



# STATE OF NORTH CAROLINA

**FINANCIAL STATEMENT AUDIT REPORT OF**

**ELIZABETH CITY STATE UNIVERSITY**

**ELIZABETH CITY, 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**

**ELIZABETH CITY STATE UNIVERSITY**

**ELIZABETH CITY, NORTH CAROLINA**

**FOR THE YEAR ENDED JUNE 30, 2004**

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

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**AUDITOR'S TRANSMITTAL**

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The Honorable Michael F. Easley, Governor  
The General Assembly of North Carolina  
Board of Trustees, Elizabeth City State University

This report presents the results of our financial statement audit of Elizabeth City 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 Elizabeth City 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 Elizabeth City 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 Elizabeth City 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)

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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**

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Board of Trustees  
Elizabeth City State University  
Elizabeth City, North Carolina

We have audited the accompanying basic financial statements of Elizabeth City State University, a constituent institution of the sixteen-campus University of North Carolina System, which is a component unit of the State of North Carolina, as of and for the year ended June 30, 2004, as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of Elizabeth City State University Foundation, Inc. and Subsidiary, which represent 17 percent of the assets, four percent of the net assets, and one percent of the revenues of the University. 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 those entities, 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 Elizabeth City 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 provides a reasonable basis for our opinion.

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 financial position of Elizabeth City State University as of June 30, 2004, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

## INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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In accordance with *Government Auditing Standards*, we have also issued our report dated April 21, 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 an opinion on the basic financial statements taken as a whole. Schedule 1 is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



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

April 21, 2005

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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### Accounting Standards

Elizabeth City State University prepared its financial statements in accordance with Governmental Accounting Standards Board (GASB) Statement Number 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended by GASB Statement Number 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities*. The State of North Carolina adopted these standards in fiscal year 2002, and as a component unit of the State government, Elizabeth City State University has adopted the standards as well.

The standards require three basic financial statements: the Statement of Net Assets, the Statement of Revenues, Expenses, and Changes in Net Assets, and the Statement of Cash Flows.

The Statement of Net Assets includes all assets and liabilities. The University's net assets (the difference between assets and liabilities) are one indicator of the University's financial health. Over time, increases or decreases in net assets are 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 Net Assets provides information about assets and liabilities in a format that distinguishes between current and noncurrent. Individual assets and liabilities are classified as current or noncurrent based on whether they are expected to generate or use cash within the next 12 months after the end of the fiscal period.

Net assets, or the difference between total assets and total liabilities, are divided into three major components. The first component, invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages or notes that are attributable to the acquisition, construction, or improvement of those assets. The next component, restricted net assets, is divided into two categories: expendable and nonexpendable. Net assets are restricted when constraints are placed on them by either external parties (creditors, grantors, donors, etc.) or by enabling legislation or constitutional provisions. Nonexpendable net assets are those that are required to be retained in perpetuity. The final component is unrestricted net assets. These are net assets that are available to the University for any lawful purpose of the University.

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



## **MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

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The Statement of Revenues, Expenses, and Changes in Net Assets distinguishes between operating and nonoperating revenues and expenses. Operating revenues and expenses generally result from providing goods and services and the cost of providing those goods and services. Nonoperating revenues are revenues received for which goods and services are not provided. This includes State appropriations for operating and capital purposes.

Another important factor to consider when evaluating financial viability is the University's ability to meet financial obligations as they occur. 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.

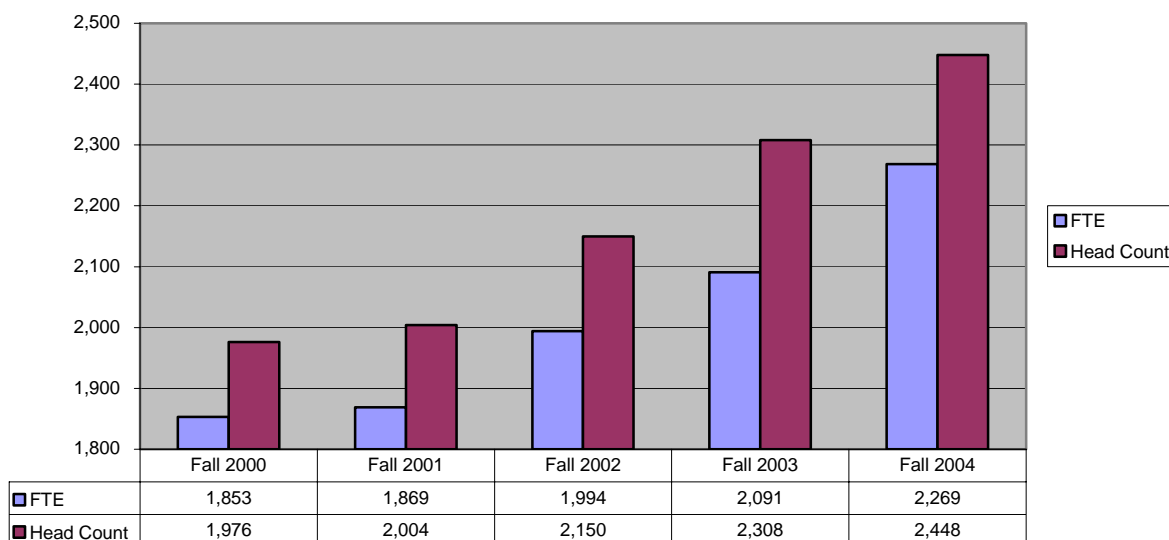
The following discussion and analysis provides an overview of the University's financial activities.

