

STATE OF NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT OF NORTH CAROLINA AGRICULTURAL AND TECHNICAL STATE UNIVERSITY

GREENSBORO, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2004

OFFICE OF THE STATE AUDITOR

LESLIE W. MERRITT, JR., CPA, CFP

STATE AUDITOR

**FINANCIAL STATEMENT AUDIT REPORT OF
NORTH CAROLINA AGRICULTURAL AND TECHNICAL STATE
UNIVERSITY**

GREENSBORO, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2004

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THE UNIVERSITY OF NORTH CAROLINA

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

STATE OF NORTH CAROLINA
Office of the State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601
Telephone: (919) 807-7500
Fax: (919) 807-7647
Internet
<http://www.ncauditor.net>

AUDITOR'S TRANSMITTAL

The Honorable Michael F. Easley, Governor
The General Assembly of North Carolina
Board of Trustees, North Carolina Agricultural and Technical State University

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

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

- 1. Objective** – To express an opinion on the accompanying financial statements that relate solely to North Carolina Agricultural and Technical State University.

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

AUDITOR'S TRANSMITTAL (CONCLUDED)

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

Results - Our tests disclosed no 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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Leslie W. Merritt, Jr., CPA, CFP
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STATE OF NORTH CAROLINA
Office of the State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601
Telephone: (919) 807-7500
Fax: (919) 807-7647
Internet
<http://www.ncauditor.net>

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
North Carolina Agricultural and Technical State University
Greensboro, North Carolina

We have audited the accompanying financial statements of North Carolina Agricultural and Technical State University, a constituent institution of the sixteen-campus University of North Carolina System, which is a component unit of the State of North Carolina, and its discretely presented component units, as of and for the year ended June 30, 2004, which collectively comprise the North Carolina Agricultural and Technical 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 The North Carolina A&T University Foundation, Inc., 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 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 The North Carolina A&T University Foundation, Inc., 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 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 North Carolina Agricultural and Technical 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 16 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 22, 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 North Carolina Agricultural and Technical State University's basic financial statements. Schedules 1 and 2 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures 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 22, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis provides an overview of the financial position and operating activities of North Carolina Agricultural and Technical State University for the year ended June 30, 2004, and includes comparative data for the year ended June 30, 2003. This discussion and analysis describes important trends and events that have impacted the fiscal health of the University and that may continue to exert influence in future years.

The Financial Statements

The financial statements for North Carolina Agricultural and Technical State University include the Statement of Net Assets, the Statement of Revenues, Expenses, and Changes in Net Assets, and the Statement of Cash Flows. These statements were prepared in accordance with Governmental Accounting Standards Board (GASB) principles and use the economic resource measurement focus and the accrual basis of accounting.

The Statement of Net Assets

The Statement of Net Assets presents the financial position of the University at June 30, 2004, defined by the balances of assets, liabilities and assets net of liabilities. Assets are classified as current or noncurrent and cash is further identified as unrestricted or restricted. Current assets include those resources available to meet current obligations and operating requirements while noncurrent assets are to be held to meet future needs. Capital assets are shown net of depreciation. Assets, net of liabilities, are grouped into three categories: investment in capital assets net of related debt, restricted net assets, and unrestricted net assets. Restricted net assets are further classified as unexpendable or expendable. Endowments and loan funds comprise the unexpendable net assets and expendable net assets are made up primarily of contracts, grants, and restricted gifts.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Condensed Statement of Net Assets

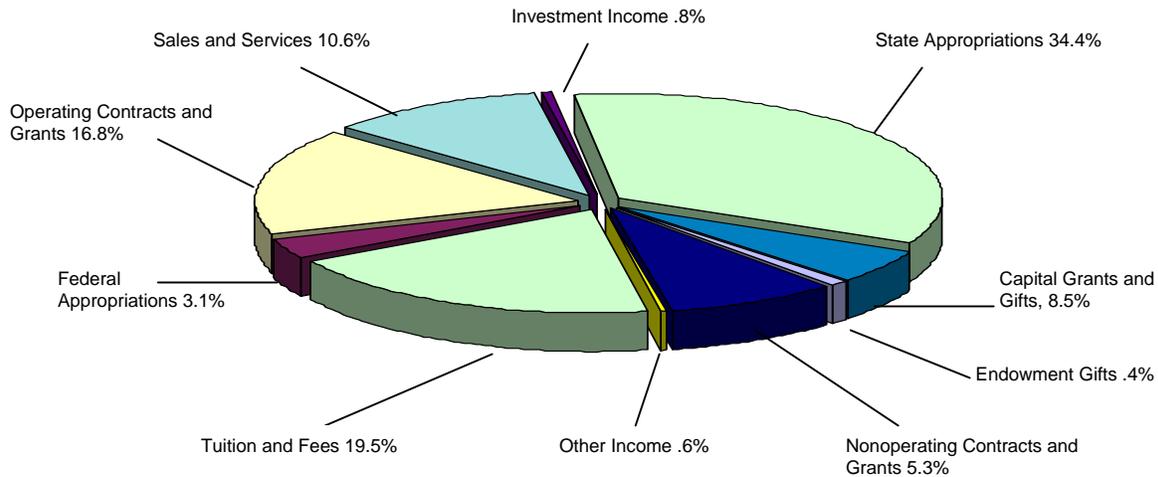
	<u>2004</u>	<u>2003</u>	<u>Change</u>
Assets			
Current Assets	\$ 39,732,356	\$ 36,057,526	\$ 3,674,830
Noncurrent Capital Assets, Net of Accumulated Depreciation	199,212,947	172,319,529	26,893,418
Other Noncurrent Assets	<u>15,316,981</u>	<u>21,960,826</u>	<u>(6,643,845)</u>
Total Assets	<u>254,262,284</u>	<u>230,337,881</u>	<u>23,924,403</u>
Liabilities			
Current Liabilities	15,465,630	10,803,047	4,662,583
Noncurrent Liabilities	<u>22,024,103</u>	<u>21,839,225</u>	<u>184,878</u>
Total Liabilities	<u>37,489,733</u>	<u>32,642,272</u>	<u>4,847,461</u>
Net Assets			
Invested in Capital Assets, Net of Related Debt	184,033,714	156,311,857	27,721,857
Restricted - Nonexpendable	7,282,221	6,482,398	799,823
Restricted - Expendable	7,831,243	18,707,278	(10,876,035)
Unrestricted	<u>17,625,373</u>	<u>16,194,076</u>	<u>1,431,297</u>
Total Net Assets	<u>\$ 216,772,551</u>	<u>\$ 197,695,609</u>	<u>\$ 19,076,942</u>

University assets increased by \$23.9 million from 2003 to 2004. The net change is comprised primarily of increases in net capital assets, an increase in current unrestricted cash, and a decrease in the receivable from the State for construction grants. The University posted a significant increase in construction in progress due to construction of residence halls, a science classroom building, and a hazardous waste storage facility as well as renovation of existing residence halls and academic buildings. Cash balances in unrestricted funds increased by over \$3 million, due in part to the improvement in the State economy during the year. The University expended the bulk of the 2003-2004 State construction grant allocation, resulting in a decrease from the prior year in the noncurrent receivable from the State.

