



STATE OF NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT OF

NORTH CAROLINA STATE UNIVERSITY

RALEIGH, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2001

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR

FINANCIAL STATEMENT AUDIT REPORT OF

NORTH CAROLINA STATE UNIVERSITY

RALEIGH, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2001

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Ralph Campbell, Jr.
State Auditor

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AUDITOR'S TRANSMITTAL

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

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

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

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

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

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

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

AUDITOR'S TRANSMITTAL (CONCLUDED)

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

Results - Our tests disclosed no instances of noncompliance which require disclosure herein under *Government Auditing Standards*.

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

Results - Our tests disclosed no material weaknesses in internal control over financial reporting which require disclosure herein under *Government Auditing Standards*.

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.



Ralph Campbell, Jr.
State Auditor

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State Auditor

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
North Carolina State University
Raleigh, North Carolina

We have audited the accompanying Balance Sheet of North Carolina State University, a component unit of the State of North Carolina, as of June 30, 2001, and the related Statement of Changes in Fund Equity and Statement of Current Funds Revenues, Expenditures, and Other Changes for the year then ended. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of North Carolina State University as of June 30, 2001, and the changes in fund equity and the current funds revenues, expenditures, and other changes for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 14A to the financial statements, the University changed its method of accounting for securities lending transactions allocated from the State Treasurer's Cash and Investment Pool during the year ended June 30, 2001. As discussed in Note 14B to the financial statements, the University implemented Governmental Accounting Standard Board, Statement #33, *Accounting and Financial Reporting for Nonexchange Transactions*, during the year ended June 30, 2001.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2001 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with the independent auditor's report in considering the results of our audit.

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



Ralph Campbell, Jr.
State Auditor

December 20, 2001

North Carolina State University
Balance Sheet
June 30, 2001
(dollars expressed in thousands)

Exhibit A

	Current Funds			Fiduciary Funds			Plant Funds		
	Unrestricted			Loan	Endowment	Agency	Unexpended	Debt Service	Investment in Plant
	General	Proprietary	Restricted						
ASSETS									
Cash and Cash Equivalents	\$ 66,093	\$ 29,274	\$ 23,045	\$ 1,924	\$ (8)	\$ 744	\$ 39,428	\$ 8,540	\$ 0
Investments			1,636		135,427	78,239	7	5,131	
Receivables:									
Accounts Receivable (Net)	5,795	3,954	10,411						
Intergovernmental Receivables	918		7,971						
Interest Receivable	502			319				53	
Due from Other Funds	1,152	1,643	2,367	10	2,413	655		273	
Due from Component Units			656						
Due from Other Universities in UNC System			590						
Due from Primary Government	216		7,767				5,018		
Notes Receivable (Net)				10,189					
Inventories	371	2,199							
Prepaid Items	169		3		21			1,356	
Fixed Assets (Note 4)									906,342
Total Assets	\$ 75,216	\$ 37,070	\$ 54,446	\$ 12,442	\$ 137,853	\$ 79,638	\$ 44,453	\$ 15,353	\$ 906,342

North Carolina State University
Balance Sheet
June 30, 2001
(dollars expressed in thousands)

Exhibit A
Page 2

	Current Funds			Fiduciary Funds			Plant Funds		
	Unrestricted		Restricted	Loan	Endowment	Agency	Unexpended	Debt Service	Investment in Plant
	General	Proprietary							
LIABILITIES AND FUND EQUITY									
Liabilities:									
Accounts Payable and Accrued Liabilities:									
Accounts Payable	\$ 8,573	\$ 3,304	\$ 6,615	\$ 325	\$ 0	\$ 0	\$ 2,557	\$ 0	\$ 0
Accrued Payroll	3,138	325	916						
Due to Other Funds	1,832	1,006	2,938		1,869			868	
Due to Other Universities in UNC System			257						
Due to Primary Government	1,164								
Notes Payable									140
Bonds Payable (Note 5C)							3,875	3,451	85,703
Interest Payable								715	
Accrued Vacation Leave	23,541	1,775							
Deferred Revenue	3,361	5,937							
Funds Held in Trust for Pool Participants						78,239			
Funds Held for Others						1,399			
Total Liabilities	41,609	12,347	10,726	325	1,869	79,638	6,432	5,034	85,843
Fund Equity:									
Net Investment in Plant									820,499
Fund Balances:									
Restricted:									
U. S. Government Grants Refundable				9,613					
Endowment					40,631				
Quasi-Endowment					85,354				
Annuity and Life Income Funds					208				
Restricted for Debt Retirement								4,666	
Restricted for Repair and Replacement								2,051	
Other Restricted Funds			43,720	1,127			38,021		
Unrestricted:									
Quasi-Endowment					9,791				
Other Unrestricted Funds	33,607	24,723		1,377				3,602	
Total Fund Equity	33,607	24,723	43,720	12,117	135,984		38,021	10,319	820,499
Total Liabilities and Fund Equity	\$ 75,216	\$ 37,070	\$ 54,446	\$ 12,442	\$ 137,853	\$ 79,638	\$ 44,453	\$ 15,353	\$ 906,342

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

North Carolina State University
Statement of Changes in Fund Equity
Year Ended June 30, 2001
(dollars expressed in thousands)

Exhibit B

	Current Funds			Fiduciary Funds		Plant Funds		
	Unrestricted			Loan	Endowment	Unexpended	Debt Service	Investment in Plant
	General	Proprietary	Restricted					
Revenues and Other Additions:								
Tuition and Fees	\$ 91,747	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 714	\$ 0
Federal Appropriations	21,792							
State Appropriations	352,462					7,868		
Federal Contracts and Grants	17,410		81,622	146				
State Contracts and Grants	5,326		28,405			5,460		
Local Contracts and Grants			1,152					
Nongovernmental Contracts and Grants	8,112		39,211					
Gifts	333	28	38,666		1,720			
Investment Income	4,729	1,433	217	311	(2,232)	132	589	
Endowment Income			5,241					
Sales and Services	27,088	106,893	347					
Expended for Plant Facilities								47,557
Retirement of Indebtedness								5,670
Other Revenues and Additions	148	436	2,607	681		132		
Total Revenues and Other Additions	529,147	108,790	197,468	1,138	(612)	13,592	1,303	53,227
Expenditures and Other Deductions:								
Educational and General	525,020		176,144					
Auxiliary Enterprises		96,280						
Indirect Costs Recovered			22,394					
Expended for Plant Facilities						29,141		
Retirement of Indebtedness							5,669	
Interest on Indebtedness							4,828	
Disposal of Plant Facilities								18,653
Other Expenditures and Deductions				64			440	
Total Expenditures and Other Deductions	525,020	96,280	198,538	64		29,141	10,937	18,653
Transfers:								
Mandatory Transfers In (Out)	(6,191)	(6,953)	1,763	49		(20)	10,352	
Non-Mandatory Transfers (In (Out))	(6,379)	(3,098)	92	94	2,023	6,929	339	
Net Transfers In (Out)	(11,570)	(10,051)	1,855	143	2,023	6,909	10,691	
Net Increase (Decrease) for the Year	(7,443)	2,459	785	1,217	1,511	(8,640)	1,057	34,574
Fund Equity July 1, 2000	38,828	24,486	42,949	10,900	134,473	46,661	9,262	785,925
Prior Period Adjustment (Note 15)	2,222	(2,222)	(14)					
Fund Equity June 30, 2001	\$ 33,607	\$ 24,723	\$ 43,720	\$ 12,117	\$ 135,984	\$ 38,021	\$ 10,319	\$ 820,499

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

North Carolina State University
Statement of Current Funds Revenues, Expenditures, and Other Changes
Year Ended June 30, 2001, with comparative totals for 2000
(dollars expressed in thousands)

Exhibit C

	Unrestricted			Restricted	Year Ended June 30,	
	General	Proprietary	Total		2001	2000
Revenues:						
Tuition and Fees	\$ 91,747	\$ 0	\$ 91,747	\$ 0	\$ 91,747	\$ 83,668
Federal Appropriations	21,792		21,792		21,792	23,138
State Appropriations	352,462		352,462		352,462	340,135
Federal Contracts and Grants	17,410		17,410	65,946	83,356	71,588
State Contracts and Grants	5,326		5,326	28,405	33,731	25,599
Local Contracts and Grants				1,152	1,152	774
Nongovernmental Contracts and Grants	8,112		8,112	32,493	40,605	36,135
Gifts	333	28	361	38,666	39,027	36,790
Investment Income	4,729	1,433	6,162	217	6,379	7,522
Endowment Income				5,241	5,241	3,428
Sales and Services	27,088	106,893	133,981	347	134,328	129,736
Other Sources	148	436	584	2,607	3,191	11,897
Total Revenues	529,147	108,790	637,937	175,074	813,011	770,410
Expenditures:						
Educational and General:						
Instruction	210,290		210,290	4,400	214,690	199,512
Organized Research	78,851		78,851	99,879	178,730	167,038
Public Service	74,311		74,311	25,686	99,997	92,193
Academic Support	42,344		42,344	11,955	54,299	51,528
Student Services	11,651		11,651	1,304	12,955	11,631
Institutional Support	48,705		48,705	5,569	54,274	48,324
Plant Maintenance and Operations	40,061		40,061		40,061	34,862
Student Financial Aid	18,807		18,807	27,351	46,158	37,199
Auxiliary Enterprises		96,280	96,280		96,280	92,237
Total Expenditures	525,020	96,280	621,300	176,144	797,444	734,524
Transfers and Additions/(Deductions):						
Mandatory Transfers In (Out)	(5,191)	(6,953)	(12,144)	1,763	(10,381)	(9,621)
Non-Mandatory Transfers In (Out)	(6,379)	(3,098)	(9,477)	92	(9,385)	(8,449)
Net Increase (Decrease) in Fund Equity	\$ (7,443)	\$ 2,459	\$ (4,984)	\$ 785	\$ (4,199)	\$ 17,816

