



STATE OF NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT OF
THE UNIVERSITY OF NORTH CAROLINA AT GREENSBORO
GREENSBORO, NORTH CAROLINA
FOR THE YEAR ENDED JUNE 30, 2004

OFFICE OF THE STATE AUDITOR
LESLIE W. MERRITT, JR., CPA, CFP
STATE AUDITOR

FINANCIAL STATEMENT AUDIT REPORT OF
THE UNIVERSITY OF NORTH CAROLINA AT GREENSBORO
GREENSBORO, NORTH CAROLINA
FOR THE YEAR ENDED JUNE 30, 2004

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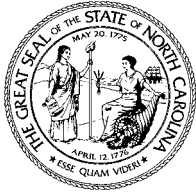
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STATE OF NORTH CAROLINA
Office of the State Auditor

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AUDITOR'S TRANSMITTAL

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

This report presents the results of our financial statement audit of The University of North Carolina at Greensboro, 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, 2004. 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 The University of North Carolina at Greensboro. 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 The University of North Carolina at Greensboro. 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 The University of North Carolina at Greensboro.

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 significant deficiencies 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 Internal Control over Financial Reporting and on Compliance and Other Matters.

3. **Objective** – To present significant deficiencies, if any, in internal control over compliance that could adversely affect the University's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants and present instances of noncompliance with federal laws, regulations, contracts, or grants, the effects of which have a material effect in relation to a type of compliance requirement or audit objective identified in *OMB Circular A-133 Compliance Supplement*.

Results - Our tests disclosed no significant deficiencies in internal control over compliance and no instances of noncompliance, which require disclosure herein under *OMB Circular A-133*.

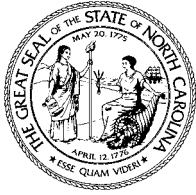
North Carolina General Statutes require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.

Leslie W. Merritt, Jr.

Leslie W. Merritt, Jr., CPA, CFP
State Auditor

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
The University of North Carolina at Greensboro
Greensboro, North Carolina

We have audited the accompanying basic financial statements of The University of North Carolina at Greensboro, 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, 2004, as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of The University of North Carolina at Greensboro Investment Fund, Incorporated, which represent 25 percent, 32 percent, and 9 percent, respectively, of the assets, net assets, and revenues of the University; the financial statements of The UNCG Excellence Foundation, which represent 11 percent, 14 percent, and 4 percent, respectively, of the assets, net assets, and revenues of the University; nor the financial statements of The University of North Carolina at Greensboro Human Environmental Sciences Foundation, Incorporated, which represent 1 percent, 1 percent, and .5 percent, respectively, of the assets, net assets, and revenues of the University. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for those entities, is based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of The University of North Carolina at Greensboro as of June 30, 2004, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

In accordance with *Government Auditing Standards*, we have also issued our report dated November 23, 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 grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis (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 required 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.

Leslie W. Merritt, Jr.

Leslie W. Merritt, Jr., CPA, CFP
State Auditor

November 23, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

Introduction

The University of North Carolina at Greensboro (the "University") provides the following management discussion and analysis (MD&A) as an overview of the financial activities for the fiscal year ended June 30, 2004. This discussion, the preceding transmittal letter, the following financial statements, and the related notes to the financial statements have been prepared by management and comprise the University's complete financial report. The financial statements, notes to the financial statements and this discussion are the responsibility of management.

The purpose of the MD&A is to identify significant transactions that have financial impact and to highlight favorable and unfavorable trends. However, this discussion and analysis should be read in conjunction with, and is qualified in its entirety by, the related financial statements and notes to the financial statements.

Using the Financial Report

The University's financial report includes three financial statements: the Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows. These financial statements are prepared in accordance with Governmental Accounting Standards Board (GASB) Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*, as amended by GASB Statements No. 37 and No. 38. These statements establish standards for external financial reporting for public colleges and universities and require that financial statements be presented on a consolidated basis to focus on the University as a whole, with resources classified for accounting and reporting purposes into four net asset categories.

Statement of Net Assets

The Statement of Net Assets is a "point of time" financial statement that presents the assets, liabilities, and net assets of the University. The purpose of this financial statement is to present to the readers of the University's Financial Report a fiscal snapshot as of the end of the fiscal year (i.e., June 30th). The Statement of Net Assets presents both the current and noncurrent portions of assets and liabilities. The differences between current and noncurrent assets and liabilities are discussed further in the notes to the financial statements.

From the data presented, readers of this statement are able to determine the assets available to continue the operations of the institution. They are also able to determine how much the institution owes vendors, investors and lending institutions. The Statement of Net Assets also provides a picture of the net assets (assets minus liabilities) and their availability for expenditure by the institution. Net assets are divided into three major categories: invested in capital assets, net of related debt; unrestricted net assets; and restricted net assets, which are reflected in two subcategories – expendable and nonexpendable. These three categories of net assets are discussed further in the notes to the financial statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

A condensed statement of net assets is reflected below.

Condensed Statement of Net Assets

	<u>6/30/04</u>	<u>6/30/03</u>
Assets:		
Current Assets	\$ 90,123,149	\$ 86,268,193
Noncurrent Capital Assets, Net of Accumulated Depreciation	273,581,669	262,432,188
Other Noncurrent Assets	<u>138,479,312</u>	<u>124,129,120</u>
Total Assets	<u>502,184,130</u>	<u>472,829,501</u>
Liabilities:		
Current Liabilities	23,666,428	21,763,910
Noncurrent Liabilities	<u>90,314,312</u>	<u>90,814,250</u>
Total Liabilities	<u>113,980,740</u>	<u>112,578,160</u>
Net Assets:		
Invested in Capital Assets, Net of Related Debt	208,868,141	194,603,660
Restricted - Nonexpendable	68,429,067	65,047,003
Restricted - Expendable	56,989,468	47,809,392
Unrestricted	<u>53,916,714</u>	<u>52,791,286</u>
Total Net Assets	<u>\$ 388,203,390</u>	<u>\$ 360,251,341</u>

The total assets of the University increased by \$29.4 million for the year (\$3.9 million for current assets, \$25.5 million for noncurrent assets). This overall increase was primarily attributable to an increase of \$17 million in Endowment Investments and \$11.2 million in capital assets, net of accumulated depreciation. Cash and cash equivalents increased by \$2.3 million, while receivables decreased by \$1.7 million. All other asset categories, both current and noncurrent, increased by \$.6 million.

The total liabilities of the University increased by \$1.4 million for the year (\$1.9 million increase for current liabilities and a \$.5 million decrease for noncurrent liabilities). This overall increase was primarily attributable to an increase of \$1.5 million in accounts payable, which was directly related to the beginning of construction of two new classroom buildings and the beginning of a project to upgrade electric power distribution on campus. These projects are financed by the North Carolina Statewide Higher Education Bonds. Noncurrent long-term liabilities decreased by \$1.3 million, consisting of a \$3.1 million decrease in Bonds Payable and a \$1.8 million increase in accrued vacation leave payable. The decrease in Bonds Payable is due to principal payments made during Fiscal Year 2003-04 and no new debt being issued during the period. The increase in vacation leave payable is mainly attributable to the 80 hours of bonus leave given to all permanent employees by the General Assembly during fiscal year 2003-04.

