



STATE OF NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT OF

WINSTON-SALEM STATE UNIVERSITY

WINSTON-SALEM, 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

WINSTON-SALEM STATE UNIVERSITY

WINSTON-SALEM, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2004

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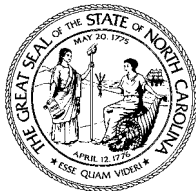
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STATE OF NORTH CAROLINA
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AUDITOR'S TRANSMITTAL

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

This report presents the results of our financial statement audit of Winston-Salem State University, a constituent institution of the sixteen-campus University of North Carolina System, which is a component unit of the State of North Carolina, for the year ended June 30, 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 Winston-Salem State University. The audit procedures were conducted in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States.

The purpose of this report is to present the results of our audit on the accompanying financial statements that relate solely to Winston-Salem State University. A summary of our reporting objectives and audit results is:

- 1. Objective** – To express an opinion on the accompanying financial statements that relate solely to Winston-Salem State University.

Results - The accompanying financial statements present fairly, in all material respects, the amounts and disclosures made in accordance with accounting principles generally accepted in the United States of America. These matters are more fully described in the Independent Auditor's Report on the Financial Statements.

AUDITOR'S TRANSMITTAL (CONCLUDED)

2. **Objective** – To present significant deficiencies, if any, in internal control over financial reporting which could adversely affect the University's ability to record, process, summarize, and report financial data in the financial statements and present instances of noncompliance, if any, with laws, regulations, contracts, or grants.

Results - Our tests disclosed no 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.

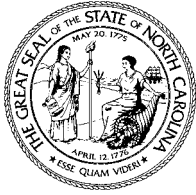
North Carolina General Statutes require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.



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

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of Winston-Salem State University, a constituent institution of the sixteen-campus University of North Carolina System, which is a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 2004, which collectively comprise the Winston-Salem State University's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Winston-Salem State University Foundation, Inc., and subsidiary, which represents 100% of the University's discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component unit, is based on the report 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. The financial statements of Winston-Salem State University Foundation, Inc., and Subsidiary were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of Winston-Salem State University and its discretely presented component unit, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

As discussed in Note 15 to the financial statements, the University implemented Governmental Accounting Standards Board Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, during the year ended June 30, 2004.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 4, 2005, 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, 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 opinions on the financial statements that collectively comprise the Winston-Salem State University's basic financial statements. Schedule 1 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures 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., CPA, CFP
State Auditor

March 4, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Winston-Salem State University (the "University") annual financial report presents our discussion and analysis of the financial performance of the University during the fiscal year ended June 30, 2004. This discussion has been prepared by University management along with the financial statements and related notes to the financial statements and should be read in conjunction with, and is qualified in its entirety by, the financial statements and notes. The Management's Discussion and Analysis has comparative data for the applicable years (past and current) with emphasis on the current year. The financial statements, notes, and this discussion are the responsibility of University management.

Using the Annual Report

This annual report consists of a series of financial statements, prepared in accordance with the Governmental Accounting Standards Board (GASB) Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities*, and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*. These GASB statements establish standards for external financial reporting for public colleges and universities and require that financial statements be presented on a consolidated basis for the University as a whole, with resources classified for accounting and reporting purposes into four net asset categories. Prior to 2002, financial reporting requirements focused on the accountability of individual funds groups rather than on the University as a whole. One of the most important questions asked is whether the University as a whole is better or worse off as a result of the year's activities. The key to understanding this question is the Statement of Net Assets, the Statement of Revenues, Expenses, and Changes in Net Assets and the Statement of Cash Flows. These statements present financial information in a form similar to that used by corporations. It is prepared under the accrual basis of accounting, whereby revenues and assets are recognized when the service is provided and expenses and liabilities are recognized when others provide the service, regardless of when cash is exchanged.

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

The Statement of Revenues, Expenses, and Changes in Net Assets presents the revenues earned and expenses incurred during the year. Activities are reported as either operating or nonoperating. All things being equal, a public University's dependency on State appropriations and gifts will result in operating deficits, because GASB Statement No. 35 classifies State appropriations and gifts as nonoperating revenues. Prior to 2002, these two revenue classifications were included within the scope of normal revenues and contributed to revenues over expenditures, typically a net positive number.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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

Reporting Entity

The financial statements report information about the University as a whole using accounting methods similar to those used by private-sector companies. The University's supporting organization, the Winston-Salem State University Foundation, Inc., (the "Foundation") is an independent nonprofit corporation formed for the exclusive benefit of the University. According to Governmental Accounting Standards Board Statement No. 39, *Determining Whether Certain Organizations are Component Units*, the Winston-Salem State University Foundation, Inc., meets the requirements to be reported discretely in these financial statements.

Financial Highlights

The University's financial position, as a whole, remained relatively stable during the fiscal year ended June 30, 2004. Its combined net assets increased \$4.9 million from the previous year, which is an increase of approximately 6.14 percent.