The University recorded an increase in current liabilities of approximately \$4.6 million during the 2004 fiscal year. The change was due in large part to the growth in accounts payable resulting from the large construction projects.

Net assets of the University increased by \$19.1 million. Investment in capital assets, net of related debt, posted a growth of over \$27 million, driven by significant increases in construction in progress. That increase was offset by a decrease in restricted expendable net assets. The growth in investment in capital assets from construction activity also caused a related decrease in resources held to fund capital improvement projects. Resources on hand at July 1, 2003, were expended to fund construction with a corresponding increase in liabilities for those projects, resulting in a \$10.8 million decrease in restricted expendable net assets.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)



Revenues - All Sources

Statement of Revenues, Expenses, and Changes in Net Assets

The Statement of Revenues, Expenses, and Changes in Net Assets reports the activity of the University during the year and is subdivided into four major components: operating revenues, operating expenses, nonoperating revenues and expenses, and other revenues, expenses, gains or losses. Revenues are reported by major source and expenses are reported by natural classification. Intradepartmental sales, services, and transfers are eliminated and depreciation of capital assets is recorded.

During fiscal year 2004, operating revenues contributed 55.5% of total revenues, while nonoperating revenues made up 44.5%. Major operating revenue gains occurred in tuition and fees, grants and contracts, and sales and services. The \$9.3 million increase in tuition and fees and sales and services reflects both growth in student enrollment and increases in amounts charged for fees and services. The growth in grants and contracts was due primarily to increases in financial aid, research, and public service grants and contracts of approximately \$3.5 million. The University received an increase in State appropriations of approximately \$4.5 million as a result of the rise in student enrollment. Although the University incurred greater expenditures on State bond funded capital improvement projects during 2003-2004, a portion of the capital grants to cover those expenditures had been taken into income in the prior year, resulting in a decrease in capital grant revenue for the current year of about \$3.1 million.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

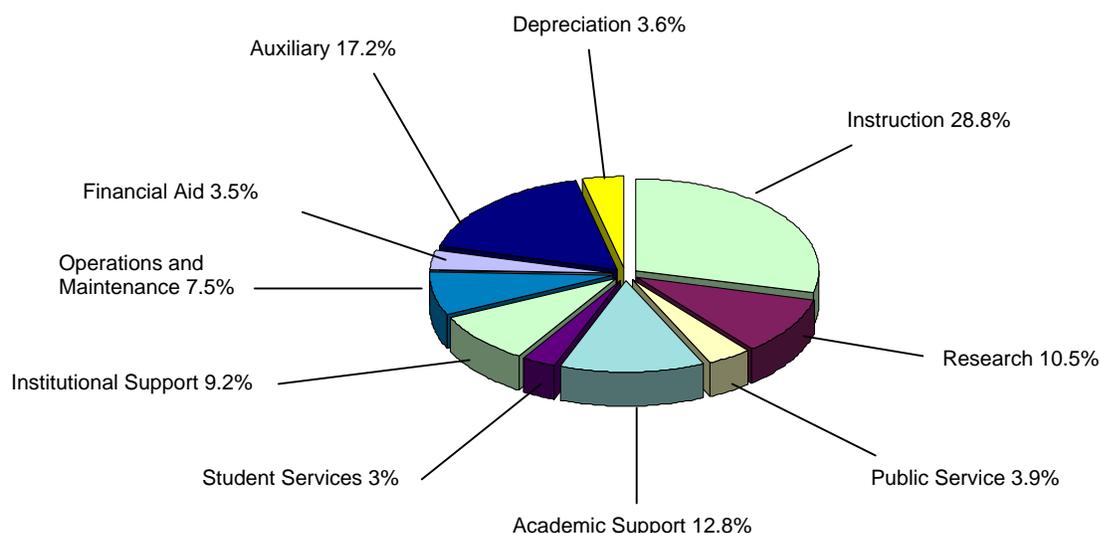
Condensed Statement of Revenues, Expenses, and Changes in Net Assets

	2004	2003	Change
Operating Revenues			
Tuition and Fees	\$ 37,404,995	\$ 31,012,145	\$ 6,392,850
Grants and Contracts	32,319,665	30,240,272	2,079,393
Federal Appropriations	5,858,783	5,423,716	435,067
Sales and Services	20,417,774	17,418,142	2,999,632
Other Operating Revenues	1,193,551	955,212	238,339
Total Operating Revenues	<u>97,194,768</u>	<u>85,049,487</u>	<u>12,145,281</u>
Operating Expenses	<u>172,172,112</u>	<u>158,793,175</u>	<u>13,378,937</u>
Operating Loss	<u>(74,977,344)</u>	<u>(73,743,688)</u>	<u>(1,233,656)</u>
Nonoperating Revenues (Expenses)			
State Appropriations	66,237,795	61,765,966	4,471,829
Noncapital Grants and Gifts	9,399,942	8,026,849	1,373,093
Other Nonoperating Revenues	467,306	(307,218)	774,524
Net Nonoperating Revenues	<u>76,105,043</u>	<u>69,485,597</u>	<u>6,619,446</u>
Income (Loss) Before Other Revenues	<u>1,127,699</u>	<u>(4,258,091)</u>	<u>5,385,790</u>
Capital Grants/Appropriations	17,072,934	20,131,444	(3,058,510)
Capital Gifts	93,707		93,707
Additions to Permanent Endowments	782,602	639,192	143,410
Total Other Revenues	<u>17,949,243</u>	<u>20,770,636</u>	<u>(2,821,393)</u>
Total Increase in Net Assets	19,076,942	16,512,545	2,564,397
Net Assets			
Beginning of the Year	<u>197,695,609</u>	<u>181,183,064</u>	<u>16,512,545</u>
End of the Year	<u>\$ 216,772,551</u>	<u>\$ 197,695,609</u>	<u>\$ 19,076,942</u>

The rise in operating costs is attributed primarily to increases in payroll charges, expenditures for services, and financial aid costs. University personnel received a small one-time bonus during the 2004 fiscal year and increased costs for temporary personnel and consulting services were also higher during the year, in part due to the implementation of a new administrative software system. There was also an increase in financial aid expenses, corresponding with the growth in financial aid grants. The University presents expenses by natural classification in the Statement of Revenues, Expenses, and Changes in Net Assets. Personnel services accounted for 58% of operating expenses, followed by services at 20%, supplies and materials at 10.1%, scholarships at 6%, depreciation at 3.6%, and utility costs at 2.3%.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)



Operating Expenses by Function

The Statement of Cash Flows

The Statement of Cash Flows identifies the sources and uses of the University's cash assets during the fiscal year. The statement shows the nature and source of cash used by the University to meet its current obligations. The Statement of Cash Flows is prepared using the direct method.

