



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, 2003

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, 2003

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Ralph Campbell, Jr.
State Auditor

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AUDITOR'S TRANSMITTAL

The Honorable Michael F. Easley, Governor
The General Assembly of North Carolina
Board of Trustees, North Carolina 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, 2003. Our audit was made by authority of Article 5A of Chapter 147 of the *North Carolina 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 - 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

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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, 2003, 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, 2003, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 8, 2004 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.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

The Management's Discussion and Analysis (MD&A), as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the 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

June 8, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

Introduction

Management's discussion and analysis provides an overview of the financial position and operating activities of North Carolina Agricultural and Technical State University for the year ended June 30, 2003, and includes comparative data for the year ended June 30, 2002. The discussion describes important trends and events that have impacted the fiscal health of the University and that may continue to exert influence in future years. Management's discussion and analysis has been prepared by University staff and is designed to supplement the information provided in the financial statements and notes.

The Financial Statements

The financial statements for North Carolina Agricultural and Technical State University include the Statement of Net Assets, the Statement of Revenues, Expenses, and Changes in Net Assets, and the Statement of Cash Flows. These statements are prepared in accordance with Governmental Accounting Standards Board (GASB) principles and use 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, 2003, 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 to be held to meet future needs. Capital assets are shown net of depreciation. 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Condensed Statement of Net Assets

	<u>2003</u>	<u>2002</u>	<u>Change</u>
Assets			
Current Assets	\$ 36,057,526	\$ 35,394,387	\$ 663,139
Noncurrent Capital Assets, Net of Accumulated Depreciation	172,319,529	159,252,189	13,067,340
Other Noncurrent Assets	<u>21,960,826</u>	<u>20,218,135</u>	<u>1,742,691</u>
Total Assets	<u>230,337,881</u>	<u>214,864,711</u>	<u>15,473,170</u>
Liabilities			
Current Liabilities	10,803,047	12,185,469	(1,382,422)
Noncurrent Liabilities	<u>21,839,225</u>	<u>21,496,178</u>	<u>343,047</u>
Total Liabilities	<u>32,642,272</u>	<u>33,681,647</u>	<u>(1,039,375)</u>
Net Assets			
Investment in Capital Assets, Net of Related Debt	156,311,857	142,904,517	13,407,340
Restricted - Nonexpendable	6,482,398	5,840,308	642,090
Restricted - Expendable	18,707,278	15,890,469	2,816,809
Unrestricted	<u>16,194,076</u>	<u>16,547,770</u>	<u>(353,694)</u>
Total Net Assets	<u>\$ 197,695,609</u>	<u>\$ 181,183,064</u>	<u>\$ 16,512,545</u>

University assets increased \$15.5 million from 2002 to 2003. The change was comprised primarily of increases in net capital assets and other noncurrent assets. The University posted a significant increase in construction in progress due to several large projects, funded by proceeds from the sale of North Carolina general obligation bonds. As a consequence of the State funded construction activity, the University recorded a large increase in a noncurrent receivable due from the State, accounting for the increase in other noncurrent assets.

The University recorded a decrease in liabilities of approximately \$1 million during the 2003 fiscal year. The change was due in large part to the decline in deferred revenue for contracts and grants.

Net assets of the University increased by almost \$17 million with over \$13 million of that change resulting from the growth in net capital assets. The rise in construction in progress contributed significantly to that increase.

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

	<u>2003</u>	<u>2002</u>	<u>Change</u>
Operating Revenues			
Tuition and Fees	\$ 31,012,145	\$ 25,502,659	\$ 5,509,486
Grants and Contracts	30,240,272	25,870,237	4,370,035
Federal Appropriations	5,423,716	5,676,190	(252,474)
Sales and Services	17,418,142	16,207,482	1,210,660
Other Operating Revenues	955,212	1,485,695	(530,483)
Total Operating Revenues	<u>85,049,487</u>	<u>74,742,263</u>	<u>10,307,224</u>
Operating Expenses	<u>158,793,175</u>	<u>144,073,690</u>	<u>14,719,485</u>
Operating Loss	<u>(73,743,688)</u>	<u>(69,331,427)</u>	<u>(4,412,261)</u>
Nonoperating Revenues (Expenses)			
State Appropriations	61,765,966	53,430,836	8,335,130
Noncapital Grants and Gifts	8,026,849	9,330,533	(1,303,684)
Other Nonoperating Revenues	(307,218)	(698,677)	391,459
Net Nonoperating Revenues	<u>69,485,597</u>	<u>62,062,692</u>	<u>7,422,905</u>
Loss Before Other Revenues, Expenses Gains, or Losses	<u>(4,258,091)</u>	<u>(7,268,735)</u>	<u>3,010,644</u>
Capital Grants	20,131,444	24,906,481	(4,775,037)
Capital Gifts		104,509	(104,509)
Additions to Permanent Endowments	639,192	395,582	243,610
Total Other Revenues	<u>20,770,636</u>	<u>25,406,572</u>	<u>(4,635,936)</u>
Total Increase in Net Assets	16,512,545	18,137,837	(1,625,292)
Net Assets - Beginning of the Year	<u>181,183,064</u>	<u>163,045,227</u>	<u>18,137,837</u>
Net Assets - End of the Year	<u>\$ 197,695,609</u>	<u>\$ 181,183,064</u>	<u>\$ 16,512,545</u>