Condensed Financial Information

Statement of Net Assets

The Statement of Net Assets presents the assets (current and noncurrent), liabilities (current and noncurrent), and the net assets (total assets less total liabilities) of the University. This financial statement provides a comparative University fiscal snapshot as of June 30, 2004, and June 30, 2003. This provides the readers of this statement with information on assets available to continue operations.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Condensed Statement of Net Assets

June 30, 2004

(dollars in thousands)

	2004		2003	
Assets				
Current Assets	\$ 10,749	10.2%	\$ 9,430	9.4%
Other Noncurrent Assets:				
Capital	77,208	73.1%	71,319	71.2%
Other	17,609	16.7%	19,474	19.4%
 Total Assets	 105,566	 100.0%	 100,223	 100.0%
Liabilities				
Current Liabilities	5,369	24.8%	4,850	22.9%
Noncurrent Liabilities	16,266	75.2%	16,297	77.1%
 Total Liabilities	 21,635	 100.0%	 21,147	 100.0%
Net Assets*				
Invested in Capital Assets, Net of Related Debt	63,826	76.0%	57,423	72.6%
Restricted:				
Nonexpendable	10,290	12.3%	10,250	13.0%
Expendable	8,109	9.7%	10,716	13.5%
Unrestricted	1,706	2.0%	687	0.9%
 Total Net Assets	 \$ 83,931	 100.0%	 \$ 79,076	 100.0%

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

As of June 30, 2004, total University assets were \$105.6 million. The University's largest asset is its investment in its physical plant of \$77.2 million at June 30, 2004. Cash and investments increased by \$3.0 million primarily due to the increase in realized and unrealized gains on the endowment during 2004 of \$1.0 million and increased revenues from providing student services due to enrollment growth of \$2.0 million during the year.

The University's current assets of \$10.7 million covered the current liabilities of \$5.4 million, as the current ratio was \$2 in current assets to every \$1 in current liabilities.

University liabilities totaled \$21.6 million at June 30, 2004. Bonds payable of \$13.3 million was the largest liability, representing 61.3 percent of the total University liabilities.

At June 30, 2004, the University had outstanding bonds of \$13.3 million, consisting of \$.1 million, \$7.4 million, \$2.9 million, and \$2.9 million from 1995, 1998, 2002, and 2004 bond issues, respectively.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Statement of Revenues, Expenses, and Changes in Net Assets

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

**Condensed Statement of Revenues, Expenses, and
Changes in Net Assets
For the Year Ended June 30, 2004**
(dollars in thousands)

	2004		2003	
Operating Revenues:				
Student Tuition and Fees, Net	\$ 8,885	36.9%	\$ 6,954	36.3%
Grants and Contracts	7,561	31.4%	6,002	31.3%
Sales and Services, Net	6,818	28.4%	5,618	29.3%
Other	799	3.3%	601	3.1%
Total Operating Revenues	24,063	100.0%	19,175	100.0%
Operating Expenses:				
Salaries and Benefits	41,964	56.1%	35,696	59.6%
Supplies, Materials, and Services	23,575	31.5%	16,974	28.3%
Scholarships and Fellowships	4,993	6.7%	3,670	6.1%
Utilities	1,871	2.5%	1,638	2.7%
Depreciation	2,415	3.2%	1,956	3.3%
Total Operating Expenses	74,818	100.0%	59,934	100.0%
Operating Loss	(50,755)		(40,759)	
Nonoperating Revenues (Expenses):				
State Appropriations	35,571	63.9%	29,692	59.6%
Capital Grants	7,547	13.6%	8,702	17.5%
Capital Appropriations	108	0.2%		
Noncapital Grants	11,078	19.9%	10,810	21.7%
Noncapital Gifts	223	0.4%	241	0.5%
Additions to Permanent Endowments	28	0.1%	607	1.2%
Other	1,055	1.9%	(265)	(0.5%)
Net Nonoperating Revenues	55,610	100.0%	49,787	100.0%
Increase in Net Assets	4,855		9,028	
Net Assets:				
Beginning of Year	79,076		70,048	
End of Year	\$ 83,931		\$ 79,076	

Total operating loss for fiscal year 2004, was \$50.8 million. Since the State of North Carolina appropriation is not included within operating revenue per GASB Statement No. 35, the University will show a significant operating loss on a continuing basis.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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

The following table details the University's noncapital grants and contracts revenue (in thousands) for the fiscal year ended June 30, 2004.

	<u>Amount</u>
Federal:	
Department of Education	\$ 11,845
Department of Health and Human Service	2,096
National Science Foundation	494
Department of Housing and Urban Development	415
Department of Defense	303
National Aeronautics Space Administration	132
Department of Agriculture	<u>24</u>
Total Federal	15,309
Private, State, and Local	<u>3,330</u>
Total All Sources	<u><u>\$ 18,639</u></u>

Operating expenses, including depreciation of \$2.4 million, totaled \$74.8 million. Of this total, \$36.5 million or 48.7 percent was used for instruction and student support.

The University's largest source of nonoperating revenue is the State of North Carolina appropriation. This is received in monthly payments, beginning in July of each year, since the State's fiscal year begins on July 1st. There is no direct connection between the amount of tuition revenues collected by the University and the amount of State funds appropriated in any given year. For the fiscal year ended June 30, 2004, the State of North Carolina appropriated to the University \$35.6 million for operations. The State of North Carolina also provided \$7.6 million in capital grants and capital appropriations during the fiscal year.

One of the University's greatest strengths is the diverse streams of revenues which supplement its student tuition and fees, including voluntary private support from individuals, foundations, and corporations, along with government and other sponsored programs, State appropriations and investment income. The University has in the past and will continue to seek funding aggressively from all possible sources consistent with its mission, to supplement student tuition, and manage prudently the financial resources realized from these efforts to fund its operating activities.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

The Statement of Cash Flows

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

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

Condensed Statement of Cash Flows For the Fiscal Year Ended June 30, 2004 (dollars in thousands)

	2004	2003
Cash Provided (Used) by:		
Operating Activities	\$ (47,523)	\$ (38,397)
Noncapital Financing Activities	47,459	41,631
Capital and Related Financing Activities	1,193	(7,963)
Investing Activities	826	272
Net Increase (Decrease) in Cash	1,955	(4,457)
Cash - Beginning of the Year	7,412	11,869
Cash - End of Year	<u>\$ 9,367</u>	<u>\$ 7,412</u>

Major sources of funds included in operating activities are received from customers \$24.2 million. The largest payments in this group were compensation to employees, \$41.5 million, and payments to suppliers, \$25.1 million.

