



STATE OF NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT OF

WINSTON-SALEM STATE UNIVERSITY

WINSTON-SALEM, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2002

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR

FINANCIAL STATEMENT AUDIT REPORT OF

WINSTON-SALEM STATE UNIVERSITY

WINSTON-SALEM, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2002

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Ralph Campbell, Jr.
State Auditor

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Office of the State Auditor

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AUDITOR'S TRANSMITTAL

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

This report presents the results of our financial statement audit of Winston-Salem 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 Winston-Salem 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 Winston-Salem 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 Winston-Salem 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 - Our tests disclosed no material weaknesses in internal control over financial reporting and no instances of noncompliance which require disclosure herein under *Government Auditing Standards*. These matters are more fully described in the Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting.

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	11
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	
Schedule	
1 Schedule of General Obligation Bond Project Authorizations, Budgets, and Expenditures	35
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>	37
DISTRIBUTION OF AUDIT REPORT	39



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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Winston-Salem State University
Winston-Salem, North Carolina

We have audited the accompanying basic financial statements of Winston-Salem 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 Winston-Salem 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 29, 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,

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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 10 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. Schedule 1 is presented for purposes of additional analysis and is 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

January 29, 2003

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Winston-Salem State University (the "University") annual financial report presents our discussion and analysis of the financial performance of the University during the fiscal year ended June 30, 2002. This discussion has been prepared by University management along with the financial statements and related footnote disclosures and should be read in conjunction with and is qualified in its entirety by the financial statements and footnotes. Comparative data for the current year and the past year are not required for this first year that the Management's Discussion and Analysis is being presented. Future Management's Discussion and Analysis will have comparative data for the applicable years (past and current) with emphasis on the current year. The financial statements, notes, and this discussion are the responsibility of University management.

Using the Annual Report

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

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

The Statement of Revenues, Expenses, and Changes in Net Assets presents the revenues earned and expenses incurred during the year. Activities are reported as either operating or nonoperating. All things being equal, a public University's dependency on State appropriations and gifts will result in operating deficits because GASB Statement No. 35 classifies State appropriations and gifts as nonoperating revenues. In the past, these two revenue classifications were included within the scope of normal revenues and contributed to revenues over expenditures, typically a net positive number.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Another important factor to consider when evaluating financial viability is the University's ability to meet financial obligations as they mature. The Statement of Cash Flows presents information related to cash inflows and outflows summarized by operating, noncapital financing, capital and related financing, and investing activities.

Reporting Entity

The financial statements report information about the University as a whole using accounting methods similar to those used by private-sector companies. The University's supporting organization, the Winston-Salem State University Foundation, Inc. (the "Foundation") is an independent non-profit corporation formed for the exclusive benefit of the University. The Foundation is not a component unit of the University. Therefore, the results of its operations are not incorporated within these financial statements, or this Management's Discussion and Analysis.

Financial Highlights

The University's financial position, as a whole, remained relatively stable during the fiscal year ended June 30, 2002. Its combined net assets increased \$7.4 million from the previous year, which is an increase of approximately 11.8 percent.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Condensed Financial Information

Statement of Net Assets

The Statement of Net Assets presents the assets (current and noncurrent), liabilities (current and noncurrent), and the net assets (total assets less total liabilities) of the University. This financial statement provides a University fiscal snapshot as of June 30, 2002. This provides the readers of this statement with information on assets available to continue operations.

Condensed Statement of Net Assets

June 30, 2002

(dollars in thousands)

	<u>Amount</u>	<u>Percent</u>
Assets		
Current Assets	\$ 12,581	13.5
Other Noncurrent Assets:		
Capital	58,498	63.0
Other	<u>21,800</u>	<u>23.5</u>
 Total Assets	 <u>92,879</u>	 <u>100.0</u>
 Liabilities		
Current Liabilities	9,522	41.7
Noncurrent Liabilities	<u>13,309</u>	<u>58.3</u>
 Total Liabilities	 <u>22,831</u>	 <u>100.0</u>
 Net Assets*		
Invested in Capital Assets, Net of Related Debt	47,285	67.5
Restricted:		
Nonexpendable	9,640	13.8
Expendable	3,475	19.2
Unrestricted	<u>(352)</u>	<u>(0.5)</u>
 Total Net Assets	 <u>\$ 70,048</u>	 <u>100.0</u>

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

As of June 30, 2002, total University assets were \$92.9 million. The University's largest asset was its investment in its physical plant of \$58.5 million at June 30, 2002. Cash and investments decreased from the prior year by \$3 million, primarily due to the retirement of long-term debt in 2002 of \$0.9 million and market devaluation of the investments of \$1.8 million.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

The University's current assets of \$12.6 million covered the current liabilities of \$9.5 million, as the current ratio was \$1.32 in current assets to every \$1.00 in current liabilities.