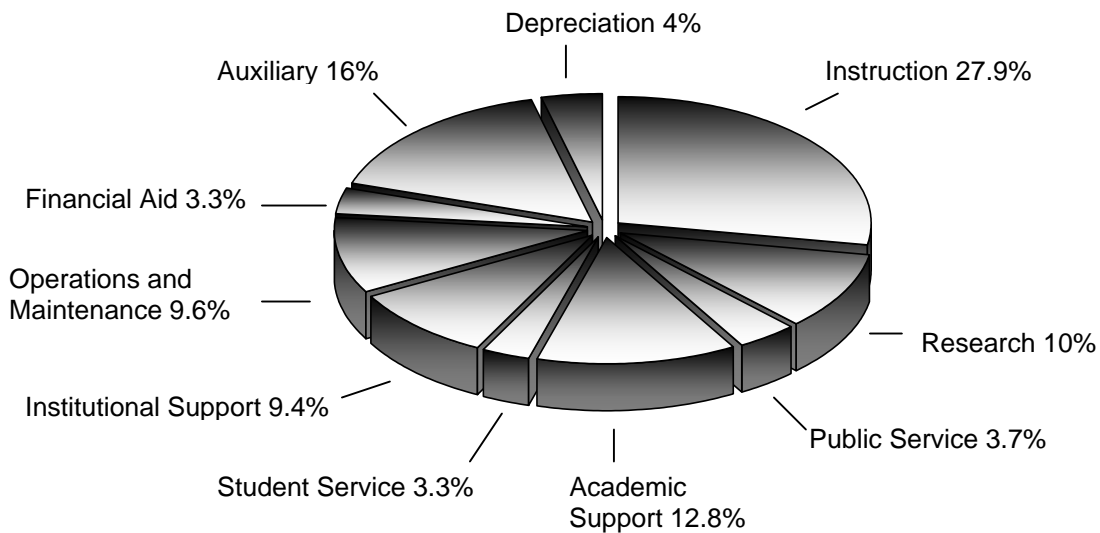
During fiscal year 2003, major operating revenue gains occurred in tuition and fees, grants and contracts, and sales and services. The \$6.7 million increase in tuition and fees and sales and services reflects growth in student enrollment and increases in amounts charged for fees and services. The growth in grants and contracts was due primarily to an increase in the Pell grant award of approximately \$2 million. The rise in operating costs is attributed primarily to increases in payroll charges and expenditures for services. University personnel received a small salary increase during the 2003 fiscal year along with additional leave hours that boosted the recorded benefit costs. The University experienced an increase in the cost to repair and maintain buildings along with increases for contracted and other services. Utilities expenditures increased during the year as a result of rising energy costs and colder temperatures in 2003.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

The University received an increase in State appropriations of approximately \$8 million as a result of the rise in student enrollment. With the improvement of investment markets, the University recorded modest unrealized gains as well as realized investment income of \$1.2 million. The University completed a major building project, funded from State bond proceeds, at the end of fiscal year 2002 and the next large State financed project entered the construction phase in late 2003. The result of the timing of the two projects resulted in a decline in capital grants of about \$4.5 million.

The University presents expenditures by natural classification in the Statement of Revenues, Expenses, and Changes in Net Assets. Personnel services accounted for 57.9% of operating expenses, followed by services at 19%, supplies and materials at 11.1%, scholarships at 5.4%, depreciation at 4%, and utility costs at 2.6%.

Operating expenditures are detailed by functional areas in Note 10 of the notes to the financial statements and are illustrated in the chart below.



Statement of Cash Flows

The Statement of Cash Flows identifies the sources and uses of the University's cash assets during the fiscal 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Condensed Statement of Cash Flows

	<u>2003</u>	<u>2002</u>	<u>Change</u>
Cash Provided (Used) by:			
Operating Activities	\$ (66,275,261)	\$ (63,920,937)	\$ (2,354,324)
Noncapital Financing Activities	70,119,856	65,252,344	4,867,512
Capital and Related Financing Activities	(7,231,986)	(11,775,493)	4,543,507
Investing Activities	<u>2,141,557</u>	<u>870,497</u>	<u>1,271,060</u>
Net Change in Cash	(1,245,834)	(9,573,589)	8,327,755
Cash and Cash Equivalents - July 1	<u>30,493,568</u>	<u>40,067,157</u>	<u>(9,573,589)</u>
Cash and Cash Equivalents - June 30	<u>\$ 29,247,734</u>	<u>\$ 30,493,568</u>	<u>\$ (1,245,834)</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 over 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 \$21,648,089 was funded primarily by State grants received in 2002-2003, totaling \$16,069,153. The remainder of the investment in capital assets was financed through minor sources of revenue and cash reserves on hand at July 1, 2002, that consisted primarily of bond proceeds and State appropriations.

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 \$16,379,363 in bond proceeds during 2002-2003. The University completed a new classroom and laboratory building at the end of fiscal year 2002, and started a major residence hall construction project during 2003 that will build four new residence halls to replace Scott Hall, the largest housing facility on campus. The buildings are scheduled for completion in August of 2004. The bonds will also finance improvements to steam lines, enhancement of the technology infrastructure, a new hazardous building, and renovation of three dormitories. In addition, the University has used bond proceeds to purchase a significant portion of the land needed to implement the campus master plan. Several construction projects in the final and startup stages were funded with auxiliary receipts during the year. The University expended the following amounts during 2002-2003 on capital projects, land acquisition, and maintenance and repairs:

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

Construction and Renovation of Buildings and Infrastructure	\$ 16,860,257
Land Acquisition	349,812
Maintenance and Repairs	<u>587,827</u>
Total	<u><u>\$ 17,797,896</u></u>

Forecast

North Carolina Agricultural and Technical State University has experienced another fiscal year marked by growth in student enrollment that has enabled the University to meet the needs of students, faculty, staff, and the community while absorbing cuts in State appropriations with funds provided by the State to accommodate the increased enrollment. Management anticipates that projected increases in enrollment will provide State funding to help meet needs in the year ahead. The University is also cautiously optimistic that continued improvement of the economy will translate into a healthy financial climate for North Carolina, resulting in the elimination of cuts in State appropriations in the future. Management will, however, continue to follow a path of conservative fiscal management while identifying other resources to fund programs and initiatives.