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

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

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

- A. Financial Reporting Entity** - The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their constituents for their actions. As required by accounting principles generally accepted in the United States of America, the financial reporting entity includes both the primary government and all of its component units. An organization other than a primary government serves as a nucleus for a reporting entity when it issues separate financial statements. North Carolina State University is a constituent institution of the sixteen campus University of North Carolina System, which is a component unit of the State of North Carolina and an integral part of the State's *Comprehensive Annual Financial Report*.

The accompanying financial statements present all funds belonging to the University and its component units. 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. Although legally separate, the NC State Investment Fund, Inc., (Investment Fund), a component unit of the University, is reported as if it was part of the University.

The Investment Fund is governed by a Member's Board consisting of six ex officio directors and five elected representatives from the participating entities. The Investment Fund's purpose is to support the University by operating an investment fund for charitable, nonprofit foundations, associations, trusts, endowments and funds that are organized and operated primarily to support the University. The Investment Fund is an external governmental investment pool. Because the majority of the Member's Board of the Investment Fund consist of University administrators and Board Members and the Investment Fund's primary purpose is to benefit North Carolina State University, its financial statements have been blended with those of the University.

Separate financial statements for the Investment Fund may be obtained from the University Foundations Accounting and Investments Office, Campus Box 7207, Raleigh, NC 27695, or by calling (919) 515-2110. Other related foundations and similar non-profit corporations for which

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

The Statement of Current Funds Revenues, Expenditures, and Other Changes is a statement of financial activities of current funds related to the current reporting period. It does not purport to present the results of operations or the net income or loss for the period as would a statement of income or a statement of revenues and expenses.

- E. Cash and Cash Equivalents** - In addition to cash on deposit with private bank accounts, petty cash, and undeposited receipts, this classification includes savings accounts, money market accounts, cash on deposit with fiscal agents, and short-term investments with the State Treasurer's Cash and Investment Pool (a governmental external investment pool). All other short-term investments are reported as investments.
- F. Investments** - This classification includes long-term fixed income investments, equity investments, mutual funds, money market funds, real estate investment trusts, real estate, and other asset holdings by the University. Except for money market funds, real estate not held by a governmental external investment pool and other asset holdings, these investments are reported at fair value for year-end financial reporting purposes. Fair value is the amount at which an investment could be exchanged between two willing parties. Fair value for financial reporting purposes is based on quoted market prices. The net increase (decrease) in the fair value of investments is recognized as a part of investment income.

Money market funds, real estate not held by a governmental external investment pool and other asset holdings are reported at cost, if purchased, or at fair market value or appraised value at date of gift, if donated.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- G. Receivables and Allowance for Doubtful Accounts** – Accounts receivable in the Unrestricted General Fund, the Unrestricted Proprietary Fund, and the Restricted Fund are shown in the accompanying financial statements net of allowances for doubtful accounts of \$4,471,000, \$1,456,000 and \$1,151,000, respectively. In addition, notes receivable in the Loan Fund is shown net of the allowance for doubtful accounts of \$1,222,000. The accounts and notes receivable for other funds are shown at book value with no provision for doubtful accounts considered necessary.
- H. Inventories** - Inventories in the Unrestricted General Fund consist of expendable supplies, postage, merchandise for resale, and fuel oil held for consumption and are valued at the lower of cost or market value using the first-in, first-out method. Inventories in the Unrestricted Proprietary Fund consist of textbooks, expendable supplies and other merchandise for resale by the Bookstore, and are valued using the Retail Method of valuation.
- I. Fixed Assets and Depreciation** – Fixed Assets are stated at cost at date of acquisition or fair market value at date of donation in the case of gifts. The University capitalizes fixed assets that have a value or cost in excess of \$5,000 at the date of acquisition and an expected useful life of one or more years. Depreciation is not recorded.

To the extent that current funds are used to finance plant assets, the amounts provided are accounted for as: (1) expenditures, in the case of normal replacement of furniture and movable equipment; (2) mandatory transfers, in the case of required provisions for debt retirement and renewal and replacement; and (3) transfers of a non-mandatory nature for all other cases.

Fixed assets financed with debt proceeds are reported in the Investment in Plant fund subgroup when expenditures are incurred. Construction period interest cost in excess of earnings associated with the debt proceeds is capitalized as a component of the fixed asset.

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

- J. Vacation and Sick Leave** - The University's policy is to record the cost of vacation leave when earned. The policy provides for a maximum accumulation of unused vacation leave of 30 days which can be carried forward each January 1st or for which an employee can be paid upon termination of employment. Also, any accumulated vacation leave in excess of 30 days at year-end is converted to sick leave. Under this

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

policy, the accumulated vacation leave for each employee at June 30th equals the leave carried forward at the previous December 31st plus the leave earned, less the leave taken between January 1st and June 30th.

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

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

Certain Unrestricted Proprietary Fund auxiliary operations provide goods and services to activities reported in the Unrestricted General Fund as well as external customers. These auxiliary operations include activities such as Central Stores, the Creamery, University Graphics, and other auxiliaries with inter-departmental activities. Because the University reports its Unrestricted General and Proprietary Fund activities separately on the financial statements, inter-departmental charges between the Unrestricted General and Proprietary Funds have not been eliminated. The total internal and external transactions related to these operations totaled approximately \$8,516,000 for the fiscal year ended June 30, 2001. These internal and external charges have been reported as a part of sales and service revenue and the related costs as auxiliary enterprise expenses.

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

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

- L. Endowment Investment Return** – Investments of the University’s endowment funds are pooled, unless required to be separately invested by the donor. Fund ownership of pooled investments are measured using the unit value method. Under this method, each participating fund’s investment balance is determined on a market value basis. Investment return of the University’s pooled endowment funds is predicated on the total return concept (yield plus appreciation). Annual payouts from the University’s pooled endowment funds, which were 4.75% for the current year, are determined by applying the 4.75% rate to the average market

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

value of each fund for the twelve quarters ending with the proper fiscal year. To the extent that the total return for the current year exceeds the payout, the excess is added to principal. If current year earnings do not meet the payout requirements, the University uses accumulated income and appreciation from the quasi-endowment balance to make up the difference.

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

NOTE 2 - DEPOSITS AND INVESTMENTS

- A. Deposits** - The University is required by General Statute 147-77 to deposit its budget code cash and by the University of North Carolina Board of Governors pursuant to General Statute 116-36.1 to deposit its institutional trust funds, except for funds received for services rendered by health care professionals, in the State Treasurer’s Cash and Investment Pool. In addition, 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’s Cash and Investment Pool. Special funds consist of moneys for intercollegiate athletics and agency funds held directly by the University.

Deposits include cash and cash equivalents totaling \$168,528,000. At year-end, cash on hand was \$512,000. The University’s portion of the State Treasurer’s Cash and Investment Pool was \$167,820,000. It is the State Treasurer’s policy and practice for deposits not covered by federal depository insurance to be covered by collateral held by the State of North Carolina’s agent in the name of the State and for its investments to be held by the State’s agent in the State’s name. The carrying amount of the University’s deposits not with the State Treasurer was \$708,000 and the bank balance was \$721,000. Of the bank balance, \$392,000 was covered by federal depository insurance and \$329,000 was uninsured and uncollateralized.

North Carolina General Statutes 147-69.1(c) and 147-69.2 authorize the State Treasurer to invest in the following: obligations of or fully guaranteed by the United States; obligations of certain federal agencies; repurchase agreements; obligations of the State of North Carolina;

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

certificates of deposit of specified institutions; prime quality commercial paper; specified bills of exchange; asset-backed securities, corporate bonds and notes with specified ratings; general obligations of other states; general obligations of North Carolina local governments; certain venture capital limited partnerships; and the obligations or securities of the North Carolina Enterprise Corporation.