Condensed Statement of Cash Flows

	<u>2004</u>	<u>2003</u>	<u>Change</u>
Cash Provided (Used) by:			
Operating Activities	\$ (67,942,386)	\$ (66,275,261)	\$ (1,667,125)
Noncapital Financing Activities	76,527,423	70,119,856	6,407,567
Capital and Related Financing Activities	(7,647,660)	(7,231,986)	(415,674)
Investing Activities	875,391	2,141,557	(1,266,166)
Net Change in Cash	1,812,768	(1,245,834)	3,058,602
Cash and Cash Equivalents - July 1	<u>29,247,734</u>	<u>30,493,568</u>	<u>(1,245,834)</u>
Cash and Cash Equivalents - June 30	<u>\$ 31,060,502</u>	<u>\$ 29,247,734</u>	<u>\$ 1,812,768</u>

Operating activities of the University were funded through operating revenues from tuition and fees, sales and services of education and auxiliary enterprises, contract and grant awards, and miscellaneous income. These resources provided over 50% of the operating cash needs and were supplemented with State appropriations, noncapital contract and grant awards, gifts, and other miscellaneous receipts. State appropriations increased 7% for fiscal year 2004 and provided 87% of the noncapital financing resources. Capital financing activities include

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

acquisition and construction of capital assets \$29,734,807, which were funded primarily by State capital grants received in 2003-2004, totaling \$22,478,038. The remainder of the investment in capital assets was financed through minor sources of revenue and cash reserves on hand at July 1, 2003, that consisted primarily of bond proceeds, federal grant funds, and State appropriations.

Construction

In November 2000, voters approved a \$2.5 billion bond package for the improvement and expansion of facilities on the 16 campuses of the University of North Carolina system. As a result, North Carolina Agricultural and Technical State University will receive a total of



Construction site of the new science classroom and laboratory building

\$161,800,091 to build new facilities and renovate existing buildings. All 22 of the bond projects were under design or in the construction phase at June 30, 2004. The University expended \$22,743,391 in bond proceeds during 2003-2004. Two of the four residence hall structures designed to replace Scott Hall, the largest housing facility on campus, were near completion at the end of the fiscal year and the University had started construction on a new science classroom and lab facility. In addition, construction on a new hazardous waste storage facility and renovation of the Crosby Hall and Robeson Theatre complex were well underway by June of 2004.

Also, the University had nearly completed renovation of Morrison Hall, a residence hall built in 1926. The bonds will also finance improvements to steam lines, enhancement of the technology infrastructure, renovation of six academic buildings, and renovation of three residence halls. In addition, the University has used bond proceeds to purchase a significant portion of the land needed to implement the campus master plan. Other minor sources of funding for construction projects included auxiliary funds and federal grants. The University expended the following amounts during 2003-2004 on capital projects, land acquisition, and maintenance and repairs:

	<u>2003-2004</u>
Construction and Renovation of Buildings and Infrastructure	\$ 30,150,116
Land Acquisition	281,914
Maintenance and Repairs	<u>853,934</u>
Total	<u>\$ 31,285,964</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

Forecast

North Carolina Agricultural and Technical State University continues to enhance its academic offerings and commitment to research. In 2004, the University qualified for the doctoral/research intensive category, established by the Carnegie Foundation for the Advancement of Teaching, a milestone that will support the school's goal to become a research institution with an emphasis on graduate education. Two new doctorates in energy and environmental sciences and leadership studies will be offered during 2005. These developments along with continued growth in both undergraduate and graduate enrollment will competitively position the University over the next several years.

North Carolina Agricultural and Technical State University enjoys a strong financial position that will be further strengthened by the \$100 million capital campaign currently underway. However, budgetary pressures from the State will persist as a factor for the University to consider as it meets the needs of students, faculty, staff, and the community. Although the economy continues to improve, limited State appropriations will require careful management of resources, while University personnel work to identify other funding opportunities.

North Carolina Agricultural and Technical State University
Statement of Net Assets
June 30, 2004

Exhibit A-1

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 24,450,210
Restricted Cash and Cash Equivalents	4,290,526
Receivables, Net (Note 4)	9,088,317
Due from State of North Carolina Component Units	650,000
Due from University Component Units	125,044
Inventories	790,383
Notes Receivable	337,876

Total Current Assets 39,732,356

Noncurrent Assets:

Restricted Cash and Cash Equivalents	2,319,766
Receivables	478,629
Restricted Due from Primary Government	3,528,424
Endowment Investments	7,068,356
Other Long-Term Investments	807,301
Notes Receivable, Net (Note 4)	1,114,505
Capital Assets - Nondepreciable (Note5)	54,856,354
Capital Assets - Depreciable, Net (Note 5)	144,356,593

Total Noncurrent Assets 214,529,928

Total Assets 254,262,284

LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 6)	10,442,492
Due to Primary Government	45,021
Deferred Revenue	3,531,851
Interest Payable	197,751
Long-Term Liabilities - Current Portion (Note 7)	1,248,515

Total Current Liabilities 15,465,630

Noncurrent Liabilities:

Deposits Payable	445,747
Funds Held for Others	35,317
U. S. Government Grants Refundable	1,304,568
Long-Term Liabilities (Note 7)	20,238,471

Total Noncurrent Liabilities 22,024,103

Total Liabilities 37,489,733

North Carolina Agricultural and Technical State University

Statement of Net Assets

Exhibit A-1

June 30, 2004

Page 2

NET ASSETS

Invested in Capital Assets, Net of Related Debt	184,033,714
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	3,798,996
Endowed Professorships	3,131,992
Loans	278,154
Other	73,079
Expendable:	
Scholarships and Fellowships	2,396,202
Research	626,890
Endowed Professorships	909,505
Departmental Uses	3,088,380
Capital Projects	521,916
Debt Service	288,350
Unrestricted	17,625,373
Total Net Assets	\$ 216,772,551

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

North Carolina Agricultural and Technical State University
Statement of Revenues, Expenses, and
Changes in Net Assets
For the Fiscal Year Ended June 30, 2004

Exhibit A-2

REVENUES

Operating Revenues:

Student Tuition and Fees, Net (Note 9)	\$	37,404,995
Federal Appropriations		5,858,783
Federal Grants and Contracts		30,985,311
State and Local Grants and Contracts		582,955
Nongovernmental Grants and Contracts		751,399
Sales and Services, Net (Note 9)		20,417,774
Interest Earnings on Loans		4,905
Other Operating Revenues		1,188,646

Total Operating Revenues 97,194,768

EXPENSES

Operating Expenses:

Salaries and Benefits		99,804,070
Supplies and Materials		17,409,140
Services		34,373,180
Scholarships and Fellowships		10,512,725
Utilities		3,946,599
Depreciation		6,126,398

Total Operating Expenses 172,172,112

Operating Loss (74,977,344)

NONOPERATING REVENUES (EXPENSES)

State Appropriations		66,237,795
Noncapital Grants		9,399,942
Investment Income (Net of Investment Expense of \$ 40,256)		1,524,818
Interest and Fees on Capital Asset-Related Debt		(830,810)
Other Nonoperating Expenses		(226,702)

Net Nonoperating Revenues 76,105,043

Income Before Other Revenues 1,127,699

Capital Appropriations		247,900
Capital Grants		16,825,034
Capital Gifts		93,707
Additions to Endowments		782,602