North Carolina Agricultural and Technical State University
Statement of Net Assets
June 30, 2003

Exhibit A

ASSETS

Current Assets:

Cash and Cash Equivalents	\$	21,286,929
Restricted Cash and Cash Equivalents		4,523,588
Receivables, Net (Note 4)		8,163,568
Due from State of North Carolina Component Units		695,000
Inventories		1,066,267
Notes Receivable, Net (Note 4)		322,174

Total Current Assets 36,057,526

Noncurrent Assets:

Restricted Cash and Cash Equivalents		3,437,217
Receivables, Net (Note 4)		145,992
Restricted Due from Primary Government		10,181,428
Endowment Investments		6,397,432
Other Long-Term Investments		810,610
Notes Receivable, Net (Note 4)		988,147
Capital Assets - Nondepreciable (Note 5)		31,821,146
Capital Assets - Depreciable, Net (Note 5)		140,498,383

Total Noncurrent Assets 194,280,355

Total Assets 230,337,881

LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 6)		6,869,894
Due to Primary Government		56,427
Deferred Revenue		2,584,929
Interest Payable		207,727
Long-Term Liabilities - Current Portion (Note 7)		1,084,070

Total Current Liabilities 10,803,047

Noncurrent Liabilities:

Deposits Payable		250,749
Funds Held for Others		94,420
U. S. Government Grants Refundable		1,211,848
Long-Term Liabilities (Note 7)		20,282,208

Total Noncurrent Liabilities 21,839,225

Total Liabilities 32,642,272

North Carolina Agricultural and Technical State University
Statement of Net Assets
June 30, 2003

Exhibit A
page 2

NET ASSETS

Invested in Capital Assets, Net of Related Debt	156,311,857
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	3,176,394
Endowed Professorships	2,971,992
Loans	260,933
Other	73,079
Expendable:	
Scholarships and Fellowships	2,398,065
Research	830,063
Endowed Professorships	731,978
Departmental Uses	2,651,700
Capital Projects	11,813,519
Debt Service	281,953
Unrestricted	16,194,076
Total Net Assets	\$ 197,695,609

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, 2003

Exhibit B

REVENUES

Operating Revenues:

Student Tuition and Fees, Net (Note 9)	\$ 31,012,145
Federal Appropriations	5,423,716
Federal Grants and Contracts	27,542,107
State and Local Grants and Contracts	1,029,307
Nongovernmental Grants and Contracts	1,668,858
Sales and Services, Net (Note 9)	17,418,142
Interest Earnings on Loans	5,423
Other Operating Revenues	949,789
Total Operating Revenues	85,049,487

EXPENSES

Operating Expenses:

Salaries and Benefits	91,915,421
Supplies and Materials	17,770,931
Services	30,149,677
Scholarships and Fellowships	8,613,304
Utilities	4,035,878
Depreciation	6,307,964
Total Operating Expenses	158,793,175
Operating Loss	(73,743,688)

NONOPERATING REVENUES (EXPENSES)

State Appropriations	61,765,966
Noncapital Grants	8,026,849
Investment Income (Net of Investment Expense of \$40,256)	1,289,670
Interest and Fees on Capital Asset-Related Debt	(870,300)
Other Nonoperating Expenses	(726,588)
Net Nonoperating Revenues	69,485,597
Loss Before Other Revenues, Expenses, Gains, or Losses	(4,258,091)

Capital Grants	20,131,444
Additions to Endowments	639,192
Increase in Net Assets	16,512,545

NET ASSETS

Net Assets - July 1, 2002	181,183,064
Net Assets - June 30, 2003	\$ 197,695,609

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, 2003

Exhibit C

CASH FLOWS FROM OPERATING ACTIVITIES

Student Tuition and Fees, Net	\$ 30,766,932
Auxiliary Enterprise Charges	17,574,868
Contracts and Grants	34,667,242
Payments to Employees and Fringe Benefits	(90,390,713)
Payments to Vendors and Suppliers	(51,328,228)
Payments for Scholarships and Fellowships	(8,613,304)
Loans Issued	(351,875)
Collection of Loans	444,449
Interest Earned on Loans	816
Other Receipts	954,552
Net Cash Used by Operating Activities	(66,275,261)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Appropriations	61,765,966
Grants for Other than Capital Purposes	7,660,321
Additions to Permanent and Term Endowments	639,142
Related Activity Agency Transactions	54,427
Net Cash Provided by Noncapital Financing Activities	70,119,856

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Capital Grants	16,069,153
Proceeds from Sale of Capital Assets	5,069
Acquisition and Construction of Capital Assets	(21,648,089)
Principal Paid on Capital Debt	(778,439)
Interest Paid on Capital Debt	(879,680)
Net Cash Used by Capital Financing and Related Financing Activities	(7,231,986)

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from Sales and Maturities of Investments	5,096,549
Interest on Investments	955,565
Purchase of Investments and Related Fees	(3,910,557)
Net Cash Provided by Investing Activities	2,141,557

Net Decrease in Cash and Cash Equivalents	(1,245,834)
Cash and Cash Equivalents - July 1, 2002	30,493,568
Cash and Cash Equivalents - June 30, 2003	\$ 29,247,734