The largest inflow of cash in the noncapital financing activities is the State of North Carolina appropriation at \$35.6 million. Cash used in capital and related financing activities during fiscal year 2004, was primarily for the acquisition of capital assets and the repayment of debt.

Capital Assets

With the passage of the University Improvement General Obligation Bonds in 2000, the University was authorized to receive \$46.8 million over the next six years for capital improvements. Major capital expenditures for the year ended June 30, 2004, include the Computer Science Facility, \$3.0 million, and the Physical and Life Science Building, \$4.7 million. The bond referendum is discussed in detail in Note 14(B) to the financial statements. Also, a Schedule of General Obligation Bond Project Authorizations, Budgets, and Expenditures is presented in Schedule 1 of this report.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

In response to a growing enrollment and on behalf of the University, the Winston-Salem State University Foundation, Inc., maintains a 448-bed campus residence facility. The facility is maintained with non-State funds. On September 17, 2004, the University entered into a lease agreement with the Winston-Salem State University Foundation, Inc., to lease the facility. The lease agreement is discussed in detail in Note 16 to the financial statements.

Factors Impacting Future Periods

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

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

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

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

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

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

Winston-Salem State University
Statement of Net Assets
June 30, 2004

Exhibit A-1

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 5,118,705.76
Restricted Cash and Cash Equivalents	3,952,420.52
Receivables, Net (Note 4)	1,388,906.81
Inventories	79,664.47
Notes Receivable, Net (Note 4)	208,943.91

Total Current Assets 10,748,641.47

Noncurrent Assets:

Restricted Cash and Cash Equivalents	296,317.08
Restricted Due from Primary Government	1,803,677.99
Endowment Investments	13,186,208.26
Other Long-Term Investments	1,524,454.03
Notes Receivable, Net (Note 4)	798,126.02
Capital Assets - Nondepreciable (Note 5)	14,158,412.54
Capital Assets - Depreciable, Net (Note 5)	63,050,016.04

Total Noncurrent Assets 94,817,211.96

Total Assets 105,565,853.43

LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 6)	3,450,035.71
Due to Primary Government	24,907.05
Deferred Revenue	732,342.10
Interest Payable	240,592.32
Long-Term Liabilities - Current Portion (Note 7)	920,948.48

Total Current Liabilities 5,368,825.66

Noncurrent Liabilities:

Deposits Payable	106,376.97
Funds Held for Others	237,994.98
U. S. Government Grants Refundable	939,600.35
Long-Term Liabilities (Note 7)	14,981,736.34

Total Noncurrent Liabilities 16,265,708.64

Total Liabilities 21,634,534.30

Winston-Salem State University**Statement of Net Assets****June 30, 2004****Exhibit A-1****Page 2****NET ASSETS**

Invested in Capital Assets, Net of Related Debt	63,826,415.20
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	3,057,544.94
Endowed Professorships	4,680,500.00
Departmental Uses	2,447,622.04
Loans	104,076.81
Expendable:	
Scholarships and Fellowships	1,068,289.80
Endowed Professorships	2,216,841.93
Departmental Uses	2,811,140.42
Loans	177,616.08
Capital Projects	551,635.60
Debt Service	1,283,861.71
Unrestricted	1,705,774.60
Total Net Assets	\$ 83,931,319.13

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

**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)	\$ 8,885,376.57
Federal Grants and Contracts	7,561,140.78
Sales and Services, Net (Note 9)	6,818,268.46
Interest Earnings on Loans	4,177.73
Other Operating Revenues	794,274.78

Total Operating Revenues 24,063,238.32

EXPENSES

Operating Expenses:

Salaries and Benefits	41,964,317.50
Supplies and Materials	8,132,684.02
Services	15,442,013.96
Scholarships and Fellowships	4,992,925.24
Utilities	1,870,980.67
Depreciation	2,414,971.06

Total Operating Expenses 74,817,892.45

Operating Loss (50,754,654.13)

NONOPERATING REVENUES (EXPENSES)

State Appropriations	35,570,851.56
Noncapital Grants	11,078,044.93
Noncapital Gifts	223,164.58
Investment Income (Net of Investment Expense of \$49,741.82)	1,878,496.67
Interest and Fees on Capital Asset-Related Debt	(823,666.59)

Net Nonoperating Revenues 47,926,891.15

Loss Before Other Revenues, Expenses, Gains, or Losses (2,827,762.98)

Capital Appropriations	108,400.00
Capital Grants	7,546,582.00
Additions to Endowments	28,025.50

Increase in Net Assets 4,855,244.52

NET ASSETS

Net Assets - July 1, 2003 79,076,074.61

Net Assets - June 30, 2004 \$ 83,931,319.13

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

Winston-Salem State University
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2004

Exhibit A-3

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 24,228,285.01
Payments to Employees and Fringe Benefits	(41,532,630.91)
Payments to Vendors and Suppliers	(25,148,661.68)
Payments for Scholarships and Fellowships	(4,992,925.24)
Loans Issued	(296,103.00)
Collection of Loans	200,520.28
Interest Earned on Loans	11,361.87
Student Deposits Received	106,376.97
Student Deposits Returned	(98,731.42)
Net Cash Used by Operating Activities	(47,522,508.12)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Appropriations	35,570,851.56
Grants for Other than Capital Purposes	11,574,607.75
Noncapital Gifts	223,164.58
Additions to Permanent and Term Endowments	28,025.50
Other Receipts	62,742.46
Net Cash Provided by Noncapital Financing Activities	47,459,391.85

CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES

Proceeds from Capital Debt	2,925,000.00
State Capital Appropriations	108,400.00
Capital Grants	10,669,294.25
Acquisition and Construction of Capital Assets	(8,253,559.88)
Principal Paid on Capital Debt	(3,455,000.00)
Interest and Fees Paid on Capital Debt	(733,122.28)
Payment to Bond Escrow Agent	(68,053.88)
Net Cash Provided by Capital Financing and Related Financing Activities	1,192,958.21

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from Sales and Maturities of Investments	10,325,293.90
Investment Income	619,736.57
Purchase of Investments and Related Fees	(10,119,221.23)
Net Cash Provided by Investing Activities	825,809.24

Net Increase in Cash and Cash Equivalents	1,955,651.18
Cash and Cash Equivalents - July 1, 2003	7,411,792.18
Cash and Cash Equivalents - June 30, 2004	\$ 9,367,443.36

Winston-Salem State University**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	\$ (50,754,654.13)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	2,414,971.06
Allowances, Write-Offs, and Amortizations	22,811.17
Changes in Assets and Liabilities:	
Receivables (Net)	99,589.65
Inventories	(16,739.81)
Accounts Payable and Accrued Liabilities	234,368.83
Due to Primary Government	24,907.05
Deferred Revenue	76,818.91
Compensated Absences	463,356.32
Deposits Payable	7,645.55
Student Loans Issued	(296,103.00)
Student Loan Principal Repayments	200,520.28
Net Cash Used by Operating Activities	<u>\$ (47,522,508.12)</u>

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	\$ 5,118,705.76
Restricted Cash and Cash Equivalents	3,952,420.52
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	<u>296,317.08</u>
Total Cash and Cash Equivalents - June 30, 2004	<u>\$ 9,367,443.36</u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Change in Fair Value of Investments	\$ 713,559.72
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The accompanying notes to the financial statements are an integral part of this statement.

<i>Winston-Salem State University Foundation, Inc. and Subsidiary</i>		
<i>Consolidated Statement of Financial Position</i>		
<i>June 30, 2004</i>		<i>Exhibit B-1</i>
ASSETS		
Cash and Cash Equivalents		\$ 2,448,222
Restricted Cash		2,260,598
Accounts Receivable		150,039
Pledges Receivable		1,722,104
Investment Securities		2,296,273
Property and Equipment, Net		16,083,096
Deferred Financing Costs, Net		361,796
Other		33,543
Total Assets		25,355,671
LIABILITIES		
Due to Board of Trustees of the Endowment		518,131
Accounts Payable and Other Accruals		170,361
Deferred and Prepaid Rent		68,872
Note Payable		17,665,000
Total Liabilities		18,422,364
NET ASSETS		
Unrestricted		2,174,241
Temporarily Restricted		1,712,623
Permanently Restricted		3,046,443
Total Net Assets		\$ 6,933,307
See Note 1 in the Notes to the Financial Statements		

Winston-Salem State University Foundation, Inc. and Subsidiary
Consolidated Statement of Activities
For the Year Ended June 30, 2004

Exhibit B-2

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT AND REVENUE				
Rental Income	\$ 2,091,223	\$ 0	\$ 0	\$ 2,091,223
Gifts and Grants	278,511	1,520,309	850,377	2,649,197
Investment Income	32,281	22,290		54,571
Administrative Fees	63,221			63,221
Unrealized Gain on Interest Rate Swap	156,375			156,375
Unrealized Gain on Investment Activities		189,811		189,811
Passport Income	122,833			122,833
Miscellaneous	62,219			62,219
	2,806,663	1,732,410	850,377	5,389,450
Net Assets Released from Restrictions	755,691	(755,691)		
Total Support and Revenue	3,562,354.00	976,719	850,377	5,389,450
EXPENSES				
Rental Operating Costs	997,436			997,436
Depreciation and Amortization	538,347			538,347
Interest	539,968			539,968
Scholarships	251,354			251,354
Special Programs	473,613			473,613
Management and General	328,983			328,983
Unrelated Business Income Tax	16,612			16,612
Fundraising Expense	123,496			123,496
Total Expenses	3,269,809			3,269,809
Change in Net Assets	292,545	976,719	850,377	2,119,641
NET ASSETS				
Net Assets, Beginning	1,881,696	735,904	2,196,066	4,813,666
Net Assets, Ending	\$ 2,174,241	\$ 1,712,623	\$ 3,046,443	\$ 6,933,307
See Note 1 in the Notes to the Financial Statements				

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WINSTON-SALEM STATE UNIVERSITY
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. Winston-Salem State University is a constituent institution of the sixteen-campus University of North Carolina System, which is a component unit of the State of North Carolina and an integral part of the State's *Comprehensive Annual Financial Report*.

The accompanying financial statements present all funds belonging to the University 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. The University's component unit is discretely presented in the University's financial statements. The discretely presented component unit's financial data is reported in separate financial statements because of its use of different GAAP reporting models and to emphasize its legal separateness.

Discretely Presented Component Unit - Winston-Salem State University Foundation, Inc., is a legally separate not-for-profit corporation and is reported as a discretely presented component unit based on the nature and significance of its relationship to the University. The Winston-Salem State University Housing Foundation, LLC, is the wholly owned subsidiary of the Winston-Salem State University Foundation, Inc.

The Winston-Salem State University Foundation, Inc., is a legally separate, tax-exempt component unit of the University. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the University in support of its programs. The Foundation is governed by a 25-member board consisting of four ex-officio directors and 21 elected directors. Although the University does not control the timing or amount of receipts from the Foundation, the majority

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

of resources, or income thereon, that the Foundation holds and invests are restricted to the activities of the University by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of the University, the Foundation is considered a component unit of the University and is reported in separate financial statements because of the difference in its reporting model, as described below.