The combination of the increase in total assets of \$29.4 million and the increase in total liabilities of \$1.4 million yields an overall increase in total net assets of \$28 million. This

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

change consists of an increase in the category of invested in capital assets, net of related debt of \$14.3 million, an increase in the category of nonexpendable net assets of \$3.4 million, an increase in the category of expendable net assets of \$9.2 million, and an increase in the category of unrestricted net assets of \$1.1 million. The increase in invested in capital assets, net of related debt category is a combination of the \$11.2 increase in capital assets, net of depreciation and the \$3.1 million decrease in Bonds Payable, both of which were discussed in the above paragraphs. The increase in the nonexpendable net asset category is due to the increase in Endowment Investments previously discussed. The increase in the expendable net asset category is due to increases in contract and grant revenues and increases in noncapital gifts, which will be discussed later. The increase in the unrestricted category is due to increases in tuition and fee revenue and sales and services from an increase in rates charged to students.

Statement of Revenues, Expenses, and Changes in Net Assets

Changes in total net assets as presented on the Statement of Net Assets are based on the activity presented in the Statement of Revenues, Expenses, and Changes in Net Assets. The purpose of the statement is to present the revenues earned by the institution, both operating and nonoperating, and the expenses incurred by the institution, operating and nonoperating, and any other revenues, expenses, gains and losses earned or incurred by the institution.

Generally speaking, operating revenues are earned for providing goods and services to the various constituencies of the institution. Operating expenses are those expenses incurred to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the mission of the institution. Nonoperating revenues are revenues earned for which goods and services are not provided. State appropriations are included as nonoperating revenues in accordance with GASB guidelines, even though these revenues are instrumental to the University's mission and operations. Nonoperating expenses are expenses not directly related to the normal operations of the University (e.g., interest expense and other fees on capital asset related debt). Capital contributions and additions to the principal of permanent and term endowments, as well as revenues and expenses for special and extraordinary items, are reported separately after nonoperating revenues and expenses.

A condensed statement of revenues, expenses, and changes in net assets is reflected on the next page.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Condensed Statement of Revenues, Expenses, and Changes in Net Assets For the Years Ended

	<u>6/30/04</u>	<u>6/30/03</u>
Operating Revenues	\$ 112,333,005	\$ 107,888,463
Operating Expenses	<u>233,683,187</u>	<u>213,980,139</u>
Operating Loss	(121,350,182)	(106,091,676)
Net Nonoperating Revenues	<u>127,587,077</u>	<u>101,914,840</u>
Income (Loss) Before Other Revenues	6,236,895	(4,176,836)
Other Revenues	<u>21,715,154</u>	<u>29,286,459</u>
Total Increase in Net Assets	27,952,049	25,109,623
Net Assets - July 1, 2003	<u>360,251,341</u>	<u>335,141,718</u>
Net Assets - June 30, 2004	\$ <u><u>388,203,390</u></u>	\$ <u><u>360,251,341</u></u>

The Statement of Revenues, Expenses, and Changes in Net Assets reflects an increase in the net assets at the end of the year. Some highlights of the information presented on the Statement of Revenues, Expenses, and Changes in Net Assets are as follows:

- Operating revenues increased by \$4.4 million (4.1%), whereas operating expenses increased by \$19.7 million (9.2%), for a combined net increase in operating loss of \$15.3 million. The largest increases within operating revenues were in net student tuition and fees and federal grants and contracts, which both increased by \$1.8 million. The increase in net student tuition and fees was due to increases in student enrollment and in tuition and fee rates, but these increases were reduced by higher financial aid awards recorded as tuition discounts, which offsets student tuition and fees revenue. The increase in federal grants and contracts revenue is due to increased research activity. The increase in operating expenses is primarily the result of a \$10.4 million increase in salaries and benefits, a \$5.9 million increase in supplies and materials, and a \$1.6 million increase in services. The increase in salaries and benefits is related to increases in salaries from new positions funded by increased enrollment and the additional 80 hours of bonus leave previously discussed. The increase in supplies and materials is related to the substantial increase in State appropriations, discussed below.
- Net nonoperating revenues increased by \$25.7 million (25.2%), primarily due to a significant increase in State appropriations (\$9.4 million) and investment income (\$14.7 million) and a modest increase in non-capital gifts (\$1.4 million). The increase in investment income is primarily related to better overall performance in the broader

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

markets. The increase in State appropriations is directly attributable to enrollment change increases and a significant reduction in appropriation cuts during the fiscal year due to a better economic performance for the State as a whole.

- Other revenues decreased by \$7.6 million (25.9%), primarily due to a decrease of \$7.1 million in funding by the State for construction activities via the statewide higher education bonds. This decrease is due to the completion early in the fiscal year of the New Science Building and the McIver Chiller Plant Expansion and the start of three new projects (building of two new classroom buildings and an electric power distribution upgrade) near the end of the fiscal year. It is anticipated that this funding will increase in the next fiscal year as construction on campus financed by the statewide higher education bonds intensifies.

Statement of Cash Flows

The final statement presented by The University of North Carolina at Greensboro is the Statement of Cash Flows. This statement is divided into five parts and presents detailed information about the cash activity of the University during the year. The first part deals with operating cash flows and shows the net cash used by the operating activities of the institution. The second section reflects cash flows from noncapital financing activities. This section reflects the cash received and spent for nonoperating, noninvesting, and noncapital financing purposes. The third section deals with cash flows from capital and related financing activities. This section deals with the cash used for the acquisition and construction of capital and related items. The fourth section reflects the cash flows from investing activities and shows the purchases, proceeds, and interest received from investing activities. The fifth section reconciles the net cash used to the operating income or loss reflected on the Statement of Revenues, Expenses, and Changes in Net Assets.

A condensed statement of cash flows is reflected below.

Condensed Statement of Cash Flows For the Years Ended

	<u>6/30/04</u>	<u>6/30/03</u>
Cash Provided (Used) by:		
Operating Activities	\$ (106,103,133)	\$ (96,887,579)
Noncapital Financing Activities	114,897,100	106,041,425
Capital and Related Financing Activities	(10,663,379)	(14,361,422)
Investing Activities	<u>4,213,865</u>	<u>(515,385)</u>
Net Change in Cash	2,344,453	(5,722,961)
Cash and Cash Equivalents - July 1, 2003	<u>74,071,067</u>	<u>79,794,028</u>
Cash and Cash Equivalents - June 30, 2004	<u>\$ 76,415,520</u>	<u>\$ 74,071,067</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Major sources of funds included in operating activities are student tuition and fees (\$51.4 million), auxiliary sales and services (\$24.1 million), and contracts and grants (\$32.9 million). Major uses of funds included in operating activities are payments to employees and related fringe benefits (\$139 million), payments to vendors/suppliers (\$65.1 million), and payments for scholarships and fellowships (\$10.6 million). Collectively, total sources of funds included in operating activities increased by 7.5% (\$7.8 million), whereas total uses increased by 8.5% (\$17 million).

The major source of funds included in noncapital financing activities is State appropriations (\$99 million), which increased by 9.5% (\$9.4 million) over the prior fiscal year, despite a cut in appropriation of 1.5% (\$1.5 million) and a required transfer of State appropriation (\$.5 million) to a fund for Hurricane Isabel relief.