North Carolina Agricultural and Technical State University		
Statement of Cash Flows		Exhibit C
For the Fiscal Year Ended June 30, 2003		page 2
RECONCILIATION OF NET OPERATING REVENUES (EXPENSES)		
TO NET CASH USED BY OPERATING ACTIVITIES		
Operating Loss		\$ (73,743,688)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense		6,307,964
Allowances, Write-Offs, and Amortizations		89,456
Changes in Assets and Liabilities:		
Receivables (Net)		(59,198)
Due from State of North Carolina Component Units		(695,000)
Inventories		(154,944)
Accounts Payable and Accrued Liabilities		634,196
Due to Primary Government		24,303
Deferred Revenue		(68,624)
Compensated Absences		1,381,558
Note Principal Repayments		360,591
Loans Issued		(351,875)
Net Cash Used by Operating Activities		<u>\$ (66,275,261)</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS		
Current Assets:		
Cash and Cash Equivalents		\$ 21,286,929
Restricted Cash and Cash Equivalents		4,523,588
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		<u>3,437,217</u>
Total Cash and Cash Equivalents - June 30, 2003		<u>\$ 29,247,734</u>
The accompanying notes to the financial statements are an integral part of this statement.		

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NORTH CAROLINA AGRICULTURAL AND TECHNICAL STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003

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 nonprofit 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*, 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)

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

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

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

- D. Cash and Cash Equivalents** – This classification includes undeposited receipts, petty cash, cash on deposit with private bank accounts, savings accounts, money market accounts, cash on deposit with fiscal agents, and deposits held by the State Treasurer in the short-term investment portfolio. 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, real estate investment trusts, real estate, and other asset holdings by the University. Except for money market funds, certificates of deposit, real estate not held by a governmental external investment pool, and other asset holdings, 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 and real estate not held by a governmental external investment pool, and other asset holdings are reported at cost, if purchased, or at fair value or appraised value at date of gift, if donated.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- 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 provider's conditions have been satisfied. Receivables are recorded net of estimated uncollectible amounts.
- G. Inventories** – Inventories held by the University are priced at average cost, last invoice unit price, or market using the first-in, first-out method. The inventories for the unrestricted general fund consist of expendable supplies, postage, and fuel oil held for consumption. Inventories for the unrestricted proprietary fund are textbooks and other merchandise for resale.
- H. Capital Assets** – Capital assets are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. The value of assets constructed includes all material direct and indirect construction costs. Interest costs incurred are capitalized during the period of construction.

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

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 15 to 50 years for general infrastructure, 10 to 50 years for buildings, and 3 to 25 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** – Unexpended proceeds of revenue bonds and unexpended capital contributions are classified as restricted assets because their use is limited by applicable bond covenants or donor/grantor agreements. Certain other assets are classified as restricted because their use is limited by external parties or statute.
- 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 method. 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 and on 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 is converted to sick leave. Under this policy, the accumulated vacation leave for each SPA employee at June 30th equals the leave carried forward at the previous December 31st plus the leave earned, less the leave taken between January 1st and June 30th. The accumulated leave for EPA employees is equal to the balance held at June 30th.

In addition to the vacation leave described above, compensated absences includes the accumulated unused portion of the special annual leave bonus awarded by the North Carolina General Assembly to all full-time permanent employees as of September 30, 2002. The unused portion of this leave remains available until used, notwithstanding the limitation on annual leave carried forward described above.

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

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

M. Scholarship Discounts – Student tuition and fees revenues and certain other revenues from University charges are reported net of scholarship discounts in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. The scholarship discount is the difference between the actual charge for goods and services provided by the University and the amount that is paid by students or by third parties on the students' behalf. Student financial assistance grants, such as Pell grants, and other federal, State, or nongovernmental programs, are recorded as 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 classifies its revenues and expenses as operating or nonoperating in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the University's principal ongoing operations. Operating revenues include activities that have characteristics of exchange transactions, such as (1) student tuition and fees, (2) sales and services of auxiliary enterprises, (3) certain federal, State and local grants and contracts that are essentially contracts for services, and (4) interest earned on loans. Operating expenses are all expense transactions incurred other than those related to capital and noncapital financing or investing activities as defined by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and*

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting.

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

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

NOTE 2 - DEPOSITS AND INVESTMENTS

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

Deposits include cash and cash equivalents totaling \$29,212,636. At year-end, cash on hand was \$35,098. The University's portion of the State Treasurer's Investment Pool was \$29,168,848. It is the State Treasurer's policy and practice for deposits not covered by federal

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 \$43,789 and the bank balance was \$1,387,687. Of the bank balance, \$143,191 was covered by federal depository insurance and \$1,244,495 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 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 and Chapter VI of the Administrative Manual of the University of North Carolina, to invest its special funds and funds received for services rendered by health care professionals in the same manner as the State Treasurer is required to invest, as 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 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.

A summary of the University's investments at June 30, 2003 is presented below:

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Long-Term Investment Pool

	Fair Value			
	Risk Category			Total
	1	2	3	
Categorized Investments:				
Corporate Bonds	\$ 0	\$ 2,742,809	\$ 0	\$ 2,742,809
Corporate Stock (common and preferred)		2,448,393		
International Stocks		63,619		63,619
Total Categorized Investments	\$ 0	\$ 5,254,821	\$ 0	5,254,821
Investments Not Categorized:				
Money Market Funds				345,729
Mutual Funds				785,192
Real Estate				11,690
Total Investments Not Categorized				1,142,611
Total Long-Term Investments				\$ 6,397,432

Non-Pooled Investments

	Fair Value			
	Risk Category			Total
	1	2	3	
Categorized Investments:				
Corporate Stocks (common and preferred)	\$ 1,160	\$ 0	\$ 0	\$ 1,160
Investments Not Categorized:				
Money Market Funds				809,450
Total Non-Pooled Investments				\$ 810,610

