

STATE OF NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT OF NORTH CAROLINA AGRICULTURAL AND TECHNICAL STATE UNIVERSITY

GREENSBORO, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2002

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR

**FINANCIAL STATEMENT AUDIT REPORT OF
NORTH CAROLINA AGRICULTURAL AND TECHNICAL STATE
UNIVERSITY**

GREENSBORO, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2002

BOARD OF GOVERNORS

THE UNIVERSITY OF NORTH CAROLINA

MOLLY CORBETT BROAD, PRESIDENT

BOARD OF TRUSTEES

RALPH K. SHELTON, CHAIRMAN

DR. VELMA R. SPEIGHT, VICE CHAIRMAN

**R. STEVE BOWDEN
MILTON S. BROWN, III
CAROLE BRUCE
D. HAYES CLEMENT
DR. KATIE G. DORSETT**

**HENRY H. ISAACSON
DR. CHARLES E. MCQUEARY
MICHAEL L. SUGGS
DR. GERALD L. TRUESDALE
JOSEPH A. WILLIAMS**

ADMINISTRATIVE OFFICERS

DR. JAMES C. RENICK, CHANCELLOR

WILLIE T. ELLIS, JR., VICE CHANCELLOR FOR BUSINESS AND FINANCE



Ralph Campbell, Jr.
State Auditor

STATE OF NORTH CAROLINA
Office of the State Auditor

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

AUDITOR'S TRANSMITTAL

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

This report presents the results of our financial statement audit of North Carolina Agricultural and Technical State University, a constituent institution of the sixteen-campus University of North Carolina System, which is a component unit of the State of North Carolina, for the year ended June 30, 2002. Our audit was made by authority of Article 5A of Chapter 147 of the General Statutes.

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 subjected 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 that relate solely to North Carolina Agricultural and Technical 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 that relate solely to North Carolina Agricultural and Technical State University. A summary of our reporting objectives and audit results is:

- 1. Objective** – To express an opinion on the accompanying financial statements that relate solely to North Carolina Agricultural and Technical 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. These matters are more fully described in the Independent Auditor's Report on the Financial Statements.

AUDITOR'S TRANSMITTAL (CONCLUDED)

2. **Objective** – To 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 and present instances of noncompliance, if any, with laws, regulations, contracts, or grants.

Results - The following significant deficiencies in internal control over financial reporting and instances of noncompliance were noted as a result of our audit:

Finding

1. Internal Controls Over Capital Assets
2. Controls Over Intercollegiate Athletics Program
3. Internal Controls Over Cash Disbursements

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

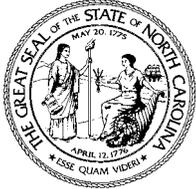
North Carolina General Statutes require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.



Ralph Campbell, Jr.
State Auditor

TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITOR’S REPORT	1
MANAGEMENT’S DISCUSSION AND ANALYSIS	3
FINANCIAL STATEMENTS	
Exhibits	
A Statement of Net Assets	10
B Statement of Revenues, Expenses, and Changes in Net Assets.....	12
C Statement of Cash Flows	13
Notes to the Financial Statement	15
SUPPLEMENTARY INFORMATION	
Schedules	
1 Schedule of General Obligation Bond Project Authorizations, Budgets, and Expenditures	36
2 Statement of Current Funds Revenues and Expenditures – Intercollegiate Athletics Program..	37
INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	41
AUDIT FINDINGS AND RECOMMENDATIONS	43
DISTRIBUTION OF AUDIT REPORT	46



Ralph Campbell, Jr.
State Auditor

STATE OF NORTH CAROLINA
Office of the State Auditor

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

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
North Carolina Agricultural and Technical State University
Greensboro, North Carolina

We have audited the accompanying basic financial statements of North Carolina Agricultural and Technical State University, a constituent institution of the sixteen-campus University of North Carolina System, which is a component unit of the State of North Carolina, as of and for the year ended June 30, 2002, as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We 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 Agricultural and Technical State University as of June 30, 2002, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 17 to the financial statements, the University implemented Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as amended by GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*, and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, during the year ended June 30, 2002.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

In accordance with *Government Auditing Standards*, we have also issued our report dated February 27, 2003 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. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis (MD&A) on pages 3 to 9 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. Schedules 1 and 2 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

February 27, 2003

MANAGEMENT'S DISCUSSION AND ANALYSIS

Introduction

Management's Discussion and Analysis is designed to provide the reader with an overall view of the performance and financial health of North Carolina Agricultural and Technical State University. The discussion has been prepared by University staff and represents an enhancement to the information provided in the financial statements and footnotes. Because this is the first year Management's Discussion and Analysis is a component of the financial report, only one year of financial data is presented. Comparative figures will be provided in future years.

The Governmental Accounting Standards Board (GASB) issued Statement Number 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, in June 1999. In November 1999, GASB issued Statement Number 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities*. GASB Statement No. 34 established financial reporting standards for state and local governments, while GASB Statement No. 35 applied those same standards to public colleges and universities. Both statements became effective for the State of North Carolina for the year ending June 30, 2002, and the University, as a component of the State government, implemented GASB Statement Nos. 34 and 35 as well.

As a result of the implementation of GASB Statement Nos. 34 and 35, the University now issues as part of its annual financial report the Statement of Net Assets, Statement of Revenues, Expenses, and Changes in Net Assets, and Statement of Cash Flows. These Statements, along with the accompanying notes, communicate the financial condition of the University at June 30, 2002, as well as related activity that occurred during the fiscal year. Management's Discussion and Analysis describes important trends and events that have impacted the fiscal health of the University and that may continue to exert influence in future years.

Highlights

State Budget

In recent years the State of North Carolina has experienced budgetary pressures due to a number of reasons. The State lost two costly court cases that resulted from its tax policies and incurred significant expenses due to the effects of Hurricane Floyd in 1999. In addition, North Carolina has experienced an economic slowdown as a result of the national recession. The impact of these events has reduced the amount of funds available to State agencies and component units as the governor and legislators balance the budget by bringing spending in line with collected revenues.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

As a result of the budget issues, North Carolina Agricultural and Technical State University has experienced cuts in State appropriations. The decline of \$6,826,402 in operating appropriations, from \$60,257,238 in 2001 to \$53,430,836 in 2002, represented a reduction of 11%. In addition, the State did not provide appropriations for maintenance and repair of facilities in 2001-2002.

The University has met the challenge State budget cuts have presented through conservative fiscal management. In addition, the University was able to offset some of the reduction in State appropriations with other funds provided by the State for the school's 2001-2002 increase in enrollment.

Although the University anticipates additional budget cuts in the 2002-2003 fiscal year, the Chancellor's guiding principle, "keep our people first, protect the classroom, and continue the FUTURES planning process," will direct the University as it manages its State budget through the next fiscal year.

Construction

In November 2000, voters approved a \$2.5 billion bond package for the improvement and expansion of facilities on the 16 campuses of the University of North Carolina System. As a result, North Carolina Agricultural and Technical State University will receive \$161,800,091 to build new facilities and renovate existing buildings. The University expended \$20,279,329 in bond proceeds during 2001-2002. Major projects funded through the bond proceeds include a new classroom and laboratory building that will be completed in the spring of 2003, several new dormitories as well as the renovation of existing dormitories, improvements to steam lines, enhancement of the technology infrastructure, a new hazardous waste storage facility, and renovation of 6 academic buildings. In addition, the University has used bond proceeds to purchase a significant portion of the land needed to implement the campus master plan. Construction projects during the year also included a major renovation to the dining facility, funded through a bond issue, that has a completion date of August 2002. The University expended the following amounts during 2001-2002 on capital projects, land acquisition, and maintenance and repairs:

	<u>Amount</u>
Construction and Renovation of Buildings and Infrastructure	\$ 27,811,245
Land Acquisition	3,698,810
Maintenance and Repairs	6,372,606

The University has embarked on an effort to reduce utility costs through management initiatives and infrastructure renovations. A new boiler was installed in the heating plant, approximately 40% of the steam distribution piping system has been replaced, and insulation has been replaced on steam and condensate piping in manholes and mechanical equipment

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

rooms. Management has also reduced energy costs by converting to natural gas from fuel oil, where possible, and purchasing fuel oil and natural gas at the lowest price on the open market.