The major source of funds included in capital and related financing activities is capital grants (\$16.8 million), whereas the major use is the acquisition and construction of capital assets (\$20.8 million). Collectively, total sources of funds included in capital and related financing activities decreased by 48.5% (\$16.1 million), whereas total uses decreased by 41.6% (\$19.8 million). These substantial decreases are due to the transition between completed projects and new projects financed by the statewide higher education bonds (previously discussed) and the University issued no new debt in fiscal year 2003-04.

The major source of funds included in investing activities is proceeds from sales and maturities of investments (\$90.5 million), whereas the major use is purchase of investments and related fees (\$89.8 million). Collectively, total sources of funds included in investing activities increased by 39.1% (\$26.4 million), whereas total uses decreased by only 31.8% (\$21.7 million).

Capital Asset and Debt Administration

During fiscal year 2003-04, the new Science Building, the McIver Chiller Plant Expansion, the Information Technology Infrastructure Enhancement, and the new Oakland Avenue Parking Deck projects were all completed. The new Science Building is a \$37.1 million building and is the home of the Biology, Chemistry, and Biochemistry departments. The building has 25 teaching laboratories and 21 laboratories for faculty and student research. The McIver Chiller Plant Expansion is a \$7.6 million project that has extended the main 24-inch chilled water pipes throughout the campus and has allowed chilled water to be distributed to individual buildings. The Information Technology Infrastructure Expansion is a \$9.4 million project that has upgraded the campus data network. New underground duct banks and fiber optic cables were run to every building on campus. The project also included creating new telecommunication closets in every building and cabling from these closets to all computers to provide state of the art network speed to every computer on campus. All three of these projects were financed by the statewide higher education bonds.

The new Oakland Avenue Parking Deck is an \$11 million project completed in fiscal year 2003-04. This structure contains 966 parking spaces and was financed by \$8.1 million in debt proceeds and \$2.9 from Parking Reserve Funds.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

Projects included in construction in progress are as follows: \$5.8 million for the Infrastructure Northeast Quadrant project, \$1.9 million for the new Humanities and Research Building, \$1.6 million for the new McIver Classroom Building, \$1.5 million for the Heating Plant Expansion project, and \$1.3 million for other capitalized projects.

The University did not issue new debt during the 2003-04 Fiscal Year. The University does plan to issue \$18.9 million in self-liquidating General Obligation Bonds in the fall of 2004. The bond proceeds will be used for the complete renovation of the Gove Health Center, for various Residence Hall Renovations, for repairs to the Dining Hall roof, for the construction of an exercise track, and the construction of a softball field. For additional information concerning this forthcoming debt issue, please see Note 15 in the Notes to the Financial Statements.

For additional information concerning Capital Assets and Debt Administration, see Notes 5 and 7 in the Notes to the Financial Statements.

Economic Outlook

Management is not aware of any currently known facts, decisions, or conditions that are expected to have a significant effect on the University's financial position or results of operations during fiscal year 2004-05 beyond those unknown variations having a global effect on virtually all types of business operations. We anticipate the current fiscal year will be very similar to the 2003-04 fiscal year and, accordingly, will maintain a close watch over resources so that the University will be able to react to unknown internal and external issues.

The level of State support is one of the key factors influencing the University's financial condition and its ability to expand programs, undertake new initiatives, and meet its core mission and ongoing operational needs. In addition, there is a direct relationship between the level of State support and tuition increases, as declines in State support have resulted in increased tuition rates. State appropriations constituted approximately thirty-seven percent of the University's total revenues for fiscal year 2003-04, which is the equivalent to the percentage of State appropriations to total revenues in fiscal year 2002-03. The University expects State support for fiscal year 2004-05 to remain at current levels.

Due to the current stagnation in State support, management will continue the University's ongoing efforts toward revenue diversification, cost containment, and operating efficiencies. Management will also continue to employ the University's 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 ultimate results, we believe that the University's overall financial condition is strong enough to weather most economic uncertainties. We believe that sufficient resources will be available to allow the University to continue its current level of excellent service to its students, the community, and governmental agencies.

The University of North Carolina at Greensboro
Statement of Net Assets
June 30, 2004

Exhibit A-1

ASSETS

Current Assets:

Cash and Cash Equivalents	\$	61,294,253
Restricted Cash and Cash Equivalents		13,767,537
Short-Term Investments		580,380
Restricted Short-Term Investments		6,476,162
Receivables, Net (Note 4)		6,194,501
Inventories		409,936
Notes Receivable, Net (Note 4)		1,400,380
Total Current Assets		90,123,149

Noncurrent Assets:

Restricted Cash and Cash Equivalents		1,353,730
Receivables, Net (Note 4)		491,071
Restricted Due from Primary Government		4,530,664
Endowment Investments		124,014,853
Other Long-Term Investments		3,636,309
Notes Receivable, Net (Note 4)		4,452,685
Capital Assets - Nondepreciable (Note 5)		50,334,305
Capital Assets - Depreciable, Net (Note 5)		223,247,364
Total Noncurrent Assets		412,060,981

Total Assets		502,184,130
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LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 6)		14,435,083
Due to Primary Government		15,259
Deposits Payable		482,780
Deferred Revenue		4,443,059
Interest Payable		943,907
Long-Term Liabilities - Current Portion (Note 7)		3,346,340
Total Current Liabilities		23,666,428

Noncurrent Liabilities:

Funds Held for Others		772,118
U. S. Government Grants Refundable		5,407,592
Funds Held in Trust for Pool Participants		1,918,978
Long-Term Liabilities (Note 7)		82,215,624
Total Noncurrent Liabilities		90,314,312

Total Liabilities		113,980,740
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The University of North Carolina at Greensboro
Statement of Net Assets
June 30, 2004

Exhibit A-1

Page 2

NET ASSETS

Invested in Capital Assets, Net of Related Debt	208,868,141
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	34,316,107
Endowed Professorships	14,187,371
Departmental Uses	8,632,421
Loans	940,662
Other	10,352,506
Expendable:	
Scholarships and Fellowships	28,251,442
Research	13,581
Endowed Professorships	11,135,576
Departmental Uses	11,824,464
Loans	1,075,107
Capital Projects	(681,535)
Debt Service	966,928
Other	4,403,905
Unrestricted	53,916,714
Total Net Assets	\$ 388,203,390

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

***The University of North Carolina at Greensboro
Statement of Revenues, Expenses, and
Changes in Net Assets
For the Fiscal Year Ended June 30, 2004***

Exhibit A-2

REVENUES

Operating Revenues:

Student Tuition and Fees, Net (Note 9)	\$ 51,500,089
Federal Grants and Contracts	28,510,052
State and Local Grants and Contracts	681,352
Nongovernmental Grants and Contracts	1,356,383
Sales and Services, Net (Note 9)	29,987,103
Interest Earnings on Loans	110,731
Other Operating Revenues	187,295
Total Operating Revenues	112,333,005

EXPENSES

Operating Expenses:

Salaries and Benefits	141,278,286
Supplies and Materials	26,713,493
Services	40,451,249
Scholarships and Fellowships	10,572,194
Utilities	6,920,825
Depreciation	7,747,140
Total Operating Expenses	233,683,187

Operating Loss (121,350,182)

NONOPERATING REVENUES (EXPENSES)