Total Investments

	Fair Value			
	Risk Category			Total
	1	2	3	
Total Categorized Investments	\$ 1,160	\$ 5,254,821	\$ 0	\$ 5,255,981
Total Investments Not Categorized				1,952,061
Total Investments				\$ 7,208,042

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 3 - ENDOWMENT INVESTMENTS

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

Investment return of the University's endowment funds is predicated on the total return concept (yield plus appreciation). 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 31 for the past three years. Under this policy, the prior year spending percentage is increased by the inflation rate to determine the current year spending percentage. 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, 2003, net appreciation of \$308,600 was available to be spent, of which \$308,600 was restricted to specific purposes.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 4 - RECEIVABLES

Receivables at June 30, 2003 were as follows:

	<u>Gross Receivables</u>	<u>Less Allowance for Doubtful Accounts</u>	<u>Net Receivables</u>
Current Receivables:			
Students	\$ 1,770,966	\$ 476,377	\$ 1,294,589
Accounts	424,147	118,185	305,962
Intergovernmental	4,661,428		4,661,428
Pledges	848,276		848,276
Investment Earnings	120,122		120,122
Interest on Loans	124,400		124,400
Other	808,791		808,791
	<u>8,758,130</u>	<u>594,562</u>	<u>8,163,568</u>
Total Current Receivables	<u>\$ 8,758,130</u>	<u>\$ 594,562</u>	<u>\$ 8,163,568</u>
Noncurrent Receivables:			
Pledges	<u>\$ 145,992</u>	<u>\$ 0</u>	<u>\$ 145,992</u>
Notes Receivable:			
Notes Receivable - Current:			
Federal Loan Programs	<u>\$ 322,174</u>	<u>\$ 0</u>	<u>\$ 322,174</u>
Notes Receivable - Noncurrent:			
Federal Loan Programs	<u>\$ 1,832,496</u>	<u>\$ 844,349</u>	<u>\$ 988,147</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2003, is presented as follows:

	Balance July 1, 2002	Adjustments	Increases	Decreases	Balance June 30, 2003
Capital Assets, Nondepreciable:					
Land	\$ 6,826,843	\$ (19,772)	\$ 349,812	\$ 0	\$ 7,156,883
Art, Literature, and Artifacts	2,502,077				2,502,077
Construction in Progress	39,271,979	(29,427,718)	12,317,925		22,162,186
Total Capital Assets, Nondepreciable	48,600,899	(29,447,490)	12,667,737		31,821,146
Capital Assets, Depreciable:					
Buildings	135,084,394	28,215,054	4,500,240		167,799,688
Machinery and Equipment	32,796,050		2,896,894	6,505,806	29,187,138
General Infrastructure	4,963,847	1,232,436	42,091		6,238,374
Total Capital Assets, Depreciable	172,844,291	29,447,490	7,439,225	6,505,806	203,225,200
Less Accumulated Depreciation/Amortization for:					
Buildings	38,858,952	989,118	3,458,353		43,306,423
Machinery and Equipment	22,493,035	(989,118)	2,605,925	5,774,148	18,335,694
Art, Literature, and Artifacts			243,686		243,686
General Infrastructure	841,014				841,014
Total Accumulated Depreciation	62,193,001		6,307,964	5,774,148	62,726,817
Total Capital Assets, Depreciable, Net	110,651,290	29,447,490	1,131,261	731,658	140,498,383
Capital Assets, Net	\$ 159,252,189	\$ 0	\$ 13,798,998	\$ 731,658	\$ 172,319,529

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2003 were as follows:

	Amount
Accounts Payable	\$ 4,101,050
Accrued Payroll	1,947,627
Contract Retainage	644,454
Intergovernmental Payables	79,669
Other	97,094
Total Accounts Payable and Accrued Liabilities	\$ 6,869,894

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 7 - LONG-TERM LIABILITIES

A. Changes in Long-Term Liabilities - A summary of changes in the long-term liabilities for the year ended June 30, 2003 is presented as follows:

	Balance July 1, 2002	Additions	Reductions	Balance June 30, 2003	Current Portion
Bonds Payable	\$ 17,280,000	\$ 0	\$ 795,000	\$ 16,485,000	\$ 845,000
Add/Deduct Premium/Discount	(8,639)		(822)	(7,817)	
Deduct Deferred Charge on Refunding	(165,250)		(15,738)	(149,512)	
Total Bonds Payable	17,106,111		778,440	16,327,671	845,000
Compensated Absences	3,657,049	3,986,908	2,605,350	5,038,607	239,070
Total Long-Term Liabilities	\$ 20,763,160	\$ 3,986,908	\$ 3,383,790	\$ 21,366,278	\$ 1,084,070

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 06/30/2003	Principal Outstanding 06/30/2003
<u>The University of North Carolina System Pool Revenue Bonds</u>						
Student Union	(A)	3.25-5.25%	10/01/2013	\$ 5,860,000	\$ 1,200,000	\$ 4,660,000
Parking system	(A)	3.25-5.25%	10/01/2013	1,465,000	300,000	1,165,000
Dining System	(B)	5.00-5.75%	10/01/2020	9,875,000	590,000	9,285,000
Stadium System	(B)	5.00-5.75%	10/01/2020	1,555,000	180,000	1,375,000
Total Bonds Payable (principal only)				<u>\$ 18,755,000</u>	<u>\$ 2,270,000</u>	16,485,000
Less: Unamortized Loss on Refunding						(149,512)
Less: Unamortized Discount						<u>(7,817)</u>
Total Bonds Payable						<u>\$ 16,327,671</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, 2003 are as follows:

<u>Fiscal Year</u>	Annual Requirements	
	Bonds Payable	
	Principal	Interest
2004	\$ 845,000	\$ 815,413
2005	885,000	774,341
2006	925,000	731,350
2007	975,000	686,163
2008	1,020,000	638,950
2009-2013	5,945,000	2,384,825
2014-2018	3,660,000	1,127,900
2019-2023	2,230,000	179,550
Total Requirements	\$ 16,485,000	\$ 7,338,492

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 System 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, 2003, the outstanding balance of the defeased Dormitory System Revenue Bonds, Series E was \$2,915,000.