Endowments

Net assets of the University's endowments totaled \$7,482,198 at June 30, 2002. Market conditions during 2001-2002 continued to deteriorate, resulting in a total loss on return of 8.73% for the year. To meet the challenge presented by the current investment climate, the Endowment Board conducted a review of the University's investing and spending policies. Particular attention was given to asset mix and allocation. The Endowment Board and University staff will continue to closely monitor the results of implementing the school's investment policies in order to protect the principal and enhance the return of the endowment portfolio.

Financial Statements

The financial statements presented in the 2002 report are very different from those issued in prior years. All University funds are reported in a single column following the business-type activity (BTA) format prescribed by the Governmental Accounting Standards Board, making the statements more consistent with those issued by the private sector. The statements were prepared using the economic resource measurement focus and the accrual basis of accounting.

Statement of Net Assets

The Statement of Net Assets presents the financial position of the University at June 30, 2002, defined by the balances of assets, liabilities, and assets net of liabilities. Assets are classified as current or noncurrent and cash is further identified as unrestricted or restricted. Current assets include those resources available to meet current obligations and operating requirements while noncurrent assets are held to fund future needs. Capital assets are shown net of depreciation, another significant change in the statement from prior year presentations. Assets, net of liabilities, are grouped in three categories: investment in capital assets net of related debt, restricted net assets, and unrestricted net assets. Restricted net assets are further classified as unexpendable or expendable. Endowments comprise the unexpendable net assets and expendable net assets are made up primarily of contracts, grants, and restricted gifts. The greatest change to the balances on the Statement of Net Assets from the prior period resulted from the construction activity that occurred during the fiscal year. The increase in capital assets of approximately 21% was funded through infusions of cash from State grants, and other sources, as well as \$11 million in cash on hand at July 1, 2001, causing a decrease in cash of about 24%.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Condensed Statement of Net Assets

	Amount	Percent
Assets		
Current Assets	\$ 35,394,387	16.5%
Noncurrent Assets	20,218,135	9.4%
Capital Assets	<u>159,252,189</u>	<u>74.1%</u>
Total Assets	<u>214,864,711</u>	<u>100.0%</u>
Liabilities		
Current Liabilities	12,185,469	36.2%
Noncurrent Liabilities	<u>21,496,178</u>	<u>63.8%</u>
Total Liabilities	<u>33,681,647</u>	<u>100.0%</u>
Net Assets		
Invested in Capital Assets, Net of Related Debt	142,904,517	78.9%
Restricted	21,730,777	12.0%
Unrestricted	<u>16,547,770</u>	<u>9.1%</u>
Total Net Assets	<u>\$ 181,183,064</u>	<u>100.0%</u>

Statement of Revenues, Expenses, and Changes in Net Assets

The Statement of Revenues, Expenses, and Changes in Net Assets reports the activity of the University during the year and is subdivided into four major components: operating revenues, operating expenses, nonoperating revenues and expenses, and other revenues, expenses, gains, or losses. Revenues are reported by major source and expenses are reported by natural classification. Intra-departmental sales, services, and transfers are eliminated and depreciation of capital assets is recorded.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Condensed Statement of Revenues, Expenses, and Changes in Net Assets

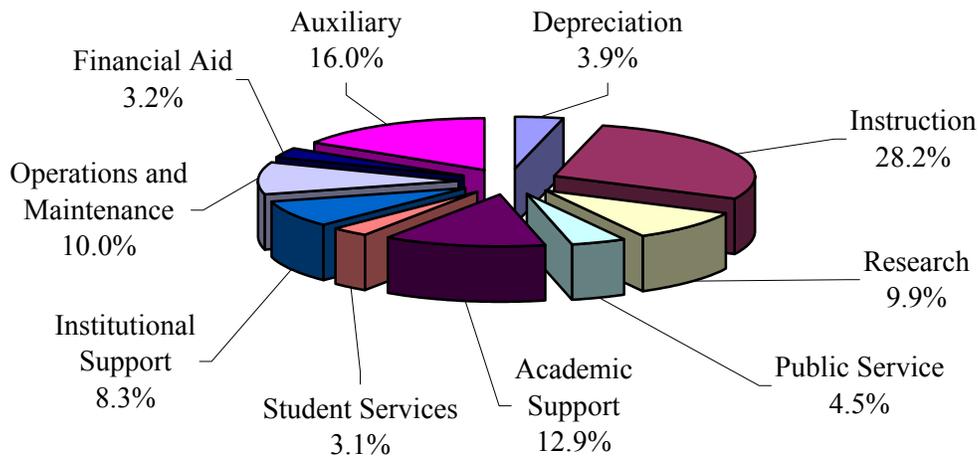
	Amount
Operating Revenues:	
Student Tuition and Fees, Net	\$ 22,269,764
Contracts and Grants	25,870,237
Federal Appropriations	5,676,191
Sales and Services, Net	19,440,377
Other Revenues	1,485,694
	<hr/>
Total Operating Revenues	74,742,263
	<hr/>
Operating Expenses	(144,073,690)
	<hr/>
Operating Loss	(69,331,427)
	<hr/>
Nonoperating Revenues (Expenses):	
State Appropriations	53,430,836
Noncapital Grants	9,330,532
Investment Income	378,155
Interest and Fees on Capital Asset-Related Debt	(906,262)
Other Nonoperating Expenses	(170,568)
	<hr/>
Net Nonoperating Revenues	62,062,693
	<hr/>
Loss Before Other Revenues, Expenses, Gains, or Losses	(7,268,734)
	<hr/>
Other Revenues, Expenses, Gains, or Losses:	
Capital Grants	24,906,481
Capital Gifts	104,508
Additions to Permanent Endowments	395,582
	<hr/>
Increase in Net Assets	18,137,837
	<hr/>
Net Assets:	
Beginning of Year	163,045,227
	<hr/>
End of Year	\$ 181,183,064
	<hr/>

The increase in net assets of \$18,137,837 during the fiscal year represents a gain of 11%. Based on GASB Statement No. 34 requirements, State appropriations as well as nonexchange contracts and grants are included in nonoperating income, although these sources of revenue are used to finance the operations of the University. State appropriations made up approximately 33% of all receipts. Contracts and grants, including operating, nonoperating, and capital, totaled \$65,783,441, or 40 % of revenues, with federal contracts and grants, in the

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

form of direct and pass-through awards, comprising 58% of that figure. Tuition and fees provided \$22,269,764, or 14% of total revenues, and sales and services made up \$19,440,377, or 12%. Minor categories of revenues included insurance proceeds, investment income, additions to permanent endowments, and miscellaneous receipts. The three areas of significant change during the fiscal year were State appropriations, student tuition and fees, and State grants. State appropriations were reduced by approximately 15% from the previous year, mainly because of budget cuts by the State legislature. State grants increased by over \$23 million, due to amounts received by the University to cover the major building and renovation projects funded through the State general obligation bonds. Student tuition and fees were increased by about 33%, resulting from fee increases as well as increased enrollment.

The University presented expenditures by natural classification in the Statement of Revenues, Expenses, and Changes in Net Assets. Personnel services accounted for 60% of operating expenses, followed by services at 16%, supplies and materials at 12%, scholarships at 6%, depreciation at 4%, and utility costs at 2%. Expenses remained relatively constant in 2001-2002 from the previous year with the exception of utilities and financial aid. Utility costs decreased by around 28%, a drop attributed in large part to management initiatives and infrastructure improvements. Financial aid increased by approximately 24% due to a large increase in Pell awards. Expenses by function are detailed in Note 11 of the Notes to the Financial Statements.



MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

Statement of Cash Flows

The Statement of Cash Flows identifies the sources and uses of the University's cash assets during the year. The Statement shows the nature and source of cash used by the University to meet its current obligations. The Statement of Cash Flows is prepared using the direct method.

Condensed Statement of Cash Flows

	<u>Amount</u>
Cash Flows from Operating Activities	\$ (63,920,937)
Cash Flows from Noncapital Financing Activities	65,252,344
Cash Used for Acquisition and Construction of Assets	(30,401,488)
Cash Provided by Capital Grants	20,279,329
Cash Used to Retire Debt	(1,668,788)
Cash Flows from Investing Activities	870,497
Cash Flows from Sale of Capital Assets	<u>15,454</u>
Net Decrease in Cash and Cash Equivalents	<u>\$ (9,573,589)</u>

Operating activities of the University were funded through tuition and fees, sales and services of education and auxiliary enterprises, contract and grant awards, and miscellaneous income. These resources provided almost 50% of the operating cash needs and were supplemented with State appropriations, noncapital contract and grant awards, gifts, and other miscellaneous receipts. Net investment in capital assets of \$30,401,488 was funded in part by State grants received in 2001-2002, totaling \$20,279,329. The remainder of the investment in capital assets was financed through minor sources of revenue and cash reserves on hand at July 1, 2001, that consisted primarily of bond proceeds and State appropriations.