The Winston-Salem State University Foundation, Inc., is a private not-for-profit organization that reports its financial results under Financial Accounting Standards Board (FASB) Statements. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information in the University's financial reporting entity for these differences.

During the year ended June 30, 2004, the Foundation distributed \$216,168.41 to the University for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from:

Winston-Salem State University Foundation, Inc.
Campus Box 19537
Winston-Salem, NC 27110
(336) 750-3005

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

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

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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 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 mutual funds and money market funds. Except for money market funds, investments are accounted for at fair value, as determined by quoted market prices, or an amount determined by management if quoted market prices are not available. The net increase (decrease) in the fair value of investments is recognized as a component of investment income.

Money market funds are reported at cost, if purchased, or at fair value or appraised value at date of gift, if donated.

- F. Receivables** - Receivables consist of tuition and fees charges to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from federal and State governments, and due from private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants. Receivables are recorded net of estimated uncollectible amounts.

- G. Inventories** - Inventories, consisting of fuel oil held for consumption, are valued at the lower of cost or market value using the last invoice cost. Inventories of postage are valued at the retail 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. Interest costs incurred are capitalized during the period of construction.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

The Diggs Gallery collection is capitalized at cost or fair value at the date of donation. This collection is considered inexhaustible and is therefore not depreciated.

- I. Restricted Assets** - Unexpended proceeds of revenue bonds and unexpended capital contributions are classified as restricted assets because their use is limited by applicable bond covenants or donor/grantor agreements. Certain other assets are classified as restricted because their use is limited by external parties or statute.
- J. Noncurrent Long-Term Liabilities** - Noncurrent long-term liabilities include principal amounts of bonds payable and compensated absences that will not be paid within the next fiscal year.

Bonds payable are reported net of unamortized premiums or discounts. The University amortizes bond premiums/discounts over the life of the bonds using the straight-line method. Issuance costs are expensed.

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

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

grants, and other federal, State, or nongovernmental programs, are recorded as either operating or nonoperating revenues in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. To the extent that revenues from these programs are used to satisfy tuition, fees, and other charges, the University has recorded a scholarship discount.

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

and service units and, if significant, allocating any residual balances to those departments receiving the goods and services during the year.

NOTE 2 - DEPOSITS AND INVESTMENTS

- A. Deposits** - Unless specifically exempt, the University is required by General Statute 147-77 to deposit moneys received with the State Treasurer or with a depository institution in the name of the State Treasurer. In addition, the University of North Carolina Board of Governors, pursuant to General Statute 116-36.1, requires the University to deposit its institutional trust funds with the State Treasurer. Although specifically exempted, the University may voluntarily deposit endowment funds, special funds, revenue bond proceeds, and debt service funds 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 \$9,367,443.36, all of which represents the University's portion of the State Treasurer's Investment Pool. 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.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

B. Investments - The University is authorized by The University of North Carolina Board of Governors pursuant to General Statute 116-36.2 and Section 600.2.4 of the Policy Manual of the University of North Carolina, to invest its special funds in the same manner as the State Treasurer is required to invest, as previously discussed.

In accordance with the bond resolutions, bond proceeds and debt service funds are invested in obligations 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 component unit, the Foundation is subject to and restricted by General Statute 36B "Uniform Management of Institutional Funds Act" (UMIFA) and any requirements placed on them by contract or donor agreements.

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

Long-Term Investment Pool - This is an internal investment pool that is utilized for the investment of the endowment funds. Endowment funds of the University and its' discretely presented component unit represent the pool's internal participants. Fund ownership and allocation of investment income are based on the equity interest that each fund holds in the internal investment pool. The investment strategy, including the selection of investment managers, is based on the directives of the University's Endowment Board.

Credit Risk Categories - The University's investments (pooled and non-pooled) are categorized below to give an indication of the level of risk assumed by the entity at year-end. The credit risk categories are concerned with custodial credit risk, which is the risk that a government 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

which the securities are held by the University or its agent in the University's name. Category 2 includes uninsured and unregistered investments for which the securities are held by a counterparty's trust department or agent in the University's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by a counterparty's trust department or agent but not in the University's name.

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

Long-Term Investment Pool

	<u>Fair Value</u> <u>Total</u>
Investments Not Categorized:	
Money Market Funds	\$ 211,022.39
Mutual Funds	<u>12,975,185.87</u>
Total Long-Term Investment Pool	<u><u>\$ 13,186,208.26</u></u>

Non-Pooled Investments

	<u>Fair Value</u> <u>Total</u>
Investments Not Categorized:	
Money Market Funds	<u><u>\$ 1,524,454.03</u></u>

Total Investments

	<u>Fair Value</u> <u>Total</u>
Total Investments Not Categorized:	
Pooled Investments	\$ 13,186,208.26
Non-Pooled Investments	<u>1,524,454.03</u>
Total Investments	<u><u>\$ 14,710,662.29</u></u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 3 - ENDOWMENT INVESTMENTS

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

Investment return of the University's endowment funds is predicated on the total return concept (yield plus appreciation). The total spending rate is calculated annually by taking the sum of the market value of the endowment investments for the preceding twelve quarters, and dividing the result by twelve. Spending from this average value shall be at a rate of five percent, paid out proportionately on a quarterly basis. To the extent that the total return for the current year exceeds the payout, the excess is added to principal. If current year earnings do not meet the payout requirements, the University uses accumulated income and appreciation from restricted, expendable net asset balances to make up the difference. At June 30, 2004, net appreciation of \$3,000,541.28 was available to be spent for restricted purposes.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 4 - RECEIVABLES

Receivables at June 30, 2004, were as follows:

	<u>Gross Receivables</u>	<u>Less Allowance for Doubtful Accounts</u>	<u>Net Receivables</u>
Current Receivables:			
Students	\$ 646,472.69	\$ 497,487.38	\$ 148,985.31
Accounts	54,247.07		54,247.07
Intergovernmental	1,039,037.40		1,039,037.40
Interest on Loans	131,881.38		131,881.38
Other	14,755.65		14,755.65
Total Current Receivables	<u>\$ 1,886,394.19</u>	<u>\$ 497,487.38</u>	<u>\$ 1,388,906.81</u>
Notes Receivable:			
Notes Receivable - Current:			
Federal Loan Programs	\$ 294,433.04	\$ 101,056.54	\$ 193,376.50
Institutional Student Loan Programs	22,008.42	6,441.01	15,567.41
Total Notes Receivable - Current	<u>\$ 316,441.46</u>	<u>\$ 107,497.55</u>	<u>\$ 208,943.91</u>
Notes Receivable - Noncurrent:			
Federal Loan Programs	\$ 1,124,769.94	\$ 388,396.51	\$ 736,373.43
Institutional Student Loan Programs	104,883.52	43,130.93	61,752.59
Total Notes Receivable - Noncurrent	<u>\$ 1,229,653.46</u>	<u>\$ 431,527.44</u>	<u>\$ 798,126.02</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	\$ 3,968,242.04	\$ 0.00	\$ 0.00	\$ 0.00	\$ 3,968,242.04
Art, Literature, and Artifacts	605,472.00		14,300.00		619,772.00
Construction in Progress	17,737,598.33	(16,062,303.84)	7,895,104.01		9,570,398.50
Total Capital Assets, Nondepreciable	22,311,312.37	(16,062,303.84)	7,909,404.01		14,158,412.54
Capital Assets, Depreciable:					
Buildings	71,587,674.06	14,590,638.24	19,010.00	14,988.00	86,182,334.30
Machinery and Equipment	4,732,720.65	182,579.35	398,479.36	260,956.80	5,052,822.56
General Infrastructure	2,483,912.05	1,289,086.25			3,772,998.30
Total Capital Assets, Depreciable	78,804,306.76	16,062,303.84	417,489.36	275,944.80	95,008,155.16
Less Accumulated Depreciation/Amortization for:					
Buildings	25,446,859.84		1,749,368.61	3,147.48	27,193,080.97
Machinery and Equipment	2,700,387.21		580,741.81	249,986.15	3,031,142.87
General Infrastructure	1,649,054.64		84,860.64		1,733,915.28
Total Accumulated Depreciation	29,796,301.69		2,414,971.06	253,133.63	31,958,139.12
Total Capital Assets, Depreciable, Net	49,008,005.07	16,062,303.84	(1,997,481.70)	22,811.17	63,050,016.04
Capital Assets, Net	\$ 71,319,317.44	\$ 0.00	\$ 5,911,922.31	\$ 22,811.17	\$ 77,208,428.58

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	Amount
Accounts Payable	\$ 2,007,815.75
Accrued Payroll	1,042,396.23
Contract Retainage	399,823.73
Total Accounts Payable and Accrued Liabilities	\$ 3,450,035.71

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	\$ 13,800,000.00	\$ 2,925,000.00	\$ 3,455,000.00	\$ 13,270,000.00	\$ 705,000.00
Add/Deduct Premium/Discount	95,863.18		(16,150.20)	112,013.38	
Total Bonds Payable	<u>13,895,863.18</u>	<u>2,925,000.00</u>	<u>3,438,849.80</u>	<u>13,382,013.38</u>	<u>705,000.00</u>
Compensated Absences	2,057,315.12	1,972,629.90	1,509,273.58	2,520,671.44	215,948.48
Total Long-Term Liabilities	<u>\$ 15,953,178.30</u>	<u>\$ 4,897,629.90</u>	<u>\$ 4,948,123.38</u>	<u>\$ 15,902,684.82</u>	<u>\$ 920,948.48</u>

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/ Defeased Through 6/30/2004	Principal Outstanding 6/30/2004
Housing and Dining System						
UNC System Pool Revenue Bonds	2002B	3.50% - 5.37%	4/1/2017	\$ 3,090,000.00	\$ 225,000.00	\$ 2,865,000.00
Revenue Refunding Bonds	1998B	3.70% - 5.00%	1/1/2017	8,430,000.00	1,055,000.00	7,375,000.00
Total Housing and Dining System				<u>11,520,000.00</u>	<u>1,280,000.00</u>	<u>10,240,000.00</u>
Student Services System						
UNC System Pool Revenue Bonds	2004B	3.00% - 5.00%	4/1/2022	2,925,000.00		2,925,000.00
Revenue Bonds	1995A	5.20% - 5.55%	6/1/2005	3,600,000.00	3,495,000.00	105,000.00
Total Student Services System				<u>6,525,000.00</u>	<u>3,495,000.00</u>	<u>3,030,000.00</u>
Total Bonds Payable (principal only)				<u>\$ 18,045,000.00</u>	<u>\$ 4,775,000.00</u>	13,270,000.00
Plus: Unamortized Premium						<u>112,013.38</u>
Total Bonds Payable						<u>\$ 13,382,013.38</u>

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>Annual Requirements</u>	
	<u>Bonds Payable</u>	
	<u>Principal</u>	<u>Interest</u>
2005	\$ 705,000.00	\$ 602,771.74
2006	630,000.00	571,100.00
2007	775,000.00	544,057.50
2008	805,000.00	512,645.00
2009	835,000.00	479,132.50
2010-2014	4,840,000.00	1,771,887.50
2015-2019	3,975,000.00	534,825.02
2020-2022	705,000.00	57,200.00
Total Requirements	\$ 13,270,000.00	\$ 5,073,619.26

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

Winston-Salem State University Student Services System Revenue Bonds, Series 2004B: On March 31, 2004, the University defeased \$2,795,000.00 of outstanding Student Services Revenue Bonds, Series 1995A (original issue amount \$3,600,000.00). Securities were deposited into an irrevocable trust 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. As a result, the University reduced its debt service requirements by \$218,847.01 over the next 18 years and obtained an economic gain of \$171,167.01. At June 30, 2004, the outstanding balance of the defeased Student Services System Revenue Bonds, Series 1995A was \$2,795,000.00.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 8 - OPERATING LEASE OBLIGATIONS

The University entered into operating leases for fixed assets storage and office space. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2004:

<u>Fiscal Year</u>	<u>Amount</u>
2005	\$ 60,916.07
2006	49,353.56
Total Minimum Lease Payments	<u>\$ 110,269.63</u>

Rental expense for all operating leases during the year was \$623,196.28.