NOTE 8 - OPERATING LEASE OBLIGATIONS

The University entered into operating leases for equipment and property. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2003:

<u>Fiscal Year</u>	Amount
2004	\$ 1,077,714
2005	1,028,257
2006	170,990
Total Minimum Lease Payments	\$ 2,276,961

Rental expense for all operating leases during the year was \$1,098,658.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 9 - 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	\$ 40,703,022	\$ 0	\$ 9,392,510	\$ 298,367	\$ 31,012,145	\$ 1,024,867 (A)
Sales and Services:						
Sales and Services of Auxiliary Enterprises:						
Residential Life	\$ 7,528,292	\$ 0	\$ 1,654,622	\$ 56,698	\$ 5,816,972	\$ 0
Dining	6,626,572		1,559,949	54,895	5,011,728	5,011,728 (B)
Student Union Services	33,837				33,837	
Health, Physical Education, and Recreation Services	4,346				4,346	
Bookstore	4,543,324	485,064			4,058,260	
Parking	476,093			(773)	476,866	476,866 (C)
Athletic	1,556,604				1,556,604	
Other	390,995			21	390,974	
Sales and Services of Education and Related Activities	1,173,546	1,104,991			68,555	
Total Sales and Services	\$ 22,333,609	\$ 1,590,055	\$ 3,214,571	\$ 110,841	\$ 17,418,142	\$ 5,488,594

Revenue Bonds Secured by Pledged Revenues:

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

NOTE 10 - OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	\$ 40,855,127	\$ 1,965,887	\$ 1,309,510	\$ 172,557	\$ 0	\$ 0	\$ 44,303,081
Research	10,174,503	2,157,030	2,621,245	912,713	1,247		15,866,738
Public Service	3,650,587	508,724	1,719,683	48,936			5,927,930
Academic Support	10,381,801	5,234,451	3,363,490	1,267,386			20,247,128
Student Services	3,462,398	705,974	968,240	23,206			5,159,818
Institutional Support	10,511,290	1,258,329	3,117,913	52,603			14,940,135
Operations and Maintenance of Plant	5,811,991	1,296,228	5,007,397		3,059,358		15,174,974
Student Financial Aid	292,284	69,863	517,226	4,431,871			5,311,244
Auxiliary Enterprises	6,775,440	4,574,445	11,524,973	1,704,032	975,273		25,554,163
Depreciation						6,307,964	6,307,964
Total Operating Expenses	\$ 91,915,421	\$ 17,770,931	\$ 30,149,677	\$ 8,613,304	\$ 4,035,878	\$ 6,307,964	\$ 158,793,175

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 11 - PENSION PLANS

- A. **Retirement Plans** - Each permanent full-time employee, as a condition of employment, is a member of either the Teachers' and State Employees' Retirement System or the Optional Retirement Program. Eligible employees can elect to participate in the Optional Retirement Program at the time of employment, otherwise they are automatically enrolled in the Teachers' and State Employees' Retirement System.

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

Benefit and contribution provisions for the Teachers' and State Employees' Retirement System are established by *North Carolina General Statutes* 135-5 and 135-8 and may be amended only by the North Carolina General Assembly. Employer and member contribution rates are set each year by the North Carolina General Assembly based on annual actuarial valuations. For the year ended June 30, 2003, the General Assembly required no contribution by employers and 6% of covered payroll for members.

For the year ended June 30, 2003, the University had a total payroll of \$76,961,185, of which \$44,179,778 was covered under the Teachers' and State Employees' Retirement System. Total employee contributions for pension benefits for the year were \$2,650,787. No employer contributions were required. The University made one hundred percent of its annual required contributions for the years ended June 30, 2003, 2002, and 2001, which were \$0.00, \$837,097, and \$2,200,367, 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 that provides retirement benefits with options for payments to beneficiaries in the event of the participant's death. Administrators and eligible faculty of the University may join the Program instead of the Teachers' and State Employees' Retirement

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 the carrier of their choice. Each carrier offers a variety of investment funds, including both fixed and variable account investment options and mutual funds.

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

Participant eligibility and contributory requirements are established by General Statute 135-5.1. Employer and member contribution rates are set each year by the North Carolina General Assembly. For the year ended June 30, 2003, these rates were set at 6.84% of covered payroll for employers and 6% of covered payroll for members. The University assumes no liability other than its contribution.

For the year ended June 30, 2003, the University had a total payroll of \$76,961,185, of which \$20,854,380 was covered under the Optional Retirement Program. Total employee and employer contributions for pension benefits for the year were \$1,251,263 and \$1,426,440, respectively.

The Federal Retirement System is a multiple-employer 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 7.0% to 8.51%.

For the year ended June 30, 2003, covered payroll was \$915,347 and total employee and employer contributions were \$66,768 and \$77,338, 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 \$77,203 for the year ended June 30, 2003.

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 officer, 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, 2003 were \$66,779. The voluntary contributions by employees amounted to \$293,226 for the year ended June 30, 2003.