### **Financial and Enrollment Highlights**

- Enrollment increased by approximately seven percent for Fall 2003 based on headcount. This increase continued in Fall 2004 with record enrollment of 2,448, which was a six percent growth in headcount.
- The UNC Higher Education Bond Referendum projects were well under way with \$20,582,612 expended of the University's total allotment of \$46.3 million.
- The University recorded an increase of total net assets of \$11,790,450, which included investment income, including market appreciation of investments totaling \$503,932, net of related investment fees.
- Construction on Viking Village, a new privatized housing unit, was initiated with a projected completion date of September 2004. Bonds in the amount of \$14.155 million were issued through the University's affiliated foundation to finance the construction.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

### FTE and Head Count From 2000 to 2004



### Comparative, Condensed Statement of Net Assets

	<u>2004</u>	<u>2003</u>	<u>% Change</u>
<b>Assets</b>			
Current Assets	\$ 13,319,711	\$ 5,381,026	147.5 %
Capital Assets, Net	84,582,113	59,917,114	41.2 %
Other Assets	13,442,439	19,483,083	(31.0) %
<b>Total Assets</b>	<u>111,344,263</u>	<u>84,781,223</u>	<u>31.3 %</u>
<b>Liabilities</b>			
Current Liabilities	4,662,361	3,760,401	24.0 %
Noncurrent Liabilities	<u>22,570,623</u>	<u>8,699,993</u>	<u>159.4 %</u>
<b>Total Liabilities</b>	<u>27,232,984</u>	<u>12,460,394</u>	<u>118.6 %</u>
<b>Net Assets</b>			
Invested in Capital Assets, Net of Related Debt	67,802,609	51,783,115	30.9 %
Restricted - Expendable	6,803,562	14,709,184	(53.7) %
Restricted - Nonexpendable	2,402,325	1,911,830	25.7 %
Unrestricted	<u>7,102,783</u>	<u>3,916,700</u>	<u>81.3 %</u>
<b>Total Net Assets</b>	<u>\$ 84,111,279</u>	<u>\$ 72,320,829</u>	<u>16.3 %</u>

As of June 30, 2004, total University assets were \$84.1 million. Buildings, less accumulated depreciation, make up \$43.7 million of this total. The University's current construction in progress is \$33.8 million. This figure has increased significantly over the prior year due to

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

the construction of Viking Village, a 350-bed housing complex, as well as continued activity related to the 2000 Higher Education Bonds.

The University's current assets of \$13.3 million fully covered the current liabilities of \$4.6 million, as the current ratio was \$2.9 in current assets to every \$1 in current liabilities.

University liabilities totaled \$27.2 million at June 30, 2004. Bonds payable totaling \$20.6 million is the largest liability. In August of 2003, the University, through its related foundation, issued \$14.155 million in debt to build Viking Village.

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

	2004	2003
Operating Revenues		
Student Tuition and Fees, Net	\$ 4,545,343	\$ 4,166,659
Federal Contracts and Grants	5,978,053	4,767,501
Sales and Services, Net	3,156,567	3,492,388
Other Operating Revenues	378,815	299,255
Total Operating Revenues	14,058,778	12,725,803
Operating Expenses	45,778,240	45,556,619
Operating Loss	(31,719,462)	(32,830,816)
Nonoperating Revenues and Expenses:		
State Appropriations	24,559,904	22,294,550
Noncapital Grants	6,764,430	6,404,509
Other Nonoperating Revenues	992,313	1,047,971
Interest and Fees on Debt	(409,340)	(372,610)
Net Nonoperating Revenues	31,907,307	29,374,420
Income Before Other Revenues	187,845	(3,456,396)
Capital Grants	11,252,840	12,892,774
Capital Gifts	32,000	
Additions to Permanent Endowment	317,765	78,074
Total Other Revenues	11,602,605	12,970,848
Increase in Net Assets	11,790,450	9,514,452
Net Assets at the Beginning of Year, as Restated	72,320,829	62,806,377
Net Assets at the End of the Year	\$ 84,111,279	\$ 72,320,829

Total operating loss for fiscal year 2004 was \$31.7 million. Since the State of North Carolina appropriation is not included within operating revenue per GASB Statement No. 35, the University will show an operating loss.

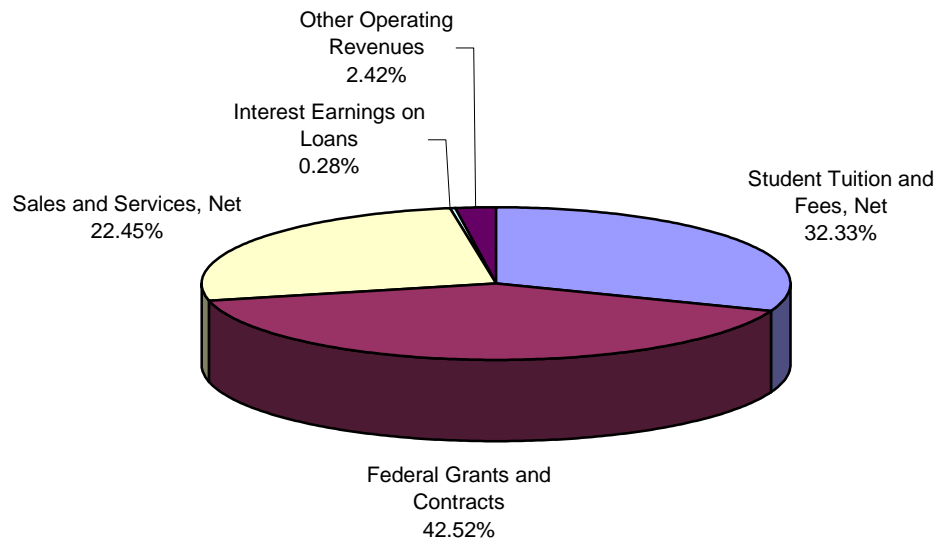
## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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The sources of operating revenue for the University include tuition and fees, certain grants and contracts, and auxiliary services.