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

- B. Investments** - The University is authorized by The University of North Carolina Board of Governors pursuant to General Statute 116-36.2 to invest its special funds and funds received for services rendered by health care professionals in the same manner as the State Treasurer is required to invest, as previously discussed.

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

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

Investments of the University's component unit, the Investment Fund, are subject to and restricted by General Statute 36B "Uniform Management of Institutional Funds Act" (UMIFA) 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. The University utilizes the following investment pools:

Long Term Investment Pool - This is an internal investment pool that is utilized for the investment of the endowment funds. Fund ownership is

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 is based on the directives of the University's Endowment Board. This pool also participates in the Investment Fund.

The Investment Fund (External Investment Pool) – This is a governmental external investment pool sponsored by the University. The external investment pool was established in April 1999. The pool is utilized as one of the investment managers for the Long Term Investment Pool (internal portion) and other entities, which are related organizations not included in the University's reporting entity (external portion). The external portion of the investment pool is presented in the accompanying financial statements as Funds Held in Trust for Pool Participants in the University's Agency Funds.

The External Investment Pool is not registered with the SEC and is not subject to any formal oversight other than that provided by the Investment Fund Member's Board. The Member's Board appoints a board of directors who assists in determining the pool's asset allocation. Seven investment managers manage various accounts to accomplish the proper mix of investments. Bankers Trust is the custodian of the six portfolios and provides the University with quarterly information on the amount of investment income and market values allocated between the internal and external entities. Individual participant equity is determined by a dollar-day method, which assigns a weighted value for the time the funds are on deposit. There are no involuntary participants in the External Investment Pool. The annual financial report for the External Investment Pool may be obtained from the University's Foundations Accounting and Investments Office, Campus Box 7207, Raleigh, NC 27695-7207, or by calling (919) 515-2110.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

investments for which the securities are held by the broker or dealer, or by a counterparty's trust department or agent but not in the University's name.

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

*Long Term Investment Pool**

(in thousands)

	Fair Value			
	Risk Category			Total
	1	2	3	
Categorized Investments:				
U. S. Government Securities	\$ 13,572	\$ 0	\$ 0	\$ 13,572
Corporate Bonds	7,399			7,399
International Bonds	186			186
Corporate Stocks	117			117
Total Categorized Investments	<u>\$ 21,274</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>21,274</u>
Investments Not Categorized:				
Money Market Funds				1,122
Other Investments				<u>10,600</u>
Total Investments Not Categorized				<u>11,722</u>
Total Long Term Investment Pool				<u>\$ 32,996</u>

*Excludes amounts reported in the External Investment Pool

External Investment Pool

(in thousands)

	Fair Value			
	Risk Category			Total
	1	2	3	
Categorized Investments:				
U. S. Government Securities	\$ 16,607	\$ 0	\$ 0	\$ 16,607
Collateralized Mortgage Obligations	5,049			5,049
Corporate Bonds	22,279			22,279
International Bonds	3,282			3,282
Corporate Stocks	78,818			78,818
International Stocks	4,828			4,828
Total Categorized Investments	<u>\$ 130,863</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>130,863</u>
Investments Not Categorized:				
Money Market Funds				4,517
Mutual Funds				15,999
Real Estate Investment Trusts				6,895
Other Investments				<u>1,015</u>
Total Investments Not Categorized				<u>28,426</u>
Total External Pool Investments				<u>\$ 159,289</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Non-Pooled Investments

(in thousands)

	Fair Value			Total
	Risk Category			
	1	2	3	
Categorized Investments:				
U. S. Government Securities	\$ 4,912	\$ 0	\$ 0	\$ 4,912
Corporate Stocks	3,696			3,696
Total Categorized Investments	\$ 8,608	\$ 0	\$ 0	8,608
Investments Not Categorized:				
Money Market Funds				387
Real Estate				18,240
Other Investments				920
Total Investments Not Categorized				19,547
Total Non-Pooled Investments				\$ 28,155

Total Investments

(in thousands)

	Fair Value			Total
	Risk Category			
	1	2	3	
Total Categorized Investments	\$ 160,745	\$ 0	\$ 0	\$ 160,745
Total Investments Not Categorized				59,695
Total Investments				\$ 220,440

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

(in thousands)

	Net Unrealized Gains/Losses	Realized Gains	Realized Losses	Net Change in Fair Value
Endowment Fund	\$ (1,526)	\$ 2,824	\$ (3,530)	\$ (2,232)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

	<i>(in thousands)</i>	
	<u>Balance June 30, 2001</u>	<u>Balance June 30, 2000</u>
Investments by Fund:		
Endowment	\$ 39,905	\$ 38,081
Quasi-Endowment Unrestricted	9,932	7,254
Quasi-Endowment Restricted	85,382	88,268
Annuity and Life Income Funds	<u>208</u>	<u>244</u>
Total	<u>\$ 135,427</u>	<u>\$ 133,847</u>
Investment by Type:		
Debt Securities	\$ 42,775	\$ 40,206
Equity Securities	44,737	49,516
Collateralized Mortgage Obligations	2,569	2,453
Money Market Funds	3,421	5,378
Mutual Funds	8,140	10,884
Real Estate	18,240	18,240
Real Estate Investment Trusts	3,508	2,601
Other Investments	<u>12,037</u>	<u>4,569</u>
Total	<u>\$ 135,427</u>	<u>\$ 133,847</u>

- E. Derivative and Similar Transactions** - A derivative is a financial instrument created from, or whose value depends on (is derived from), the value of one or more underlying assets, reference rates, or indexes of asset values. These instruments may include forwards, futures, currency and interest rate swaps, options, floaters/inverse floaters and caps/floors/collars. During the year the University did not invest in derivative investments but did invest in transactions similar to a derivative instrument. Investment transactions similar to a derivative may include securitized assets, such as mortgage-backed securities and other asset-backed securities. As required by generally accepted accounting principles, the nature of derivative or similar transactions entered into by the University, and the reasons for entering into those transactions follow:

Mortgage-Backed Securities - The University invests in mortgage-backed securities issued by the Government National Mortgage Association (GNMA), an agency of the United States government, government sponsored enterprises including the Federal Home Loan

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Mortgage Corporation (FHLMC) or the Federal National Mortgage Association (FNMA), and private trusts or corporations. The University invests in these securities to increase the yield and return on its investment portfolio given the available alternative investment opportunities.

The values of mortgage-backed securities are generally based on the cash flows from principal and interest receipts on the underlying mortgage pools. These securities may include mortgage pass-through securities and collateralized mortgage obligations (CMOs). Mortgage pass-through securities pay the holder of the security the principal and interest amounts received from the underlying pool of mortgages as these amounts are collected from the mortgage holders. In a CMO, the cash flows from principal and interest payments from one or more mortgage pass-through securities or a pool of mortgages may be reallocated to multiple security classes with different priority claims and payment streams (commonly referred to as tranches.) A holder of the CMO security thus chooses the class of security that best meet its risk and return objectives. Both pass-through securities and CMOs are subject to significant market risk due to fluctuations in interest rates, prepayment rates and various liquidity factors related to their specific markets.

The mortgage pass-through securities issued by GNMA, FNMA, FHLMC are classified by the University as U.S. government securities. The mortgage pools underlying the GNMA pass-through securities are backed by the full faith and credit of the U.S. government by the Federal Housing Administration (FHA), Veterans Administration (VA), and the Farmers Home Administration (FHA). The FNMA and FHLMC securities are collateralized by underlying pools of mortgages primarily issued by GNMA, FNMA or FHLMC which guarantee full and timely payment of principal and interest.

The CMOs held by the University include mortgage backed securities issued by FNMA, FHLMC, certain trusts and private corporations (including REMIC issuers). In addition, non-traditional mortgage pass-through securities, such “interest-only strips” and “principal-only strips”, if held by the University, are classified as CMOs. The University did not hold any non-traditional pass-through securities during the year.

As of June 30, 2001, the University was holding \$22,126,000 in mortgage-backed securities valued at fair (market) value representing approximately 10% of its total investments. Of this amount \$5,049,000 represent investments in CMOs.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Other Asset-Backed Securities - The University invests in various asset-backed securities such as automobile loan securitizations, credit card securitizations, and home equity loans. The University invests in the various asset-backed securities to increase the yield and return on its investment portfolio given the available alternative investment opportunities.

The values of these other asset-backed securities are generally based on the cash flows to be received from the underlying pools of assets. Accordingly, these securities are subject to market risk due to fluctuations in interest rates, prepayment rates, and various liquidity factors related to their specific markets. The market risk is reduced by the University's preference to invest in the shorter average life securities.

These security holdings are subject to credit-related losses in the event of non-performance by the issuers or counterparties to these instruments. However, the University does not expect any issuers or counterparties to fail to meet their obligation given their high credit ratings. The assets that collateralize these securities, which could be liquidated at market values at the time of non-performance, reduce the credit risk.