Increase in Net Assets 19,076,942

NET ASSETS

Net Assets - July 1, 2003 197,695,609

Net Assets - June 30, 2004 \$ 216,772,551

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

North Carolina Agricultural and Technical State University
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2004

Exhibit A-3

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 95,761,026
Payments to Employees and Fringe Benefits	(98,595,963)
Payments to Vendors and Suppliers	(55,643,845)
Payments for Scholarships and Fellowships	(10,512,725)
Loans Issued	(376,888)
Collection of Loans	231,347
Interest Earned on Loans	4,341
Other Receipts	1,190,321
	<hr/>
Net Cash Used by Operating Activities	(67,942,386)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Appropriations	66,237,795
Noncapital Grants	9,371,131
Additions to Endowments	782,602
Related Activity Agency Receipts	135,895
	<hr/>
Net Cash Provided by Noncapital Financing Activities	76,527,423

CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES

State Capital Appropriations	247,900
Capital Grants	23,478,038
Proceeds from Sale of Capital Assets	30,434
Acquisition and Construction of Capital Assets	(29,734,807)
Principal Paid on Capital Debt and Leases	(828,439)
Interest and Fees Paid on Capital Debt and Leases	(840,786)
	<hr/>
Net Cash Used by Capital Financing and Related Financing Activities	(7,647,660)

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from Sales and Maturities of Investments	2,325,093
Investment Income	1,271,360
Purchase of Investments and Related Fees	(2,721,062)
	<hr/>
Net Cash Provided by Investing Activities	875,391

Net Increase in Cash and Cash Equivalents	1,812,768
Cash and Cash Equivalents - July 1, 2003	29,247,734
	<hr/>
Cash and Cash Equivalents - June 30, 2004	\$ 31,060,502

North Carolina Agricultural & Technical State University
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2004

Exhibit A-3

Page 2

**RECONCILIATION OF NET OPERATING LOSS
TO NET CASH USED BY OPERATING ACTIVITIES**

Operating Loss	\$ (74,977,344)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	6,126,398
Allowances, Write-Offs, and Amortizations	(111,115)
Changes in Assets and Liabilities:	
Due from Primary Government	(1,316,471)
Inventories	45,000
Accounts Payable and Accrued Liabilities	275,884
U.S. Government Grants Refundable	122,484
Due to Primary Government	92,720
Due to State of North Carolina Component Units	(11,406)
Deferred Revenue	893,262
Compensated Absences	949,147
Note Principle Repayments	345,943
Loans Issued	(376,888)
Net Cash Used by Operating Activities	\$ (67,942,386)

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	\$ 24,450,210
Restricted Cash and Cash Equivalents	4,290,526
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	2,319,766
Total Cash and Cash Equivalents - June 30, 2004	\$ 31,060,502

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

North Carolina A&T University Foundation, Inc.
Statement of Financial Position
June 30, 2004

Exhibit B-1

ASSETS		
Current Assets		
Cash and Cash Equivalents		\$ 971,943
Investments		2,633,138
Unconditional Promises to Give, net		370,130
Interest Receivable		8,718
Accounts Receivable-NCA&TSU		24,263
Other assets		1,402,269
Total Current Assets		5,410,461
Noncurrent Assets		
Restricted Deposits:		
Bond Reserve Fund		2,019,505
Bond Capitalized Interest Fund		389,942
Bond Surplus Fund		841,679
Bond Repair and Replacement Fund		163,350
Bond Future Management Fee Fund		7,000
Total Restricted Deposits		3,421,476
Endowment Investments		2,910,836
Property and equipment, at cost, net		23,005,723
Long-term unconditional promises to give, net		634,147
Other assets		627,066
Total Noncurrent Assets		30,599,248
Total Assets		36,009,709
LIABILITIES		
Current Liabilities		
Accounts payable		488,075
Other Liabilities		82,214
Total Current Liabilities		570,289
Noncurrent Liabilities		
Notes Payable		1,215,362
Bonds Payable		27,340,000
Total Noncurrent Liabilities		28,555,362
Total Liabilities		29,125,651
NET ASSETS		
Unrestricted:		
Operating		(142,849)
Fixed Assets		23,476
		(119,373)
Temporarily Restricted		3,880,677
Permanently Restricted		3,122,754
Total Net Assets		\$ 6,884,058
See Note 1 in the Notes to the Financial Statements		

North Carolina A&T University Foundation, Inc.**Statement of Activities****For the Fiscal Year Ended June 30, 2004****Exhibit B-2****CHANGES IN UNRESTRICTED NET ASSETS**

Revenues and Gains:

Contributions	\$	65,481
Fees		209,461
Income on Long-Term Investments		143,565
Other Investment Income (Rental Income)		4,140,466
Net Unrealized and Realized Gains on Long-Term Investments		256,082
Other		236,770
Total Unrestricted Revenues and Gains		5,051,825

Net Assets Released from Restrictions:

Satisfaction of Program Restrictions		2,500,311
Total Unrestricted Revenues, Gains, and Other Support		7,552,136

Expenses:

Program A - Scholarships-Unrestricted		97,791
Program B - Scholarships-Departmental		871,851
Program C - Academic Departmental Programs		1,628,460
Management and General		1,023,352
Student Housing		4,111,181
Total Expenses		7,732,635
Decrease in Unrestricted Net Assets		(180,499)

CHANGES IN TEMPORARILY RESTRICTED NET ASSETS

Contributions		3,210,784
Income on Long-Term Investments		3,121
Net Unrealized and Realized Gains on Long-Term Investments		370,373
Net Assets Released from Restrictions:		
Satisfaction of Program Restrictions		(2,500,311)
Increase in Temporarily Restricted Net Assets		1,083,967

CHANGES IN PERMANENTLY RESTRICTED NET ASSETS

Contributions		218,339
Income on Long-Term Investments		41,812
Net Unrealized and Realized Gains on Long-Term Investments		9,692
Increase in Permanently Restricted Net Assets		269,843
Increase in Net Assets		1,173,311
Net Assets at Beginning of Year		5,710,747
Net Assets at End of Year	\$	6,884,058

See Note 1 in the Notes to the Financial Statements

NORTH CAROLINA AGRICULTURAL AND TECHNICAL 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. North Carolina Agricultural and Technical State University is a constituent institution of the sixteen-campus University of North Carolina System, which is a component unit of the State of North Carolina and an integral part of the State's *Comprehensive Annual Financial Report*.

The accompanying financial statements present all funds belonging to the University 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 Units – The North Carolina A&T Foundation, Inc., is a legally separate not-for-profit corporation and is reported as discretely presented component unit based on the nature and significance of its relationship to the University.

The North Carolina A&T 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 board consists of 16 elected members. Although the University does not control the timing or amount of receipts from the Foundation, the majority 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The North Carolina A&T 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 \$1,080,496 to the University for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from The North Carolina A&T University Foundation, Inc., located at 100 North Booker Street, 172 Aggie Suites, Greensboro, NC 27411. The mailing address is P.O. Box 20366, Greensboro, NC 27420.