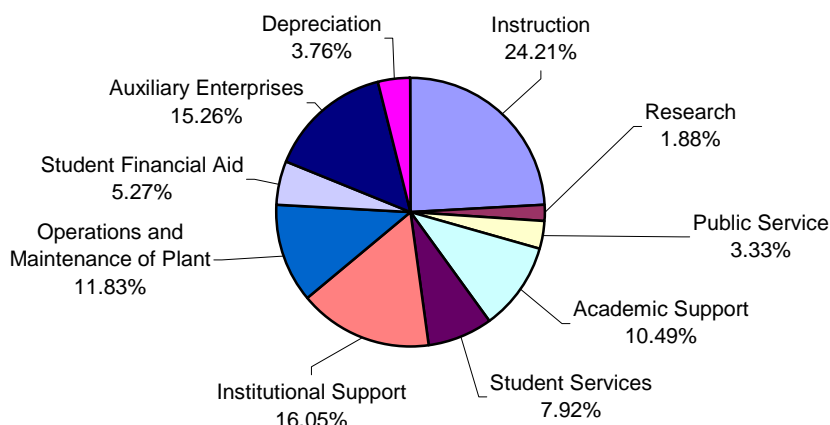
Enrollment increased by approximately seven percent for Fall 2003. Fall of 2004 saw a six percent enrollment growth in headcount with 2,448 students.

### Operating Revenues by Source



## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

### Expenses by Function



### Comparative, Condensed Statement of Cash Flows

	<u>2004</u>	<u>2003</u>
Net Cash Used by Operating Activities	\$ (29,650,237)	\$ (30,433,875)
Net Cash Provided by Noncapital Financing Activities	32,056,319	28,947,098
Net Cash Provided (Used) by Capital Financing Activities	2,092,242	(269,050)
Net Cash Provided (Used) by Investing Activities	<u>(3,880,992)</u>	<u>666,388</u>
Net Increase (Decrease) in Cash and Cash Equivalents	617,332	(1,089,439)
Cash and Cash Equivalents - Beginning of the Year	<u>9,820,084</u>	<u>10,909,523</u>
Cash and Cash Equivalents - End of Year	<u><u>\$ 10,437,416</u></u>	<u><u>\$ 9,820,084</u></u>

Major sources of funds included in operating activities include student tuition and fees (\$4,548,833), sales and services of auxiliary enterprises (\$3,305,316), and operating contracts and grants (\$5,985,329). Major uses of funds included in operating activities include payments to employees (\$28,412,469) and payments to vendors and suppliers (\$13,058,759).

The North Carolina State appropriation of \$24,559,904 is the largest inflow of cash in noncapital financing activities.

***Elizabeth City State University***  
***Statement of Net Assets***  
***June 30, 2004***

***Exhibit A-1***

**ASSETS**

Current Assets:

Cash and Cash Equivalents	\$ 6,828,944.40
Restricted Cash and Cash Equivalents	1,156,877.27
Receivables, Net (Note 4)	2,935,395.55
Inventories	866,901.53
Notes Receivable (Note 4)	153,203.53
Other Assets	1,378,388.98

Total Current Assets	13,319,711.26
----------------------	---------------

Noncurrent Assets:

Restricted Cash and Cash Equivalents	2,451,594.88
Receivables (Note 4)	6,637.50
Restricted Due from Primary Government	3,330,397.13
Endowment Investments	2,050,319.38
Other Long-Term Investments	5,146,019.43
Notes Receivable, Net (Note 4)	457,469.73
Capital Assets - Nondepreciable (Note 5)	35,423,566.39
Capital Assets - Depreciable, Net (Note 5)	49,158,546.84

Total Noncurrent Assets	98,024,551.28
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Total Assets	111,344,262.54
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**LIABILITIES**

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 6)	3,665,125.35
Due to Primary Government	10,347.70
Deferred Revenue	314,270.46
Long-Term Liabilities - Current Portion (Note 7)	672,617.19

Total Current Liabilities	4,662,360.70
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Noncurrent Liabilities:

Deposits Payable	147,625.21
Funds Held for Others	117,090.47
U. S. Government Grants Refundable	517,198.52
Long-Term Liabilities (Note 7)	21,788,708.87

Total Noncurrent Liabilities	22,570,623.07
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Total Liabilities	27,232,983.77
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***Elizabeth City State University***  
***Statement of Net Assets***  
***June 30, 2004***

***Exhibit A-1***  
***Page 2***

**NET ASSETS**

Invested in Capital Assets, Net of Related Debt	67,802,608.69
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	1,388,916.70
Endowed Professorships	1,013,408.19
Expendable:	
Scholarships and Fellowships	2,249,046.59
Endowed Professorships	147,075.64
Loans	399,545.31
Capital Projects	2,109,981.17
Debt Service	1,897,913.43
Unrestricted	<u>7,102,783.05</u>
Total Net Assets	<u><u>\$ 84,111,278.77</u></u>

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

***Elizabeth City State University  
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)	\$ 4,545,343.45
Federal Grants and Contracts	5,978,052.49
Sales and Services, Net (Note 9)	3,156,567.06
Interest Earnings on Loans	38,919.24
Other Operating Revenues	339,895.71

Total Operating Revenues	14,058,777.95
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**EXPENSES**

Operating Expenses:

Salaries and Benefits	27,358,180.41
Supplies and Materials	4,213,185.70
Services	8,365,703.95
Scholarships and Fellowships	2,411,241.87
Utilities	1,708,825.80
Depreciation	1,721,101.94

Total Operating Expenses	45,778,239.67
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Operating Loss	(31,719,461.72)
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**NONOPERATING REVENUES (EXPENSES)**

State Appropriations	24,559,904.22
Noncapital Grants	6,764,429.66
Noncapital Gifts	589,178.27
Investment Income (Net of Investment Expense of \$17,360)	503,931.79
Interest and Fees on Debt	(409,339.87)
Other Nonoperating Expenses	(100,796.85)

Net Nonoperating Revenues	31,907,307.22
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Income Before Other Revenues, Expenses, Gains, or Losses	187,845.50
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Capital Grants	11,252,840.14
Capital Gifts	32,000.00
Additions to Endowments	317,764.00

Increase in Net Assets	11,790,449.64
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**NET ASSETS**

Net Assets - July 1, 2003	72,320,829.13
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Net Assets - June 30, 2004	\$ 84,111,278.77
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The accompanying notes to the financial statements are an integral part of this statement.