The Statement of Cash Flows illustrates that the University was able to generate the necessary operating revenue and noncapital financing to meet its current operating expenses. Although cash decreased by \$9,573,589 during the year, that decrease was due to the renewal and expansion of facilities and infrastructure to meet the growing needs of the University's students, faculty, and staff.

Forecast

The financial conditions facing North Carolina will continue to present a challenge to University management as they meet the needs of students, faculty, staff, and the community while dealing with cuts in State appropriations. Management anticipates that increases in enrollment should continue to provide State funding that could be used to offset the reductions in State appropriations as North Carolina reduces budget allocations to meet revenue shortfalls. The University will continue to follow a path of conservative fiscal management while identifying other resources to mitigate the cut in State appropriations and to fund programs and initiatives.

North Carolina Agricultural and Technical State University
Statement of Net Assets
June 30, 2002

Exhibit A

ASSETS

Current Assets:

Cash and Cash Equivalents	\$	19,134,757
Restricted Cash and Cash Equivalents		6,547,128
Receivables, Net (Note 5)		8,494,971
Inventories		911,323
Notes Receivable, Net (Note 5)		306,208
Total Current Assets		35,394,387

Noncurrent Assets:

Restricted Cash and Cash Equivalents		4,811,683
Receivables, Net (Note 5)		142,242
Restricted Due from Primary Government		6,119,137
Endowment Investments		7,224,467
Other Long-Term Investments		818,321
Notes Receivable, Net (Note 5)		1,102,285
Capital Assets, Net (Note 6)		159,252,189
Total Noncurrent Assets		179,470,324

Total Assets		214,864,711
---------------------	--	--------------------

LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 7)		7,638,910
Due to Primary Government		32,125
Deferred Revenue		3,394,603
Interest Payable		217,107
Long-Term Liabilities - Current Portion (Note 8)		902,724
Total Current Liabilities		12,185,469

Noncurrent Liabilities:

Deposits Payable		302,565
Funds Held for Others		39,993
U. S. Government Grants Refundable		1,293,185
Long-Term Liabilities (Note 8)		19,860,435
Total Noncurrent Liabilities		21,496,178

Total Liabilities		33,681,647
--------------------------	--	-------------------

North Carolina Agricultural and Technical State University**Statement of Net Assets****Exhibit A****June 30, 2002****Page 2****NET ASSETS**

Invested in Capital Assets, Net of Related Debt	142,904,517
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	2,869,202
Endowed Professorships	2,639,992
Other	73,079
Expendable:	
Scholarships and Fellowships	2,444,727
Research	203,831
Endowed Professorships	663,284
Departmental Uses	2,293,115
Loans	258,035
Capital Projects	9,947,417
Debt Service	327,828
Other	10,267
Unrestricted	16,547,770
Total Net Assets	\$ 181,183,064

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

North Carolina Agricultural and Technical State University
Statement of Revenues, Expenses, and
Changes in Net Assets
For the Fiscal Year Ended June 30, 2002

Exhibit B

REVENUES

Operating Revenues:

Student Tuition and Fees, Net (Note 10)	\$ 22,269,764
Federal Appropriations	5,676,190
Federal Grants and Contracts	24,354,300
State and Local Grants and Contracts	552,444
Nongovernmental Grants and Contracts	963,493
Sales and Services, Net (Note 10)	19,440,377
Interest Earnings on Loans	2,931
Other Operating Revenues	1,482,764
Total Operating Revenues	74,742,263

EXPENSES

Operating Expenses:

Salaries and Benefits	86,163,568
Supplies and Materials	16,744,975
Services	23,341,088
Scholarships and Fellowships	8,624,936
Utilities	3,572,244
Depreciation	5,626,879
Total Operating Expenses	144,073,690
Operating Loss	(69,331,427)

NONOPERATING REVENUES (EXPENSES)

State Appropriations	53,430,836
Noncapital Grants	9,330,532
Investment Income	378,155
Interest and Fees on Capital Asset-Related Debt	(906,262)
Other Nonoperating Expenses	(170,568)
Net Nonoperating Revenues	62,062,693
Loss Before Other Revenues, Expenses, Gains, or Losses	(7,268,734)
Capital Grants	24,906,481
Capital Gifts	104,508
Additions to Permanent Endowments	395,582
Increase in Net Assets	18,137,837

NET ASSETS

Net Assets - July 1, 2001, as Restated (Note 18)	163,045,227
Net Assets - June 30, 2002	\$ 181,183,064

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

North Carolina Agricultural and Technical State University
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2002

Exhibit C

CASH FLOWS FROM OPERATING ACTIVITIES	
Student Tuition and Fees, Net	\$ 21,775,264
Auxiliary Enterprise Charges	18,809,769
Contracts and Grants	31,375,896
Payments to Employees and Fringe Benefits	(85,240,957)
Payments to Vendors and Suppliers	(43,547,826)
Payments for Scholarships and Fellowships	(8,624,936)
Loans Issued	(326,073)
Collection of Loans	359,972
Interest Earned on Loans	15,792
Other Receipts	1,482,162
Net Cash Used by Operating Activities	(63,920,937)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Appropriations	53,430,836
Grants for Other than Capital Purposes	10,105,700
Noncapital Gifts	1,304,477
Additions to Permanent and Term Endowments	395,582
William D. Ford Direct Lending Receipts	25,371,661
William D. Ford Direct Lending Disbursements	(25,371,661)
Related Activity Agency Transaction	15,749
Net Cash Provided by Noncapital Financing Activities	65,252,344
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital Grants	20,279,329
Proceeds from Sale of Capital Assets	15,454
Acquisition and Construction of Capital Assets	(30,401,488)
Principal Paid on Capital Debt	(753,439)
Interest and Fees Paid on Capital Debt	(915,349)
Net Cash Used by Capital and Related Financing Activities	(11,775,493)
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from Sales and Maturities of Investments	2,138,797
Interest on Investments	925,886
Purchase of Investments and Related Fees	(2,194,186)
Net Cash Provided by Investing Activities	870,497
Net Decrease in Cash and Cash Equivalents	(9,573,589)
Cash and Cash Equivalents - July 1, 2001	40,067,157
Cash and Cash Equivalents - June 30, 2002	\$ 30,493,568

North Carolina Agricultural and Technical State University
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2002

Exhibit C

Page 2

**RECONCILIATION OF NET OPERATING REVENUES (EXPENSES)
TO NET CASH USED BY OPERATING ACTIVITIES**

Operating Loss	\$ (69,331,427)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	5,626,879
Allowances, Write-Offs, and Amortizations	11,087
Nonoperating Other Expense	(140,093)
Changes in Assets and Liabilities:	
Receivables (Net)	(1,301,320)
Inventories	39,847
Accounts Payable and Accrued Liabilities	746,060
Due to Primary Government	(5,025)
Deferred Revenue	485,360
Compensated Absences	270,242
Deposits Payable	(344,451)
Loans to Students	21,904
Net Cash Used by Operating Activities	\$ (63,920,937)

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	\$ 19,134,757
Restricted Cash and Cash Equivalents	6,547,128
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	4,811,683
Total Cash and Cash Equivalents - June 30, 2002	\$ 30,493,568

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through a Gift	\$ 104,508
Loss on Disposal of Capital Assets	186,024

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

NORTH CAROLINA AGRICULTURAL AND TECHNICAL STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002

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

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

Pursuant to the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as amended by GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*, effective for the University's year ended June 30, 2002, the full scope of the University's activities is considered to be a single business-type activity (BTA) and accordingly, is reported within a single column in the basic financial statements.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

- D. Cash and Cash Equivalents** – This classification appears on the Statement of Net Assets and the Statement of Cash Flows and includes undeposited receipts, petty cash, cash on deposit with private bank 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). The short-term investment portfolio maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.
- E. Investments** - This classification includes long-term fixed income investments, equity investments, mutual funds, money market funds, certificates of deposit, and real estate. Except for money market funds, certificates of deposit, and real estate investments are accounted for at fair value, as determined by quoted market prices, or an amount determined by management if quoted market prices are not available. The net increase (decrease) in the fair value of investments is recognized as a component of investment income.

Money market funds, certificates of deposit, and real estate are reported at cost, if purchased, or at fair value or appraised value at date of gift, if donated.