- 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

eligibility requirements imposed by the provider have been met, if probable of collection.

D. Cash and Cash Equivalents – This classification includes petty cash, cash on deposit with private bank accounts, money market accounts, and deposits held by the State Treasurer in the short-term investment portfolio. The short-term investment portfolio maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.

E. Investments - This classification includes long-term fixed income investments, equity investments, mutual funds, money market funds, real estate, and other asset holdings by the University. Except for money market funds, real estate not held by a governmental external investment pool, and other asset holdings, investments are accounted for at fair value, as determined 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, real estate not held by a governmental external investment pool, and other asset holdings are reported at cost, if purchased, or at fair value or appraised value at date of gift, if donated.

F. Receivables – Receivables consist of tuition and fees charges to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from the federal government, State and local governments, 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 and merchandise for resale. Expendable supplies are valued at an average cost of last invoice unit price using the first-in, first-out method. Merchandise for resale is valued at 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 25 to 50 years for general infrastructure, 10 to 50 years for buildings, and 5 to 15 years for equipment.

The Heritage Center and Art Gallery collections are capitalized at cost or fair value at the date of donation. These collections are considered inexhaustible and are therefore not depreciated.

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

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

- K. Compensated Absences** - The University's policy is to record the cost of vacation leave when earned. The policy provides for a maximum accumulation of unused vacation leave of 30 days that can be carried forward each January 1st for SPA employees and on July 1st for EPA employees. An employee can be paid up to 30 days upon termination of employment. 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The unused portion of this leave remains available until used, notwithstanding the limitation on annual leave carried forward described above.

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Changes in Net Assets. The scholarship discount is the difference between the actual charge for goods and services provided by the University and the amount that is paid by students or by third parties on the students' behalf. Student financial assistance grants, such as Pell grants, and other federal, State, or nongovernmental programs, are recorded as either operating or nonoperating revenues in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. To the extent that revenues from these programs are used to satisfy tuition, fees, and other charges, the University has recorded a scholarship discount.

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 2 - DEPOSITS AND INVESTMENTS

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

Deposits include cash and cash equivalents totaling \$31,025,404. At year-end, cash on hand was \$35,098. The University's portion of the State Treasurer's Investment Pool was \$30,841,990. 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 \$183,414 and the bank balance was \$531,798. Of the bank balance, \$200,000 was covered by federal depository insurance and \$331,798 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 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 North Carolina A&T University Foundation, Inc., 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

investment transaction fails. There are three categories of credit risk. Category 1 includes investments that are insured or registered or for which the securities are held by the University or its agent in the University's name. Category 2 includes uninsured and unregistered investments for which the securities are held by a counterparty's trust department or agent in the University's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by a counterparty's trust department or agent but not in the University's name.

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

Long-Term Investment Pool

	Fair Value			Total
	Risk Category			
	1	2	3	
Categorized Investments:				
U.S. Government Securities	\$ 0	\$ 198,595	\$ 0	\$ 198,595
Corporate Bonds		1,886,066		1,886,066
Corporate Stock		2,824,267		2,824,267
International Stock		17,037		17,037
Total Categorized Investments	\$ 0	\$ 4,925,965	\$ 0	4,925,965
Investments Not Categorized:				
Money Market Funds				295,993
Mutual Funds				1,834,708
Real Estate				11,690
Total Investments Not Categorized				2,142,391
Total Long-Term Investments				\$ 7,068,356

Non-Pooled Investments

	Fair Value			Total
	Risk Category			
	1	2	3	
Categorized Investments:				
Corporate Stocks	\$ 1,314	\$ 0	\$ 0	\$ 1,314
Investments Not Categorized:				
Money Market Funds				805,987
Total Non-Pooled Investments				\$ 807,301

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Total Investments

	Fair Value			Total
	Risk Category			
	1	2	3	
Total Categorized Investments	<u>\$ 1,314</u>	<u>\$ 4,925,965</u>	<u>\$ 0</u>	\$ 4,927,279
Total Investments Not Categorized				<u>2,948,378</u>
Total Investments				<u>\$ 7,875,657</u>

NOTE 3 - ENDOWMENT INVESTMENTS

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

Investment return of the University's endowment funds is predicated on the total return concept (yield plus appreciation). Annual payouts from the University's endowment funds are based on an adopted spending policy, which limits spending between 4% and 6% of the endowment principal's market value at December 31 for the past three years. Under this policy, the prior year spending percentage is increased by the inflation rate to determine the current year spending percentage. To the extent that the total return for the current year exceeds the payout, the excess is added to principal. If current year earnings do not meet the payout requirements, the University uses accumulated income and appreciation from restricted, expendable net asset endowment balances to make up the difference. At June 30, 2004, net appreciation of \$276,400 was available to be spent, all of which was restricted to specific purposes.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 4 - RECEIVABLES

Receivables at June 30, 2004, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	\$ 1,803,570	\$ 458,626	\$ 1,344,944
Accounts	656,444	311,848	344,596
Intergovernmental	5,964,017		5,964,017
Pledges	522,937		522,937
Investment Earnings	101,934		101,934
Interest on Loans	128,445		128,445
Other	681,444		681,444
	<u>\$ 9,858,791</u>	<u>\$ 770,474</u>	<u>\$ 9,088,317</u>
Total Current Receivables	<u>\$ 9,858,791</u>	<u>\$ 770,474</u>	<u>\$ 9,088,317</u>
Notes Receivable - Noncurrent:			
Institutional Student Loan Programs	\$ 1,844,258	\$ 729,753	\$ 1,114,505
	<u>\$ 1,844,258</u>	<u>\$ 729,753</u>	<u>\$ 1,114,505</u>

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	\$ 7,156,883	\$ 0	\$ 328,903	\$ 0	\$ 7,485,786
Art, Literature, and Artifacts	2,502,077				2,502,077
Construction in Progress	22,162,186	(2,734,599)	25,440,904		44,868,491
Total Capital Assets, Nondepreciable	<u>31,821,146</u>	<u>(2,734,599)</u>	<u>25,769,807</u>	<u></u>	<u>54,856,354</u>
Capital Assets, Depreciable:					
Buildings	167,799,688	892,441	4,907,253	489,508	173,109,874
Machinery and Equipment	29,187,138		2,598,158	1,658,998	30,126,298
General Infrastructure	6,238,374	1,842,158	1,732		8,082,265
Total Capital Assets, Depreciable	<u>203,225,200</u>	<u>2,734,599</u>	<u>7,507,143</u>	<u>2,148,506</u>	<u>211,318,437</u>
Less Accumulated Depreciation/Amortization for:					
Buildings	43,306,423		3,418,814	409,078	46,316,159
Machinery and Equipment	18,335,694		2,408,351	1,482,293	19,261,752
General Infrastructure	1,084,700		299,233		1,383,933
Total Accumulated Depreciation	<u>62,726,817</u>	<u></u>	<u>6,126,398</u>	<u>1,891,371</u>	<u>66,961,844</u>
Total Capital Assets, Depreciable, Net	<u>140,498,383</u>	<u>2,734,599</u>	<u>1,380,745</u>	<u>257,135</u>	<u>144,356,593</u>
Capital Assets, Net	<u>\$ 172,319,529</u>	<u>\$ 0</u>	<u>\$ 27,150,552</u>	<u>\$ 257,135</u>	<u>\$ 199,212,947</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	Amount
Accounts Payable	\$ 6,261,062
Accrued Payroll	2,206,587
Contract Retainage	1,523,450
Intergovernmental Payables	101,263
Other	350,130
Total Accounts Payable and Accrued Liabilities	\$ 10,442,492

