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the University had a total payroll of $36,259,615.05, of which $24,731,064.37 was covered under the Teachers' and State Employees' Retirement System. Total employer and employee contributions for pension benefits for the year were $830,963.76 and $1,483,863.86, respectively.

Required employer contribution rates for the years ended June 30, 2008, and 2007, were 3.05% and 2.66%, respectively, while employee contributions were 6% each year. The University made 100% of its annual required contributions for the years ended June 30, 2009, 2008, and 2007, which were $830,963.76, $725,282.28, and $579,986.23, respectively.

The Teachers' and State Employees' Retirement System's financial information is included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page http://www.ncosc.net/ and clicking on "Proceed directly to OSC's index page," then "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 that 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 Board of Governors of The University of North Carolina is responsible for the administration of the Program and designates the companies authorized to offer investment products or the trustee responsible for the investment of contributions under the Program and approves the form and contents of the contracts and trust agreements.

Participants in the Program are immediately vested in the value of employee contributions. The value of employer contributions is vested after five years of participation in the Program. Participants become eligible to receive distributions when they terminate employment or retire.

Participant eligibility and contributory requirements are established by General Statute 135-5.1. Employer and member contribution rates are set each year by the North Carolina General Assembly. For the year ended June 30, 2009, these rates were set at 6.84% of covered payroll for employers and 6% of covered payroll for members. The University assumes no liability other than its contribution.

For the current fiscal year, the University had a total payroll of $36,259,615.05, of which $6,250,679.50 was covered under the Optional Retirement Program. Total employer and employee contributions for pension benefits for the year were $427,546.48 and $375,040.77, 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 $80,417.00 for the year ended June 30, 2009.

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, which is mandated under General Statute 143-166.30(e). Total employer contributions on behalf of University law enforcement officers for the year ended June 30, 2009, were $19,385.64. The voluntary contributions by employees amounted to $283,148.00 for the year ended June 30, 2009.

IRC Section 403(b) and 403(b)(7) Plans - Eligible University employees can participate in tax sheltered annuity plans created under Internal Revenue Code Sections 403(b) and 403(b)(7). The employee's eligible contributions, made through salary reduction agreements, are exempt from federal and State income taxes until the annuity is received or the contributions are withdrawn. These plans are exclusively for employees of universities and certain charitable and other nonprofit institutions. All costs of administering and funding these plans are the responsibility of the Plan participants. No costs are incurred by the University. The voluntary contributions by employees amounted to $126,802.73 for the year ended June 30, 2009.

NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS

A. Health Benefits - The University participates in the Comprehensive Major Medical Plan (the Plan), a cost-sharing, multiple-employer defined benefit health care plan that provides 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. Coverage eligibility varies depending on years of contributory membership service in their retirement system prior to disability or retirement.

The Plan's benefit and contribution provisions are established by *North Carolina General Statute* 135-7 and Chapter 135, Article 3A, of the General Statutes and may be amended only by the North Carolina General Assembly. The Plan does not provide for automatic post-retirement benefit increases.

By General Statute, a Retiree Health Benefit Fund (the Fund) has been established as a fund in which accumulated contributions from employers and any earnings on those contributions shall be used to provide health benefits to retired and disabled employees and applicable beneficiaries. By statute, the Fund is administered by the Board of Trustees of the

Teachers' and State Employees' Retirement System and contributions to the fund are irrevocable. Also by law, Fund assets are dedicated to providing benefits to retired and disabled employees and applicable beneficiaries and are not subject to the claims of creditors of the employers making contributions to the Fund. Contribution rates to the Fund, which are intended to finance benefits and administrative expenses on a pay-as-you-go basis, are determined by the General Assembly in the Appropriations Bill.

For the current fiscal year the University contributed 4.1% of the covered payroll under the Teachers' and State Employees' Retirement System and the Optional Retirement Program to the Fund. Required contribution rates for the years ended June 30, 2008, and 2007, were 4.1% and 3.8%, respectively. The University made 100% of its annual required contributions to the Plan for the years ended June 30, 2009, 2008, and 2007, which were $1,270,251.50, $1,201,604.76, and $1,055,388.12, respectively. 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*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page http://www.ncosc.net/ and clicking on "Proceed directly to OSC's index page," then "Reports," or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

B. **Disability Income** - The University participates in the Disability Income Plan of North Carolina (DIPNC), a cost-sharing, multiple-employer defined benefit plan, to provide short-term and long-term disability benefits to eligible members of the Teachers' and State Employees' Retirement System and the Optional Retirement Program. Benefit and contribution provisions are established by Chapter 135, Article 6, of the General Statutes, and may be amended only by the North Carolina General Assembly. The plan does not provide for automatic post-retirement benefit increases.