As of June 30, 2001, the University was holding \$4,954,000 in asset-backed securities valued at fair (market) value representing approximately 2.25% of its total investments.

NOTE 3 - INTER-FUND RECEIVABLES AND PAYABLES

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

(in thousands)

Due From	Due To							Total Due From
	Unrestricted General	Unrestricted Proprietary	Restricted Fund	Loan Fund	Endowment Fund	Agency Fund	Debt Service Fund	
Unrestricted General	\$ 0	\$ 1,021	\$ 498	\$ 10	\$ 0	\$ 283	\$ 20	\$ 1,832
Unrestricted Proprietary	570					183	253	1,006
Restricted	336				2,413	189		2,938
Endowment			1,869					1,869
Debt Service	246	622						868
Total Due To	\$ 1,152	\$ 1,643	\$ 2,367	\$ 10	\$ 2,413	\$ 655	\$ 273	\$ 8,513

These inter-fund receivables and payables are expected to be paid back during the next fiscal year at no interest except for the \$530,000 loan to the bookstore, which is expected to be paid back by April 1, 2003 at 7% interest.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

NOTE 4 - CHANGES IN FIXED ASSETS

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

(in thousands)

	Balance July 1, 2000	Additions	Deletions	Balance June 30, 2001
Land	\$ 8,801	\$ 1,220	\$ 0	\$ 10,021
Buildings	479,788	24,047	176	503,659
Infrastructure	44,764	8,037		52,801
Furniture, Machinery and Equipment	194,220	15,257	17,938	191,539
Artwork, Artifacts and Literature	104,753	10,331	539	114,545
Construction in Progress	36,481	20,128	22,832	33,777
Total Fixed Assets	\$ 868,807	\$ 79,020	\$ 41,485	\$ 906,342

NOTE 5 - LONG-TERM OBLIGATIONS

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

(in thousands)

	Balance July 1, 2000	Additions	Deletions	Balance June 30, 2001
Notes Payable	\$ 432	\$ 0	\$ 292	\$ 140
Bonds Payable (principal only)	92,057	6,390	5,378	93,069
Total Long-Term Obligations	\$ 92,489	\$ 6,390	\$ 5,670	\$ 93,209

B. Notes Payable - The University was indebted for notes payable in the amount of \$140,000 at June 30, 2001, for the purposes shown in the following table:

(in thousands)

Purpose	Financial Institution	Interest Rate/ Ranges	Final Maturity Date	Original Amount of Issue	Principal Paid Through 06/30/01	Principal Outstanding 06/30/01
General Storage Facility	Branch Bank & Trust	5.890%	07/15/01	\$ 842	\$ 702	\$ 140

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

C. Bonds Payable - The University was indebted for bonds payable in the amount of \$93,029,000 at June 30, 2001, for the purposes shown in the following table:

(in thousands)

Purpose	Series	Interest Rate/ Ranges	Final Maturity Date	Original Amount of Issue	Principal Paid 6/30/01	Principal Outstanding 6/30/01
STUDENT HOUSING SYSTEM						
Fraternity Housing	C	3.125%	09/01/01	\$ 1,774	\$ 1,705	\$ 69
Dormitory – Lee Hall	E	3.5%	09/01/01	1,361	1,269	92
Dormitory – Sullivan Hall	F	3.625%	09/01/04	2,200	1,805	395
Dormitory Complex	G	3.0%	09/01/06	3,225	2,445	780
Refund Housing System Series I	L	5.55/6%	09/01/03	4,985	3,355	1,630
Avent Ferry Complex	M	5.3/6.1%	09/01/14	11,820	2,320	9,500
Refund Housing System Series H, J and K	N	5/5.8%	09/01/09	4,110	1,465	2,645
Total Student Housing System				<u>29,475</u>	<u>14,364</u>	<u>15,111</u>
DINING HALL SYSTEM						
Dining Hall System Refunding Bonds	1996	4.0/5.3%	02/01/12	2,345	225	2,120
CENTENNIAL CAMPUS PROJECTS						
Centennial Campus Projects	1993	6.75/8.2%	12/15/13	9,855	2,205	7,650
Centennial Campus Projects	1997	6.55/7.04%	12/15/10	7,765	1,645	6,120
Centennial Campus Projects	1997	5.125%	12/15/16	7,090		7,090
Centennial Campus Projects	1999	Variable	12/15/19	13,500	100	13,400
Centennial Campus Projects	1999	7.04%	12/15/04	2,117	424	1,693
Total Centennial Campus Projects				<u>40,327</u>	<u>4,374</u>	<u>35,953</u>
PARKING SYSTEM						
Parking System Refunding Bonds	1996	4.0/5.1%	06/01/09	6,530	1,240	5,290
STUDENT CENTER SYSTEM						
University Student Center	1996	4.5/5.1%	11/01/09	2,210	265	1,945
THE UNIVERSITY OF NORTH CAROLINA SYSTEM POOL REVENUE BONDS						
Gymnasium Refunding Bonds	(A)	3.25/4%	10/01/07	1,695	175	1,520
Residence Hall Improvement Project	(A)	3.25/5%	10/01/10	15,770	2,030	13,740
Student Health Facility Project	(A)	3.25/5.25%	10/01/13	5,615	540	5,075
Entertainment and Sports Arena Project	(A)	3.25/5.25%	10/01/18	6,325	400	5,925
Housing System Project	(B)	5.00/5.75%	10/01/11	3,020		3,020
Central Stores Expansion Project	(B)	5.00/5.50%	10/01/21	3,370		3,370
Total The University of North Carolina System Pool Revenue Bonds				<u>35,795</u>	<u>3,145</u>	<u>32,650</u>
Total Bonds Payable (principal only)				<u>\$ 116,682</u>	<u>\$ 23,613</u>	<u>\$ 93,069</u>
Less: Unamortized Discount						<u>(40)</u>
Total Bonds Payable						<u>\$ 93,029</u>

(A) The University of North Carolina System Pool Revenue Bonds, Series 1998B

(B) The University of North Carolina System Pool Revenue Bonds, Series 2000

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

- D. Demand Bonds** - Included in bonds payable is a variable rate demand bond issue. Demand bonds are securities that contain a “put” feature that allows bondholders to demand payment before the maturity of the debt upon proper notice of the University’s remarketing or paying agents.

With regards to the following demand bond, the University has entered into an agreement, which would convert the demand bond not successfully remarketed into another form of long-term debt.

The North Carolina State University at Raleigh Variable Rate Revenue Bonds (Centennial Campus Projects), Series 1999A: On September 22, 1999 the University issued tax-exempt variable rate revenue demand bonds in the amount of \$13,500,000 that have a final maturity date of December 15, 2019. The bonds are subject to mandatory sinking fund redemption that began on December 1, 2000. The University’s proceeds of this issuance were used to (i) discharge a portion of a loan from First Union National Bank, the proceeds from which were used for the construction and equipping of a building known as the Partners II Building located on the Centennial Campus of NC State, (ii) paying the cost of relocating utility easements on the Centennial Campus of NC State, and (iii) paying the costs incurred in connection with the issuance of the 1999A Bonds.

While bearing interest at a weekly rate, the bonds are subject to purchase on demand with seven (7) days notice and delivery to the bank paying agent, The Bank of New York. Upon notice from the bond paying agent, the remarketing agent, Lehman Brothers, Inc. has agreed to exercise its best efforts to remarket the bonds for which a notice of purchase has been received.

Under a Standby Bond Purchase Agreement (Agreement) between the Board of Governors of the University of North Carolina and First Union National Bank, a Liquidity Facility has been established for the Trustee (The Bank of New York) to draw amounts sufficient to pay the purchase price and accrued interest on bonds delivered for purchase when remarketing proceeds or other funds are not available. This Agreement requires a commitment fee equal to 0.11% of the available commitment, payable quarterly in arrears, beginning on October 1, 1999 and on each January 1, April 1 and July 1 thereafter until the expiration date or the termination date of the Agreement.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Under the Agreement, any bonds purchased through the Liquidity Facility become Liquidity Provider Bonds and shall, from the date of such purchase and while they are Liquidity Provider Bonds, bear interest at the Liquidity Provider Rate (the greater of the Bank prime commercial lending rate and Federal Funds Rate plus 0.5%). Upon remarketing of Liquidity Provider Bonds and the receipt of the sales price by the Liquidity Provider, such bonds are no longer considered Liquidity Provider Bonds. Payment of the interest on the Liquidity Provider Bonds is due the first business day of each month in which Liquidity Provider Bonds are outstanding. At June 30, 2001 there were no Liquidity Provider Bonds held by the Liquidity Facility. The original Liquidity facility is scheduled to expire on September 15, 2002 unless otherwise extended based on the terms of the agreement.