University liabilities totaled \$22.8 million at June 30, 2002. Long-term debt of \$14.7 million, consisting of bonds and notes payable, is the largest liability.

At June 30, 2002, the University had outstanding bonds of \$11.2 million, consisting of \$3.1 million and \$8.1 million from 1995 and 1998 bond issues, respectively. Bonds payable was the University's largest liability at June 30, 2002, representing 49.1% of total University liabilities.

Statement of Revenues, Expenses, and Changes in Net Assets

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

Operating revenues are received for providing goods and services to the various customers of the University. Operating expenses are used to acquire goods and services provided in return for the operating revenues, and to carry out the mission of the University. Nonoperating revenues are received for which goods and services are not provided, i.e., State appropriations and investment income. Nonoperating expenses are expenses not involved in the normal operation of the University that can include interest expense, extraordinary items, and accounting changes and corrections.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

**Condensed Statement of Revenues, Expenses, and
Changes in Net Assets
For the Fiscal Year Ended June 30, 2002**
(dollars in thousands)

	Amount	Percent
Operating Revenues		
Student Tuition and Fees	\$ 3,838	24.5
Grants and Contracts	5,059	32.3
Sales and Services	6,328	40.3
Other	459	2.9
	<hr/>	<hr/>
Total Operating Revenues	15,684	100.0
	<hr/>	<hr/>
Operating Expenses		
Salaries and Benefits	33,224	61.0
Supplies, Materials, and Services	15,125	27.8
Scholarships and Fellowships	2,866	5.3
Utilities	1,480	2.7
Depreciation	1,740	3.2
	<hr/>	<hr/>
Total Operating Expenses	54,435	100.0
	<hr/>	<hr/>
Operating Loss	(38,751)	
	<hr/>	
Nonoperating Revenues (Expenses)		
State Appropriations	29,120	63.1
Capital Grants	11,166	24.2
Noncapital Grants	6,868	14.9
Noncapital Gifts	304	0.6
Additions to Permanent Endowments	476	1.0
Other	(1,765)	(3.8)
	<hr/>	<hr/>
Net Nonoperating Revenues	46,169	100.0
	<hr/>	
Increase in Net Assets	7,418	
	<hr/>	
Net Assets		
Beginning of Year	62,630	
	<hr/>	
End of Year	\$ 70,048	
	<hr/> <hr/>	

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Total operating loss for fiscal 2002 was \$38.8 million. Since the State of North Carolina appropriation is not included within operating revenue per GASB Statement No. 35, beginning this year and going forward the University will show a significant operating loss.

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

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

The following table details the University's noncapital grants and contracts revenue (dollars in thousands) for the fiscal year ended June 30, 2002:

	<u>Amount</u>
Federal:	
Department of Education	\$ 7,641
Department of Health and Human Services	1,682
Department of Housing and Urban Development	846
Department of Justice	190
Department of Transportation	50
National Aeronautics Space Administration	<u>116</u>
Total Federal	10,525
Private, State, and Local	<u>1,402</u>
Total All Sources	<u>\$ 11,927</u>

Operating expenditures, including depreciation of \$1.7 million, totaled \$54.4 million. Of this total, \$26.7 million or 49.1 percent was used for instruction and student support.

The University's largest source of nonoperating revenue is the State of North Carolina appropriation. This is received in monthly payments, beginning in July of each year, since the State's fiscal year begins on July 1st. There is no direct connection between the amount of tuition revenues collected by the University and the amount of State funds appropriated in any given year. For the fiscal year ended June 30, 2002, the State of North Carolina appropriated to the University \$29.1 million for operations. The State of North Carolina also provided \$11.2 million in capital grants during the fiscal year.

One of the University's greatest strengths is the diverse streams of revenues which supplement its student tuition and fees, including voluntary private support from individuals,

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

foundations, and corporations, along with government and other sponsored programs, State appropriations, and investment income. The University has in the past and will continue to seek funding aggressively from all possible sources consistent with its mission, to supplement student tuition, and manage prudently the financial resources realized from these efforts to fund its operating activities.