- F. Receivables** – Receivables consist of tuition and fees charges to students and charges for auxiliary enterprises’ sales and services. Receivables also include amounts due from the federal government, State and local governments, private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants, and pledges that are verifiable, measurable, and expected to be collected and available for expenditures for which the resource providers conditions

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

have been satisfied. Receivables are recorded net of estimated uncollectible amounts.

G. Inventories – Inventories, consisting of expendable supplies and merchandise for resale, are stated at the lower of cost or market value using the first-in, first-out method.

H. Capital Assets – Capital assets are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. The University capitalizes 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. Library books are expensed.

Depreciation is computed using the straight-line and/or units of output method over the estimated useful lives of the assets, generally 15 to 75 years for general infrastructure, 10 to 50 years for buildings, and 3 to 15 years for equipment.

The Heritage Center and Art Gallery collections are capitalized at cost or fair value at the date of donation. These collections are considered inexhaustible and are therefore not depreciated.

I. Restricted Assets – Restricted assets represent assets whose use is restricted by external parties or by law through constitutional provisions or enabling legislation.

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

Bonds payable are reported net of unamortized premiums or discounts and deferred losses on refundings. The University amortizes bond premiums/discounts over the life of the bonds using the straight-line. The deferred losses on refundings are amortized over the life of the old debt using the straight-line method. Issuance costs are expensed.

K. Compensated Absences - The University's policy is to record the cost of vacation leave when earned. The policy provides for a maximum accumulation of unused vacation leave of 30 days which can be carried forward each January 1st for SPA employees or July 1st for EPA employees. An employee can be paid upon termination of employment. Also, any accumulated vacation leave in excess of 30 days at year-end or contract end is converted to sick leave. Under this policy, the accumulated vacation leave for SPA employee at June 30th equals the leave carried forward at the previous December 31st plus the leave earned, less the leave taken between January 1st and June 30th. The

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

accumulated leave for EPA employees is equal to the balances held at June 30th.

When classifying compensated absences into current and noncurrent, leave is considered taken using a last-in, first-out method.

L. Net Assets – The University’s net assets are classified as follows:

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

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

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

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

Restricted and unrestricted resources are tracked using a fund accounting system and are spent in accordance with established fund authorities. Fund authorities provide rules for the fund activity and are separately established for restricted and unrestricted activities. When both restricted and unrestricted funds are available for expenditure, the decision for funding is transactional based within the departmental management system in place at the University.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Assets. To the extent that revenues from these programs are used to satisfy tuition, fees, and other charges, the University has recorded a scholarship discount.

- N. Revenue and Expense Recognition** – The University presents its revenues and expenses as operating or nonoperating based on recognition definitions from GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*. Operating activities are those activities that are necessary and essential to the mission of the University. Operating revenues include all charges to customers, grants received for student financial assistance, research contracts and grants, and interest earned on loans. Grants received for student financial assistance are considered operating revenues because they provide resources for student charges, and such programs are necessary and essential to the mission of the University. Revenues from nonexchange transactions and State appropriations that represent subsidies or gifts to the University, as well as investment income, are considered nonoperating since these are either capital or noncapital financing or investing activities. Operating expenses are all expense transactions incurred other than those related to capital or noncapital financing or investing activities. Revenues received for capital financing activities, as well as related expenses, are considered neither operating nor nonoperating activities and are presented after nonoperating activities on the accompanying Statement of Revenues, Expenses, and Changes in Net Assets.
- O. Internal Sales Activities** – Certain institutional auxiliary operations provide goods and services to University departments, as well as to its customers. These institutional auxiliary operations include activities such as Motor Pool, Postal Services, Telecommunications, and the Bookstore. In addition, the University has other miscellaneous sales and service units that operated either on a reimbursement or charge basis. All internal sales activities to University departments from auxiliary operations and sales and service units have been eliminated in the accompanying financial statements. These eliminations are recorded by removing the revenue and expense in the auxiliary operations and sales and service units and, if significant, allocating any residual balances to those departments receiving the goods and services during the year.

NOTE 2 - 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

NOTE 3 - DEPOSITS AND INVESTMENTS

A. Deposits - The University is required by General Statute 147-77 to deposit its budget code cash, as defined in Note 2, and by the University of North Carolina Board of Governors pursuant to General Statute 116-36.1 to deposit its institutional trust funds in the State Treasurer's Cash and Investment Pool. In addition, the University may voluntarily deposit endowment funds, special funds, revenue bond proceeds, and debt service funds with the State Treasurer's Cash and Investment Pool. Special funds consist of moneys for intercollegiate athletics and agency funds held directly by the University.

Deposits include cash and cash equivalents and certificates of deposit totaling \$30,212,361. At year-end, cash on hand was \$419,360. The University's portion of the State Treasurer's Cash and Investment Pool was \$30,063,333. It is the State Treasurer's policy and practice for deposits not covered by federal depository insurance to be covered by

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

collateral held by the State of North Carolina's agent in the name of the State and for 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 \$149,027 and the bank balance was \$701,357. Of the bank balance, \$300,035 was covered by federal depository insurance and \$401,322 was uninsured and uncollateralized.

North Carolina General Statutes 147-69.1(c), applicable to the State's General Fund, and 147-69.2, applicable to institutional trust funds, authorize the State Treasurer to invest in the following: obligations of or fully guaranteed by the United States; obligations of certain federal agencies; repurchase agreements; obligations of the State of North Carolina; time deposits of specified institutions; prime quality commercial paper, and asset-backed securities with specified ratings. Also, General Statute 147-69.1(c) authorizes the following: specified bills of exchange or time drafts and corporate bonds and notes with specified ratings. General Statute 147-69.2 authorizes the following: general obligations of other states; general obligations of North Carolina local governments; and obligations of certain entities with specified ratings.

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 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

A summary of the University's investments at June 30, 2002 is presented below:

Long-Term Investment Pool

	Fair Value			Total
	Risk Category			
	1	2	3	
Categorized Investments:				
Corporate Bonds	\$ 0	\$ 2,884,310	\$ 0	\$ 2,884,310
Corporate Stocks		2,569,513		2,569,513
International Stocks		127,932		127,932
Total Categorized Investments	\$ 0	\$ 5,581,755	\$ 0	5,581,755
Investments Not Categorized:				
Money Market Funds				1,167,494
Mutual Funds				325,375
Certificates of Deposit				138,153
Real Estate				11,690
Total Investments Not Categorized				1,642,712
Total Temporary Pool Investments				\$ 7,224,467

Non-Pooled Investments

	Fair Value			Total
	Risk Category			
	1	2	3	
Categorized Investments:				
Corporate Stocks	\$ 1,305	\$ 0	\$ 0	\$ 1,305
Investments Not Categorized:				
Money Market Funds				817,017
Total Non-Pooled Investments				\$ 818,322

Total Investments

	Fair Value			Total
	Risk Category			
	1	2	3	
Total Categorized Investments	\$ 1,305	\$ 5,581,755	\$ 0	\$ 5,583,060
Total Investments Not Categorized				2,459,729
Total Investments				\$ 8,042,789

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Certificates of deposit reported as investments are also a component of the deposit totals reported in the deposits section of this note.

NOTE 4 - ENDOWMENT INVESTMENTS

Investments of the University's endowment funds are pooled, unless required to be separately invested by the donor. If a donor has not provided specific instructions, State law permits the Board of Trustees to authorize for expenditure the net appreciation, realized and unrealized, of the investments of the endowment funds.

Investment return of the University's endowment funds is predicated on the total return concept. Annual payouts from the University's endowment funds are based on an adopted spending policy which limits spending between 4% and 6% of the endowment principal's market value at December 31st for the past three years. 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 restricted, expendable net asset endowment balances to make up the difference. At June 30, 2002, net appreciation of \$379,200 was available to be spent, all of which was restricted to specific purposes.