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	\$ 16,485,000	\$ 0	\$ 845,000	\$ 15,640,000	\$ 885,000
Add/Deduct Premium/Discount	(7,817)		(823)	(6,994)	
Deduct Deferred Charge on Refunding	(149,512)		(15,739)	(133,773)	
Total Bonds Payable	16,327,671		828,438	15,499,233	885,000
Compensated Absences	5,038,607	7,355,593	6,406,447	5,987,753	363,515
Total Long-Term Liabilities	\$ 21,366,278	\$ 7,355,593	\$ 7,234,885	\$ 21,486,986	\$ 1,248,515

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

Purpose	Series	Interest Rate/ Ranges	Final Maturity Date	Original Amount of Issue	Principal Paid Through 06/30/04	Principal Outstanding 06/30/04
The University of North Carolina System Pool Revenue Bonds						
Student Union (A)	1998B	3.25-5.25	10/01/2013	\$ 5,860,000	\$ 1,540,000	\$ 4,320,000
Parking System (A)	1998B	3.25-5.25	10/01/2013	1,465,000	385,000	1,080,000
Dining System (B)	2000	5.0-5.25	10/01/2020	9,875,000	910,000	8,965,000
Stadium System (B)	2000	5.0-5.25	10/01/2020	1,555,000	280,000	1,275,000
Total The University of North Carolina System Pool Revenue Bonds				\$ 18,755,000	\$ 3,115,000	15,640,000
Less: Unamortized Loss on Refunding						(133,773)
Less: Unamortized Discount						(6,994)
Total Bonds Payable						\$ 15,499,233
(A) The University of North Carolina System Pool Revenue Bonds, Series 1998B						
(B) The University of North Carolina System Pool Revenue Bonds, Series 2000						

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

C. Annual Requirements - The annual requirements to pay principal and interest on the long-term obligations at June 30, 2004, are as follows:

<u>Fiscal Year</u>	Annual Requirements	
	Bonds Payable	
	Principal	Interest
2005	\$ 885,000	\$ 774,341
2006	925,000	731,350
2007	975,000	686,163
2008	1,020,000	638,650
2009	1,075,000	590,100
2010-2014	6,060,000	2,079,875
2015-2019	3,175,000	841,319
2020-2024	1,525,000	80,981
Total Requirements	\$ 15,640,000	\$ 6,422,779

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

Dormitory System: In 2000, the University defeased \$4,005,000 of outstanding Dormitory System Revenue Bonds, Series E. An irrevocable trust was established with an escrow agent to provide for all future debt service payments on the defeased bonds. The trust assets and the liability for the defeased bonds are not included in the University's Statement of Net Assets. At June 30, 2004, the outstanding balance of the defeased Dormitory System Revenue Bonds, Series E was \$2,505,000.

NOTE 8 - OPERATING LEASE OBLIGATIONS

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

<u>Fiscal Year</u>	<u>Amount</u>
2005	\$ 1,062,618
2006	236,309
2007	9,591
Total Minimum Lease Payments	\$ 1,308,518

Rental expense for all operating leases during the year was \$1,542,756.

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	Revenues Pledged as Security for Debt
Operating Revenues:						
Student Tuition and Fees	\$ 47,796,789	\$ 0	\$ 9,998,345	\$ 393,449	\$ 37,404,995	\$ 1,155,062 (A)
Sales and Services:						
Sales and Services of Auxiliary Enterprises:						
Residential Life	\$ 8,321,448		\$ 1,682,648	\$ 68,282	\$ 6,570,518	
Dining	7,674,372		1,594,269	64,668	6,015,435	6,015,435 (B)
Student Union Services	35,748				35,748	
Health, Physical Education, and Recreation Services	5,292				5,292	
Bookstore	5,188,051	400,174		56	4,787,821	
Parking	1,017,834			(22)	1,017,856	1,017,856 (C)
Athletic	1,616,516				1,616,516	
Other	302,633			2	302,631	
Sales and Services of Education and Related Activities	1,576,198	1,510,241			65,957	
Total Sales and Services	<u>\$ 25,738,092</u>	<u>\$ 1,910,415</u>	<u>\$ 3,276,917</u>	<u>\$ 132,986</u>	<u>\$ 20,417,774</u>	<u>\$ 7,033,291</u>

Revenue Bonds Secured by Pledged Revenues:

(A) Housing and Student Center System

(B) Dining System Bonds

(C) Parking System bonds

NOTE 10 - OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	\$ 45,294,925	\$ 2,164,438	\$ 1,876,278	\$ 209,260	\$ 0	\$ 0	\$ 49,544,901
Research	10,760,544	2,110,333	4,076,457	1,034,480	1,100		17,982,914
Public Service	4,301,293	1,073,175	1,268,112	78,097	1,118		6,721,795
Academic Support	10,606,113	5,077,294	4,620,211	1,744,299			22,047,917
Student Services	3,864,237	197,689	1,036,692	65,140			5,163,758
Institutional Support	10,988,219	691,798	4,193,026	15,544	5,320		15,893,907
Operations and Maintenance of Plant	6,415,984	730,843	2,882,994		2,927,846		12,957,667
Student Financial Aid	165,323	76,091	426,027	5,411,577			6,079,018
Auxiliary Enterprises	7,407,432	5,287,479	13,993,383	1,954,328	1,011,215		29,653,837
Depreciation						6,126,398	6,126,398
Total Operating Expenses	<u>\$ 99,804,070</u>	<u>\$ 17,409,140</u>	<u>\$ 34,373,180</u>	<u>\$ 10,512,725</u>	<u>\$ 3,946,599</u>	<u>\$ 6,126,398</u>	<u>\$ 172,172,112</u>

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 \$83,932,162, of which \$46,552,688 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were \$2,793,161 and \$102,416, respectively. The University made one hundred percent of its annual required contributions for the years ended June 30, 2004, 2003, and 2002, which were \$102,416, \$0, and \$837,097, 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 \$83,932,162, of which \$22,767,091 was covered under the Optional Retirement Program. Total employee and employer contributions for pension benefits for the year were \$1,366,025 and \$1,557,269, respectively.

The Federal Retirement System is a multiple-employer system. University extension employees participate in the Civil Service Retirement System (CSRS), a program for participants employed prior to January 1, 1987. Participants contributed 7.00% of their salary to CSRS and the University match was 8.51%.

For the year ended June 30, 2004, covered payroll was \$897,070 and total employee and employer contributions were \$60,499 and \$73,549, 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 \$192,064 for the year ended June 30, 2004.