The Statement of Cash Flows

Another way to assess the financial health of an institution is to look at its Statement of Cash Flows. Its primary purpose is to provide relevant information about the cash receipts and cash payments of an entity during a period. The Statement of Cash Flows also helps users assess the University's:

- ability to generate future net cash flows,
- ability to meet its obligations as they come due, and
- needs for external financing.

Condensed Statement of Cash Flows For the Fiscal Year Ended June 30, 2002 (dollars in thousands)

	<u>Amount</u>
Cash Provided (Used) by:	
Operating Activities	\$ (36,468)
Noncapital Financing Activities	36,540
Capital and Related Financing Activities	(1,959)
Investing Activities	<u>492</u>
Net Decrease in Cash	(1,395)
Cash – Beginning of Year	<u>13,264</u>
Cash – End of Year	<u><u>\$ 11,869</u></u>

Major sources of funds included in operating activities are received from customers, \$15.5 million. The largest payments in this group were compensation to employees, \$32.9 million, and payment to suppliers, \$16.3 million.

The largest inflow of cash in the noncapital financing activities is the State of North Carolina appropriation at \$29.1 million. Cash used in capital and related financing activities during fiscal year 2002 was primarily for the acquisition of capital assets and the repayment of debt.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

Capital Assets

With the passage of the University Improvement General Obligation Bonds in 2000, the University was authorized to receive \$46.8 million over the next six years for capital improvements. Major capital expenditures for the year ended June 30, 2002, include the F. L. Atkins Additions and Renovations, \$3.9 million, and the Computer Science Facility, \$0.9 million. The bond referendum is discussed in detail in Note 15(B) to the financial statements. Also, a Schedule of General Obligation Bond Project Authorizations, Budgets, and Expenditures, is presented in Schedule 1 of this report.

In response to growing enrollment and on behalf of the University, the Foundation issued \$17.7 million in tax-exempt bonds on November 1, 2001 to finance the construction of a new 448-bed campus residence facility. The facility will be maintained with non-State funds.

Factors Impacting Future Periods

Management believes that the University is well positioned to continue its strong financial condition and level of excellence in service to students, the community, and governmental agencies. This flexibility, along with the University's ongoing efforts toward revenue diversification and cost containment, will enable the University to provide the necessary resources to support this level of excellence.

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

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

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

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

While it is not possible to predict the ultimate results, management believes that the University's financial condition is strong enough to weather any economic uncertainties.

Winston-Salem State University
Statement of Net Assets
June 30, 2002

Exhibit A

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 4,979,519.81
Restricted Cash and Cash Equivalents	5,071,519.69
Receivables, Net (Note 5)	2,397,722.16
Inventories	43,842.74
Notes Receivable, Net (Note 5)	88,374.30
Total Current Assets	12,580,978.70

Noncurrent Assets:

Restricted Cash and Cash Equivalents	1,818,131.66
Restricted Due from Primary Government	5,957,939.51
Endowment Investments	11,958,848.65
Other Long-Term Investments	1,463,869.50
Notes Receivable, Net (Note 5)	600,819.33
Capital Assets, Net (Note 6)	58,498,273.23
Total Noncurrent Assets	80,297,881.88

Total Assets	92,878,860.58
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LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 7)	4,584,121.78
Due to Primary Government	38,932.11
Deferred Revenue	619,513.24
Interest Payable	227,448.62
Long-Term Liabilities - Current Portion (Note 8)	4,051,898.96
Total Current Liabilities	9,521,914.71

Noncurrent Liabilities:

Deposits Payable	51,608.10
Funds Held for Others	96,253.90
U. S. Government Grants Refundable	899,751.27
Long-Term Liabilities (Note 8)	12,261,701.51
Total Noncurrent Liabilities	13,309,314.78

Total Liabilities	22,831,229.49
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NET ASSETS

Invested in Capital Assets, Net of Related Debt	47,284,979.14
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Restricted for:

Nonexpendable:

Scholarships and Fellowships	3,030,292.25
Endowed Professorships	4,513,500.00
Departmental Uses	1,995,770.77
Loans	99,889.07

Expendable:

Scholarships and Fellowships	920,352.21
Endowed Professorships	2,487,696.36
Departmental Uses	1,092,754.21
Loans	121,747.82
Capital Projects	7,596,145.08
Debt Service	1,256,470.12

Unrestricted	(351,965.94)
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Total Net Assets	\$ 70,047,631.09
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The accompanying notes to the financial statements are an integral part of this statement.