***Elizabeth City 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	\$ 13,839,478.10
Payments to Employees and Fringe Benefits	(28,412,469.60)
Payments to Vendors and Suppliers	(13,058,758.86)
Payments for Scholarships and Fellowships	(2,411,241.87)
Loans Issued	(145,997.00)
Collection of Loans	117,378.00
Interest Earned on Loans	26,335.25
Other Receipts	395,039.21
	<hr/>
Net Cash Used by Operating Activities	(29,650,236.77)

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

State Appropriations	24,559,904.22
Noncapital Grants	6,500,637.23
Noncapital Gifts	694,667.82
Additions to Endowments	285,764.00
William D. Ford Direct Lending Receipts	5,724,067.00
William D. Ford Direct Lending Disbursements	(5,724,067.00)
Related Activity Agency Receipts	15,346.26
	<hr/>
Net Cash Provided by Noncapital Financing Activities	32,056,319.53

**CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES**

Proceeds from Capital Debt	13,994,447.75
Bond Issuance Costs	(1,363,867.56)
Capital Grants	15,948,340.18
Proceeds from Sale of Capital Assets	4,792.24
Acquisition and Construction of Capital Assets	(25,895,645.66)
Principal Paid on Capital Debt	(292,666.00)
Interest and Fees Paid on Capital Debt	(303,159.50)
	<hr/>
Net Cash Provided by Capital Financing and Related Financing Activities	2,092,241.45

**CASH FLOWS FROM INVESTING ACTIVITIES**

Proceeds from Sales and Maturities of Investments	9,205,793.17
Investment Income	308,766.75
Purchase of Investments and Related Fees	(13,395,551.98)
	<hr/>
Net Cash Used by Investing Activities	(3,880,992.06)

Net Increase in Cash and Cash Equivalents	617,332.15
Cash and Cash Equivalents - July 1, 2003	9,820,084.40
	<hr/>
Cash and Cash Equivalents - June 30, 2004	\$ 10,437,416.55

**Elizabeth City 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	\$	(31,719,461.72)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense		1,721,101.94
Allowances, Write-Offs, and Amortizations		58,243.39
Changes in Assets and Liabilities:		
Receivables (Net)		100,785.26
Inventories		(122,122.16)
Accounts Payable and Accrued Liabilities		99,910.54
Due to Primary Government		(5,295.73)
Deferred Revenue		(87,860.50)
Compensated Absences		333,081.21
Note Principal Repayments		156,401.00
Notes Issued		(185,020.00)
		<hr/>
Net Cash Used by Operating Activities	\$	<u><u>(29,650,236.77)</u></u>

**RECONCILIATION OF CASH AND CASH EQUIVALENTS**

Current Assets:		
Cash and Cash Equivalents	\$	6,828,944.40
Restricted Cash and Cash Equivalents		1,156,877.27
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		2,451,594.88
		<hr/>
Total Cash and Cash Equivalents - June 30, 2004	\$	<u><u>10,437,416.55</u></u>

**NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES**

Assets Acquired through a Gift	\$	32,000.00
Change in Fair Value of Investments		195,547.43
Loss on Disposal of Capital Assets		(100,796.85)

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

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**ELIZABETH CITY STATE UNIVERSITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2004**

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**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. Elizabeth City 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 unit. 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 blended in the University's financial statements. The blended component unit, although legally separate, is, in substance, part of the University's operations and therefore, is reported as if it was part of the University.

**Blended Component Unit** - Although legally separate, Elizabeth City State University Foundation, Inc. and Subsidiary (Foundation), a component unit of the University, is reported as if it was part of the University.

The Foundation is governed by a 25-member board consisting of 13 ex officio directors and 12 elected directors. The Foundation's purpose is to aid, support and promote teaching, research, and service in the various educational, scientific, scholarly, professional, artistic, and creative endeavors of the University. Because the elected directors of the Foundation are appointed by the members of the Elizabeth City State University Board of Trustees and the Foundation's sole purpose is to benefit Elizabeth City State University, its financial statements have been blended with those of the University.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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Separate financial statements for the Foundation may be obtained from the University Controller's Office, 1704 Weeksville Road, Elizabeth City, NC 27909, or by calling (252) 335-3224. Other related foundations and similar nonprofit corporations for which the University is not financially accountable are not part of the accompanying financial statements.

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

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

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

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

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

- D. Cash and Cash Equivalents** – This classification includes undeposited receipts, petty cash, cash on deposit with private bank accounts, savings accounts, money market accounts, cash on deposit with fiscal agents, and deposits held by the State Treasurer in the short-term investment portfolio. The short-term investment portfolio maintained by the State

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.

- E. Investments** - This classification includes long-term fixed income investments, 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 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 the federal government, State and local governments, private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants, and pledges that are verifiable, measurable, and expected to be collected and available for expenditures for which the resource provider's conditions have been satisfied. Receivables are recorded net of estimated uncollectible amounts.

- G. Inventories** – Inventories, consisting of expendable supplies, are valued at cost using the first-in, first-out method. Merchandise for resale is valued using the retail inventory method.

- H. Capital Assets** – Capital assets are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. The value of assets constructed includes all material direct and indirect construction costs. Interest costs incurred are capitalized during the period of construction.

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

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 25 years for general infrastructure, 50 years for buildings, and 15 years for equipment.

- 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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 and deferred losses on refundings. The University amortizes bond premiums/discounts over the life of the bonds using the straight-line method. The deferred losses on refundings are amortized over the life of the new debt using the straight-line method. Issuance costs are expensed.

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

In addition to the vacation leave described above, compensated absences includes the accumulated unused portion of the special annual leave bonuses awarded by the North Carolina General Assembly to all full-time permanent employees as of September 30, 2002, and as of July 1, 2003. The unused portion of this leave remains available until used, notwithstanding the limitation on annual leave carried forward described above.

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

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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**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 central stores, copy centers, motor pool, postal services, and telecommunications. In addition, the University has other miscellaneous sales and service units that operated either on a reimbursement or charge basis. All internal sales activities to University departments from auxiliary operations and sales and service units have been eliminated in the accompanying financial statements. These eliminations are recorded by removing the revenue and expense in the auxiliary operations and sales and service units and, if significant, allocating any residual balances to those departments receiving the goods and services during the year.