Disability income benefits are funded by actuarially determined employer contributions that are established in the Appropriations Bill by the General Assembly. For the fiscal year ended June 30, 2009, the University made a statutory contribution of .52% of covered payroll under the Teachers' and State Employees' Retirement System and the Optional Retirement Program to the DIPNC. Required contribution rates for the years ended June 30, 2008, and 2007, were .52% and .52%, respectively. The University made 100% of its annual required contributions to the

DIPNC for the years ended June 30, 2009, 2008, and 2007, which were $161,105.07, $152,398.65, and $137,579.43, respectively. 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 13 - RISK MANAGEMENT

The University is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These exposures to loss are handled via a combination of methods, including participation in State-administered insurance programs, purchase of commercial insurance, and self-retention of certain risks. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

Tort claims of up to $1,000,000 are retained under the authority of the State Tort Claims Act. In addition, the State provides excess public officers' and employees' liability insurance up to $10,000,000 via contract with a private insurance company. The University pays the premium, based on a composite rate, directly to the private insurer.

The University is required to maintain fire and lightning coverage on all State-owned buildings and contents through the State Property Fire Insurance Fund (Fund), an internal service fund of the State. Such coverage is provided at no cost to the University for operations supported by the State's General Fund. Other operations not supported by the State's General Fund are charged for the coverage. Losses covered by the Fund are subject to a $5,000 per occurrence deductible. However, some agencies have chosen a higher deductible for a reduction in premium. The University also purchased through the Fund extended coverage for building and contents to cover windstorm, explosions or damage caused by vehicle or aircraft impacts. The extended coverage applies to all campus buildings and contents with coverage amounts varying based on the value of each building and its contents.

All State-owned vehicles are covered by liability insurance through a private insurance company and handled by the North Carolina Department of Insurance. The liability limits for losses are $1,000,000 per claim and $10,000,000 per occurrence. The University pays premiums to the North Carolina Department of Insurance for the coverage.

The University is protected for losses from employee dishonesty and computer fraud. This coverage is with a private insurance company and is handled by the North Carolina Department of Insurance. Universities are charged a premium by the private insurance company. Coverage limit is $5,000,000 per occurrence. The private insurance company pays 90% of each loss less a $75,000 deductible.

University employees and retirees are provided comprehensive major medical care benefits. Coverage is funded by contributions to the State Health Plan (Plan), a pension and other employee benefit trust fund of the State of North Carolina. The Plan has contracted with third parties to process claims.

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 retains the risk for workers' compensation.

Term life insurance (death benefits) of $25,000 to $50,000 is provided to eligible workers. This Death Benefit Plan is administered by the State Treasurer and funded via employer contributions. The employer contribution rate was .16% for the current fiscal year.

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

NOTE 14 - 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 $20,245,297.68 at June 30, 2009.

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.

NOTE 15 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2009, the University implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*.

GASB Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*.

GASB Statement No. 49, requires reporting pollution remediation obligations, including reporting pollution remediation obligations that previously may not have been reported.

GASB Statement No. 52, requires reporting land and other real estate held as investments at fair value. This statement amends GASB Statement No. 31 which required endowments to report land and other real estate investments at historical cost.

In addition, beginning with the year ended June 30, 2009, the University reports federal student financial aid as nonoperating revenue instead of operating revenue. This change was the result of a clarification in the GASB *Comprehensive Implementation Guide*.

STATE OF NORTH CAROLINA

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

Board of Trustees
Elizabeth City State University
Elizabeth City, North Carolina

We have audited the financial statements of Elizabeth City State University, a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina, as of and for the year ended June 30, 2009, and have issued our report thereon dated October 22, 2010. Our report was modified to include a reference to other auditors.

As discussed in Note 15 to the financial statements, the University implemented Governmental Accounting Standards Board Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* and Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*, during the year ended June 30, 2009.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of Elizabeth City State Foundation, Inc. and Subsidiary, as described in our report on the University's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the University's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the University's financial statements that is more than inconsequential will not be prevented or detected by the University's internal control. We consider the deficiencies described in findings 1, 2 and 3 in the Audit Findings and Responses section of this report to be significant deficiencies in internal control over financial reporting.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider Finding 1 to be a material weakness.