Winston-Salem 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)	\$	3,837,638.21
Federal Grants and Contracts		5,058,852.29
Sales and Services, Net (Note 10)		6,328,257.59
Interest Earnings on Loans		5,781.77
Other Operating Revenues		453,395.20

Total Operating Revenues 15,683,925.06

EXPENSES

Operating Expenses:

Salaries and Benefits		33,223,746.06
Supplies and Materials		4,524,900.13
Services		10,600,572.87
Scholarships and Fellowships		2,865,889.77
Utilities		1,480,138.92
Depreciation		1,739,869.53

Total Operating Expenses 54,435,117.28

Operating Loss (38,751,192.22)

NONOPERATING REVENUES (EXPENSES)

State Appropriations		29,119,627.25
Noncapital Grants		6,868,091.40
Noncapital Gifts		304,508.23
Investment Loss		(1,160,181.16)
Interest and Fees on Capital Asset-Related Debt		(604,418.86)

Net Nonoperating Revenues 34,527,626.86

Loss Before Other Revenues, Expenses, Gains, or Losses (4,223,565.36)

Capital Grants		11,165,462.00
Additions to Permanent Endowments		475,728.57

Increase in Net Assets 7,417,625.21

NET ASSETS

Net Assets - July 1, 2001, as Restated (Note 18) 62,630,005.88

Net Assets - June 30, 2002 \$ 70,047,631.09

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

Winston-Salem State University
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2002

Exhibit C

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 15,517,772.26
Payments to Employees and Fringe Benefits	(32,901,498.38)
Payments to Vendors and Suppliers	(16,252,457.06)
Payments for Scholarships and Fellowships	(2,865,889.77)
Loans Issued	(99,406.00)
Collection of Loans	189,099.31
Interest Earned on Loans	5,128.65
Student Deposits Received	51,608.10
Student Deposits Returned	(112,271.17)
Net Cash Used by Operating Activities	(36,467,914.06)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Appropriations	29,119,627.25
Grants for Other than Capital Purposes	6,829,303.72
Noncapital Gifts	304,508.23
Additions to Permanent and Term Endowments	475,728.57
Other Payments	(189,652.54)
Net Cash Provided by Noncapital Financing Activities	36,539,515.23

CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES

Proceeds from Capital Debt	3,100,000.00
Capital Grants	5,207,522.49
Acquisition and Construction of Capital Assets	(8,766,581.42)
Principal Paid on Capital Debt	(870,000.00)
Interest and Fees Paid on Capital Debt	(629,605.91)
Net Cash Used by Capital Financing and Related Financing Activities	(1,958,664.84)

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from Sales and Maturities of Investments	9,571,958.86
Interest on Investments	693,480.27
Purchase of Investments and Related Fees	(9,773,788.00)
Net Cash Provided by Investing Activities	491,651.13

Net Decrease in Cash and Cash Equivalents	(1,395,412.54)
Cash and Cash Equivalents - July 1, 2001	13,264,583.70
Cash and Cash Equivalents - June 30, 2002	\$ 11,869,171.16

Winston-Salem 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	\$ (38,751,192.22)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	1,739,869.53
Changes in Assets and Liabilities:	
Receivables, Net	(119,778.25)
Inventories	(9,781.19)
Accounts Payable and Accrued Liabilities	568,687.88
Due to Primary Government	32,884.75
Deferred Revenue	(41,245.90)
Compensated Absences	83,611.10
Deposits Payable	(60,663.07)
Student Loans Issued	(99,406.00)
Student Loan Principal Repayments	189,099.31
Net Cash Used by Operating Activities	\$ (36,467,914.06)

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	\$ 4,979,519.81
Restricted Cash and Cash Equivalents	5,071,519.69
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	1,818,131.66
Total Cash and Cash Equivalents - June 30, 2002	\$ 11,869,171.16

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Change in Fair Value of Investments	\$ (1,012,637.60)
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The accompanying notes to the financial statements are an integral part of this statement.

WINSTON-SALEM 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. Winston-Salem 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 cash on deposit with private bank 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 equity investments, mutual funds, and money market funds. Except for money market funds, 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 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 federal and State governments, and due from private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants. Receivables are recorded net of estimated uncollectible amounts.

- G. Inventories** – Inventories, consisting of fuel oil held for consumption, are stated at the lower of cost or market value using the last invoice cost. Inventories of postage are stated at the retail cost.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- 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 method over the estimated useful lives of the assets, generally 10 to 40 years for general infrastructure, 20 to 50 years for buildings, and 5 to 20 years for equipment.