IRC Section 401(k) Plan - All members of the Teachers' and State Employees' Retirement System and the Optional Retirement Program are eligible to enroll in the Supplemental Retirement Income Plan, a defined contribution plan, created under Internal Revenue Code Section 401(k). All costs of administering the Plan are the responsibility of the Plan participants. No costs are incurred by the University except for a 5% employer contribution for the University's law enforcement officers, which is mandated under General Statute 143-166.30(e). Total employer contributions on behalf of University law enforcement officers for the year ended June 30, 2004, were \$42,920. The voluntary contributions by employees amounted to \$290,841 for the year ended June 30, 2004.

IRC Section 403(b) and 403(b)(7) Plans - Eligible University employees can participate in tax sheltered annuity plans created under Internal Revenue Code Sections 403(b) and 403(b)(7). The employee's eligible contributions, made through salary reduction agreements, are exempt from federal and State income taxes until the annuity is received or the contributions are withdrawn. These plans are exclusively for employees of universities and certain charitable and other nonprofit institutions. All costs of administering and funding these plans are the responsibility of the Plan participants. No costs are incurred by the University. The voluntary contributions by employees amounted to \$1,062,075 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

\$2,218,233. The University assumes no liability for retiree health care benefits provided by the programs other than its required contribution. Additional detailed information about these programs can be located in the State of North Carolina's *Comprehensive Annual Financial Report*.

- B. Long-Term Disability** - The University participates in the Disability Income Plan of North Carolina (DIPNC). Established by Chapter 135, Article 6, of the General Statutes, DIPNC provides short-term and long-term disability benefits to eligible members of the Teachers' and State Employees' Retirement System and the Optional Retirement Program. Long-term disability income benefits are advance funded on an actuarially determined basis using the one-year term cost method. Employer contributions are established in the Appropriations Bill by the General Assembly. The University was not required to contribute to the DIPNC for the fiscal year ended June 30, 2004. The University assumes no liability for long-term disability benefits under the Plan other than its contribution. Additional detailed information about the DIPNC is disclosed in the State of North Carolina's *Comprehensive Annual Financial Report*.

NOTE 13 - RISK MANAGEMENT

The University is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These exposures to loss are handled via a combination of methods, including participation in State-administered insurance programs, purchase of commercial insurance, and self-retention of certain risks. Except for a reduction in the public officers' and employees' 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. Other operations not supported by the State's General Fund are charged for the coverage. The University purchased fire, extended coverage and "all risks"

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

coverage for all buildings and contents used in auxiliary services through the Fund. Total protection in the amount of \$218,798,425 was purchased during the year ended June 30, 2004. Covered losses are subject to a \$500 deductible per occurrence.

All State-owned vehicles are covered by liability insurance through a private insurance company and handled by the North Carolina Department of Insurance. The liability limits for losses occurring in-State are \$500,000 per claim and \$5,000,000 per occurrence and out-of-State are \$1,000,000 per claim and \$5,000,000 per occurrence. The University pays premiums to the North Carolina Department of Insurance for the coverage.

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

University employees and retirees are provided comprehensive major medical care benefits. Coverage is funded by contributions to the State Health Plan (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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

purchases. Outstanding commitments on construction contracts were \$41,658,617.95 and on other purchases were \$5,432,345.13 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 \$2.5 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 \$98,970,090 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.

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

Purpose	Amount
Pledge to an Endowed Professorship	\$ 303,000

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

NOTE 15 - RELATED PARTIES

Foundations - There is one separately incorporated nonprofit foundation associated with the University. This foundation is the North Carolina A&T University Foundation, Inc.

These organizations serve as the primary fundraising arm of the University through which individuals, corporations, and other organizations support University programs by providing scholarships, fellowships, faculty salary supplements, and unrestricted funds to specific colleges and the University's overall academic environment. The University's financial statements do not include the assets, liabilities, net assets, or operational transactions of the foundations, except for support from each organization to the University. This support approximated \$1,080,496 for the year ended June 30, 2004.

NOTE 16 - 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.

North Carolina Agricultural and Technical State University
Schedule of General Obligation Bond Project Authorizations,
Budgets, and Expenditures
For Project-to-Date as of June 30, 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>									
Classroom and Lab Complex	11/08/00		\$ 35,582,340	\$ 0	\$ 35,582,340	\$ 24,570,314	69%	03/28/05	05/02/05
Three Classrm Bldgs - Dudley, Gibbs and Moore	11/08/00		4,557,245		4,557,245	1,922,256	42%	05/31/05	12/20/27
Chemistry Laboratory	11/09/00		20,740,020		20,740,020	2,689,761	13%	11/04/05	02/01/06
Cherry Hall Laboratory Building Renovation	01/03/05		8,016,290		8,016,290	76,562	1%		05/25/07
Graham Hall Lab Renovation	01/07/03		5,493,090		5,493,090	167,539	3%		01/08/07
Barnes Hall Renovation	09/05/03	03/08/04	5,272,595		5,272,595	71,976	1%		06/30/07
Corbett Intramural Center Addition	02/04/02	06/01/05	6,683,250		6,683,250				11/14/08
Curtis Hall Replacement	11/09/00		3,537,325		3,537,325				
Scott Hall Replacement	11/09/00		24,940,635		24,940,635	16,911,598	68%		
Gamble Hall Replacement	11/09/00		1,474,400		1,474,400				
New Student Housing	11/09/00		1,803,005		1,803,005				02/03/06
Zoe Barbee Hall Renovation	01/06/03		3,509,110		3,509,110	28,500	1%		07/04/07
Morrison Hall Renovation	01/05/04		3,564,965	304,000	3,868,965	1,981,822	51%		04/16/05
Harrison Auditorium Renovation	02/10/02		2,750,440		2,750,440	228,362	8%		09/25/06
Hazardous Material and Waste Storage Facility	11/09/00		1,496,250		1,496,250	405,037	27%		07/05/05
Improvement to the School of Agriculture Facility	11/09/00		1,741,065		1,741,065	1,163,655	67%		12/14/05
Replacement of Steam Lines and Access Holes	11/02/01		1,568,300		1,568,300	1,519,749	97%		09/01/04
Electrical Distribution Upgrade and Expansion	11/09/00		2,143,960		2,143,960	1,632,553	76%		03/29/06
Land Acquisition	01/03/01		6,300,000		6,300,000	5,952,959	94%		10/05/05
Technology Infrastructure Expansion	08/09/00		2,775,615		2,775,615	2,487,345	90%		04/21/05
Campus Security Lighting	06/01/01		828,716		828,716	828,716	100%		07/31/03
Project Management	07/01/01		7,297,270		7,297,270	439,802	6%		06/29/09
Total Projects Started			152,075,886	304,000	152,379,886	63,078,506	41%		
<i>Projects Not Started - To Be Funded in Future Years</i>									
Holland Hall Renovation	06/02/03		765,040		765,040				
Central Cooling Plant	01/05/04		8,959,165		8,959,165				
Total All Projects			\$ 161,800,091	\$ 304,000	\$ 162,104,091	\$ 63,078,506	39%		

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.