### NOTE 2 - DEPOSITS AND INVESTMENTS

**A. Deposits** – Unless specifically exempt, the University is required by General Statute 147-77 to deposit moneys received with the State Treasurer or with a depository institution in the name of the State Treasurer. In addition, the University of North Carolina Board of Governors, pursuant to General Statute 116-36.1, requires the University

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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to deposit its institutional trust funds, except for funds received for services rendered by health care professionals, with the State Treasurer. Although specifically exempted, the University may voluntarily deposit endowment funds, special funds, revenue bond proceeds, debt service funds, and funds received for services rendered by health care professionals with the State Treasurer. Special funds consist of moneys for intercollegiate athletics and agency funds held directly by the University.

Deposits include cash and cash equivalents and certificates of deposit totaling \$10,435,671.55. At year end, cash on hand was \$1,745.00. The University's portion of the State Treasurer's Investment Pool was \$10,298,517.10. It is the State Treasurer's policy and practice for deposits not covered by federal depository insurance to be covered by collateral held by the State of North Carolina's agent in the name of the State and for investments to be held by the State's agent in the State's name. The carrying amount of the University's deposits not with the State Treasurer was \$137,154.45 and the bank balance was \$316,186.25. Of the bank balance, \$251,567.60 was covered by federal depository insurance and \$64,618.65 was uninsured and uncollateralized.

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

The financial statements and disclosures for the State Treasurer's Investment Pool are included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.state.nc.us/> and clicking on "Financial Reports", or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

- B. Investments** - The University is authorized by The University of North Carolina Board of Governors pursuant to General Statute 116-36.2 and Section 600.2.4 of the Policy Manual of the University of North Carolina,

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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to invest its special funds and funds received for services rendered by health care professionals in the same manner as the State Treasurer is required to invest, as previously discussed.

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

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

Investments of the University's component unit, the Foundation, are 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 investment pools to manage investments and distribute investment income. The University utilizes the following investment pool:

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

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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*

	Fair Value Total
<b>Investments Not Categorized:</b>	
Mutual Funds	\$ 2,163,288.87

### *Non-Pooled Investments*

	Fair Value			Total
	Risk Category			
	1	2	3	
<b>Categorized Investments:</b>				
U.S. Government Securities	\$ 0.00	\$ 259,759.67	\$ 0.00	\$ 259,759.67
<b>Investments Not Categorized:</b>				
Money Market Funds				4,773,290.27
<b>Total Non-Pooled Investments</b>				\$ 5,033,049.94

### *Total Investments*

	Fair Value			Total
	Risk Category			
	1	2	3	
<b>Total Categorized Investments</b>	\$ 0.00	\$ 259,759.67	\$ 0.00	\$ 259,759.67
<b>Total Investments Not Categorized</b>				6,936,579.14
<b>Total Investments</b>				\$ 7,196,338.81

### NOTE 3 - ENDOWMENT INVESTMENTS

Investments of the University's endowment funds are pooled, unless required to be separately invested by the donor. If a donor has not provided specific

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

instructions, State law permits the Board of Trustees to authorize for expenditure the net appreciation, realized and unrealized, of the investments of the endowment funds.

Investment return of the University's endowment funds is predicated on the total return concept (yield plus appreciation). Annual payouts from the University's endowment funds are based on an adopted spending policy which limits spending between 0 % and 5 % of the endowment principal's market value. Under this policy, the prior year spending percentage is increased by the inflation rate to determine the current year spending percentage. To the extent that the total return for the current year exceeds the payout, the excess is added to principal. If current year earnings do not meet the payout requirements, the University uses accumulated income and appreciation from restricted, expendable net asset endowment balances to make up the difference.

### NOTE 4 - RECEIVABLES

Receivables at June 30, 2004, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
<b>Current Receivables:</b>			
Students	\$ 979,609.44	\$ 99,694.12	\$ 879,915.32
Intergovernmental	1,374,374.26		1,374,374.26
Pledges	5,000.00		5,000.00
Investment Earnings	20,044.71		20,044.71
Interest on Loans	299,011.42		299,011.42
Other	357,049.84		357,049.84
<b>Total Current Receivables</b>	<b>\$ 3,035,089.67</b>	<b>\$ 99,694.12</b>	<b>\$ 2,935,395.55</b>
<b>Noncurrent Receivables:</b>			
Pledges	\$ 6,637.50	\$ 0.00	\$ 6,637.50
<b>Notes Receivable:</b>			
<b>Notes Receivable - Current:</b>			
Federal Loan Programs	\$ 68,331.03	\$ 0.00	\$ 68,331.03
Institutional Student Loan Programs	84,872.50		84,872.50
<b>Total Notes Receivable - Current</b>	<b>\$ 153,203.53</b>	<b>\$ 0.00</b>	<b>\$ 153,203.53</b>
<b>Notes Receivable - Noncurrent:</b>			
Federal Loan Programs	\$ 869,504.41	\$ 439,935.87	\$ 429,568.54
Institutional Student Loan Programs	44,401.19	16,500.00	27,901.19
<b>Total Notes Receivable - Noncurrent</b>	<b>\$ 913,905.60</b>	<b>\$ 456,435.87</b>	<b>\$ 457,469.73</b>

## 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	\$ 1,654,818.66	\$ 0.00	\$ 0.00	\$ 0.00	\$ 1,654,818.66
Construction in Progress	9,464,790.18	(1,605,059.84)	25,909,017.39		33,768,747.73
<b>Total Capital Assets, Nondepreciable</b>	<b>11,119,608.84</b>	<b>(1,605,059.84)</b>	<b>25,909,017.39</b>		<b>35,423,566.39</b>
Capital Assets, Depreciable:					
Buildings	60,558,482.56	1,458,676.43		85,395.26	61,931,763.73
Machinery and Equipment	7,111,629.52		582,673.49	92,823.20	7,601,479.81
General Infrastructure	3,274,772.50	146,383.41		51,782.10	3,369,373.81
<b>Total Capital Assets, Depreciable</b>	<b>70,944,884.58</b>	<b>1,605,059.84</b>	<b>582,673.49</b>	<b>230,000.56</b>	<b>72,902,617.35</b>
Less Accumulated Depreciation/Amortization for:					
Buildings	17,124,850.33		1,190,188.52	35,249.04	18,279,789.81
Machinery and Equipment	4,654,468.64		476,389.46	67,413.99	5,063,444.11
General Infrastructure	368,061.07		54,523.96	21,748.44	400,836.59
<b>Total Accumulated Depreciation</b>	<b>22,147,380.04</b>		<b>1,721,101.94</b>	<b>124,411.47</b>	<b>23,744,070.51</b>
<b>Total Capital Assets, Depreciable, Net</b>	<b>48,797,504.54</b>	<b>1,605,059.84</b>	<b>(1,138,428.45)</b>	<b>105,589.09</b>	<b>49,158,546.84</b>
<b>Capital Assets, Net</b>	<b>\$ 59,917,113.38</b>	<b>\$ 0.00</b>	<b>\$ 24,770,588.94</b>	<b>\$ 105,589.09</b>	<b>\$ 84,582,113.23</b>

### NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	Amount
Accounts Payable	\$ 2,472,773.36
Accrued Payroll	358,686.75
Contract Retainage	707,251.57
Intergovernmental Payables	27,696.76
Other	98,716.91
<b>Total Accounts Payable and Accrued Liabilities</b>	<b>\$ 3,665,125.35</b>

## 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	\$ 6,815,000.00	\$ 14,155,000.00	\$ 285,000.00	\$ 20,685,000.00	\$ 555,000.00
Add/Deduct Premium/Discount	183,984.05	(155,200.51)	7,666.00	21,117.54	
Deduct Deferred Charge on Refunding	(89,985.68)	3,749.40		(86,236.28)	
<b>Total Bonds Payable</b>	<b>6,908,998.37</b>	<b>14,003,548.89</b>	<b>292,666.00</b>	<b>20,619,881.26</b>	<b>555,000.00</b>
Compensated Absences	1,508,363.59	1,424,517.75	1,091,436.54	1,841,444.80	117,617.19
<b>Total Long-Term Liabilities</b>	<b>\$ 8,417,361.96</b>	<b>\$ 15,428,066.64</b>	<b>\$ 1,384,102.54</b>	<b>\$ 22,461,326.06</b>	<b>\$ 672,617.19</b>

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

Purpose	Series	Interest Rate/ Ranges	Final Maturity Date	Original Amount of Issue	Principal Paid Through 6/30/2004	Principal Outstanding 6/30/2004
<b>Dormitory System Revenue Bonds of 1981</b>						
Wamack Hall and Mitchell-Lewis Hall	A	3.00%	10/1/2017	\$ 675,000.00	\$ 365,000.00	\$ 310,000.00
Wamack Hall and Mitchell-Lewis Hall	B	3.00%	10/1/2020	1,680,000.00	710,000.00	970,000.00
<b>Total Dormitory System Revenue Bonds of 1981</b>				<b>2,355,000.00</b>	<b>1,075,000.00</b>	<b>1,280,000.00</b>
<b>Educational Facilities Revenue Bonds</b>						
Elizabeth City State University Housing Foundation	A	2.00%-5.25%	6/1/2033	13,895,000.00		13,895,000.00
Elizabeth City State University Housing Foundation (Taxable)	B	2.00%-5.25%	6/1/2033	260,000.00		260,000.00
<b>Total Educational Facilities Revenue Bonds</b>				<b>14,155,000.00</b>		<b>14,155,000.00</b>
<b>The University of North Carolina System Pool Revenue Bonds</b>						
Refinance of Dormitory-200 Bed (1992 - Series C Bonds)	B	3.5%-5.375%	4/1/2027	3,410,000.00	166,794.00	3,243,206.00
Bedell Cafeteria Renovation	B	3.5%-5.375%	4/1/2027	1,225,000.00	59,918.00	1,165,082.00
Dormitory Furniture	B	3.5%-5.375%	4/1/2027	885,000.00	43,288.00	841,712.00
<b>Total The University of North Carolina System Pool Revenue Bonds</b>				<b>5,520,000.00</b>	<b>270,000.00</b>	<b>5,250,000.00</b>
<b>Total Bonds Payable (principal only)</b>				<b>\$ 22,030,000.00</b>	<b>\$ 1,345,000.00</b>	<b>20,685,000.00</b>
Less: Unamortized Loss on Refunding						(86,236.28)
Less: Unamortized Discount						(155,200.51)
Plus: Unamortized Premium						176,318.05
<b>Total Bonds Payable</b>						<b>\$ 20,619,881.26</b>

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

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**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	\$ 555,000.00	\$ 822,596.89
2006	560,000.00	808,896.89
2007	585,000.00	797,559.39
2008	610,000.00	784,384.39
2009	630,000.00	769,309.38
2010-2014	3,575,000.00	3,547,194.40
2015-2019	4,320,000.00	2,860,156.26
2020-2024	3,045,000.00	2,098,757.50
2025-2029	3,530,000.00	1,340,750.00
2029-2034	3,275,000.00	419,250.00
Total Requirements	<u>\$ 20,685,000.00</u>	<u>\$ 14,248,855.10</u>

**NOTE 8 - OPERATING LEASE OBLIGATIONS**

The University entered into operating leases for equipment. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2004:

<u>Fiscal Year</u>	<u>Amount</u>
2005	\$ 146,198.15
2006	146,198.15
2007	1,712.00
2008	1,712.00
Total Minimum Lease Payments	<u>\$ 295,820.30</u>

Rental expense for all operating leases during the year was \$204,597.95.