State Appropriations	98,959,791
Noncapital Grants	9,439,970
Noncapital Gifts	2,910,813
Investment Income (Net of Investment Expense of \$666,773)	20,648,087
Interest and Fees on Capital Asset-Related Debt	(3,933,665)
Other Nonoperating Expenses	(437,919)
Net Nonoperating Revenues	127,587,077

Income Before Other Revenues, Expenses, Gains, or Losses 6,236,895

Capital Appropriations	337,700
Capital Grants	17,649,492
Capital Gifts	334,088
Additions to Endowments	3,405,607
Transfer Paideia Center to UNC General Administration	(11,733)
Increase in Net Assets	27,952,049

NET ASSETS

Net Assets - July 1, 2003	360,251,341
Net Assets - June 30, 2004	\$ ◆ 388,203,390

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

The University of North Carolina at Greensboro
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2004

Exhibit A-3

CASH FLOWS FROM OPERATING ACTIVITIES

Student Tuition and Fees, Net	\$	51,427,743
Auxiliary Enterprise Charges		24,122,623
Grants and Contracts		32,887,061
Payments to Employees and Fringe Benefits		(138,987,157)
Payments to Vendors and Suppliers		(65,196,553)
Payments for Scholarships and Fellowships		(10,572,194)
Loans Issued		(1,855,371)
Collection of Loans		1,661,369
Interest Earned on Loans		158,805
Other Receipts		250,541

Net Cash Used by Operating Activities (106,103,133)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Appropriations		98,959,791
Noncapital Grants		9,668,618
Noncapital Gifts		3,034,319
Additions to Permanent and Term Endowments		3,214,825
Related Activity Agency Receipts		31,280
Transfer of Paideia Center to UNC General Administration		(11,733)

Net Cash Provided by Noncapital Financing Activities 114,897,100

CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES

State Capital Appropriations		337,700
Capital Grants		16,785,738
Acquisition and Construction of Capital Assets		(20,770,692)
Principal Paid on Capital Debt and Leases		(3,081,957)
Interest and Fees Paid on Capital Debt and Leases		(3,967,804)
Other Receipts		33,636

Net Cash Provided Used by Capital Financing and Related Financing Activities (10,663,379)

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from Sales and Maturities of Investments		90,513,475
Investment Income		3,529,744
Purchase of Investments and Related Fees		(89,829,354)

Net Cash Provided by Investing Activities 4,213,865

Net Increase in Cash and Cash Equivalents 2,344,453

Cash and Cash Equivalents - July 1, 2003 74,071,067

Cash and Cash Equivalents - June 30, 2004 \$ 76,415,520

The University of North Carolina at Greensboro
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2004

Exhibit A-3

Page 2

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

Operating Loss	\$ (121,350,182)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	7,747,140
Allowances, Write-Offs, and Amortizations	64,813
Receivables (Net)	1,750,597
Inventories	20,286
Accounts Payable and Accrued Liabilities	3,766,595
Due to Primary Government	8,165
Deferred Revenue	335,507
Compensated Absences	1,770,723
Note Principle Repayments	1,638,594
Notes Issued	(1,855,371)
Net Cash Used by Operating Activities	\$ (106,103,133)

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	\$ 61,294,253
Restricted Cash and Cash Equivalents	13,767,537
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	1,353,730
Total Cash and Cash Equivalents - June 30, 2004	\$ 76,415,520

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Change in Fair Value of Investments	(17,569,831)
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The accompanying notes to the financial statements are an integral part of this statement.

THE UNIVERSITY OF NORTH CAROLINA AT GREENSBORO
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004

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. The University of North Carolina at Greensboro is a constituent institution of the sixteen-campus University of North Carolina System, which is a component unit of the State of North Carolina and an integral part of the State's *Comprehensive Annual Financial Report*.

The accompanying financial statements present all funds belonging to the University and its component units. While the Board of Governors of the University of North Carolina System has ultimate responsibility, the Chancellor, the Board of Trustees, and the Board of Trustees of the Endowment Fund have delegated responsibilities for financial accountability of the University's funds. Although legally separate, The Human Environmental Sciences Foundation, Inc., The Weatherspoon Arts Foundation, The UNCG Excellence Foundation, and The University of North Carolina at Greensboro Investment Fund, Inc., component units of the University, are reported as if they were part of the University.

The Human Environmental Sciences Foundation, Inc. is governed by a twenty-three-member board consisting of twenty-three elected directors. The Foundation's purpose is to aid, support and promote excellence in higher education, service and research, and the endowment of the School of Environmental Sciences at The University of North Carolina at Greensboro. Because the elected directors of the Foundation are appointed by the members of The University of North Carolina at Greensboro Board of Trustees and the Foundation's sole purpose is to benefit The University of North Carolina at Greensboro, its financial statements have been blended with those of the University.

The Weatherspoon Arts Foundation is governed by a twenty-eight member board consisting of one ex officio director and twenty-seven elected directors. The Foundation's purpose is to acquire by gift, purchase, lease, loan, or other means of conveyance works of art and to maintain and enhance the arts collection teaching, research and public

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

services exclusively for the use and benefit of The University of North Carolina at Greensboro. Because the elected directors of the Foundation are appointed by the members of The University of North Carolina at Greensboro Board of Trustees and the Foundation's sole purpose is to benefit The University of North Carolina at Greensboro, its financial statements have been blended with those of the University.

The UNCG Excellence Foundation is governed by a thirty-member board consisting of three ex officio director and twenty-seven elected directors. The Foundation's purpose is to aid, support and promote teaching, research and service in the various educational, scientific, scholarly, professional, artistic and creative endeavors of the University. Because the elected directors of the Foundation are appointed by the members of The University of North Carolina at Greensboro Board of Trustees and the Foundation's sole purpose is to benefit The University of North Carolina at Greensboro as long as The University of North Carolina at Greensboro qualifies as an exempt organization under Section 501(C)(3) of the Internal Revenue Code of 1954 (or corresponding provisions of any future United States Internal Revenue law), its financial statements have been blended with those of the University.

The University of North Carolina at Greensboro Investment Fund, Inc. is governed by a board consisting of nine ex officio directors and seven elected directors. The Investment Fund's purpose is to support the University by operating an investment fund for charitable, nonprofit foundations, associations, trusts, endowments, and funds that are organized and operated primarily to support the University. The Investment Fund is a governmental external investment pool. Because the elected directors of the Investment Fund are appointed by the members of The University of North Carolina at Greensboro Board of Trustees and the Investment Fund's primary purpose is to benefit The University of North Carolina at Greensboro, its financial statements have been blended with those of the University.

Separate financial statements for the Foundations and the Investment Fund may be obtained from the Business Affairs Office, 254 Mossman Building, Greensboro, NC 27402, or by calling (336) 334-5200. Other related foundations and similar nonprofit corporations for which the University is not financially accountable are not part of the accompanying financial statements.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

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, 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, limited partnerships, real estate investment trusts, real estate, and other asset holdings by the University. Except for money market funds, real estate not held by a governmental external investment pool, and other asset holdings, investments are accounted for at fair value, as determined

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 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.

- 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, other universities, 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, and accrued interest receivable from investments and student loans. Receivables are recorded net of estimated uncollectible amounts.
- G. Inventories** – Inventories, consisting of expendable supplies, merchandise for resale, postage, and fuel oil held for consumption are valued at cost using the last invoice cost.
- 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.