Upon expiration or termination of the Agreement, the University is required to redeem (purchase) the Liquidity Provider Bonds held by the Liquidity Facility in twenty (20) quarterly installments, beginning the first business day that is at least 180 days following such expiration date or termination date along with accrued interest at the Liquidity Provider Rate.

Effective October 1, 1999, the University entered into an interest rate swap contractual agreement with Lehman Brothers, Inc. on \$9,000,000 of these demand bonds. Under this agreement the University will pay interest at a fixed rate of 4.574%. On a monthly basis the difference between 67% of the weighted average of the weekly LIBOR (London Interbank Offered Rates) rate and the fixed rate will be calculated. If the fixed rate is greater than the LIBOR calculated rate, the University will pay the difference to Lehman Brothers, Inc. If the LIBOR rate is greater, Lehman Brothers will refund the difference to the University. During the current fiscal year the University paid Lehman Brothers \$50,000 under this agreement.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

(in thousands)

<u>Fiscal Year</u>	Annual Requirements (Principal and Interest)	
	Bonds Payable	Notes Payable
	2002	\$ 10,597
2003	10,444	
2004	10,455	
2005	9,861	
2006	9,813	
2007-2011	44,990	
2012-2016	24,676	
2017-2021	9,153	
Total Requirements	\$ 129,989	\$ 149

NOTE 6 - OPERATING LEASES

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

(in thousands)

<u>Fiscal Year</u>	<u>Amount</u>
2002	\$ 1,875
2003	809
2004	539
2005	412
Total Minimum Lease Payments	\$ 3,635

Rental expense for all operating leases during the year was \$2,104,000.

NOTE 7 - 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 \$10,900,000 at June 30, 2001.
- B. Pending Litigation and Claims** – As previously reported, the Environmental Protection Agency (EPA) filed a civil action against the University pursuant to the Comprehensive Environmental Response, Compensation and Liability Act. The complaint sought relief that would

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

cause NCSU to enter into remediation of a hazardous waste site known as "Lot 86." The University is involved in ongoing discussions and negotiations with the EPA concerning the appropriate means for addressing the remediation. A Consent Decree executed by North Carolina State University and the EPA has been approved by the Court. Remedial clean-up pursuant to the Consent Decree continues. The remediation costs paid by the University for the year ended June 30, 2001 totaled \$428,000.

Litigation is still pending in Superior Court between NC School Boards Association, et. al. V. Harlan Boyles, et. al. which involves various state officials in their official capacity seeking a judicial determination as to whether the state constitution requires certain monetary payments collected by state agencies to be paid to the local county school funds rather than statutorily designated recipients. The complaint alleges in part that the monetary payments collected pursuant to statutory authority by UNC-CH and NCSU for violations of parking and traffic regulations and library fines are "civil penalties" which the State Constitution requires to be paid to the School fund in the county where they are collected. The lawsuit seeks declaratory judgment that the State Civil Penalty and Forfeiture Fund, the State School Technology Fund, and the Public Settlement Reserve Fund are unconstitutional. On December 14, 2001, the Wake County Superior Court ruled in favor of the Plaintiffs but has stayed enforcement of the ruling, pending appeal. The Defendants intend to appeal this judgement. It is still too soon to identify what effect this litigation will have on the University's financial statements. At issue for NCSU is approximately \$4,862,000 collected from December 1995 through June 2001 and \$900,000 annually thereafter representing fines, penalties, and forfeitures from the Transportation Department and the DH Hill Library.

The University is a party to other litigation and claims in the ordinary course of its operations. Since it is not possible to predict the ultimate outcome of these matters, no provision for any liability has been made in the financial statements. University management is of the opinion that the liability, if any, for any of these matters will not have a material adverse effect on the financial position of the University

- C. University Improvement General Obligation Bonds** – The 1999-2000 Session of the General Assembly of North Carolina authorized the issuance of two billion five hundred million dollars of general obligation bonds of the State, as subsequently approved by a vote of qualified voters of the State, to provide funds for capital improvements for the University of North Carolina. The funds authorized are to be used solely for capital facilities cost on the University of North Carolina campuses as specified

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

in the legislation. The bond legislation specifies the amount of bond funding for each University campus and the level of bond funding intended for each project. The bonds are authorized to be issued over a six-year period beginning in 2001 at a level not to exceed amounts provided in the legislation. Using a cash flow financing approach, The University of North Carolina – General Administration (UNC-GA), establishes annual amounts not to exceed for each approved project. The amounts not to exceed are subject to change due to actual cash availability and needs during the year. Subsequent to the bond sales and the availability of bond proceeds, UNC-GA notifies the Office of State Budget and Management (OSBM) of the amounts not to exceed for each approved project. Within these amounts, based on an official request of cash needs from the University, OSBM authorizes allotments. The University records the allotments as revenue on the accompanying financial statements. In addition, amounts not allotted but accrued as expended at year-end are recorded as revenue. The University's remaining authorization \$463,058,000 is contingent on future bond sales and OSBM allotment approval. Because of uncertainty and time restrictions the remaining authorization is not recorded as an asset or revenue on the accompanying financial statements.

NOTE 8 - BUDGETING AND BUDGETARY CONTROL

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

Chapter 116, Article 1, Part 2A of the North Carolina General Statutes authorizes the universities within the sixteen campus University of North Carolina System to apply for special responsibility status, which sets the legal level of budgetary control at the institution's budget code level. A budget code is a convention used in the State's accounting system to distinguish the type of fund and the responsible department or institution. Budget Codes are also used to segregate certain purposes within departments or institutions. Institutions with special responsibility status must still have certain budget revisions, primarily those associated with unanticipated revenues, approved by the Office of State Budget and Management. Additionally, universities must maintain programs and services in accordance with the guidelines established by the Board of Governors of the consolidated University of North Carolina System. North Carolina State University has applied for and received special responsibility status.

After the budget is approved by the General Assembly and adopted by the Board of Governors, the University follows an established system of budgetary controls. Budget statements to departments guide them in managing budget

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

allocations. Financial reports, which include budget and actual data, are available daily for each fund to individual managers responsible for the fund. When actual conditions require changes to the budget, revisions are prepared and communicated to those affected. Changes to the budget are reviewed and approved at the University or State level as required. The University maintains an encumbrance accounting system. The state budgetary control is maintained on a cash basis of accounting.

NOTE 9 - RISK MANAGEMENT

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

Tort claims of up to \$500,000 are self-insured under the authority of the State Tort Claims Act. In addition, the State provides excess liability coverage up to \$11,000,000 for public officers and employees via contract with a private insurance company. The premium, based on a composite rate, is paid by the University to the State's Agent of Record.

The State Property Fire Insurance Fund (Fund), an internal service fund of the State, insures all State owned buildings and contents for fire and various other property losses up to \$2,500,000 per occurrence. The Fund purchases excess insurance from private insurers to cover losses over the amounts insured by the Fund. Coverage for fire losses for operations supported by the State's General Fund is provided at no cost to the University. Other operations not supported by the State's General Fund are charged for fire coverage. The University, on an individual departmental basis, may purchase through the Fund primary extended coverage and other optional property coverages such as sprinkler leakage, business interruption, vandalism, theft, flood, and "all risk coverage" for buildings and contents. Losses covered by the Fund are subject to a \$500 per occurrence deductible, except theft losses carry a \$1,000 per occurrence deductible. There has been significant change in regards to the State Property Fire Insurance Fund's deductible with the excess insurers as it pertains to losses involving windstorm such as tornadoes or hurricanes. The Fund's excess property policy statewide windstorm deductible is \$2,500,000 per occurrence. Unless primary extended coverage is purchased by an individual State agency or University department from the Fund, the deductible would be \$2,500,000 per occurrence. The recent change in the State Property Fire Insurance Fund's Excess Policy windstorm deductible creates an additional financial exposure for loss from the peril of wind for State agencies and the

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

University if primary extended coverage cannot be afforded or purchased. The State agency or University department must then decide whether to purchase primary extended coverage insurance for windstorm, subject to a \$500 deductible through the Fund or retain the risk. University Auxiliary Service Units (receipts-funded) currently purchase the primary extended coverage.

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

The University is protected for losses from employee dishonesty and computer fraud for employees paid in whole or in part from State funds. The University's employee dishonesty policy provides coverage of \$1,000,000 per occurrence with a \$10,000 deductible.

The University purchased other authorized coverage from private insurance companies. The types of insurance policies purchased include: Medical Professional Liability, Fine Arts Property Coverage, Inland Marine Property for Musical Instruments, Motorsports Liability, Campers' Accident and Sickness, Boiler and Machinery, Watercraft, Nuclear Energy Liability, and Surety Bonds. Other coverage not handled by the State Department of Insurance is purchased through the State's Agent of Record.

Employees and retirees are provided health care coverage by the Comprehensive Major Medical Plan, a component unit of the State. The Plan is funded by employer and employee contributions and is administered by a third party contractor.