NOTE 5 - RECEIVABLES

Receivables at June 30, 2002 were as follows:

	<u>Gross Receivables</u>	<u>Less Allowance for Doubtful Accounts</u>	<u>Net Receivables</u>
Current Receivables:			
Students	\$ 2,026,951	\$ 645,617	\$ 1,381,334
Intergovernmental	4,924,017		4,924,017
Pledges	839,454		839,454
Investment Earnings	137,262		137,262
Interest on Loans	114,195		114,195
Other	1,302,331	203,622	1,098,709
Total Current Receivables	<u>\$ 9,344,210</u>	<u>\$ 849,239</u>	<u>\$ 8,494,971</u>
Noncurrent Receivables:			
Pledges	<u>\$ 142,242</u>	<u>\$ 0</u>	<u>\$ 142,242</u>
Notes Receivable:			
Notes Receivable - Current:			
Federal Loan Programs	<u>\$ 306,208</u>	<u>\$ 0</u>	<u>\$ 306,208</u>
Notes Receivable - Noncurrent:			
Federal Loan Programs	<u>\$ 1,862,776</u>	<u>\$ 760,491</u>	<u>\$ 1,102,285</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 6 - CAPITAL ASSETS

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

	Balance July 1, 2001	Adjustments	Increases	Decreases	Balance June 30, 2002
Capital Assets, Non-Depreciable:					
Land	\$ 4,755,694	\$ (1,627,661)	\$ 3,698,810	\$ 0	\$ 6,826,843
Art, Literature, and Artifacts	2,502,077				2,502,077
Construction in Progress	11,989,265	(19,210)	27,301,924		39,271,979
Total Capital Assets, Non-Depreciable	19,247,036	(1,646,871)	31,000,734		48,600,899
Capital Assets, Depreciable:					
Buildings	136,118,145	(1,169,878)	136,127		135,084,394
Machinery and Equipment	32,244,679		1,726,513	(1,175,142)	32,796,050
General Infrastructure	1,773,903	2,816,749	373,195		4,963,847
Total Capital Assets, Depreciable	170,136,727	1,646,871	2,235,835	(1,175,142)	172,844,291
Less Accumulated Depreciation:					
Buildings	37,030,419		2,817,651	(989,118)	38,858,952
Machinery and Equipment	19,868,603		2,624,432		22,493,035
General Infrastructure	656,217		184,797		841,014
Total Accumulated Depreciation	57,555,239		5,626,880	(989,118)	62,193,001
Total Capital Assets, Depreciable, Net	112,581,488	1,646,871	(3,391,045)	(186,024)	110,651,290
Capital Assets, Net	\$ 131,828,524	\$ 0	\$ 27,609,689	\$ (186,024)	\$ 159,252,189

NOTE 7 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2002 were as follows:

	<u>Amount</u>
Accounts Payable	\$ 4,763,942
Accrued Payroll	1,804,477
Contract Retainage	735,288
Intergovernmental Payables	89,149
University Intergovernmental Payables	116,696
Other	129,358
Total Accounts Payable and Accrued Liabilities	\$ 7,638,910

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 8 - LONG-TERM LIABILITIES

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

	Balance July 1, 2001	Additions	Reductions	Balance June 30, 2002	Current Portion
Bonds Payable	\$ 18,050,000	\$ 0	\$ (770,000)	\$ 17,280,000	\$ 795,000
Add/Deduct Premium/Discount	(9,462)		823	(8,639)	
Deduct Deferred Charge on Refunding	(180,988)		15,738	(165,250)	
Total Bonds Payable	<u>17,859,550</u>		<u>(753,439)</u>	<u>17,106,111</u>	<u>795,000</u>
Compensated Absences	<u>3,386,806</u>	<u>3,082,092</u>	<u>(2,811,850)</u>	<u>3,657,048</u>	<u>107,724</u>
Total Long-Term Liabilities	<u>\$ 21,246,356</u>	<u>\$ 3,082,092</u>	<u>\$ (3,565,289)</u>	<u>\$ 20,763,159</u>	<u>\$ 902,724</u>

Additional information regarding capital lease obligations is included in Note 9.

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

Purpose	Series	Interest Rate/ Ranges	Final Maturity Date	Original Amount of Issue	Principal Paid Through 06/30/2002	Principal Outstanding 06/30/2002
The University of North Carolina System Pool Revenue Bonds						
Student Union	(A)	3.25-5.25	10/01/2013	\$ 5,860,000	\$ 875,000	\$ 4,985,000
Parking System	(A)	3.25-5.25	10/01/2013	1,465,000	220,000	1,245,000
Dining System	(B)	5.00-5.75	10/01/2020	9,875,000	290,000	9,585,000
Stadium System	(B)	5.00-5.75	10/01/2013	<u>1,555,000</u>	<u>90,000</u>	<u>1,465,000</u>
Total Bonds Payable (principal only)				<u>\$ 18,755,000</u>	<u>\$ 1,475,000</u>	17,280,000
Less: Unamortized Loss on Refunding						(165,250)
Less: Unamortized Discount						<u>(8,639)</u>
Total Bonds Payable						<u>\$ 17,106,111</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)

- C. Annual Requirements** - The annual requirements to pay principal and interest on the long-term obligations at June 30, 2002 are as follows:

<u>Fiscal Year</u>	Annual Requirements	
	Bonds Payable	
	Principal	Interest
2003	\$ 795,000	\$ 854,338
2004	845,000	815,412
2005	885,000	774,338
2006	925,000	731,350
2007	975,000	686,162
2008-2012	5,655,000	2,669,650
2013-2017	4,300,000	1,247,063
2018-2022	2,900,000	314,212
Total Requirements	\$ 17,280,000	\$ 8,092,525

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

Dormitory System: In 2000, the University defeased \$4,005,000 of outstanding Dormitory Revenue Bonds, Series E. An irrevocable trust was established with an escrow agent to provide for all future debt service payments on the defeased bonds. The trust assets and the liability for the defeased bonds are not included in the University's Statement of Net Assets. At June 30, 2002, the outstanding balance of the defeased Dormitory Revenue Bonds, Series E was \$3,300,000.

NOTE 9 - OPERATING LEASE OBLIGATIONS

Future minimum lease payments under non-cancelable operating leases consist of the following at June 30, 2002:

<u>Fiscal Year</u>	<u>Amount</u>
2003	\$ 1,064,140
2004	868,520
2005	863,242
2006	89,615
Total Minimum Lease Payments	\$ 2,885,517

Rental expense for all operating leases during the year was \$1,076,216.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 10 - REVENUES

A summary of eliminations and allowances by revenue classification and revenues pledged as security for revenue bonds is presented as follows:

	Gross Revenues	Internal Sales Eliminations	Less Scholarship Discounts	Less Allowance for Uncollectibles	Net Revenues	Net Revenues Pledged as Security for Debt
Operating Revenues:						
Student Tuition and Fees	\$ 28,340,563	\$ 0	\$ 6,117,319	\$ (46,520)	\$ 22,269,764	\$ 973,650 (A)
Sales and Services:						
Sales and Services of Auxiliary Enterprises:						
Residential Life	\$ 6,876,508	\$ 0	\$ 1,543,495	\$ (45,492)	\$ 5,378,505	
Dining	5,787,806		1,261,010	(6,522)	4,533,318	4,533,317 (B)
Student Union Services	33,830				33,830	
Health, Physical Education, and Recreation Services	1,348,845		172,080	(2,614)	1,179,379	
Bookstore	4,114,497	401,732		61	3,712,704	
Parking	921,036			100,486	820,550	820,550 (C)
Athletic	3,714,073		531,079	(5,089)	3,188,083	
Other	572,525		64,134	531	507,860	
Sales and Services of Educational and Related Activities	1,132,593	1,046,445			86,148	
Total Sales and Services	<u>\$ 24,501,713</u>	<u>\$ 1,448,177</u>	<u>\$ 3,571,798</u>	<u>\$ 41,361</u>	<u>\$ 19,440,377</u>	<u>\$ 5,353,867</u>

Revenue bonds secured by pledged revenues:

- (A) Student Union and Stadium
- (B) Dining
- (C) Parking

NOTE 11 - OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	\$ 38,149,994	\$ 1,020,876	\$ 1,215,080	\$ 204,070	\$ 0	\$ 0	\$ 40,590,020
Research	8,977,228	1,550,178	2,786,193	951,869	149		14,265,617
Public Service	4,276,727	642,548	1,576,725	35,596			6,531,596
Academic Support	10,144,026	4,216,965	2,758,869	1,515,201			18,635,061
Student Services	3,255,698	167,190	949,058	23,521			4,395,467
Institutional Support	9,362,859	450,123	2,097,186	116,854			12,027,022
Operations and Maintenance of Plant	5,749,231	4,605,747	1,154,250	501	2,845,494		14,355,223
Student Financial Aid	152,902	62,293	125,011	4,204,419			4,544,625
Auxiliary Enterprises	6,094,903	4,029,055	10,678,716	1,572,905	726,601		23,102,180
Depreciation						5,626,879	5,626,879
Total Operating Expenses	<u>\$ 86,163,568</u>	<u>\$ 16,744,975</u>	<u>\$ 23,341,088</u>	<u>\$ 8,624,936</u>	<u>\$ 3,572,244</u>	<u>\$ 5,626,879</u>	<u>\$ 144,073,690</u>

NOTE 12 - PENSION PLANS

A. Retirement Plans - Each permanent full-time employee, as a condition of employment, is a member of either the Teachers' and State Employees' Retirement System or the Optional Retirement Program. The Teachers'

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 Statutes 135-5 and 135-8 and may be amended only by the North Carolina General Assembly. Employer and member contribution rates are set each year by the North Carolina General Assembly based on annual actuarial valuations. For the year ended June 30, 2002, these rates were set at 1.97% of covered payroll for employers and 6% of covered payroll for members.