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	\$ 12,217,479.16	\$ 0.00	\$ 3,258,707.49	\$ 73,395.10	\$ 8,885,376.57	\$ 500,256.32 (B)
Sales and Services:						
Sales and Services of Auxiliary Enterprises:						
Residential Life	\$ 3,766,582.21	\$ 0.00	\$ 982,640.06	\$ 28,699.91	\$ 2,755,242.24	\$ 2,755,242.24 (A)
Dining	3,409,526.87		842,991.62	25,801.11	2,540,734.14	2,540,734.14 (A)
Student Union Services	477,049.07			5,118.63	471,930.44	471,930.44 (B)
Health, Physical Education, and Recreation Services	21,660.18			8,700.06	12,960.12	
Parking	355,695.77			1,412.17	354,283.60	
Athletic	159,555.88			13,755.14	145,800.74	
Other	1,795,297.44	1,257,980.26			537,317.18	
Total Sales and Services	<u>\$ 9,985,367.42</u>	<u>\$ 1,257,980.26</u>	<u>\$ 1,825,631.68</u>	<u>\$ 83,487.02</u>	<u>\$ 6,818,268.46</u>	<u>\$ 5,767,906.82</u>

Revenue Bonds Secured by Pledged Revenues:

(A) Housing and Dining System

(B) Student Services 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	\$ 21,856,494.32	\$ 1,584,515.90	\$ 2,514,160.88	\$ 417,778.31	\$ 0.00	\$ 0.00	\$ 26,372,949.41
Research	934,787.17	171,967.40	416,041.77	85,140.00			1,607,936.34
Public Service	1,503,951.46	321,673.99	781,115.60	19,735.03	78.81		2,626,554.89
Academic Support	4,052,452.51	2,669,184.68	755,318.76	6,079.00			7,483,034.95
Student Services	1,982,214.02	111,149.89	519,300.16	4,006.00			2,616,670.07
Institutional Support	5,460,669.68	727,859.61	2,406,573.37		362.00		8,595,464.66
Operations and Maintenance of Plant	3,325,831.05	1,513,697.29	2,810,020.65		1,398,908.12		9,048,457.11
Student Financial Aid	359,246.08	2,990.75	27,430.43	4,460,186.90			4,849,854.16
Auxiliary Enterprises	2,488,671.21	1,029,644.51	5,212,052.34		471,631.74		9,201,999.80
Depreciation						2,414,971.06	2,414,971.06
Total Operating Expenses	\$ 41,964,317.50	\$ 8,132,684.02	\$ 15,442,013.96	\$ 4,992,925.24	\$ 1,870,980.67	\$ 2,414,971.06	\$ 74,817,892.45

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 \$35,146,084.18, of which \$20,689,583.23 was covered under the Teachers' and State Employees' Retirement System. Total employee and

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

employer contributions for pension benefits for the year were \$1,241,374.99 and \$45,517.08, respectively. The University made one hundred percent of its annual required contributions for the years ended June 30, 2004, 2003, and 2002, which were \$45,517.08, \$0.00, and \$353,229.41, 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 \$35,146,084.19, of which \$7,888,462.54 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 \$473,307.75 and \$539,570.84, 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 \$119,932.96 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 are 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 \$20,876.98. The voluntary contributions by employees amounted to \$184,641.00 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

contributions by employees amounted to \$357,587.12 for the year ended June 30, 2004.

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 \$914,497.46. 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*.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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' 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 except theft losses carry a \$1,000 per occurrence deductible. The University also purchased through the Fund extended coverage against losses caused by windstorm or hail, explosion, smoke, aircraft or vehicles, and riot or civil commotion on certain buildings and contents. In addition, the University purchased "all risk" coverage through the Fund for a particular tower and adjacent building.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

Term life insurance (death benefits) of \$25,000 to \$50,000 is provided to eligible workers. This Death Benefit Plan is administered by the State Treasurer and funded via employer contributions. 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 \$9,743,244.78 and on other purchases were \$2,623,715.41 at June 30, 2004.
- B. University Improvement General Obligation Bonds** - The 1999-2000 Session of the General Assembly of North Carolina authorized the issuance of \$2,500,000,000 of general obligation bonds of the State, as subsequently approved by a vote of qualified voters of the State, to provide funds for capital improvements for the University of North Carolina. The funds authorized are to be used solely for capital facilities cost on the University of North Carolina campuses as specified in the legislation. The bond legislation specifies the amount of bond funding for each University campus and the level of bond funding intended for each project. The bonds are authorized to be issued over a six-year period beginning in 2001, at a level not to exceed amounts provided in the legislation. Using a cash flow financing approach, The University of North Carolina – General Administration (UNC-GA), establishes

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

annual amounts not to exceed for each approved project. The amounts not to exceed are subject to change due to actual cash availability 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 \$19,729,312.00 is contingent on future bond sales and OSBM allotment approval. Because of uncertainty and time restrictions the remaining authorization is not recorded as an asset or revenue on the accompanying financial statements.