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 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, 25 years for general infrastructure, 50 years for buildings, and 4 to 10 years for equipment. The Weatherspoon Art 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** – 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

J. Funds Held in Trust for Pool Participants – Funds held in trust for pool participants represent the external portion of the University’s governmental external investment pool more fully described in Note 2.

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

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

L. 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.

In addition to the vacation leave described above, compensated absences includes the accumulated unused portion of the special annual leave bonuses awarded by the North Carolina General Assembly to all full-time permanent employees as of September 30, 2002 and as of July 1, 2003. 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

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

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

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

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

N. 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

P. 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 maintenance materials storeroom, motor pool, postal operations, printing services, telecommunications and telephone services. 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 \$76,346,861. At year-end, cash on hand was \$68,659. The University's portion of the State Treasurer's Investment Pool was \$73,736,292. 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 \$2,610,569 and the bank balance was \$2,636,179. Of the bank balance, \$490,133 was covered by federal depository insurance and \$2,145,746 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Section 600.2.4 of the Policy Manual of the University of North Carolina, to invest its special funds and funds received for services rendered by health care professionals in the same manner as the State Treasurer is required to invest, as previously discussed.

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

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

Investments of the University's Human Environmental Sciences Foundation, the UNCG Excellence Foundation, and the University of North Carolina at Greensboro Investment Fund, Inc. are subject to and restricted by General Statute 36B "Uniform Management of Institutional Funds Act" (UMIFA) and any requirements placed on them by the donor or pool participant agreement.

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:

External Investment Pool - The external investment pool sponsored by the University was established in July 1, 1992. The pool is utilized to manage the investments for charitable, nonprofit organizations, associations, trusts, endowments and funds that are organized and operated primarily to support the University. Endowment funds of the University, as well as those of the Human Environmental Sciences Foundation and the UNCG Excellence Foundation represent the pool's internal participants. Other affiliated organizations not included in the University's reporting entity represent the pool's external participants. Fund ownership of the pool is measured using the unit market method. Under this method, each participating fund's investment balance is determined based on the number of units of ownership purchased when joining the pool. Thereafter, the pooled assets are valued monthly, and a new market value is determined. The external portion of the pool is presented in the accompanying financial statements as "Funds Held in Trust for Pool Participants."

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The external investment pool is not registered with the SEC and is not subject to any formal oversight other than that provided by the Board of Directors. The Board is responsible for adopting investment objectives and policies, for hiring investment advisors, and for monitoring policy implementation and investment performance. The Board has chosen not to make individual security selection decisions. The Board's primary role is to oversee the allocation of the pool's portfolio among the asset classes, investment vehicles, and investment managers.

Wachovia Bank, N.A. is the custodian for the pool and provides the University with monthly statements defining income and fair value information, which is then allocated among the fund's participants. There are no involuntary participants in the pool. The University has not provided or obtained any legally binding guarantees during the period to support the value for the pool's investments. The annual financial report for the external investment pool may be obtained from the University.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

A summary of the University's investments at June 30, 2004 is presented below:

External Investment Pool

	Fair Value			Total
	Risk Category			
	1	2	3	
Categorized Investments:				
Corporate Stocks	\$ 0	\$ 13,877,556	\$ 0	\$ 13,877,556
Corporate Bonds		1,114,519		1,114,519
Total Categorized Investments	\$ 0	\$ 14,992,075	\$ 0	14,992,075
Investments Not Categorized:				
Money Market Funds				1,976,789
Mutual Funds				55,164,156
Limited Partnerships				32,695,451
Real Estate Investment Trusts				5,149,528
Other Investments				14,242,646
Total Investments Not Categorized				109,228,570
Total External Investment Pool				\$ 124,220,645

Non-Pooled Investments

	Fair Value			Total
	Risk Category			
	1	2	3	
Categorized Investments:				
U.S. Government Securities	\$ 0	\$ 1,298,471	\$ 0	\$ 1,298,471
Corporate Bonds		434,386		434,386
Corporate Stocks		1,557,622		1,557,622
International Stocks		103,830		103,830
Total Categorized Investments	\$ 0	\$ 3,394,309	\$ 0	3,394,309
Investments Not Categorized:				
Money Market Funds				2,875,366
Mutual Funds				4,206,456
Real Estate				10,928
Total Investments Not Categorized				7,092,750
Total Non-Pooled Investments				\$ 10,487,059

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Total Investments

	Fair Value			Total
	Risk Category			
	1	2	3	
Total Categorized Investments	\$ 0	\$ 18,386,384	\$ 0	\$ 18,386,384
Total Investments Not Categorized				116,321,320
Total Investments				\$ 134,707,704

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 and the endowment funds of its affiliated entities is predicated on the total return concept (yield plus appreciation). Annual payouts from the University's pooled endowment funds are equal to 4.25 percent of the average market value of the Investment Pool at December 31 for the past three years. To the extent that the current year earnings do not meet the payout requirements, the University uses accumulated realized appreciation to fund the difference. At June 30, 2004, net appreciation of \$31,024,797 was available to be spent, of which \$28,296,341 was restricted to specific purposes.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 4 - RECEIVABLES

Receivables at June 30, 2004 were as follows:

	<u>Gross</u> <u>Receivables</u>	<u>Less</u> <u>Allowance</u> <u>for Doubtful</u> <u>Accounts</u>	<u>Net</u> <u>Receivables</u>
Current Receivables:			
Students	\$ 663,128	\$ 277,460	\$ 385,668
Accounts	2,030,140		2,030,140
Intergovernmental	1,674,469		1,674,469
Pledges	792,432		792,432
Investment Earnings	170,512		170,512
Interest on Loans	299,263		299,263
Other	842,017		842,017
Total Current Receivables	<u>\$ 6,471,961</u>	<u>\$ 277,460</u>	<u>\$ 6,194,501</u>
Noncurrent Receivables:			
Pledges	<u>\$ 491,071</u>	<u>\$ 0</u>	<u>\$ 491,071</u>
Notes Receivable:			
Notes Receivable - Current:			
Federal Loan Programs	\$ 1,248,646	\$ 88,536	\$ 1,160,110
Institutional Student Loan Programs	304,311	64,041	240,270
Total Notes Receivable - Current	<u>\$ 1,552,957</u>	<u>\$ 152,577</u>	<u>\$ 1,400,380</u>
Notes Receivable - Noncurrent:			
Federal Loan Programs	<u>\$ 4,925,924</u>	<u>\$ 473,239</u>	<u>\$ 4,452,685</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, 2004, is presented as follows:

	Balance July 1, 2003	Adjustments	Increases	Decreases	Balance June 30, 2004
Capital Assets, Nondepreciable:					
Land	\$ 18,569,991	\$ (440,000)	\$ 48,776	\$ 0	\$ 18,178,767
Art, Literature, and Artifacts	19,756,306		254,793		20,011,099
Construction in Progress	61,872,563	(65,169,105)	15,440,981		12,144,439
Total Capital Assets, Nondepreciable	<u>100,198,860</u>	<u>(65,609,105)</u>	<u>15,744,550</u>		<u>50,334,305</u>
Capital Assets, Depreciable:					
Buildings	195,859,594	37,541,198	229,973	859,543	232,771,222
Machinery and Equipment	23,962,144		2,793,756	1,297,917	25,457,983
General Infrastructure	26,619,595	28,067,907	599,897		55,287,399
Total Capital Assets, Depreciable	<u>246,441,333</u>	<u>65,609,105</u>	<u>3,623,626</u>	<u>2,157,460</u>	<u>313,516,604</u>
Less Accumulated Depreciation/Amortization for:					
Buildings	59,476,658		3,940,635	471,088	62,946,205
Machinery and Equipment	15,916,011		2,313,871	1,214,817	17,015,065
General Infrastructure	8,815,336		1,492,634		10,307,970
Total Accumulated Depreciation	<u>84,208,005</u>		<u>7,747,140</u>	<u>1,685,905</u>	<u>90,269,240</u>
Total Capital Assets, Depreciable, Net	<u>162,233,328</u>	<u>65,609,105</u>	<u>(4,123,514)</u>	<u>471,555</u>	<u>223,247,364</u>
Capital Assets, Net	<u>\$ 262,432,188</u>	<u>\$ 0</u>	<u>\$ 11,621,036</u>	<u>\$ 471,555</u>	<u>\$ 273,581,669</u>

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2004 were as follows:

	Amount
Accounts Payable	\$ 5,839,056
Accrued Payroll	5,495,956
Contract Retainage	1,611,039
Intergovernmental Payables	367,624
Other	1,121,408
Total Accounts Payable and Accrued Liabilities	<u>\$ 14,435,083</u>

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, 2004 is presented as follows:

	Balance July 1, 2003	Additions	Reductions	Balance June 30, 2004	Current Portion
Bonds Payable	\$ 78,645,000	\$ 0	\$ 3,115,000	\$ 75,530,000	\$ 3,270,000
Add/Deduct Premium/Discount	(196,433)		(20,232)	(176,201)	
Deduct Deferred Charge on Refunding	(166,484)		(12,812)	(153,672)	
Total Bonds Payable	78,282,083		3,081,956	75,200,127	3,270,000
Compensated Absences	6,499,933	6,253,643	4,482,920	8,270,656	76,340
Annuity and Life Income Payable	2,179,898		88,717	2,091,181	
Total Long-Term Liabilities	\$ 86,961,914	\$ 6,253,643	\$ 7,653,593	\$ 85,561,964	\$ 3,346,340

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 6/30/2004	Principal Outstanding 6/30/2004
Housing and Dining System						
Housing and Dining System Revenue Bonds (1997)	D	5.10%	4/1/2023	\$ 6,000,000	\$ 835,000	\$ 5,165,000
Housing and Dining System Revenue Bonds (1997)	E	4.60%	4/1/2007	7,290,000	5,105,000	2,185,000
Housing and Dining System Revenue Bonds (1997)	F	5.10%	4/1/2016	8,750,000	2,360,000	6,390,000
Housing and Dining System Revenue Bonds (2000)	G	6.00%	4/1/2026	6,425,000	415,000	6,010,000
Total Housing and Dining System				28,465,000	8,715,000	19,750,000
Student Facilities System						
Student Facilities Revenue Bonds (1997)	B	5.10%	4/1/2023	3,755,000	525,000	3,230,000
Student Facilities Revenue Bonds (1997)	C	5.30%	4/1/2023	12,200,000	1,770,000	10,430,000
Total Student Facilities System				15,955,000	2,295,000	13,660,000
General Revenue Bonds (2001)	A	4.70%	4/1/2026	19,870,000	1,380,000	18,490,000
General Revenue Bonds (2001)	B	4.87%	4/1/2026	16,445,000	1,355,000	15,090,000
The University of North Carolina System Pool Revenue Bonds						
General Revenue Bonds (2002)	(A)	5.14%	4/1/2027	8,835,000	295,000	8,540,000
Total Bonds Payable (principal only)				\$ 89,570,000	\$ 14,040,000	75,530,000
Less: Unamortized Loss on Refunding						(153,672)
Less: Unamortized Discount						(392,027)
Plus: Unamortized Premium						215,826
Total Bonds Payable						\$ 75,200,127

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

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, 2004 are as follows:

<u>Fiscal Year</u>	<u>Bonds Payable</u>	
	<u>Principal</u>	<u>Interest</u>
2005	\$ 3,270,000	\$ 3,775,629
2006	3,405,000	3,630,948
2007	3,580,000	3,480,236
2008	2,955,000	3,316,762
2009	3,100,000	3,179,974
2010-2014	17,945,000	13,540,589
2015-2019	18,905,000	8,639,671
2020-2024	16,715,000	4,009,675
2025-2029	5,655,000	469,900
Total Requirements	\$ 75,530,000	\$ 44,043,384

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

Housing and Dining System: In 1997, the University defeased \$8,045,000 of outstanding Dining System Revenue Bonds, Series B (1991). 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, 2004, the outstanding balance of the defeased Housing and Dining System Revenue Bonds was \$6,155,000.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 8 - OPERATING LEASE OBLIGATIONS

Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2004:

<u>Fiscal Year</u>	<u>Amount</u>
2005	\$ 455,369
2006	334,732
2007	<u>74,127</u>
Total Minimum Lease Payments	<u><u>\$ 864,228</u></u>

Rental expense for all operating leases during the year was \$863,656.

NOTE 9 - REVENUES

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

	<u>Gross Revenues</u>	<u>Internal Sales Eliminations</u>	<u>Less Scholarship Discounts</u>	<u>Less Allowance for Uncollectibles</u>	<u>Net Revenues</u>	<u>Revenues Pledged as Security for Debt</u>
Operating Revenues:						
Student Tuition and Fees	\$ 58,973,730	\$ 5,721	\$ 7,397,511	\$ 70,409	\$ 51,500,089	\$ 3,451,511 (B)
Sales and Services:						
Sales and Services of Auxiliary Enterprises:						
Residential Life	\$ 11,326,385	\$ 373,952	\$ 1,382,657	\$ 15,083	\$ 9,554,693	\$ 9,554,693 (A)
Dining	9,061,304		1,091,413	12,489	7,957,402	7,957,402 (A)
Student Union Services	1,090,631	39,082			1,051,549	
Health, Physical Education, and Recreation Services	813,116	4,019		3,947	805,150	
Parking	3,277,520	86,097		18,792	3,172,631	
Athletic	655,689	20,495		6,661	628,533	
Other	5,388,605	5,183,671			204,934	
Sales and Services of Education and Related Activities	<u>6,825,694</u>	<u>213,483</u>			<u>6,612,211</u>	
Total Sales and Services	<u><u>\$ 38,438,944</u></u>	<u><u>\$ 5,920,799</u></u>	<u><u>\$ 2,474,070</u></u>	<u><u>\$ 56,972</u></u>	<u><u>\$ 29,987,103</u></u>	<u><u>\$ 17,512,095</u></u>

Revenue Bonds Secured by Pledged Revenues:

(A) Housing and Student Center System

(B) Student Facilities System

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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	\$ 71,472,137	\$ 3,701,911	\$ 4,675,020	\$ 57,804	\$ 0	\$ 0	\$ 79,906,872
Research	8,231,960	712,493	4,792,658	251,417	1,670		13,990,198
Public Service	5,605,467	485,586	6,036,903	394,147	3,679		12,525,782
Academic Support	15,379,618	7,786,508	4,868,547	437,529	275		28,472,477
Student Services	7,080,956	1,083,144	2,578,308	5,900	10		10,748,318
Institutional Support	13,490,074	1,489,729	4,910,880	1,250	1,445		19,893,378
Operations and Maintenance of Plant	9,516,143	8,837,912	998,279		5,092,347		24,444,681
Student Financial Aid			95,978	9,424,147			9,520,125
Auxiliary Enterprises	10,501,931	2,616,210	11,494,676		1,821,399		26,434,216
Depreciation						7,747,140	7,747,140
Total Operating Expenses	\$ 141,278,286	\$ 26,713,493	\$ 40,451,249	\$ 10,572,194	\$ 6,920,825	\$ 7,747,140	\$ 233,683,187

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, 2004, these rates were set at .22% of covered payroll for employers and 6% of covered payroll for members.