IRC Section 403(b) and 403(b)(7) Plans - Eligible University employees can participate in tax sheltered annuity plans created under Internal Revenue Code Sections 403(b) and 403(b)(7). The employee's eligible contributions, made through salary reduction agreements, are exempt from federal and State income taxes until the annuity is received or the contributions are withdrawn. These plans are exclusively for employees of universities and certain charitable and other nonprofit institutions. All costs of administering and funding these plans are the responsibility of the Plan participants. No costs are incurred by the University. The voluntary contributions by employees amounted to \$1,043,899 for the year ended June 30, 2003.

NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

and State Employees' Retirement System or the Optional Retirement Program. These benefits were established by Chapter 135, Article 3, Part 3, of the General Statutes and may be amended only by the North Carolina General Assembly. Funding for the health care benefit for long-term disability beneficiaries and retirees is financed on a pay-as-you-go basis. The University contributed 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, 2003, the University's total contribution to the Plan was \$1,528,303. 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 and 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, 2003, the University's total contribution to the DIPNC was \$338,178. The University assumes no liability for long-term disability benefits under the Plan other than its contribution. Additional detailed information about the DIPNC is disclosed in the State of North Carolina's *Comprehensive Annual Financial Report*.

NOTE 13 - RISK MANAGEMENT

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

Tort claims of up to \$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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 and out-of-State are \$1,000,000 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. Universities are charged a premium by the private insurance company. Coverage limit is \$5,000,000 per occurrence with a \$50,000 deductible and a 10% participation in each loss above the deductible.

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 14 - COMMITMENTS AND CONTINGENCIES

- A. Commitments** - The University has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were \$15,295,614 and on other purchases were \$5,385,956 at June 30, 2003.
- B. Pending Litigation and Claims** – The University is a party to litigation and claims in the ordinary course of its operations. Since it is not possible to predict the ultimate outcome of these matters, no provision for any liability has been made in the financial statements. University management is of the opinion that the liability, if any, for any of these matters will not have a material adverse effect on the financial position of the University.
- C. University Improvement General Obligation Bonds** – The 1999-2000 Session of the General Assembly of North Carolina authorized the issuance of two billion five hundred million dollars of general obligation bonds of the State, as subsequently approved by a vote of qualified voters of the State, to provide funds for capital improvements for the University of North Carolina. The funds authorized are to be used solely for capital facilities cost on the University of North Carolina campuses as specified in the legislation. The bond legislation specifies the amount of bond funding for each University campus and the level of bond funding intended for each project. The bonds are authorized to be issued over a six-year period beginning in 2001 at a level not to exceed amounts provided in the legislation. Using a cash flow financing approach, The University of North Carolina – General Administration (UNC-GA), 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 \$115,060,477 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)

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

Purpose	Amount
Endowed Professorship	\$ 333,000

NOTE 15 - NORTH CAROLINA A&T FOUNDATION, INC.

The North Carolina A&T Foundation, Inc. is a separately incorporated nonprofit 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 \$1,282,943 for the year ended June 30, 2003.

**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, 2003**

Schedule I

	Projected Start Date	General Obligation Bonds Authorized	Other Sources	Total Project Budget	Amount Expended	Percent Completed	Expected Completion Date
Capital Improvement Projects							
<i>Projects Started</i>							
Classroom and Lab Complex	Nov 2000	\$ 35,582,340	\$ 0	\$ 35,582,340	\$ 18,381,797	51.66%	Mar 2005
Renovation of Dudley, Gibbs, and Moore Buildings	Nov 2000	4,557,245		4,557,245	1,282,702	28.15%	Feb 2005
Chemistry Laboratory	Nov 2000	20,740,020		20,740,020	1,134,057	5.47%	Nov 2005
Cherry Hall Laboratory Building Renovation	Jan 2005	8,016,290		8,016,290	30,139	0.38%	Jun 2009
Corbett Intramural Center Addition	Feb 2002	6,683,250		6,683,250			Mar 2006
Curtis Hall Replacement	Nov 2000	3,537,325		3,537,325			Aug 2004
Scott Hall Replacement	Nov 2000	24,940,635		24,940,635	7,512,197	30.12%	Aug 2004
Gamble 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
Zoe Barbee Hall Renovation	Jan 2003	3,509,110		3,509,110	28,500	0.81%	Dec 2006
Morrison Hall Renovation	Jan 2004	3,516,045		3,516,045	108,106	3.07%	Oct 2008
Harrison Auditorium Renovation	Feb 2002	2,750,440		2,750,440	152,160	5.53%	Nov 2004
Hazardous Material and Waste Storage Facility	Nov 2000	1,496,250		1,496,250	22,025	1.47%	Jul 2005
Improvement to the School of Agriculture Facility	Nov 2000	1,741,065		1,741,065	99,025	5.68%	Oct 2003
Replacement of Steam Lines and Access Holes	Nov 2001	1,489,885		1,489,885	1,346,896	90.40%	Dec 2003
Electrical Distribution Upgrade and Expansion	Nov 2000	2,143,960		2,143,960	88,637	4.13%	Oct 2003
Land Acquisition	Jan 2001	6,300,000		6,300,000	5,668,644	89.98%	Aug 2003
Technology Infrastructure Expansion	Aug 2000	2,775,615		2,775,615	835,923	30.12%	Apr 2005
Campus Security Lighting	Jun 2001	828,716		828,716	828,716	100.00%	Jan 2002
Project Management	Jul 2001	7,375,685		7,375,685	293,208	3.98%	Jun 2009
<i>Projects Not Started - To Be Funded in Future Years</i>							
Holland Hall Renovation	Jun 2003	813,960		813,960			May 2006
Barnes Hall Renovation	Mar 2004	5,272,595		5,272,595			Aug 2008
Graham Hall Lab Renovation	Jan 2003	5,493,090		5,493,090			Jan 2007
Central Cooling Plant	Jan 2004	8,959,165		8,959,165			Mar 2008
Total All Projects		\$ 161,800,091	\$ 0	\$ 161,800,091	\$ 37,812,732		