NOTE 15 - CHANGE IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2004, the University implemented Governmental Accounting Standards Board Statement No. 39, *Determining Whether Certain Organizations are Component Units*. This Statement amends GASB Statement No. 14, *The Financial Reporting Entity*, to provide additional guidance to determine whether certain organizations for which the University is not financially accountable should be reported as component units based on the nature and significance of their relationship to the University.

NOTE 16 - SUBSEQUENT EVENTS

On September 17, 2004, the University entered into a lease agreement with the Winston-Salem State University Foundation, Inc. The agreement is to lease student housing facilities owned by the Foundation. The term of the lease is for 32 years and the rental payments are to be equal to the payments on principal and interest on Certificates of Participation held by the Foundation in addition to certain other costs and expenses. The total of the payments on principal and interest for the term of the lease will be \$67,991,902.00. The Certificates of Participation are not and will not be an obligation of the State of North Carolina or the University, but will be secured solely from the base rentals paid by the University. The University will be responsible for the management of these student-housing facilities.

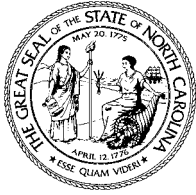
**Winston-Salem State University
Schedule of General Obligation Bond Project Authorizations,
Budgets, and Expenditures
For Project-to-Date as of June 30, 2004**

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>									
Computer Science Facility-Replacement and Consolidation	Jan 2002	Apr 2002	\$ 10,954,523.00	\$ 700,000.00	\$ 11,654,523.00	\$ 11,265,364.84	96.66%	Jan 2004	Dec 2003
F.L. Atkins - Additions and Renovations	Sep 2001	May 2001	4,159,840.00	1,038,660.00	5,198,500.00	5,192,828.83	99.89%	Jan 2003	Oct 2002
Physical and Life Sciences Building - Replacement of Hill Hall Anderson Center - Comprehensive Renovation and Change of Use for Early Childhood/Gerontology Programs	Oct 2002	Dec 2002	11,732,857.00	248,000.00	11,980,857.00	5,526,704.35	46.13%	Jul 2005	Dec 2004
Infrastructure Improvements	Oct 2002	Jul 2002	6,678,476.00	1,456,700.00	8,135,176.00	2,648,492.36	32.56%	Aug 2005	Dec 2005
Chilled Water Loop System	Oct 2001	Jun 2002	2,276,952.00		2,276,952.00	1,668,265.42	73.27%	Jun 2005	Oct 2004
Replace Underground Steam and Hot Water Piping	Oct 2001	Apr 2002	414,286.00	2,415,100.00	2,829,386.00	2,628,457.25	92.90%	May 2003	Oct 2003
Technology Infrastructure Expansion	Oct 2001	Apr 2002	1,190,000.00		1,190,000.00	1,136,121.30	95.47%	Aug 2003	Oct 2003
Carolina Hall - Renovation and Conversion from Computer Center to Classroom	Sep 2001	Sep 2001	1,676,100.00		1,676,100.00	1,211,626.09	72.29%	Jul 2003	Dec 2005
Health Center Building and Old Nursing Building - Comprehensive Renovation for Student Health	Jul 2003	Sep 2003	4,067,333.00		4,067,333.00	291,838.92	7.18%	Dec 2005	Jun 2005
Project Management	Jul 2002	Apr 2003	2,158,000.00		2,158,000.00	114,028.00	5.28%	Jul 2007	Mar 2006
	May 2001	May 2001	1,478,214.00		1,478,214.00	513,589.06	34.74%	Jul 2007	Jul 2007
Total All Projects			\$ 46,786,581.00	\$ 5,858,460.00	\$ 52,645,041.00	\$ 32,197,316.42			

Note: The 1999-2000 Session of the General Assembly of North Carolina authorized the issuance of \$2,500,000,000 of general obligation bonds of the State, as subsequently approved by a vote of qualified voters of the State, to provide funds for capital improvements for the University of North Carolina. The projects listed on this schedule are those funded or to be funded by bond proceeds from the general obligation bonds authorized by Senate Bill 912.

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STATE OF NORTH CAROLINA
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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
Winston-Salem State University
Winston-Salem, North Carolina

We have audited the financial statements of Winston-Salem State University, a constituent institution of the sixteen-campus University of North Carolina System, which is a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 2004, which collectively comprise the University's basic financial statements and have issued our report thereon dated March 4, 2005. We did not audit the financial statements of Winston-Salem State University Foundation, Inc., and Subsidiary, which represents 100% of the University's discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component unit, is based on the report of the other auditors.

As discussed in Note 15 to the financial statements, the University implemented Governmental Accounting Standards Board Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, during the year ended June 30, 2004.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. The financial statements of the discretely presented component unit were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not extend to the discretely presented component unit.

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 opinions 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
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
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. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the University, in a separate letter dated March 17, 2005.

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.

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

March 4, 2005

DISTRIBUTION OF AUDIT REPORT

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

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The Honorable Beverly M. Perdue
The Honorable Richard H. Moore
The Honorable Roy A. Cooper, III
Mr. David T. McCoy
Mr. Robert L. Powell
Ms. Molly Corbett Broad
Dr. Harold L. Martin, Sr.
Ms. Paula M. Jeffries

Mr. Thomas E. Terrell, Jr.

Governor of North Carolina
Lieutenant Governor of North Carolina
State Treasurer
Attorney General
State Budget Officer
State Controller
President, The University of North Carolina
Chancellor, Winston-Salem State University
Vice Chancellor for Finance and Administration
Winston-Salem State University
Chairman, Board of Trustees
Winston-Salem State University

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Director, Fiscal Research Division

April 22, 2005

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