For the year ended June 30, 2002, the University had a total payroll of \$72,480,612, of which \$42,492,210 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were \$2,549,533 and \$837,097, respectively. The University made one hundred percent of its annual required contributions for the years ended June 30, 2002, 2001, and 2000, which were \$837,097, \$2,200,367, and \$3,251,204, respectively.

The Teachers' and State Employees' Retirement System's financial information is included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

payments to beneficiaries in the event of the participant's death. Administrators and eligible faculty of the University may join the Program instead of the Teachers' and State Employees' Retirement System. The Board of Governors of The University of North Carolina is responsible for the administration of the Program and designates the companies authorized to offer investment products. The Board has authorized the following carriers: Teachers' Insurance and Annuity Association - College Retirement Equities Fund (TIAA-CREF), Lincoln Life Insurance Company, Variable Annuity Life Insurance Company (VALIC), and Fidelity Investments. Participants may elect to allocate their contributions and the University contributions to any one of the carriers or may direct their contributions to one carrier and the University contributions to another. Each carrier offers a variety of investment funds, including both fixed and variable account investment options and mutual funds.

Participant eligibility and contributory requirements are established by General Statute 135-5.1. Employer and member contribution rates are set each year by the North Carolina General Assembly. For the year ended June 30, 2002, these rates were set at 6.84% of covered payroll for employers and 6% of covered payroll for members. The University assumes no liability other than its contribution.

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

For the year ended June 30, 2002, the University had a total payroll of \$72,480,612, of which \$18,528,165 was covered under the Optional Retirement Program. Total employee and employer contributions for pension benefits for the year were \$1,111,690 and \$1,267,326, respectively.

The Federal Retirement System is a multiple-employer retirement system. University extension employees participate in the Civil Service Retirement System (CSRS), a program for participants employed prior to January 1, 1987. Participants contributed from 7.0% to 7.5% of their salary to CSRS and the University match was 8.51%.

For the year ended June 30, 2002, covered payroll was \$922,877 and total employee and employer contributions were \$66,134 and \$78,537, respectively.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 \$78,603 for the year ended June 30, 2002.

IRC Section 401(k) Plan - All members of the Teachers' and State Employees' Retirement System and the Optional Retirement Program are eligible to enroll in the Supplemental Retirement Income Plan, a defined contribution plan, created under Internal Revenue Code Section 401(k). All costs of administering the Plan are the responsibility of the Plan participants. No costs are incurred by the University except for a 5% employer contribution for the University's law enforcement officers, which is mandated under General Statute 143-166.30(e). Total employer contributions on behalf of University law enforcement officers for the year ended June 30, 2002 were \$39,239. The voluntary contributions by employees amounted to \$294,300 for the year ended June 30, 2002.

IRC Section 403(b) and 403(b)(7) Plans - Eligible University employees can participate in tax sheltered annuity plans created under Internal Revenue Code Sections 403(b) and 403(b)(7). The employee's eligible contributions, made through salary reduction agreements, are exempt from federal and State income taxes until the annuity is received or the contributions are withdrawn. These plans are exclusively for employees of universities and certain charitable and other 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 \$1,060,959 for the year ended June 30, 2002.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 13 - OTHER POSTEMPLOYMENT BENEFITS

- A. Health Care for Long-Term Disability Beneficiaries and Retirees -** The University participates in State-administered programs which provide postemployment health insurance to eligible former employees. Eligible former employees include long-term disability beneficiaries of the Disability Income Plan of North Carolina and retirees of the Teachers' and State Employees' Retirement System or the Optional Retirement Program. These benefits were established by Chapter 135, Article 3, Part 3, of the General Statutes and may be amended only by the North Carolina General Assembly. Funding for the health care benefit for long-term disability beneficiaries and retirees is financed on a pay-as-you-go basis. The University contributed 2.35% 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, 2002, the University's total contribution to the Plan was \$1,433,979. 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, 2002, the University's total contribution to the DIPNC was \$317,306. The University assumes no liability for long-term disability benefits under the plan other than its contribution. Additional detailed information about the DIPNC is disclosed in the State of North Carolina's *Comprehensive Annual Financial Report*.

NOTE 14 - RISK MANAGEMENT

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

certain risks. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

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

The University is required to maintain fire and lightning coverage on all State-owned buildings and contents through the State Property Fire Insurance Fund (Fund), an internal service fund of the State. Such coverage is provided at no cost to operations supported by the State's General Fund. Other operations not supported by the State's General Fund are charged for the coverage. Losses covered by the Fund are subject to a \$500 per occurrence deductible. The University also purchased through the Fund extended coverage for buildings and contents. All State-owned vehicles are covered by liability insurance through a private insurance company and handled by the North Carolina Department of Insurance. The liability limits for losses occurring in-State are \$500,000 per claim and \$5,000,000 per occurrence. The University pays premiums to the Department of Insurance for the coverage.

The University is protected for losses from employee dishonesty and computer fraud. This coverage is with a private insurance company and is handled by the North Carolina Department of Insurance. Coverage limit is \$5,000,000 per occurrence with a \$50,000 deductible.

Employees and retirees are provided health care coverage by the Comprehensive Major Medical Plan (Plan), a component unit of the State. The Plan is funded by employer and employee contributions and is administered by a third-party contractor. Effective for the October 1, 2001 through September 30, 2002 year, the Plan no longer offers health coverage through HMO plans.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 and funded via employer contributions.

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

NOTE 15 - 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 \$10,883,130 and on other purchases were \$4,653,390 at June 30, 2002.
- B. University Improvement General Obligation Bonds** – The 1999-2000 Session of the General Assembly of North Carolina authorized the issuance of two billion five hundred million dollars of general obligation bonds of the State, as subsequently approved by a vote of qualified voters of the State, to provide funds for capital improvements for the University of North Carolina. The funds authorized are to be used solely for capital facilities cost on the University of North Carolina campuses as specified in the legislation. The bond legislation specifies the amount of bond funding for each University campus and the level of bond funding intended for each project. The bonds are authorized to be issued over a six-year period beginning in 2001 at a level not to exceed amounts provided in the legislation. Using a cash flow financing approach, The University of North Carolina – General Administration (UNC-GA), 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. The University's remaining authorization \$135,191,921 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.

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

NOTE 16 - NORTH CAROLINA A & T FOUNDATION, INC.

The North Carolina A & T Foundation, Inc. is a separately incorporated non-profit foundation associated with the University. This organization serves as the primary fundraising arm of the University through which individuals, corporations, and other organizations support University programs by providing scholarships, fellowships, faculty salary supplements, and unrestricted funds to specific colleges and the University's overall academic environment. The University's financial statements do not include the assets, liabilities, net assets, or operational transactions of the foundations, except for support from each organization to the University. This support approximated \$1,515,078 for the year ended June 30, 2002.

NOTE 17 - ACCOUNTING CHANGES

Effective July 1, 2001, the University implemented GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as amended by GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*. The financial statement presentation required by these Statements is a single-column enterprise activity rather than the fund-group perspective previously reported. Significant accounting changes in order to comply with the new requirements include adopting depreciation on capital assets, reporting revenues net of discounts and allowances, eliminating interfund activities, classifying activities as operating or nonoperating, classifying assets and liabilities as current or noncurrent, and prorating summer school activities to periods earned.

In addition, the University implemented GASB Statement No. 38, *Certain Financial Statement Note Disclosures*. Changes in existing disclosures include more detailed information on debt service requirements, obligations under leases, and short-term debt. New disclosures include variable debt interest information and the major components of receivable and payable balances.

NOTE 18 - NET ASSET RESTATEMENT

As referred to in Note 17, the University implemented GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as amended by GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*.