The North Carolina Workers' Compensation Program provides benefits to workers injured on the job. All employees of the State and its component units are included in the program. When an employee is injured, the University's primary responsibility is to arrange for and provide the necessary treatment for work related injury. The University is responsible for paying medical benefits and compensation in accordance with the North Carolina Workers' Compensation Act. The University is self-insured for workers' compensation.

Term life insurance of \$25,000 to \$50,000 is provided to eligible workers. This self insured death benefit program is administered by the State Treasurer's Office and funded via employer contributions.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 10 - PENSION PLANS

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

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

Benefit and contribution provisions for the Teachers' and State Employees' Retirement System are established by North Carolina General Statute 135-5 and 135-8 and may be amended only by the North Carolina General Assembly. Employer and member contribution rates are set each year by the North Carolina General Assembly based on annual actuarial valuations. For the year ended June 30, 2001, these rates were set at 5.33% of covered payroll for employers and 6% of covered payroll for members.

For the year ended June 30, 2001, the University had a total payroll of \$422,428,000 of which \$223,979,000 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were \$13,439,000 and \$11,938,000, respectively. The University made one hundred percent of its annual required contributions for the years ended June 30, 2001, 2000, and 1999, which were \$11,938,000, \$17,430,000, and \$15,526,000, respectively.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

The Optional Retirement Program (Program) is a defined contribution retirement plan, which provides retirement benefits with options for payments to beneficiaries in the event of the participant's death. Administrators and eligible faculty of the University may join the Program instead of the Teachers' and State Employees' Retirement System. The Program offers plans administered by the Teachers' Insurance Annuity Association and College Retirement Equities Fund (TIAA-CREF), as well as Lincoln National Life Insurance Company, the Variable Annuity Life Insurance Company (VALIC) and Fidelity Investments. Participant eligibility and contributory requirements are established by General Statute 135-5.1. Participants contribute 6% of their salary and the University matches with a 6.84% contribution for pension benefits. The University assumes no liability other than its contribution.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

contributions deposited by one provider and the matching benefit deposited by another, or they may elect to have both deposited by the same provider.

For the year ended June 30, 2001, the University had a total payroll of \$422,428,000 of which \$112,962,000 was covered under the Optional Retirement Program. Total employee and employer contributions for pension benefits for the year were \$6,778,000 and \$7,727,000, 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 \$495,000 for the year ended June 30, 2001.

IRC Section 401(k) Plan - All members of the Teachers' and State Employees' Retirement System and the Optional Retirement Program are eligible to enroll in the Supplemental Retirement Income Plan, a defined contribution plan, created under Internal Revenue Code Section 401(k). All costs of administering the plan are the responsibility of the Plan participants. No costs are incurred by the University except for a 5% employer contribution for the University's law enforcement officers, which is mandated under General Statute 143-163.30(e). Total employer contributions on behalf of University law enforcement officers for the year ended June 30, 2001 were \$83,000. The voluntary contributions by employees amounted to \$2,575,000 for the year ended June 30, 2001.

IRC Section 403(b) and 403(b)(7) Plans - All University employees who work can participate in tax sheltered annuity plans created under Internal Revenue Code Sections 403(b) and 403(b)(7). The employee's eligible contributions, made through salary reduction agreements, are exempt

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

from federal and state income taxes until the annuity is received or the contributions are withdrawn. These plans are exclusively for employees of universities and certain charitable and other non-profit institutions. All costs of administering and funding these plans are the responsibility of the Plan participants. No costs are incurred by the University. The voluntary contributions by employees amounted to \$7,537,000 for the year ended June 30, 2001.

- C. Federal Employment Retirement** – The Federal Retirement System is a multiple-employer retirement system and is composed of three retirement programs: the Civil Service Retirement System (CSRS) for participants employed prior to January 1, 1987, the Federal Employees Retirement System for participants employed after January 1, 1987, and the Civil Service Retirement Offset System for reemployed CSRS employees.

North Carolina Cooperative Extension employees with federal appointments prior to January 1, 1987 participate in the Civil Service Retirement System. Currently, 256 employees participate in CSRS. Participating employees are required by federal statute to contribute 7% of salary and the University 8.51% of salary to CSRS. In addition, the employees may contribute up to 6% of salary to the Thrift Savings Plan (a defined contribution plan managed by the Federal Retirement Thrift Investment Board). The contribution for CSRS for the year ended June 30, 2001, was \$2,746,000 which consisted of \$1,470,000 from the University, \$1,221,000 from the employees and \$55,000 from the employees for the Thrift Savings Plan.

Under the Federal Employees Retirement System (FERS), employees are required to contribute .8% of salary and the University 10.7%. Currently, 18 employees participate in FERS. The University is also required to contribute 1.0% of participant's salary to the Thrift Savings Plan, plus up to an additional 5% depending upon employee's contribution which can range from 0 to 11% of their salary. The contribution for the year ended June 30, 2001, was \$327,000 which consisted of \$13,000 from employees and \$138,000 from the University for FERS and \$112,000 from employees and \$64,000 from the University for the Thrift Savings Plan.

NOTE 11 - OTHER POSTEMPLOYMENT BENEFITS

- A. Health Care for Long-Term Disability Beneficiaries and Retirees** - The University participates in state administered programs which provide postemployment health insurance to eligible former employees. Eligible former employees include long-term disability beneficiaries of the Disability Income Plan of North Carolina, and retirees of the Teachers'

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

and State Employees' Retirement System or the Optional Retirement Program. These benefits were established by Chapter 135, Article 3, Part 3, of the General Statutes and may be amended only by the North Carolina General Assembly. Funding for the health care benefit for long-term disability beneficiaries and retirees is financed on a pay-as-you-go basis. The University contributed 1.28% of the covered payroll under the Teachers' and State Employees' Retirement System and the Optional Retirement Program for these health care benefits. For the fiscal year ended June 30, 2001, the University's total contribution to the Plan was \$4,313,000. The University assumes no liability for retiree health care benefits provided by the programs other than its required contribution. Additional detailed information about these programs can be located in the State of North Carolina's *Comprehensive Annual Financial Report*.

- B. Long-Term Disability** - The University participates in the Disability Income Plan of North Carolina (DIPNC). Established by Chapter 135, Article 6, of the General Statutes, DIPNC provides short-term and long-term disability benefits to eligible members of the Teachers' and State Employees' Retirement System or the Optional Retirement Program. Long-term disability income benefits are advance funded on an actuarially determined basis using the one-year term cost method. The University contributes .52% of covered payroll under the Teachers' and State Employees' Retirement System and the Optional Retirement Program to the DIPNC. For the fiscal year ended June 30, 2001, the University's total contribution to the DIPNC was \$1,752,000. 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 12 - CONSTRUCTION COSTS PAID FROM DEBT PROCEEDS

Construction costs paid from debt proceeds are not reflected as additions to fund equity of the Investment in Plant Fund but rather as an increase to the Investment in Plant Fund's assets and liabilities. During the year, \$8,630,000 was added to the Investment in Plant Fund's assets and liabilities for assets purchased from debt proceeds.

NOTE 13 - RELATED PARTIES

Foundations - There are twelve separately incorporated non-profit foundations associated with the University. These foundations are the North Carolina Agricultural Foundation, Inc., North Carolina State University

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Foundation, Inc., North Carolina Dairy Foundation, Inc., North Carolina Tobacco Foundation, Inc., Pulp and Paper Foundation, Inc., North Carolina State University Physical and Mathematical Sciences Foundation, Inc., North Carolina Engineering Foundation, Inc., North Carolina Veterinary Medical Foundation, Inc., The North Carolina Forestry Foundation, Inc., North Carolina Textile Foundation, Inc., North Carolina State University Student Aid Association, Inc., and the North Carolina State Alumni Association, Inc.

These organizations serve as the primary fundraising arm of the University through which individuals, corporations and other organizations support University programs by providing scholarships, fellowships, faculty salary supplements, and unrestricted funds to specific colleges and the University's overall academic environment. The University's financial statements do not include the assets, liabilities, net assets or operational transactions of the foundations, except for support from each organization to the University. This support approximated \$28,348,000 for the year ended June 30, 2001.

Non-Profit Corporation - The Centennial Authority (Authority) was created by the 1995 General Assembly (Senate Bill 606) for the purpose of studying, designing, planning, constructing, owning, promoting, financing and operating a regional facility on land owned by the State. Prior to this act, the General Assembly authorized the construction by the University of a facility to be known as the "Entertainment and Sports Arena" (ESA). This facility will serve as a regional sports entertainment center and be available for cultural performances, sporting events and other activities of the University or of other entities (the centennial center project). With the 1995 legislation, the centennial center project was transferred to the Authority.