For the year ended June 30, 2004, the University had a total payroll of \$118,754,286, of which \$59,672,919 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

contributions for pension benefits for the year were \$3,580,375 and \$131,280, respectively. The University made one hundred percent of its annual required contributions for the years ended June 30, 2004, 2003, and 2002, which were \$131,280, \$0, and \$1,102,978, 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 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, 2004, 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, 2004, the University had a total payroll of \$118,754,286, of which \$41,557,725 was covered under the Optional Retirement Program. Total employee and employer contributions for

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

pension benefits for the year were \$2,493,464 and \$2,842,548, respectively.

- B. Deferred Compensation and Supplemental Retirement Income Plans** - IRC Section 457 Plan - The State of North Carolina offers its permanent employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 through the North Carolina Public Employee Deferred Compensation Plan (the Plan). The Plan permits each participating employee to defer a portion of his or her salary until future years. The deferred compensation is available to employees upon separation from service, death, disability, retirement, or financial hardships if approved by the Board of Trustees of the Plan. The Board, a part of the North Carolina Department of Administration, maintains a separate fund for the exclusive benefit of the participating employees and their beneficiaries, *the North Carolina Public Employee Deferred Compensation Trust Fund*. The Board also contracts with an external third party to perform certain administrative requirements and to manage the trust fund's assets. All costs of administering and funding the Plan are the responsibility of the Plan participants. No costs are incurred by the University. The voluntary contributions by employees amounted to \$232,054 for the year ended June 30, 2004.

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, 2004 were \$65,253. The voluntary contributions by employees amounted to \$750,868 for the year ended June 30, 2004.

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 \$1,939,809 for the year ended June 30, 2004.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS

- A. Health Care for Long-Term Disability Beneficiaries and Retirees -** The University participates in State-administered programs that 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 3.2% 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, 2004, the University's total contribution to the Plan was \$3,239,381. 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. Employer contributions are established in the Appropriations Bill by the General Assembly. The University was not required to contribute to the DIPNC for the fiscal year ended June 30, 2004. 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. Except for a reduction in the public officers' and employees'

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

liability insurance from \$11,000,000 to \$5,000,000, 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 \$5,000,000 via contract with a private insurance company. The University pays the premium, based on a composite rate, directly to the private insurer.

The University is required to maintain fire and lightning coverage on all State-owned buildings and contents through the State Property Fire Insurance Fund (Fund), an internal service fund of the State. Such coverage is provided at no cost to operations supported by the State's General Fund. Other operations not supported by the State's General Fund are charged for the coverage. Losses covered by the Fund are subject to a \$500 per occurrence deductible. The University also purchased through the Fund extended coverage for buildings and contents. Extended coverage is provided for the residence halls, Elliot University Center, the Chemical Storage facility, University Graphics and Printing Services Building, the baseball complex, and West Entranceway only. Coverage is at replacement cost, with a \$1,000 deductible. Cost is charged to the department.

A number of University departments have also elected to purchase "all risk" insurance through the Fund. The principal cause of loss addressed by this coverage is theft. Losses covered by the Fund are subject to a \$500 per occurrence deductible except theft losses, which carry a \$1,000 per occurrence deductible.

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 North Carolina Department of Insurance for the coverage.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(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. There were no employer contributions required for the current fiscal year.

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

NOTE 14 - COMMITMENTS AND CONTINGENCIES

- A. Commitments** - The University has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were \$39,617,196 at June 30, 2004.
- B. Pending Litigation and Claims** – The University is a party to other litigation and claims in the ordinary course of its operations. Since it is not possible to predict the ultimate outcome of these matters, no provision for any liability has been made in the financial statements. University management is of the opinion that the liability, if any, for any of these matters will not have a material adverse effect on the financial position of the University.
- C. University Improvement General Obligation Bonds** – The 1999-2000 Session of the General Assembly of North Carolina authorized the issuance of two billion five hundred million dollars of general obligation bonds of the State, as subsequently approved by a vote of qualified voters of the State, to provide funds for capital improvements for the University of North Carolina. The funds authorized are to be used solely for capital facilities cost on the University of North Carolina campuses as specified 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 of \$97,383,725 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.

- 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
Pledges to the UNCG Excellence Foundation Endowment Fund	\$ 910,007
Pledges to the Human Environmental Sciences Foundation Endowment Fund	41,892
Pledges to the UNCG Endowment Fund	161,293

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

NOTE 15 - SUBSEQUENT EVENTS

On September 10, 2004, the University of North Carolina Board of Governor's authorized the issuance of General Obligation bonds for a tax-exempt bond financing. The University intends to borrow approximately \$18.9 million through this financing to fund repairs and renovations to the dining hall and two residence halls, to renovate the Student Health Center, to construct an exercise track, and to construct a softball complex.

The University of North Carolina at Greensboro
Schedule of General Obligation Bond Project Authorizations,
Budgets, and Expenditures
For Project-to-Date as of June 30, 2004

Schedule 1

	Original Projected Start Date	Revised/ Actual Start Date	General Obligation Bonds Authorized	Other Sources	Total Project Budget	Amount Expended	Percent Completed	Original Expected Completion Date	Revised/ Actual Completion Date
Capital Improvement Projects									
<i>Projects Started</i>									
Science Instruction Building Replacement	Nov 2000		\$ 35,723,095	\$ 0.00	\$ 35,723,095	\$ 35,149,246	98.39%	Aug 2003	
Petty Building Renovation for Classroom Use	Jul 2003		15,458,685		15,458,685	255,238	1.65%	Nov 2007	
Brown Classroom Building-Comprehensive Renovation	Sep 2003	Jul 2003	6,169,205		6,169,205	41,600	0.67%	Oct 2007	
Mclver Classroom Building Replacement	Jan 2001		19,239,269		19,239,269	1,642,471	8.54%	Mar 2006	Apr 2006
Aycock Auditorium-Comprehensive Renovation	Apr 2003		16,304,850		16,304,850	57,280	0.35%	May 2008	
Stone Classroom Building-Comprehensive Renovation	Mar 2001		4,489,135		4,489,135	1,665,374	37.10%	May 2005	Feb 2005
Alumni House Meeting/Seminar/Office Renovation	Mar 2004	Feb 2004	3,095,100		3,095,100	7,161	0.23%	Sep 2007	
Heating Plant Expansion and Energy Efficiency Improvements	Dec 2001	Nov 2001	4,608,735		4,608,735	1,516,926	32.91%	Jun 2005	Apr 2005
McNutt Classroom Building-Comprehensive Renovation	Jul 2003	May 2003	2,587,800		2,587,800	18,360	0.71%	Jul 2007	
Electric Power Distribution Expansion and Upgrade	Jun 2001		3,886,450		3,886,450	2,935,642	75.54%	Jun 2001	Dec 2004
Research Space-Phase I	Jan 2001		16,920,000		16,920,000	1,922,870	11.36%	May 2006	
Mclver Chiller Plant Expansion and Improvements	Nov 2000		7,957,284		7,957,284	7,771,491	97.67%	Jan 2005	May 2004
Infrastructure-North Infrastructure-Northeast Quadrant	Dec 2000	Nov 2000	7,334,869		7,334,869	5,679,101	77.43%	Oct 2004	Dec 2004
Technology Infrastructure Expansion	Nov 2000		3,896,235		3,896,235	3,896,235	100.00%	Oct 2003	Dec 2002
Land Acquisition	Apr 2000		7,000,000		7,000,000	3,117,921	44.54%	Oct 2005	
Reserve for Effective Project Management	Nov 2000		7,950,413		7,950,413	1,618,720	20.36%	Mar 2009	
<i>Projects Not Started - To Be Funded in Future Years</i>									
Forney Classroom Building-Comprehensive Renovation	Nov 2004	Jul 2004	3,387,130		3,387,130				
Total All Projects			\$ 166,008,255	\$ 0.00	\$ 166,008,255	\$ 67,295,636			