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 9 - REVENUES

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

	Gross Revenues	Internal Sales Eliminations	Less Scholarship Discounts	Less Allowance for Uncollectibles	Net Revenues	
<b>Operating Revenues:</b>						
<b>Student Tuition and Fees</b>	\$ 7,949,608.86	\$ 0.00	\$ 3,318,280.00	\$ 85,985.41	\$ 4,545,343.45	
<b>Sales and Services:</b>						
Sales and Services of Auxiliary Enterprises:						
Residential Life	\$ 3,100,952.23	\$ 0.00	\$ 1,495,113.27	\$ 34,963.05	\$ 1,570,875.91	(A)
Dining	1,744,702.29		842,443.68	18,979.38	883,279.23	
Bookstore	722,714.09		288,242.20	7,244.16	427,227.73	
Athletic	107,833.00			2,276.10	105,556.90	
Other	319,226.62	149,599.33			169,627.29	
<b>Total Sales and Services</b>	\$ 5,995,428.23	\$ 149,599.33	\$ 2,625,799.15	\$ 63,462.69	\$ 3,156,567.06	

Revenue Bonds Secured by Pledged Revenues:  
(A) Housing and Student Center System

### 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	\$ 9,999,375.61	\$ 563,619.59	\$ 521,406.39	\$ 0.00	\$ 0.00	\$ 0.00	\$ 11,084,401.59
Research	455,912.59	79,785.25	328,019.18				863,717.02
Public Service	1,028,315.20	42,854.31	450,981.61				1,522,151.12
Academic Support	2,948,323.40	913,651.62	938,827.69				4,800,802.71
Student Services	2,377,858.91	435,396.70	813,759.20				3,627,014.81
Institutional Support	5,332,521.82	758,280.31	1,256,199.71				7,347,001.84
Operations and Maintenance of Plant	3,036,510.94	496,790.77	782,279.85		1,098,846.03		5,414,427.59
Student Financial Aid				2,411,241.87			2,411,241.87
Auxiliary Enterprises	2,179,361.94	922,807.15	3,274,230.32		609,979.77		6,986,379.18
Depreciation						1,721,101.94	1,721,101.94
<b>Total Operating Expenses</b>	\$ 27,358,180.41	\$ 4,213,185.70	\$ 8,365,703.95	\$ 2,411,241.87	\$ 1,708,825.80	\$ 1,721,101.94	\$ 45,778,239.67

### 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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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 \$22,264,617.19, of which \$17,400,137.88 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were \$1,044,008.27 and \$38,280.30, respectively. The University made one hundred percent of its annual required contributions for the years ended June 30, 2004, 2003, and 2002, which were \$38,280.30, \$0.00, and \$230,372.19, 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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 \$22,264,617.19, of which \$3,335,473.37 was covered under the Optional Retirement Program. Total employee and employer contributions for pension benefits for the year were \$200,128.40 and \$228,146.38, 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 \$43,045.00 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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participants. No costs are incurred by the University except for a 5% employer contribution for the University's law enforcement officers, which is mandated under General Statute 143-166.30(e). Total employer contributions on behalf of University law enforcement officers for the year ended June 30, 2004, were \$19,590.78. The voluntary contributions by employees amounted to \$181,878.01 for the year ended June 30, 2004.

IRC Section 403(b) and 403(b)(7) Plans - Eligible University employees can participate in tax sheltered annuity plans created under Internal Revenue Code Sections 403(b) and 403(b)(7). The employee's eligible contributions, made through salary reduction agreements, are exempt from federal and State income taxes until the annuity is received or the contributions are withdrawn. These plans are exclusively for employees of universities and certain charitable and other nonprofit institutions. All costs of administering and funding these plans are the responsibility of the Plan participants. No costs are incurred by the University. The voluntary contributions by employees amounted to \$192,513.93 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 \$663,539.56. 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-

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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term disability benefits to eligible members of the Teachers' and State Employees' Retirement System and the Optional Retirement Program. Long-term disability income benefits are advance funded on an actuarially determined basis using the one-year term cost method. Employer contributions are established in the Appropriations Bill by the General Assembly. The University was not required to contribute to the DIPNC for the fiscal year ended June 30, 2004. The University assumes no liability for long-term disability benefits under the Plan other than its contribution. Additional detailed information about the DIPNC is disclosed in the State of North Carolina's *Comprehensive Annual Financial Report*.

### NOTE 13 - RISK MANAGEMENT

The University is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These exposures to loss are handled via a combination of methods, including participation in State-administered insurance programs, purchase of commercial insurance, and self-retention of certain risks. Except for a reduction in the public officers' and employees' liability insurance from \$11,000,000 to \$5,000,000, there have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

Tort claims of up to \$500,000 are self-insured under the authority of the State Tort Claims Act. In addition, the State provides excess public officers' and employees' liability insurance up to \$5,000,000 via contract with a private insurance company. The University pays the premium, based on a composite rate, directly to the private insurer.

The University is required to maintain fire and lightning coverage on all State-owned buildings and contents through the State Property Fire Insurance Fund (Fund), an internal service fund of the State. Such coverage is provided at no cost to operations supported by the State's General Fund. Other operations not supported by the State's General Fund are charged for the coverage. Losses covered by the Fund are subject to a \$500 per occurrence deductible. The University also purchased through the Fund extended coverage for buildings and contents to cover windstorm, explosions or damage caused by vehicle or aircraft impacts. The extended coverage applies to all campus buildings and contents with coverage amounts varying based on the value of each building and its contents.

All State-owned vehicles are covered by liability insurance through a private insurance company and handled by the North Carolina Department of

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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Insurance. The liability limits for losses occurring in-State are \$500,000 per claim and \$5,000,000 per occurrence and out-of-State are \$1,000,000 per claim and \$5,000,000 per occurrence. The University pays premiums to the North Carolina Department of Insurance for the coverage.

The University is protected for losses from employee dishonesty and computer fraud. This coverage is with a private insurance company and is handled by the North Carolina Department of Insurance. Universities are charged a premium by the private insurance company. Coverage limit is \$5,000,000 per occurrence with a \$50,000 deductible and a 10% participation in each loss above the deductible.

University employees and retirees are provided comprehensive major medical care benefits. Coverage is funded by contributions to the State Health Plan (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 \$5,600,482.26 at June 30, 2004.
- B. **Pending Litigation and Claims** – The University is a party to litigation and claims in the ordinary course of its operations. Since it is not possible to predict the ultimate outcome of these matters, no provision for any liability has been made in the financial statements. University

## NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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management is of the opinion that the liability, if any, for any of these matters will not have a material adverse effect on the financial position of the University.