The Authority entered into a Ground Lease with the State of North Carolina to lease land for the ESA for a period of 99 years at an annual rent of \$1. The University entered into a Use Agreement with the Authority. Both parties agreed that the University shall be the primary and preferred user of all areas of the ESA. The University is required to pay the greater of 10% of gross ticket revenues or \$40,700 for each men's and \$17,800 for each women's basketball game to compensate the Authority for facility rental and operating expenses. Rent and expense payments for miscellaneous events will be negotiated on an event by event basis based on the availability of the ESA and the anticipated attendance.

NOTE 14 - ACCOUNTING CHANGES

A. Securities Lending Transactions - The University deposits certain funds with the State Treasurer's Cash and Investment Pool, which participates in securities lending activities. In prior years it was the State's policy to allocate the risk associated with these transactions to each component

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

unit. For the year ending June 30, 2001, the State changed its policy, as a result of discussion with the GASB technical staff, to report the associated risk as part of the State of North Carolina's fiduciary funds rather than to allocate the risk to component units. The effect of this change removes from the University issued financial statements the assets and liabilities associated with the State Treasurer's security lending program. This change does not affect the University's beginning fund equities.

B. Governmental Accounting Standard Board, Statement #33 - Accounting and Financial Reporting for Nonexchange Transactions - Effective July 1, 2000, the University implemented the new accounting and reporting standards required in GASB #33. This standard provides accounting rules over non-exchange transactions and changes the University's standards for the recognition of revenues and the reporting of funds received but not earned in the University's restricted fund. In prior years, the University reported funds received but not expended in its restricted fund as an addition to fund equity. Based on this new standard, revenues are recognized when earned and when the resource provider's conditions have been satisfied. Amounts received not meeting the recognition requirements are now reported as deferred revenue. In addition, the new standard requires promises to give (pledges) that are expected to be collected and available for expenditure, and that are verifiable and measurable, be recorded as a receivable and revenue, upon satisfying the resource provider's conditions. Prior to this year, pledges were not recorded as a receivable unless there was a legally enforceable right. The effect of implementing this standard had no material effect on the beginning unrestricted general and restricted fund balances nor did it impact deferred revenue.

NOTE 15 - PRIOR PERIOD ADJUSTMENTS

As of July 1, 2000, the fund equity of the various funds as previously reported was restated as follows:

	<i>(in thousands)</i>		
Fund Group	To Reclassify Funds to a more Appropriate Fund Group(s)	To Correct Other Errors in Reported Balances	Total Restatement To July 1, 2000 Fund Equity
Unrestricted General Fund	\$ 2,222	\$ 0	\$ 2,222
Unrestricted Proprietary Fund	(2,222)		(2,222)
Restricted Fund		(14)	(14)

**North Carolina State University
Revenue Bond Funds
Balance Sheet
June 30, 2001
(dollars expressed in thousands)**

Schedule 1

	Student Housing System*	University Student Center	Dining System	Parking System	Centennial Campus	Central Stores*	Gymnasium System*	Student Health*	Athletic System*
REVENUE FUND									
Assets:									
Cash and Cash Equivalents	\$ 9,583	\$ 2,394	\$ 5,239	\$ 2,702	\$ 1,399	\$ 381	\$ 2,221	\$ 2,521	\$ 9,381
Receivables	898	9	286	333		91	1	109	1,512
Due From Other Funds	94	867	55	25	246	12	19	23	24
Inventories			92			249			
Total Assets	\$ 10,575	\$ 3,270	\$ 5,672	\$ 3,060	\$ 1,645	\$ 733	\$ 2,241	\$ 2,653	\$ 10,917
Liabilities and Fund Equity:									
Liabilities:									
Accounts Payable and Accrued Liabilities	\$ 367	\$ 52	\$ 169	\$ 206	\$ 0	\$ 83	\$ 0	\$ 259	\$ 417
Due to Other Funds	1	677							2
Accrued Vacation Leave	310	185	207	92		17		306	375
Deferred Revenue	742	111	302	63				152	4,536
Total Liabilities	1,420	1,025	678	361		100		717	5,330
Fund Equity:									
Unrestricted	9,155	2,245	4,994	2,699	1,645	633	2,241	1,936	5,587
Total Liabilities and Fund Equity	\$ 10,575	\$ 3,270	\$ 5,672	\$ 3,060	\$ 1,645	\$ 733	\$ 2,241	\$ 2,653	\$ 10,917

North Carolina State University
Revenue Bond Funds
Balance Sheet
June 30, 2001
(dollars expressed in thousands)

Schedule 1
Page 2

	Student Housing System*	University Student Center	Dining System	Parking System	Centennial Campus	Central Stores*	Gymnasium System*	Student Health*	Athletic System*
BOND AND INTEREST SINKING FUND									
Assets:									
Cash and Cash Equivalents	\$ 6	\$ 473	\$ 2	\$ 893	\$ 2,286	\$ 276	\$ 0	\$ 0	\$ 2
Investments	3,465								
Receivables	19	2		5	8				
Prepaid Expense	288	15	27	59	675	94	22	68	91
Total Assets	\$ 3,778	\$ 490	\$ 29	\$ 957	\$ 2,969	\$ 370	\$ 22	\$ 68	\$ 93
Liabilities and Fund Equity:									
Liabilities:									
Due to Other Funds	\$ 0	\$ 20	\$ 0	\$ 0	\$ 151	\$ 0	\$ 0	\$ 0	\$ 0
Bonds Payable	485	40	59	129	2,177	373	23	59	105
Interest Payable	426	15	42	20	61	42	12	40	47
Total Liabilities	911	75	101	149	2,389	415	35	99	152
Fund Equity (Deficit):									
Restricted	2,600	269		836	960				
Unrestricted	267	146	(72)	(28)	(380)	(45)	(13)	(31)	(59)
Total Fund Equity	2,867	415	(72)	808	580	(45)	(13)	(31)	(59)
Total Liabilities and Fund Equity	\$ 3,778	\$ 490	\$ 29	\$ 957	\$ 2,969	\$ 370	\$ 22	\$ 68	\$ 93
REPAIR AND REPLACEMENT RESERVE									
Assets:									
Cash and Cash Equivalents	\$ 3	\$ 82	\$ 322	\$ 532	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Investments	1,666								
Receivables	10		1	3					
Total Assets	\$ 1,679	\$ 82	\$ 323	\$ 535	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Liabilities and Fund Equity:									
Fund Equity:									
Restricted	\$ 1,250	\$ 82	\$ 270	\$ 445	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Unrestricted	429		53	90					
Total Fund Equity	1,679	82	323	535					
Total Liabilities and Fund Equity	\$ 1,679	\$ 82	\$ 323	\$ 535	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0

*These systems include bond financing through the University of North Carolina System Pool Revenue Bonds. Financing related to these bonds are insured and are not required to maintain debt service reserves.

Deficit fund balances are due to year end accruals.

North Carolina State University
Revenue Bond Funds
Schedule of Changes in Fund Equity
Year Ended June 30, 2001
(dollars expressed in thousands)

Schedule 2

	Student Housing System*	University Student Center	Dining System	Parking System	Centennial Campus	Central Stores*	Gymnasium System*	Student Health*	Athletic System*
REVENUE FUND									
Additions:									
Tuition and Fees	\$ 17	\$ 3,758	\$ 17	\$ 1,594	\$ 0	\$ 0	\$ 336	\$ 4,410	\$ 1,888
Investment Income	495	169	343	167	82	7	88	164	172
Sales and Services	21,871	518	15,852	5,150		1,967		1,937	24,351
Rental Income					4,088				
Other Revenues and Additions	54	1		1		320		61	32
Non-Mandatory Transfers	85	26				220		47	34
Total Additions	22,522	4,472	16,212	6,912	4,170	2,514	424	6,619	26,477
Deductions:									
Personnel Compensation	5,562	2,539	5,570	1,613		297		4,553	11,268
Supplies and Materials	1,140	186	7,235	181		1,662		1,234	2,170
Current Services	7,843	878	2,113	3,610		125		287	7,493
Fixed Charges	471	25	176	53		18		110	1,152
Capital Outlay	788	43	54	203		10	2	37	178
Miscellaneous	779	39	376	224	42			189	24
Mandatory Transfers	4,195	348	254	762	3,379	226	243	526	486
Non-Mandatory Transfers	255	26	1,528	204	964		1	486	678
Total Deductions	21,033	4,084	17,306	6,850	4,385	2,338	246	7,422	23,449
Net Increase (Decrease) in Fund Equity	1,489	388	(1,094)	62	(215)	176	178	(803)	3,028
Fund Equity July 1, 2000	7,666	1,857	6,088	2,637	1,860	457	2,063	2,739	2,559
Fund Equity June 30, 2001	\$ 9,155	\$ 2,245	\$ 4,994	\$ 2,699	\$ 1,645	\$ 633	\$ 2,241	\$ 1,936	\$ 5,587