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.

The University of North Carolina at Greensboro
Intercollegiate Athletics Program
Statement of Revenues and Expenses
Year Ended June 30, 2004

Schedule 2

	Men's Basketball	Women's Basketball	Other Sports	Nonprogram Specific	Total
Revenues:					
Operating Revenues:					
Student Fees, Net (Note 2)	\$ 335,506	\$ 441,661	\$ 1,908,605	\$ 1,059,447	\$ 3,745,219
Ticket Sales	29,361	2,046	22,443	6,138	59,988
Contest Guarantees	180,000	10,500			190,500
Advertising Income				89,447	89,447
Institutional Sports Camps and Clinics				648,006	648,006
Concessions				54,502	54,502
NCAA/Conference USA	952	952	9,348	161,621	172,873
Auxiliaries Scholarship Allocation				99,000	99,000
Other Sources	200		16,000	67,128	83,328
Total Operating Revenues	546,019	455,159	1,956,396	2,185,289	5,142,863
Expenses					
Operating Expenses:					
Coaches' Salaries	184,388	174,238	635,496	140,460	1,134,582
Other Salaries	5,000	600	22,072	1,090,298	1,117,970
Fringe Benefits	47,139	32,720	175,230	214,551	469,640
Travel:					
Team	82,478	56,112	212,155	25,614	376,359
Recruiting	9,955	4,655	20,999		35,609
Other	41,068	13,795	48,853	43,145	146,861
Financial Aid, Net	113,543	130,124	677,149		920,816
Supplies and Uniforms	34,307	21,681	109,828	237,510	403,326
Insurance				31,041	31,041
Communications	12,711	6,246	28,862	66,822	114,641
Entertainment	4,879	5,126	13,727	47,301	71,033
Contest Guarantees	4,500	2,500	6,950		13,950
Printing and Binding	1,164	377	2,116	62,234	65,891
Repairs and Maintenance	3,587	687	1,696	31,656	37,626
Advertising	70		164	13,417	13,651
Equipment Rentals			10,090	1,442	11,532
Current Services	7,184	593	28,959	351,483	388,219
Fixed Charges	7,398	3,010	31,664	11,872	53,944
Contractual Services	23,665	18,664	44,961	140,324	227,614
Equipment	3,750	885	90,576	22,839	118,050
Depreciation				45,653	45,653
Total Operating Expenses	586,786	472,013	2,161,547	2,577,662	5,798,008
Operating Loss	(40,767)	(16,854)	(205,151)	(392,373)	(655,145)
Nonoperating Revenues (Expenses)					
State Appropriations			18,050		18,050
Gifts:					
Noncapital	23,647	14,958	202,053	133,167	373,825
Investment Income	6,000		6,387	(72)	12,315
Net Nonoperating Revenues	29,647	14,958	226,490	133,095	404,190
Excess (Deficiency) of Revenues over Expenses	\$ (11,120)	\$ (1,896)	\$ 21,339	\$ (259,278)	\$ (250,955)

The accompanying notes are an integral part of this statement.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

- A. Organization and Purpose** –The University of North Carolina at Greensboro 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*. The University of North Carolina at Greensboro 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, athletic clothing, equipment, and accessories were provided to the University at no charge. These items were provided in exchange for the University’s agreement not to use other manufacturers’ products. In addition, a leased vehicle was provided to the University at less than fair market value. The value of these items have been recorded as noncapital gifts in the preceding statement of revenues and expenses.

During the year coaching services were provided at no charge to the University. The values of these donations have been recorded as noncapital gifts 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 \$570,669.

NOTE 3 - ENDOWMENT FUNDS

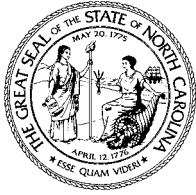
Endowment funds have been established within the University of North Carolina at Greensboro for the benefit of UNCG Intercollegiate Athletics. No additions occurred during the fiscal year ended June 30, 2004. The fund balance during that period of time has been constant at \$150,528.

NOTE 4 - THE UNCG EXCELLENCE FOUNDATION

Restricted and endowment funds have been established within the UNCG Excellence Foundation for the benefit of the University's Intercollegiate Athletics Program. During the fiscal year, the University received \$250,014 in direct support from the funds within the Foundation. These amounts are reported as noncapital gifts and financial aid expenses in the preceding statement of revenues and expenses.

NOTE 5 - SPORTS CAMPS

The Director of Athletics has administered summer sports camps at the University which include baseball, basketball, golf, soccer, softball, tennis, volleyball, and wrestling. These operations are included in the Intercollegiate Athletics Program Statement of Revenues and Expenses. The coaches who participated were provided additional compensation for services rendered in operating these camps in accordance with the terms of their university contracts.



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Office of the State Auditor

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

Board of Trustees
The University of North Carolina at Greensboro
Greensboro, North Carolina

We have audited the financial statements of The University of North Carolina at Greensboro, 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, 2004, and have issued our report thereon dated November 23, 2004. We did not audit the financial statements of The University of North Carolina at Greensboro Investment Fund, Incorporated, which represent 25 percent, 32 percent, and 9 percent, respectively, of the assets, net assets, and revenues of the University; the financial statements of The UNCG Excellence Foundation, which represent 11 percent, 14 percent, and 4 percent, respectively, of the assets, net assets, and revenues of the University; nor the financial statements of The University of North Carolina at Greensboro Human Environmental Sciences Foundation, Incorporated, which represent 1 percent, 1 percent, and .5 percent, respectively, of the assets, net assets, and revenues of the University. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for The University of North Carolina at Greensboro Investment Fund, Incorporated, The UNCG Excellence Foundation, and The University of North Carolina at Greensboro Human Environmental Sciences Foundation, Incorporated, is based on the reports of the other auditors.

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

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 an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting

**INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
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GOVERNMENT AUDITING STANDARDS (CONCLUDED)**

would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud 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.

Compliance and Other Matters

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

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.



Leslie W. Merritt, Jr., CPA, CFP
State Auditor

November 23, 2004

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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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February 17, 2005

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