- C. University Improvement General Obligation Bonds** – The 1999-2000 Session of the General Assembly of North Carolina authorized the issuance of \$2.5 billion of general obligation bonds of the State, as subsequently approved by a vote of qualified voters of the State, to provide funds for capital improvements for the University of North Carolina. The funds authorized are to be used solely for capital facilities cost on the University of North Carolina campuses as specified in the legislation. The bond legislation specifies the amount of bond funding for each University campus and the level of bond funding intended for each project. The bonds are authorized to be issued over a six-year period beginning in 2001 at a level not to exceed amounts provided in the legislation. Using a cash flow financing approach, The University of North Carolina – General Administration (UNC-GA), establishes annual amounts not to exceed for each approved project. The amounts not to exceed are subject to change due to actual cash availability and needs during the year. Subsequent to the bond sales and the availability of bond proceeds, UNC-GA notifies the Office of State Budget and Management (OSBM) of the amounts not to exceed for each approved project. Within these amounts, based on an official request of cash needs from the University, OSBM authorizes allotments. The University records the allotments as revenue on the accompanying financial statements. The University's remaining authorization of \$24,008,513.13 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.

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

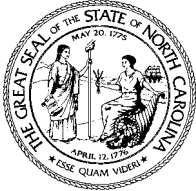
**Schedule 1**

<b>Capital Improvement Projects</b>	<b>Original Projected Start Date</b>	<b>Revised/ Actual Start Date</b>	<b>General Obligation Bonds Authorized</b>	<b>Other Sources</b>	<b>Total Project Budget</b>	<b>Amount Expended</b>	<b>Percent Completed</b>	<b>Original Expected Completion Date</b>	<b>Revised/ Actual Completion Date</b>
<b>Projects Started</b>									
Student Center	Mar 2001	Mar 2001	8,268,300.00	\$ 0.00	\$ 8,268,300.00	\$ 3,658,276.20	44.24%	Aug 2004	Nov 2004
Williams Hall Renovation	Mar 2001	Mar 2001	2,502,700.00	447,675.00	2,950,375.00	2,829,195.00	95.89%	Dec 2003	Feb 2004
Physical Education Facility	Mar 2001	Mar 2001	1,447,500.00		1,447,500.00	1,447,500.00	100.00%	May 2003	Jun 2003
Trigg Hall Renovation	Jan 2003	Jan 2003	2,019,000.00	12,337.50	2,031,337.50	170,355.93	8.39%	Jul 2006	Jul 2006
Lane Hall Renovation	Jan 2004	Jan 2004	2,275,600.00	56,086.00	2,331,686.00	49,374.00	2.12%	Aug 2005	Aug 2005
Johnson Hall Renovation	Sep 2002	Sep 2002	2,876,300.00	20,000.00	2,896,300.00	223,646.51	7.72%	Aug 2004	Aug 2005
K.E. White Graduate Renovation	Mar 2001	Mar 2001	1,514,000.00	152,051.00	1,666,051.00	635,844.38	38.16%	Sep 2004	Nov 2004
200 Bed Dormitory	Mar 2001	Mar 2001	5,247,500.00		5,247,500.00	4,393,859.74	83.73%	Aug 2004	Sep 2004
Technology Infrastructure	Jan 2001	Jan 2001	3,149,400.00	7,402.92	3,156,802.92	1,692,028.57	53.60%	Jun 2005	Jan 2005
Chiller Plant	Mar 2001	Mar 2001	5,401,500.00		5,401,500.00	5,069,273.00	93.85%	Aug 2004	Sep 2004
Campus Infrastructure	Mar 2001	Mar 2001	1,939,300.00	489,986.30	2,429,286.30	411,421.87	16.94%	Jun 2006	Jun 2006
Lester Hall Renovation	Sep 2004		165,000.00	54,758.03	219,758.03			Dec 2004	Mar 2005
Electrical Distribution Upgrade	Jan 2005		825,000.00		825,000.00	560.50	0.07%	Mar 2005	Aug 2005
Land Acquisition	Sep 2004		650,000.00		650,000.00	1,276.63	0.20%	May 2005	Jun 2006
<b>Projects Not Started - To Be Funded in Future Years</b>									
Wilkins Lab Renovation	Nov 2004		413,800.00		413,800.00			Jun 2006	Jun 2006
Energy Management System	Sep 2004		886,400.00	66,493.00	952,893.00			Apr 2005	Apr 2005
Mitchell Lewis Renovation	Sep 2004		1,958,700.00		1,958,700.00			Aug 2005	Aug 2005
Womack Renovation	Sep 2004		3,114,300.00		3,114,300.00			Aug 2006	Aug 2005
Doles Hall Renovation	Cancelled		1,642,500.00		1,642,500.00				
<b>Total All Projects</b>			<b>\$ 46,296,800.00</b>	<b>\$ 1,306,789.75</b>	<b>\$ 47,603,589.75</b>	<b>\$ 20,582,612.33</b>			

Note: The 1999-2000 Session of the General Assembly of North Carolina authorized the issuance of \$2.5 billion 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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Leslie W. Merritt, Jr., CPA, CFP  
State Auditor

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**Office of the State Auditor**

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

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Board of Trustees  
Elizabeth City State University  
Elizabeth City, North Carolina

We have audited the financial statements of Elizabeth City State University, a constituent institution of the sixteen-campus University of North Carolina System, which is a component unit of the State of North Carolina, as of and for the year ended June 30, 2004, and have issued our report thereon dated April 21, 2005. We did not audit the financial statements of Elizabeth City University Foundation, Inc. and Subsidiary, which represent 17 percent of the assets, four percent of the net assets, and one percent of the revenues of the University. 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 Elizabeth City University Foundation, Inc. and Subsidiary, 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. The financial statements of Elizabeth City University Foundation, Inc. and Subsidiary were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not extend to the Foundation.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the University's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting 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

**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)**

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within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

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

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

*Leslie W. Merritt, Jr.*

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

April 21, 2005

## DISTRIBUTION OF AUDIT REPORT

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

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Vice Chancellor for Business and Finance,  
Elizabeth City State University  
Chairman, Board of Trustees  
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Mr. James D. Johnson

Director, Fiscal Research Division

June 1, 2005

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