July 1, 2001 Fund Equity as previously reported	\$ 248,030,348
Implementation of GASB 34/35	<u>(84,985,121)</u>
July 1, 2001 Net Assets as Restated	<u>\$ 163,045,227</u>

**North Carolina Agricultural and Technical State University
Schedule of General Obligation Bond Project Authorizations,
Budgets, and Expenditures
For Project-to-Date as of June 30, 2002**

Schedule 1

Capital Improvement Projects	Projected Start Date	General Obligation Bonds Authorized	Other Sources	Total Project Budget	Amount Expended	Percent Completed	Expected Completion Date
Projects Started							
Classroom and Laboratory Complex - Phase I	Feb 2001	\$ 28,424,665	\$ 0	\$ 28,424,665	\$ 4,599,840	16.18%	Oct 2001
Renovation of Dudley, Gibbs, and Moore Buildings	Nov 2000	4,557,245		4,557,245	881,364	19.34%	Feb 2005
Chemistry Laboratory	Nov 2000	20,740,020		20,740,020	701,114	3.38%	Nov 2005
Harrison Auditorium Renovation	Feb 2002	2,750,440		2,750,440	8,858	0.32%	Nov 2004
Curtis Residence Hall Replacement	Nov 2000	3,537,325		3,537,325			Aug 2004
Scott Residence Hall Replacement	Nov 2000	24,940,635		24,940,635	1,920,215	7.70%	Aug 2004
Gamble Residence Hall Replacement	Nov 2000	1,474,400		1,474,400			Aug 2004
New Student Housing	Nov 2000	1,803,005		1,803,005			Aug 2004
Hazardous Materials and Waste Storage Facility	Nov 2000	1,496,250		1,496,250	5,640	0.38%	Jul 2005
Improvement to the School of Agriculture Facility	Nov 2000	1,741,065		1,741,065	42,175	2.42%	Oct 2003
Corbett Intramural Center Addition	Feb 2002	6,683,250		6,683,250			Mar 2006
Replacement of Steam Lines and Access Holes	Nov 2001	1,489,885		1,489,885	507,326	34.05%	Dec 2003
Electrical Distribution Upgrade and Expansion	Nov 2000	2,143,960		2,143,960	70,161	3.27%	Oct 2003
Land Acquisition	Jan 2001	6,300,000		6,300,000	4,217,842	66.95%	Aug 2003
Technology Infrastructure Expansion	Aug 2000	2,775,615		2,775,615	377,047	13.58%	Apr 2005
Campus Security Improvements	Jun 2001	828,716		828,716	828,716	100.00%	Jan 2002
Classroom and Laboratory Complex	Apr 2000	7,157,675		7,157,675	7,157,675	100.00%	Oct 2001
Project Management	Jul 2001	7,375,685		7,375,685	115,396	1.56%	Jun 2009
Projects Not Started - To Be Funded in Future Years							
Holland Residence Hall Renovation	Jun 2003	813,960		813,960			
Morrison Residence Hall Renovation	Jan 2004	3,516,045		3,516,045			
Zoe Barbee Residence Hall Renovation	Jan 2003	3,509,110		3,509,110			
Barnes Hall Laboratory Renovation	Mar 2004	5,272,595		5,272,595			
Graham Hall Engineering Laboratory Renovation	Jan 2003	5,493,090		5,493,090			
Central Cooling Plant - Phase I	Jan 2004	8,959,165		8,959,165			
Cherry Hall Laboratory Building Renovation	Jan 2005	8,016,290		8,016,290			
Total All Projects		\$ 161,800,091	\$ 0	\$ 161,800,091	\$ 21,433,369		

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.

North Carolina Agricultural and Technical State University
Intercollegiate Athletics Program
Statement of Current Funds Revenues and Expenditures
Year Ended June 30, 2002

Schedule 2

	Football	Men's Basketball	Women's Basketball	Other Sports	Nonprogram Specific	Total
Revenues:						
Student Fees	\$ 0	\$ 0	\$ 0	\$ 0	\$ 2,366,651	\$ 2,366,651
Ticket Sales	603,775	25,795			14,931	644,501
Program Sales	2,745					2,745
Contest Guarantees	163,293	182,820	3,000	400		349,513
Advertising Income				4,487	78,540	83,027
Concessions	29,416	1,139				30,555
Gifts:						
Unrestricted	13,500			5,000	122,671	141,171
Restricted	5,525	23,930	1,250	16,252	2,850	49,807
Investment Income:						
Unrestricted					61,131	61,131
Restricted					(25,692)	(25,692)
NCAA Distributions					156,927	156,927
State Appropriations	227,354	217,565	45,247	25,320	160,204	675,690
Other Sources	43,640	21,628	7,660	33,000	30,112	136,040
Total Revenues	1,089,248	472,877	57,157	84,459	2,968,325	4,672,066
Expenditures:						
Coaches' Salaries	335,722	221,390	65,467	262,293		884,872
Other Salaries	98,222	28,400	15,679	41,372	651,145	834,818
Travel:						
Team	83,681	69,166	56,048	278,625		487,520
Recruiting	38,438	14,591	8,963	20,332	835	83,159
Financial Aid	536,282	136,749	122,414	697,788	58,109	1,551,342
Maintenance and General Administration	141,082	22,976	17,510	49,112	445,254	675,934
Supplies and Uniforms	72,522	21,417	17,175	67,638		178,752
Equipment Purchases	11,437	1,659	3,117	1,666	15,670	33,549
Publicity	8,990	7,508	946		14,846	32,290
Insurance					87,656	87,656
Telephone	9,544	9,803	4,512	4,496	21,550	49,905
Miscellaneous	5,000				72,833	77,833
Total Expenditures	1,340,920	533,659	311,831	1,423,322	1,367,898	4,977,630
Excess (Deficiency) of Revenues over Expenditures	\$ (251,672)	\$ (60,782)	\$ (254,674)	\$ (1,338,863)	\$ 1,600,427	\$ (305,564)

The accompanying notes are an integral part of this statement.

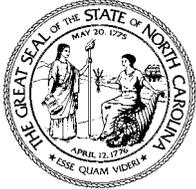
NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

- A. Organization and Purpose** – North Carolina Agricultural and Technical State University is a constituent institution of The 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*. North Carolina Agricultural and Technical State University is classified as a Division I institution by the National Collegiate Athletic Association (NCAA).
- B. Basis of Presentation** - The preceding Statement of Current Funds Revenues and Expenditures presents the University’s Intercollegiate Athletics Program’s activity in accordance with the NCAA Financial Audit Guidelines. Those guidelines issued on May 2, 1996 require only a presentation of the current funds revenues and expenditures by major program and have not been updated for Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, as amended by GASB Statement No. 35, *Basic Financial Statements – and Management’s Discussion and Analysis – for Public Colleges and Universities*, and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*. This presentation is not intended to provide a complete presentation of the Program’s financial position or its changes in fund balances.
- C. Revenue Recognition** – Current funds revenues include all gifts, grants, fees, sales receipts, and other resources earned and for which the resource provider condition(s) attached to those amounts were satisfied during the reporting period.
- D. Basis of Accounting** - The preceding Statement of Current Funds Revenues and Expenditures was prepared in accordance with the accrual basis, except that no depreciation expense is reflected.
- E. Non-Monetary Transactions** - The University reports goods and services received either by donation or in an exchange transaction at their fair value at the date of receipt. During the year, food, advertising, and leased vehicles were provided to the University at no charge. Where gifts were provided in exchange for free tickets, ticket sales revenue was recorded for the fair value of the free tickets with the remainder recorded as advertising revenues.

- F. Contributions** - Individual contributions of moneys, goods, or services received directly by the University's Intercollegiate Athletics Program from organizations other than the Foundation or from groups or individuals that constitute more than 10% of all contributions received for the Intercollegiate Athletics Program during the year follows:

Pepsi Bottling Ventures, LLC	\$	48,000
------------------------------	----	--------

Page Left Blank Intentionally]



Ralph Campbell, Jr.
State Auditor

STATE OF NORTH CAROLINA
Office of the State Auditor

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

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

Board of Trustees
North Carolina Agricultural and Technical State University
Greensboro, North Carolina

We have audited the financial statements of North Carolina Agricultural and Technical State University, a constituent institution of the sixteen-campus University of North Carolina System, which is a component unit of the State of North Carolina, as of and for the year ended June 30, 2002, and have issued our report thereon dated February 27, 2003.

As discussed in Note 17 to the financial statements, the University implemented Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as amended by GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*, and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, during the year ended June 30, 2002.