Compliance and Other Matters

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 grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described finding 2 in the Audit Findings and Responses section of this report.

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

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

This report is intended solely for the information and use of management of the University, the Board of Governors, the Board of Trustees, the Audit Committee, others within the entity, the Governor, the General Assembly, and the State Controller, and is not intended to be and should not be used by anyone other than these specified parties.

Beth A. Wood

Beth A. Wood, CPA
State Auditor

October 22, 2010

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Matters Related to Financial Reporting

The following audit findings were identified during the current audit and describe conditions that represent significant deficiencies in internal control or noncompliance with laws, regulations, contracts, grant agreements, or other matters. Elements of findings number 1 and 2 were also reported in the prior year.

1. DEFICIENCIES IN FINANCIAL REPORTING

   The financial statements and related notes prepared by Elizabeth City State University contained significant misstatements that were corrected as a result of our audit. These misstatements indicate that the University's internal control over financial reporting was not effective, and without our corrections, the financial statements could have been misleading to readers. The misstatements noted during our audit included:

   a. The University misclassified $9.6 million as noncapital grant revenues from federal student financial aid, when in fact, the grants were not for federal student financial aid.

   b. Scholarships and fellowships expense was understated by over $3.7 million because some grants that had not been recognized by the University were included in the University's scholarship discount calculation. An adjustment was required to increase the expense and noncapital grant revenues by $3.7 million.

   c. The University did not properly classify net assets on the Statement of Net Assets. Adjustments were required to reclassify $2.6 million between expendable net assets restricted for scholarships and fellowships, nonexpendable net assets restricted scholarships and fellowships, and unrestricted net assets. Also a reclassification of over $1 million was required between unrestricted net assets and net assets invested in capital assets.

   d. The University did not properly classify cash on the Statement of Net Assets. An adjustment was required to reclassify $2 million to current restricted cash primarily due to misclassifying restricted cash amounts as noncurrent when posting an adjustment to the 2008 beginning cash balance.

   e. The University did not properly record debt maintenance reserve transfers, resulting in a $1.8 million misclassification between revenues and expenses. The University discovered the error after the statements were submitted for audit. Adjustments were required to reduce the interest and fees on debt expense by $1.8 million, reduce other operating revenues by over $1 million, and adjust nonoperating revenues and expenses by over $800,000.

   f. The student accounts receivable balance was overstated by over $949,000 because the University recognized receivables and unearned revenues for summer school charges that were not earned as of the fiscal year-end.

g. Revenues from capital grants and expenses for supplies and materials were overstated by $346,000 due to the University posting an entry twice.

h. The University understated intergovernmental accounts receivable, revenues from federal contracts and grants, and restricted expendable net assets for scholarships and fellowships in the amount of $370,000 due to the University improperly reversing a prior year accrual balance twice.

Findings related to deficiencies in financial reporting were reported in two prior audits.

Recommendation: The University should place greater emphasis on the year-end financial reporting process and implement effective internal control procedures to ensure the completeness and accuracy of the financial statements.

University Response: The University acknowledges that its financial statements contained classification errors. Subsequent to this finding staff has taken key steps to improve internal control over financial reporting. In 2010, staff made use of additional functionality in the Banner financial management system, which further automated the accrual processing and reporting functions. This enhanced automation should lead to streamlined year-end processes, a reduction in recording errors and provide additional time for staff to review financial statements for accuracy prior to their production. During 2011, Business and Finance set up journal entry approval queues. This established a defined process for management review and approval of all journal entries and supporting documentation prior to posting entries to the general ledger. Business and Finance is also planning to establish a distinct and adequately resourced financial reporting and general ledger maintenance section within the division. Their expanded focus will include more intense review and analysis of daily, monthly and other periodic financial transactions and reports. Finally, we are continuing to aggressively recruit to fill key vacancies in Business and Finance.

2. DEFICIENCIES IN BANK RECONCILIATION AND CHECK DISBURSEMENT PROCEDURES

The University has not adequately reconciled its bank accounts on a monthly basis. As a result, there is an increased risk that errors will occur and not be detected in a timely manner. In addition, the University did not submit unclaimed outstanding checks to the State's escheat fund or to the federal government as required.