The Diggs Gallery collection is capitalized at cost or fair value at the date of donation. This collection is considered inexhaustible and is 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, notes payable, and compensated absences that will not be paid within the next fiscal year.

Bonds payable are reported net of unamortized discounts. The University amortizes bond discounts over the life of the bonds 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 or for which an employee can be paid upon termination of employment. Also, any accumulated vacation leave in excess of 30 days at year-end is converted to sick leave. Under this policy, the accumulated vacation leave for each employee at June 30th equals the leave carried forward at the previous December 31st plus the leave earned, less the leave taken between January 1st and June 30th.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 Copy Centers, Motor Pool, Postal Services, Telecommunications, and Facilities Rental. 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.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Board of Governors of the consolidated University of North Carolina System. Winston-Salem 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.

Deposits include cash and cash equivalents totaling \$11,869,171.16. The University's portion of the State Treasurer's Cash and Investment Pool was \$11,841,861.84. It is the State Treasurer's policy and practice for deposits not covered by federal depository insurance to be covered by collateral held by the State of North Carolina's agent in the name of the State and for 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 \$27,309.32 and the bank balance was \$27,189.32. All of the bank balance was covered by federal depository insurance.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

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

Long-Term Investment Pool - This is an internal investment pool that is utilized for the investment of the endowment funds. Fund ownership and allocation of investment income are based on the equity interest that each fund holds in the internal investment pool. 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

will not be able to recover the value of investment or collateral securities that are in the possession of an outside party if the counterparty to the investment transaction fails. There are three categories of credit risk. Category 1 includes investments that are insured or registered or for which the securities are held by the University or its agent in the University's name. Category 2 includes uninsured and unregistered investments for which the securities are held by a counterparty's trust department or agent in the University's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by a counterparty's trust department or agent but not in the University's name.

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

Long-Term Investment Pool

	Fair Value			Total
	Risk Category			
	1	2	3	
Categorized Investments:				
Corporate Stocks	\$ 0.00	\$ 6,571,767.26	\$ 0.00	\$ 6,571,767.26
Investments Not Categorized:				
Money Market Funds				217,314.19
Mutual Funds				5,169,767.20
Total Investments Not Categorized				5,387,081.39
Total Long-Term Pool Investments				\$ 11,958,848.65

Non-Pooled Investments

	Fair Value
	Total
Investments Not Categorized:	
Money Market Funds	\$ 1,463,869.50

Total Investments

	Fair Value			Total
	Risk Category			
	1	2	3	
Total Categorized Investments	\$ 0.00	\$ 6,571,767.26	\$ 0.00	\$ 6,571,767.26
Total Investments Not Categorized				6,850,950.89
Total Investments				\$ 13,422,718.15

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 4 - ENDOWMENT INVESTMENTS

Investments of the University's endowment funds are pooled. 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 (yield plus appreciation). The total spending rate is calculated annually by taking the sum of the market value of the endowment investments for the preceding twelve quarters, and dividing the result by twelve. Spending from this average value shall be at a rate of five percent, paid out proportionately quarterly. 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 balances to make up the difference. At June 30, 2002, net appreciation of \$2,419,493.36 was available to be spent for restricted purposes.