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 System. 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 Revenues and Expenses
Year Ended June 30, 2003

Schedule 2

	Football	Men's Basketball	Women's Basketball	Other Sports	Nonprogram Specific	Total
Revenues						
Operating Revenues:						
Student Fees, Net (Note 2)	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 2,070,254.13	\$ 2,070,254.13
Ticket Sales	568,128.64	27,766.28				595,894.92
Program Sales	6,477.66					6,477.66
Contest Guarantees	440,078.50	170,025.00	9,500.00			619,603.50
Advertising Income	31,000.00	15,650.00			63,143.00	109,793.00
Concessions	52,306.01	1,259.06		1,423.02	8,800.00	63,788.09
NCAA/Conference USA					227,969.94	227,969.94
Other Sources	72,458.36	20,338.20	16,757.49	65,145.15	4,635.61	179,334.81
Total Operating Revenues	1,170,449.17	235,038.54	26,257.49	66,568.17	2,374,802.68	3,873,116.05
Expenses						
Operating Expenses:						
Coaches' Salaries	448,974.83	137,755.92	117,015.81	364,728.69		1,068,475.25
Other Salaries	74,265.68	9,785.61	5,019.41	25,867.37	591,384.84	706,322.91
Travel:						
Team	231,107.41	63,194.63	52,831.30	226,723.06		573,856.40
Recruiting	13,749.21	15,139.75	6,347.84	17,249.58		52,486.38
Financial Aid, Net	430,176.97	104,220.02	85,742.84	494,510.05	14,957.64	1,129,607.52
Supplies and Uniforms	52,115.36	19,219.69	20,246.32	45,971.16	88,009.26	225,561.79
Insurance					90,632.00	90,632.00
Telephone	8,486.79	7,197.92	3,390.85	3,712.61	23,133.11	45,921.28
Printing and Binding	39,807.83	9,361.43	1,499.09	4,953.71	12,408.00	68,030.06
Repairs and Maintenance	1,256.45	254.00	254.00		102.63	1,867.08
Advertising	32,618.98	8,095.00	1,945.00		14,551.23	57,210.21
Equipment Rentals	65,055.29				65,923.00	130,978.29
Other Contractual Services	82,786.18	9,635.35	3,025.00	8,859.50	37,569.89	141,875.92
Other Fixed Charges		223.00		5,863.00	38,490.00	44,576.00
Miscellaneous	78,112.05	26,314.69	21,195.44	26,818.98	156,792.83	309,233.99
Total Operating Expenses	1,558,513.03	410,397.01	318,512.90	1,225,257.71	1,133,954.43	4,646,635.08
Operating Income (Loss)	(388,063.86)	(175,358.47)	(292,255.41)	(1,158,689.54)	1,240,848.25	(773,519.03)
Nonoperating Revenues						
State Appropriations	217,391.89	110,094.79	75,850.88	23,417.17	76,312.06	503,066.79
Gifts:						
Noncapital	38,667.00	31,171.25	4,321.25	121,428.25	105,888.84	301,476.59
Investment Income					34,431.89	34,431.89
Net Nonoperating Revenues	256,058.89	141,266.04	80,172.13	144,845.42	216,632.79	838,975.27
Excess (Deficiency) of Revenues over Expenses						
	\$ (132,004.97)	\$ (34,092.43)	\$ (212,083.28)	\$ (1,013,844.12)	\$ 1,457,481.04	\$ 65,456.24
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 Revenues and Expenses presents the University’s Intercollegiate Athletic Program’s activity in accordance with the National Collegiate Athletic Association Financial Audit Guidelines. Those guidelines issued on May 2, 1996 require only a presentation of the current funds revenues and expenses by major program. This Statement has 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 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 net assets and cash flows.
- C. Basis of Accounting** - The preceding Statement of Revenues and Expenses was 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.
- D. Nonmonetary 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, leased vehicles, and coaching services were provided to the University at no charge. The 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 in the preceding Statement of Revenues and Expenses.

NOTE 2 - 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 and Expenses. 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 and Expenses. To the extent that revenues from these programs are used to satisfy tuition, fees, and other charges, the University has recorded a scholarship discount. The amount of tuition discounting applicable to athletics was \$660,899.53.

NOTE 3 - RELATED PARTIES

Funds have been established with the North Carolina A&T Foundation, Inc., for the benefit of the University's Intercollegiate Athletics Program. During the fiscal year, the University received direct current funds support from the Foundation. These amounts are reported as noncapital gifts, other revenues, scholarships, and other expenses on the preceding Statement of Revenues and Expenses. The amounts provided as direct support total \$152,705.

NOTE 4 - 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 of individuals that constitute more than 10% of all contributions received for the Intercollegiate Athletics Program during the year follows:

<u>Funding Source Type</u>	<u>Amount</u>
Volunteer Coaches	\$ 147,000



Ralph Campbell, Jr.
State Auditor

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

Board of Trustees
North Carolina 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, 2003, and have issued our report thereon dated June 8, 2004.

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*.

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 that might be material weaknesses. A material weakness is a condition in which the design or operation of one or

**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)**

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

June 8, 2004

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.

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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
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	North Carolina Agricultural and Technical State University

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