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. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the University's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable conditions noted as a result of our audit are described in the Audit Findings and Recommendations section of this report.

Finding

1. Internal Controls Over Capital Assets
2. Controls Over Intercollegiate Athletics Program
3. Internal Controls Over Cash Disbursements

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

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

February 27, 2003

AUDIT FINDINGS AND RECOMMENDATIONS

Matters Related to Financial Reporting

Current Year Findings and Recommendations - The following findings and recommendations were identified during the current audit and represent significant deficiencies in internal controls.

1. INTERNAL CONTROLS OVER CAPITAL ASSETS

Inspection of a sample of capital assets revealed weaknesses in internal controls over capital assets. Communication and documentation flow between University departments and the Property Management Office is not adequate. No documentation was on file in the Property Management Office for an asset item listed as surplused by a department. Items listed as obsolete by the departments remained on the departmental inventories. Items could not be located during our inspection and items missing on departmental inventories dated February 2002 were not located or resolved during our inspection in January 2003. Four of the University departments inventory reports tested during our audit had reported numerous missing items. As of the date of our inspection, neither the departments nor the Property Management Office had performed any follow-up procedures.

Recommendation: We recommend that the University enforce established capital asset procedures and require the departments to be accountable for their assets. Departmental inventory reports should be reviewed by Property Management on a timely basis and appropriate follow-up procedures should be performed. Property Management personnel or Internal Audit personnel should perform independent verification of departmental inventory reports at least annually.

University's Response: We concur. The University has reinforced the importance of following established fixed asset procedures and reemphasized to department heads their role as it relates to assuring that the departmental inventory reports are reviewed for accuracy and submitted to the Property Management Office on a timely basis. The Property Management Office and departmental personnel have reviewed in detail the items shown as missing on the inventory reports and have made appropriate corrections and adjustments to the asset inventories. Following established policies and procedures, we have properly accounted for the items identified as missing on the inventories.

Additionally, management has requested an independent review of the Property Management Office by the Office of Internal Auditing with an emphasis on managerial and operational controls. A fixed asset management accountant position will be added to the Property Management Office to strengthen accountability. The Property Management Office will provide continuous training for University employees. We estimate that these changes will be implemented by July 31, 2003.

AUDIT FINDINGS AND RECOMMENDATIONS (CONTINUED)

2. CONTROLS OVER INTERCOLLEGIATE ATHLETICS PROGRAM

The Intercollegiate Athletics Program did not adhere to internal controls for sponsorship agreements and complimentary ticket issuances. All sponsorship agreements require properly executed contracts signed by the authorized athletics program representative and the sponsor. These contracts should be approved by the University legal department prior to execution. Only three of seventeen sponsorship agreements in place had properly executed contracts. Five of the seventeen had no contract documents.

Complimentary tickets were issued without the approval of the Athletic Board-in-Control as required in the complimentary ticket policy. According to the policy, complimentary tickets should only be issued to persons or sponsors approved by the Athletic Board-in-Control, and the persons receiving the tickets are required to sign for the tickets. One hundred forty-four individual game tickets and ten season ticket books were distributed without appropriate approval.

The Intercollegiate Athletics Program used State appropriations for non-instructional salaries. These salaries were for coaches, the Athletics Director, the Sports Information Director, the Facilities Manager, and one secretary. The University's Intercollegiate Athletics Program is an Auxiliary Services activity. Coaches' salaries paid from State appropriations should be based on teaching loads or other instructional responsibilities.

Recommendation: We recommend that the University strengthen controls over the Intercollegiate Athletics Program to ensure that the controls established for sponsorship agreements and complimentary ticket issuances are followed. We recommend that the University take steps to ensure that non-instructional salaries paid from State appropriations are systematically reduced and eliminated.

University's Response: We concur. The Athletics Department is now composed of a new managerial team and a full time accountant has been assigned to the area. The Complimentary Tickets and Sponsorship Agreements Policies were revised and approved by the Athletic Board-in-Control during FY 2002-2003. All policies will be enforced. Sponsorship agreements will be approved by the Athletic Board-in-Control and reviewed by the University's Legal Office. All agreements will be signed by the authorized University representative and the authorized sponsor representative.

As relates to State appropriations for non-instructional salaries, the University will enhance the current plan to reduce the amount of State appropriations needed to fund Athletics personnel. The revised plan will include multiple means of increasing revenues and reducing expenses. An in-depth review of the current fee structure, ticket prices, funding sources and expenditures will take place to increase net revenues and ultimately eliminate the use of State appropriations for non-instructional salaries. It will take a period of time to fully implement the revised plan. We estimate this process will be completed over a five-year period.

AUDIT FINDINGS AND RECOMMENDATIONS (CONCLUDED)

3. INTERNAL CONTROLS OVER CASH DISBURSEMENTS

Tests of the housing operations' cash disbursements revealed weaknesses in the related internal controls. Disbursements charged to the housing operations account were not adequately documented. Funds were disbursed to University employees, and the employees submitted receipts for expenses incurred. There were numerous receipts that were not dated, did not have the vendor name, or lacked a description of items purchased. In addition, the receipts were not traceable to a specific program or event. Catering expenses were paid out of the cash distributed to employees, and cash was paid from one employee to another employee.

Recommendation: We recommend that the disbursement of funds by the University be in accordance with the State Budget Manual and University policy. Disbursements should be properly documented, reviewed, and approved.

University's Response: We concur. The methods used to fund housing programs will be completely reorganized with an emphasis on greater accountability and internal controls. The Division of Student Affairs and the Division of Business and Finance are in the process of establishing a programmatic/event function policy that will serve to define expenditure procedures and program parameters. All disbursements will be properly documented, reviewed and approved by appropriate managerial personnel in the Housing Office. We will continue to provide on-going training sessions for both the disbursements staff and for University departments. These changes will be implemented by July 31, 2003.

DISTRIBUTION OF AUDIT REPORT

In accordance with General Statutes 147-64.5 and 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.

EXECUTIVE BRANCH

The Honorable Michael F. Easley	Governor of North Carolina
The Honorable Beverly M. Perdue	Lieutenant Governor of North Carolina
The Honorable Richard H. Moore	State Treasurer
The Honorable Roy A. Cooper, III	Attorney General
Mr. David T. McCoy	State Budget Officer
Mr. Robert L. Powell	State Controller
Ms. Molly Corbett Broad	President, The University of North Carolina
Dr. James C. Renick	Chancellor
	North Carolina Agricultural and Technical State University
Mr. Willie T. Ellis, Jr.	Vice Chancellor for Business and Finance
	North Carolina Agricultural and Technical State University
Mr. Ralph K. Shelton	Chairman, Board of Trustees
	North Carolina Agricultural and Technical State University

LEGISLATIVE BRANCH

Appointees to the Joint Legislative Commission on Governmental Operations

Senator Marc Basnight, Co-Chairman	Representative James B. Black, Co-Chairman
Senator Charlie Albertson	Representative Richard T. Morgan, Co-Chairman
Senator Kever M. Clark	Representative Martha B. Alexander
Senator Daniel G. Clodfelter	Representative E. Nelson Cole
Senator Walter H. Dalton	Representative James W. Crawford, Jr.
Senator James Forrester	Representative William T. Culpepper, III
Senator Linda Garrou	Representative W. Pete Cunningham
Senator Wilbur P. Gulley	Representative Beverly M. Earle
Senator Kay R. Hagan	Representative Stanley H. Fox
Senator David W. Hoyle	Representative R. Phillip Haire
Senator Ellie Kinnaird	Representative Dewey L. Hill
Senator Jeanne H. Lucas	Representative Maggie Jeffus
Senator William N. Martin	Representative Edd Nye
Senator Stephen M. Metcalf	Representative William C. Owens, Jr.
Senator Eric M. Reeves	Representative Drew P. Saunders
Senator Larry Shaw	Representative Wilma M. Sherrill
Senator R. C. Soles, Jr.	Representative Joe P. Tolson
Senator David F. Weinstein	Representative Thomas E. Wright
	Representative Douglas Y. Yongue

Other Legislative Officials

Senator Anthony E. Rand	Majority Leader of the N. C. Senate
Senator Patrick J. Ballantine	Minority Leader of the N. C. Senate
Representative N. Leo Daughtry	N. C. House of Representatives
Mr. James D. Johnson	Director, Fiscal Research Division

May 21, 2003

ORDERING INFORMATION

Copies of this report may be obtained by contacting the:

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

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

Telephone: 919/807-7500

Facsimile: 919/807-7647