NOTE 5 - RECEIVABLES

Receivables at June 30, 2002 were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	\$ 497,572.25	\$ 350,924.59	\$ 146,647.66
Accounts	142,711.50		142,711.50
Intergovernmental	1,924,327.98		1,924,327.98
Investment Earnings	16,975.46		16,975.46
Interest on Loans	135,802.03		135,802.03
Other	31,257.53		31,257.53
Total Current Receivables	<u>\$ 2,748,646.75</u>	<u>\$ 350,924.59</u>	<u>\$ 2,397,722.16</u>
Notes Receivables:			
Notes Receivable - Current:			
Federal Loan Programs	\$ 159,905.30	\$ 80,690.53	\$ 79,214.77
Institutional Student Loan Programs	15,732.52	6,572.99	9,159.53
Total Notes Receivable - Current	<u>\$ 175,637.82</u>	<u>\$ 87,263.52</u>	<u>\$ 88,374.30</u>
Notes Receivable - Noncurrent:			
Federal Loan Programs	\$ 1,090,773.14	\$ 552,448.39	\$ 538,324.75
Institutional Student Loan Programs	107,382.41	44,887.83	62,494.58
Total Notes Receivable - Noncurrent	<u>\$ 1,198,155.55</u>	<u>\$ 597,336.22</u>	<u>\$ 600,819.33</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	\$ 3,968,242.04	\$ 0.00	\$ 0.00	\$ 0.00	\$ 3,968,242.04
Art, Literature, and Artifacts	605,472.00				605,472.00
Construction in Progress	5,182,172.92	(57,195.78)	10,360,596.60		15,485,573.74
Total Capital Assets, Non-Depreciable	9,755,886.96	(57,195.78)	10,360,596.60		20,059,287.78
Capital Assets, Depreciable:					
Buildings	60,850,332.82	57,195.78			60,907,528.60
Machinery and Equipment	5,119,981.51		528,649.07	793,545.93	4,855,084.65
General Infrastructure	2,094,292.18				2,094,292.18
Total Capital Assets, Depreciable	68,064,606.51	57,195.78	528,649.07	793,545.93	67,856,905.43
Less Accumulated Depreciation:					
Buildings	23,799,732.41		1,207,893.66		25,007,626.07
Machinery and Equipment	3,107,716.58		491,832.79	793,545.93	2,806,003.44
General Infrastructure	1,564,147.39		40,143.08		1,604,290.47
Total Accumulated Depreciation	28,471,596.38		1,739,869.53	793,545.93	29,417,919.98
Total Capital Assets, Depreciable, Net	39,593,010.13	57,195.78	(1,211,220.46)		38,438,985.45
Capital Assets, Net	\$ 49,348,897.09	\$ 0.00	\$ 9,149,376.14	\$ 0.00	\$ 58,498,273.23

NOTE 7 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	<u>Amount</u>
Accounts Payable	\$ 3,415,551.40
Accrued Payroll	725,795.27
Contract Retainage	355,457.29
Other	87,317.82
Total Accounts Payable and Accrued Liabilities	\$ 4,584,121.78

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
Notes and Bonds Payable:					
Notes Payable	\$ 840,000.00	\$ 3,100,000.00	\$ 420,000.00	\$ 3,520,000.00	\$ 3,520,000.00
Bonds Payable	11,690,000.00		450,000.00	11,240,000.00	470,000.00
Deduct Discount	(29,220.20)		(2,514.29)	(26,705.91)	
Total Notes and Bonds Payable	12,500,779.80	3,100,000.00	867,485.71	14,733,294.09	3,990,000.00
Compensated Absences	1,496,695.28	1,120,616.15	1,037,005.05	1,580,306.38	61,898.96
Total Long-Term Liabilities	\$ 13,997,475.08	\$ 4,220,616.15	\$ 1,904,490.76	\$ 16,313,600.47	\$ 4,051,898.96

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

Purpose	Financial Institution	Interest Rate	Final Maturity Date	Original Amount of Issue	Principal Paid Through 06/30/2002	Principal Outstanding 06/30/2002
Technology Enhancement	Branch Banking & Trust	5.46%	09/07/2002	\$ 1,260,000.00	\$ 840,000.00	\$ 420,000.00
Residence Hall Renovations	Branch Banking & Trust	3.42%	12/26/2002	3,100,000.00		3,100,000.00
Total Notes Payable				\$ 4,360,000.00	\$ 840,000.00	\$ 3,520,000.00

The University has pledged certain expendable funds for the payment of the Technology Enhancement note. The University plans to refinance the Residence Hall Renovations note maturing on December 26, 2002 with other long-term financing.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

C. 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
<u>Housing and Dining System</u>						
Revenue Refunding Bonds	1998B	3.70% - 5.00%	01/01/2017	\$ 8,430,000.00	\$ 285,000.00	\$ 8,145,000.00
<u>Student Services System</u>						
Revenue Bonds	1995A	5.20% - 5.55%	06/01/2021	3,600,000.00	505,000.00	3,095,000.00
Total Bonds Payable (principal only)				\$ 12,030,000.00	\$ 790,000.00	11,240,000.00
Less: Unamortized Discount						(26,705.91)
Total Bonds Payable						\$ 11,213,294.09

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

Fiscal Year	Annual Requirements			
	Bonds Payable		Notes Payable	
	Principal	Interest	Principal	Interest
2003	\$ 470,000.00	\$ 546,630.00	\$ 3,520,000.00	\$ 76,377.70
2004	495,000.00	525,421.25		
2005	515,000.00	502,910.00		
2006	540,000.00	478,965.00		
2007	580,000.00	453,327.50		
2008-2012	3,330,000.00	1,820,450.00		
2013-2017	4,360,000.00	868,172.50		
2018-2021	950,000.00	135,637.50		
Total Requirements	\$ 11,240,000.00	\$ 5,331,513.75	\$ 3,520,000.00	\$ 76,377.70

NOTE 9 - OPERATING LEASE OBLIGATIONS

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

Fiscal Year	Amount
2003	\$ 64,665.50
2004	66,020.46
2005	60,916.07
2006	49,353.56
Total Minimum Lease Payments	\$ 240,955.59

Rental expense for all operating leases during the year was \$50,350.00.