At June 30, 2009, the University had three bank accounts with unexplained reconciling differences between the bank balance and the accounting records. We noted the following deficiencies:

- Two of the bank accounts were reconciled together and had total unresolved reconciling items of $23,071, which included outstanding checks that have been on the reconciliation since June 2006.
- One bank reconciliation had offsetting unresolved differences that overstated the accounting records by over $167,000. This overstatement consisted of cumulative

reconciling differences that overstated the accounting records by approximately $716,000 and understated the records by approximately $549,000. Several reconciling items on the June 2009 reconciliation had been identified as differences on the June 2007 reconciliation. Further, the reconciliation included outstanding checks dated prior to July 2006.

- The University has not submitted any unclaimed outstanding checks to the State's escheat fund since fiscal year 2005. *North Carolina General Statute* 116B requires that abandoned property, such as outstanding checks, be delivered to the Department of State Treasurer by November 1 of each year and should include property abandoned during the twelve months preceding July 1 of that year.
- After year end, a consultant provided the University a $938,000 cash adjustment to the accounting records to reconcile with the cash in the bank. This adjustment included the $167,000 of unresolved reconciliation differences noted above and corrections for errors made by the University when posting adjustments from the 2008 audit.

The deficiencies described above indicate that the University has not implemented effective controls over the bank reconciliation process to ensure outstanding items are properly researched and resolved, nor have they implemented effective controls to ensure outstanding checks are submitted to the escheat fund timely.

In addition, we noted that as of January 28, 2010, the University was holding in its vault outstanding checks totaling over $194,000 that had been written to students prior to June 30, 2009. The majority of these checks were held by the University until March 29, 2010, when the checks were voided and subsequently reissued.

In regards to federal student financial aid funds, institutions are allowed to hold checks for up to 21 days after the student is notified that the check is available. If the student does not pick up the check within the 21 days, the institution must immediately mail the check to the student or parent, initiate an electronic payment to the student or parent, or return the funds to the federal government. If the institution attempts to disburse funds to the student but the check is not cashed, the institution must return the funds to the federal government no later than 240 days after the date the school issued the check.

As of June 30, 2009, approximately $58,000 of the checks in the vault had been outstanding for more than 240 days. We examined 13 of these checks, totaling approximately $20,000, and determined that eight of the checks included federal student financial aid funds totaling approximately $10,000. As of March 29, 2010 when the checks were voided, the entire $194,000 had been outstanding for more than 240 days.

Deficiencies related to the reconciliation of the bank accounts were reported in the prior two audits.

Recommendation: The University should enhance internal control to ensure the bank statements are properly reconciled to the accounting records each month. Adequate reconciliation procedures include promptly investigating and resolving outstanding items. In addition, the University should implement procedures to ensure that unclaimed outstanding checks are submitted to the State's escheat fund or the federal government as required.

University Response: The University currently reconciles its bank accounts on a monthly basis; however, previously identified reconciling items were not resolved in a timely manner. The University has since developed solid reconciliation procedures which promptly address and resolve current outstanding items. In addition, we have established a procedure that places specific limits on the number of days that unclaimed outstanding checks and refunds are held if they are not picked up on their distribution date.

3. Inappropriate Information System Access

The University administered information system access rights inconsistent with adequate internal controls. Improper access to computer systems can result in both intentional and unintentional security breaches that place the confidentiality and integrity of information at risk.

The following deficiencies were noted:

- The administrative account for the critical network devices was shared between multiple members of the Network Services division. We also noted inappropriate access to the Banner Security features that allow multiple users to share security account access. Sharing accounts does not allow for proper accountability of the individual performing system activities.
- An external contractor had access to the production database where daily operating transactions post and there was no monitoring by the University of the contractor's activity.
- The University does not have proper procedures in place to inform system administrators to remove or suspend access rights for individuals who are on extended leave. We noted two employees out on short-term disability leave who had access to the Banner accounting system during their leave of absence. The University did not properly lock the users' access in a timely manner.

Findings related to system access deficiencies were reported in the prior two audits.

Recommendation: The University should limit system access rights to ensure that employees and third parties are assigned access privileges that are appropriate for the necessary job requirements.

University Response: We concur with the recommendation. The University immediately took corrective actions by revoking the inappropriate system access for shared accounts, an external contractor and employees on extended leave. On October 11, 2010, the University's Administrative Council amended its Network Security Policy

(policy #700.2.2), adding specific provisions for terminating the access of employees on extended leave. Additionally, the University will continue to limit access privileges to employees and external contractors as appropriate to their task requirements.

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