North Carolina State University
Revenue Bond Funds
Schedule of Changes in Fund Equity
Year Ended June 30, 2001
(dollars expressed in thousands)

Schedule 2
Page 2

	Student Housing System*	University Student Center	Dining System	Parking System	Centennial Campus	Central Stores*	Gymnasium System*	Student Health*	Athletic System*
BOND AND INTEREST SINKING FUND									
Additions:									
Investment Income	\$ 178	\$ 19	\$ 3	\$ 85	\$ 84	\$ 0	\$ 0	\$ 0	\$ 0
Mandatory Transfers	3,972	263	254	762	3,379	89	243	526	486
Non-Mandatory Transfers	25	18		10	349		1	1	1
Total Additions	4,175	300	257	857	3,812	89	244	527	487
Deductions:									
Retirement of Indebtedness	2,622	170	145	525	1,246		175	285	210
Interest on Indebtedness	1,574	95	109	273	2,051	131	66	239	274
Other Deductions	28	247	12	18	117	3		(4)	4
Total Deductions	4,224	512	266	816	3,414	134	241	520	488
Net Increase (Decrease) in Fund Equity	(49)	(212)	(9)	41	398	(45)	3	7	(1)
Fund Equity (Deficit) July 1, 2000	2,916	627	(63)	767	182		(16)	(38)	(58)
Fund Equity (Deficit) June 30, 2001	\$ 2,867	\$ 415	\$ (72)	\$ 808	\$ 580	\$ (45)	\$ (13)	\$ (31)	\$ (59)
REPAIR AND REPLACEMENT RESERVE									
Additions:									
Investment Income	\$ 79	\$ 4	\$ 17	\$ 31	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Mandatory Transfers	223	85							
Total Additions	302	89	17	31					
Deductions:									
Non-Mandatory Transfers	23	18							
Net Increase in Fund Equity	279	71	17	31					
Fund Equity July 1, 2000	1,400	11	306	504					
Fund Equity June 30, 2001	\$ 1,679	\$ 82	\$ 323	\$ 535	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0

*These systems include bond financing through the University of North Carolina System Pool Revenue Bonds. Financing related to these bonds are insured and are not required to maintain debt service reserves.

Deficit fund balances are due to year end accruals.

North Carolina State University
Schedule of General Obligation Bond Project Authorizations, Budgets and Expenditures
For Project-to-Date as of June 30, 2001
(dollars expressed in thousands)

Schedule 3

		Projected	General	Other	Total	Amount	Percent	Expected
		Start	Obligation Bonds	Sources	Project	Expended	Completed	Completion
	Capital Improvement Projects	Date	Authorized		Budget			Date
Projects Started								
313	Clark Hall - Conversion from Infirmary to Student and Faculty Support Services	Jan 2001	\$ 2,415	\$ 0	\$ 2,415	\$ 161	6.67%	Jun 2003
321	Support Services Center - to Relocate Various Campus Services	Jan 2001	10,336		10,336	74	0.72%	Feb 2005
326	Chilled Water Central Plant - North Campus	Mar 2001	41,769		41,769	191	0.46%	Dec 2009
330	Steam Distribution and Capacity Improvements (Sullivan Dr. area)	Mar 2001	3,244		3,244	133	4.10%	Mar 2004
334	Land Acquisition	Jan 2001	2,100		2,100	10	0.48%	Dec 2001
339	Undergraduate Science Teaching Lab - Phase I	Jul 2000	4,586		4,586	118	2.57%	Mar 2002
Projects Not Started - To Be Funded in Future Years								
301	Undergraduate Science Teaching Lab - Phase I	Jul 2000	30,215		30,215			Mar 2002
302	Withers Hall - Conversion from Laboratory to General Academic Use	Feb 2002	11,480		11,480			Nov 2006
303	College of Engineering Complex - Phase I	Nov 2000	32,806		32,806			Dec 2004
304	College of Veterinary Medicine - Research Addition and Renovation of Laboratories and Academic Space	Jul 2000	20,180		20,180			Sep 2005
305	College of Engineering Complex - Phase II	Dec 2000	46,565		46,565			Jul 2005
306	David Clark Laboratory - Comprehensive Renovation and Addition	Apr 2001	11,556		11,556			Sep 2007
307	Undergraduate Science Teaching Lab - Phase II	Nov 2000	12,197		12,197			Jan 2006
308	South Gardner Hall Laboratory Building - Comprehensive Renovation	May 2004	15,214		15,214			Jun 2009
309	1911 Classroom Building - Comprehensive Renovation	Dec 2003	6,972		6,972			Sep 2008
310	Park Shops - Comprehensive Renovation and Use Conversion for General Academic Use	May 2004	6,311		6,311			Sep 2008
311	Riddick Lab - Comprehensive Renovation and Conversion from Laboratory to Classroom Building	May 2001	26,021		26,021			Feb 2007
312	Harrelson Classroom Building - Comprehensive Renovation	Sep 2003	13,609		13,609			Sep 2003
314	Schaub Food Science Building - Comprehensive Renovation	Jan 2002	10,516		10,516			Sep 2006
315	Williams Hall Laboratory Building - Comprehensive Renovation	Dec 2002	12,865		12,865			Nov 2007
316	Polk Hall Laboratory Building - Comprehensive Renovation	Nov 2003	15,053		15,053			Mar 2009
317	Leazar Hall Laboratory Building - Comprehensive Renovation	Feb 2002	8,361		8,361			Feb 2007
318	Daniels Hall Laboratory Building - Phase I - Comprehensive Renovation	Jun 2001	7,865		7,865			Jan 2007
319	Jordan Hall Lab and Classroom Building - Addition	Jun 2001	13,553		13,553			Jul 2005
320	Library Addition	Dec 2001	9,194		9,194			Feb 2006
322	Field Research Laboratories and Outlying Research Facilities - Phase I	Apr 2001	2,500		2,500			Nov 2004
323	Horticulture Classroom at Arboretum Education Center	Jan 2001	500		500			Jun 2002
324	Research Laboratory Space - Phase I	Aug 2001	18,900		18,900			Dec 2005
324	Public Safety Facility	Feb 2001	4,704		4,704			Feb 2005
326	College of Veterinary Medicine - Mechanical and Electrical System Improvements	Aug 2001	21,000		21,000			Oct 2007

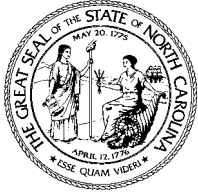
North Carolina State University
Schedule of General Obligation Bond Project Authorizations, Budgets and Expenditures
For Project-to-Date as of June 30, 2001
(dollars expressed in thousands)

Schedule 3
Page 2

	Projected Start Date	General Obligation Bonds Authorized	Other Sources	Total Project Budget	Amount Expended	Percent Completed	Expected Completion Date
Capital Improvement Projects							
<i>Projects Not Started - To Be Funded in Future Years (continued)</i>							
327	Technology Infrastructure Expansion	Jan 2002	2,424		2,424		Dec 2002
329	Chilled Water Brickyard Loop Expansion and Cooling Tower	Jan 2005	2,914		2,914		Aug 2008
331	Main Campus Infrastructure (including Water System)	Mar 2001	9,331		9,331		Mar 2006
332	College of Veterinary Medicine - Infrastructure	Jun 2001	5,300	261	5,561		Jul 2004
333	Centennial Campus - Infrastructure	Mar 2001	11,339		11,339		Mar 2004
335	College of Veterinary Medicine - Research Addition and Renovation of Laboratories and Academic Space	Jul 2000	675		675		Sep 2005
336	College of Engineering Complex, Planning	Nov 2000	3,200		3,200		Dec 2004
337	Meat Processing Laboratory	Jun 2001	4,854		4,854		Apr 2003
338	Research Teaching and Feed Mill	Jan 2001	2,582		2,582		Nov 2002
340	Land Acquisition - Beef Herd	Jan 2001	3,051				Apr 2002
Total All Projects			\$ 468,257	\$ 261	\$ 465,467	\$ 687	

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

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Ralph Campbell, Jr.
State Auditor

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

Board of Trustees
North Carolina State University
Raleigh, North Carolina

We have audited the financial statements of North Carolina State University, a component unit of the State of North Carolina, as of and for the year ended June 30, 2001, and have issued our report thereon dated December 20, 2001.

As discussed in Note 14A to the financial statements, the University changed its method of accounting for securities lending transactions allocated from the State Treasurer's Cash and Investment Pool during the year ended June 30, 2001. As discussed in Note 14B to the financial statements, the University implemented Governmental Accounting Standards Board Statement #33, *Accounting and Financial Reporting for Nonexchange Transactions*, during the year ended June 30, 2001.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the University's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the University's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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



Ralph Campbell, Jr.
State Auditor

December 20, 2001

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

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Minority Leader of the N. C. House of Representatives
N. C. House Speaker Pro-Tem
Director, Fiscal Research Division

May 31, 2002

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