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	
Operating Revenues:						
Student Tuition and Fees	\$ 5,277,487.13	\$ 0.00	\$ 1,392,137.74	\$ 47,711.18	\$ 3,837,638.21	
Sales and Services:						
Sales and Services of Auxiliary Enterprises:						
Residential Life	\$ 3,047,352.80	\$ 0.00	\$ 851,709.23	\$ 21,864.35	\$ 2,173,779.22	(A)
Dining	2,320,694.17		721,640.38	15,763.89	1,583,289.90	(A)
Student Union Services	809,618.99		110,410.24	2,586.30	696,622.45	(B)
Health, Physical Education, and Recreation Services	1,101,344.82		463,609.56	12,109.34	625,625.92	
Parking	217,267.65			(423.64)	217,691.29	
Athletic	706,315.79		183,942.79	5,629.42	516,743.58	
Other	1,611,358.97	1,019,347.66	76,375.39	1,130.69	514,505.23	
Total Sales and Services	\$ 9,813,953.19	\$ 1,019,347.66	\$ 2,407,687.59	\$ 58,660.35	\$ 6,328,257.59	

Revenue bonds secured by pledged revenues:

- (A) Housing and Dining System
- (B) Student Services System

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	\$ 16,524,470.32	\$ 1,222,477.44	\$ 1,746,940.07	\$ 182,154.80	\$ 0.00	\$ 0.00	\$ 19,676,042.63
Research	562,762.98	134,561.70	297,481.24				994,805.92
Public Service	1,279,386.74	460,517.82	750,372.81	3,180.00	274.10		2,493,731.47
Academic Support	3,100,829.29	806,119.79	654,462.16	4,300.00			4,565,711.24
Student Services	1,808,871.33	212,664.31	450,034.57	18,700.00			2,490,270.21
Institutional Support	4,334,633.53	389,065.31	1,151,726.14	3,500.00			5,878,924.98
Operations and Maintenance of Plant	3,105,215.18	662,898.39	833,681.87		1,099,518.92		5,701,314.36
Student Financial Aid	341,934.23	(7.92)	31,182.39	2,627,043.71			3,000,152.41
Auxiliary Enterprises	2,165,642.46	636,603.29	4,684,691.62	27,011.26	380,345.90		7,894,294.53
Depreciation						1,739,869.53	1,739,869.53
Total Operating Expenses	\$ 33,223,746.06	\$ 4,524,900.13	\$ 10,600,572.87	\$ 2,865,889.77	\$ 1,480,138.92	\$ 1,739,869.53	\$ 54,435,117.28

NOTE 12 - PENSION PLANS

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 \$27,808,857.16, of which \$17,930,426.69 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were \$1,075,825.60 and \$353,229.41, respectively. The University made one hundred percent of its annual required contributions for the years ended June 30, 2002, 2001, and 2000, which were \$353,229.41, \$912,915.40, and \$1,304,917.39, 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 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 \$27,808,857.16, of which \$6,417,606.82 was covered under the Optional Retirement Program. Total employee and employer contributions for pension benefits for the year were \$385,056.41 and \$438,964.31, respectively.

B. Deferred Compensation and Supplemental Retirement Income Plans

IRC Section 457 Plan - The State of North Carolina offers its permanent employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 through the North Carolina Public Employee Deferred Compensation Plan (the Plan). The Plan permits each participating employee to defer a portion of his or her salary until future years. The deferred compensation is available to employees upon separation from service, death, disability, retirement, or financial hardships if approved by the Board of Trustees of the Plan. The Board, a part of the North Carolina Department of Administration, maintains a separate fund for the exclusive benefit of the participating employees and their beneficiaries, *the North Carolina Public Employee Deferred Compensation Trust Fund*. The Board also contracts with an external third party to perform certain administrative requirements and to manage the trust fund's assets. All costs of administering and funding the Plan are the responsibility of the Plan participants. No costs are incurred by the

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

University. The voluntary contributions by employees amounted to \$37,217.16 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 \$18,691.54. The voluntary contributions by employees amounted to \$166,140.00 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 \$331,513.52 for the year ended June 30, 2002.

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 \$572,178.79. The University assumes no liability for retiree health care benefits provided by the programs other than its required contribution.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 \$126,609.77. 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 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 except theft losses carry a \$1,000 per occurrence deductible. The University also purchased through the Fund extended coverage for sprinkler leakage, business interruption, vandalism, theft, flood, and "all risks" for buildings and contents.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

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 \$13,509,930.82 and on other purchases were \$942,377.62 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 \$35,621,119.00 is contingent on future bond sales and OSBM allotment approval. Because of uncertainty and time restrictions the remaining authorization is not recorded as an asset or revenue on the accompanying financial statements.

NOTE 16 - WINSTON-SALEM STATE UNIVERSITY FOUNDATION, INC.

There is a separately incorporated non-profit foundation associated with the University. This foundation is the Winston-Salem State University Foundation, Inc.

This organization serves as the primary fundraising arm of the University through which individuals, corporations, and other organizations support University programs by providing scholarships, fellowships, faculty salary supplements, and unrestricted funds to specific colleges and the University's overall academic environment. The University's financial statements do not include the assets, liabilities, net assets, or operational transactions of the foundation, except for support from the organization to the University. This support approximated \$333,511.59 for the year ended June 30, 2002.

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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, and disclosure of 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	\$ 108,183,093.84
Implementation of GASB 34/35	<u>(45,553,087.96)</u>
July 1, 2001 Net Assets as Restated	<u>\$ 62,630,005.88</u>

NOTE 19 - SUBSEQUENT EVENTS

On October 11, 2002, the University of North Carolina Board of Governor’s ratified the issuance of bonds for a system-wide tax-exempt bond financing. The University intends to borrow approximately \$3,090,000.00 through the financing.

Winston-Salem 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							
Computer Science Facility - Replacement and Consolidation	Apr 2002	\$ 11,604,523.00	\$ 700,000.00	\$ 12,304,523.00	\$ 1,451,177.67	11.79%	Jan 2004
F. L. Atkins - Additions and Renovations	May 2001	3,994,729.00	1,038,660.00	5,033,389.00	4,177,442.16	82.99%	Jan 2003
Physical and Life Sciences Building - Replacement of Hill Hall	Dec 2002	11,532,857.00		11,532,857.00	385,130.70	3.34%	Jul 2005
Anderson Center - Comprehensive Renovation and Change of Use for Early Childhood/Gerontology Programs	Jul 2002	6,588,476.00		6,588,476.00	1,517,006.56	23.03%	Aug 2005
Infrastructure Improvements	Dec 2002	1,626,952.00		1,626,952.00	104,208.45	6.41%	Jun 2005
Chilled Water Loop System	Apr 2002	414,286.00	2,415,100.00	2,829,386.00	1,805,242.68	63.80%	May 2003
Replace Underground Steam and Hot Water Piping	Apr 2002	1,190,000.00		1,190,000.00	289,722.00	24.35%	Aug 2003
Technology Infrastructure Expansion	Sep 2001	1,676,100.00		1,676,100.00	648,789.42	38.71%	Jul 2003
Carolina Hall - Renovation and Conversion from Computer Center to Classroom	Sep 2003	4,067,333.00		4,067,333.00	1,600.00	0.04%	Dec 2005
Program Management	May 2001	1,933,325.00		1,933,325.00	148,515.07	7.68%	Jul 2007
Projects Not Started - To Be Funded in Future Years							
Health Center Building and Old Nursing Building - Comprehensive Renovation for Student Health	Jul 2004	2,158,000.00		2,158,000.00			
Total All Projects		\$ 46,786,581.00	\$ 4,153,760.00	\$ 50,940,341.00	\$ 10,528,834.71		

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

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Ralph Campbell, Jr.
State Auditor

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

Board of Trustees
Winston-Salem State University
Winston-Salem, North Carolina

We have audited the financial statements of Winston-Salem 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 January 29, 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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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



Ralph Campbell, Jr.
State Auditor

January 29, 2003

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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.

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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
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Mr. Robert L. Powell	State Controller
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Dr. Harold L. Martin, Sr.	Chancellor, Winston-Salem State University
Ms. Paula Jefferies	Vice Chancellor for Finance and Administration Winston-Salem State University
Mr. Thomas E. Terrell, Jr.	Chairman, Board of Trustees Winston-Salem State University

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Representative Joe Hackney	N. C. House Speaker Pro-Tem
Mr. James D. Johnson	Director, Fiscal Research Division

April 15, 2003

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