North Carolina Agricultural and Technical State University
Intercollegiate Athletics Program
Statement of Revenues and Expenses
Year Ended June 30, 2004

Schedule 2

	Football	Men's Basketball	Women's Basketball	Other Sports	Nonprogram Specific	Total
Revenues						
Operating Revenues:						
Student Fees, Net (Note 2)	\$ 0	\$ 0	\$ 0	\$ 0	\$ 2,430,971	\$ 2,430,971
Ticket Sales	756,892	32,055				788,947
Program Sales	5,405					5,405
Contest Guarantees	235,880	215,000	11,000			461,880
Advertising Income	58,865	15,150	3,600		10,485	88,100
Concessions	26,416	1,375				27,791
NCAA/Conference USA					134,715	134,715
Other Sources	74,904	9,019	9,598	72,460	73,751	239,732
Total Operating Revenues	1,158,362	272,599	24,198	72,460	2,649,922	4,177,541
Expenses						
Operating Expenses:						
Coaches' Salaries	589,572	199,994	141,318	370,811		1,301,695
Other Salaries	104,786	28,380	28,660	18,592	686,916	867,334
Travel:						
Team	105,566	78,262	51,472	290,729		526,029
Recruiting	22,196	21,235	10,132	9,496		63,059
Financial Aid, Net	369,721	77,419	95,124	515,816	106,775	1,164,855
Supplies and Uniforms	91,811	8,134	10,347	53,102	74,843	238,237
Insurance					133,321	133,321
Telephone	7,865	5,085	3,999	2,523	26,137	45,609
Printing and Binding	30,543	7,340	4,263	2,359	9,760	54,265
Repairs and Maintenance					2,919	2,919
Advertising	28,320	3,073	2,237	108	35,223	68,961
Equipment Rentals	24,400			650	20,973	46,023
Other Fixed Charges	100	850		15,793	40,496	57,239
Other Contractual Services	56,124	30,520	15,500	16,854	6,100	125,098
Miscellaneous	44,543	21,237	7,513	45,774	342,362	461,429
Total Operating Expenses	1,475,547	481,529	370,565	1,342,607	1,485,825	5,156,073
Operating Income (Loss)	(317,185)	(208,930)	(346,367)	(1,270,147)	1,164,097	(978,532)
Nonoperating Revenues						
State Appropriations	236,836	156,494	1,900	20,114	147,420	562,764
Gifts:						
Noncapital	143,585	8,286	8,262	112,925	150,491	423,549
Investment Income					54,067	54,067
Net Nonoperating Revenues	380,421	164,780	10,162	133,039	351,978	1,040,380
Excess (Deficiency) of Revenues over Expenses	\$ 63,236	\$ (44,150)	\$ (336,205)	\$ (1,137,108)	\$ 1,516,075	\$ 61,848

The accompanying notes are an integral part of this statement.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

- A. Organization and Purpose** – North Carolina Agricultural and Technical State University is a constituent institution of The University of North Carolina System which is a component unit of the State of North Carolina and an integral part of the State’s *Comprehensive Annual Financial Report*. North Carolina Agricultural and Technical State University is classified as a Division I institution by the National Collegiate Athletic Association (NCAA).
- B. Basis of Presentation** - The preceding Statement of Revenues and Expenses presents the University’s Intercollegiate Athletic Program’s activity in accordance with the National Collegiate Athletic Association Financial Audit Guidelines. Those guidelines issued on May 2, 1996 require only a presentation of the current funds revenues and expenses by major program. This Statement has been updated for Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, as amended by GASB Statement No. 35, *Basic Financial Statements – and Management’s Discussion and Analysis – for Public Colleges and Universities*, and Statement No. 38, *Certain Financial Statement Note Disclosures*. This presentation is not intended to provide a complete presentation of the program’s financial position or its changes in net assets and cash flows.
- C. Basis of Accounting** - The preceding Statement of Revenues and Expenses was prepared using the economic resource measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred.
- D. Nonmonetary Transactions** - The University reports goods and services received either by donation or in an exchange transaction at fair value at the date of receipt.

During the year, food, advertising, and leased vehicles were provided to the University at no charge. Where gifts were provided in exchange for free tickets, ticket sales revenue was recorded for fair value of the free tickets with the remainder recorded as advertising revenue in the preceding Statement of Revenues and Expenses.

During the year, coaching services were provided at no charge to the University. The value of these donations has been recorded as gifts in the preceding Statement of Revenues and Expenses.

NOTE 2 - SCHOLARSHIP DISCOUNTS

Student tuition and fees revenues and certain other revenues from University charges are reported net of scholarship discounts in the accompanying Statement of Revenues and Expenses. The scholarship discount is the difference between the actual charge for goods and services provided by the University and the amount that is paid by students or by third parties on the students' behalf. Student financial assistance grants, such as Pell grants, and other federal, State, or nongovernmental programs, are recorded as either operating or nonoperating revenues in the accompanying Statement of Revenues and Expenses. To the extent that revenues from these programs are used to satisfy tuition, fees, and other charges, the University has recorded a scholarship discount. The amount of tuition discounting applicable to athletics was \$676,184.

NOTE 3 - RELATED PARTIES

The North Carolina A&T University Foundation, Inc., (Foundation) is a separate and legal entity established to promote the University. Funds have been established within the Foundation for the benefit of the University's intercollegiate athletics program. In addition, the Victory Club Foundation, a separate and legal entity, has been established to promote and support the University's Intercollegiate Athletics Program. The financial resources and expenses of the Victory Club Foundation are maintained by the Foundation and are included with the funds established for the benefit of the University. During the fiscal year, the University received \$76,356 in direct support from the Foundation, as well as \$103,404 in indirect support through payments made on behalf of the University by the Foundation. These amounts are reported as contributions and expenses in the preceding Statement of Revenues and Expenses.

NOTE 4 - CONTRIBUTIONS

Individual contributions of moneys, goods, or services received directly by the University's Intercollegiate Athletics Program from organizations other than the Foundation or from groups of individuals that constitute more than 10% of all contributions received for the Intercollegiate Athletics Program during the year follows:

Funding Source Type	Amount
Volunteer Coaches	\$ 199,000



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

STATE OF NORTH CAROLINA
Office of the State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601
Telephone: (919) 807-7500
Fax: (919) 807-7647
Internet
<http://www.ncauditor.net>

**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
North Carolina Agricultural and Technical State University
Greensboro, North Carolina

We have audited the financial statements of North Carolina Agricultural and Technical State University, a constituent institution of the sixteen-campus University of North Carolina System, which is a component unit of the State of North Carolina, 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 22, 2005. We did not audit the financial statements of The North Carolina A&T University Foundation, Inc., 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 North Carolina A&T University Foundation, Inc., is based on the report of the other auditors.

As discussed in Note 16 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
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GOVERNMENT AUDITING STANDARDS (CONCLUDED)**

would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. 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 28, 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., CPA, CFP
State Auditor

March 22, 2005

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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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Director, Fiscal Research Division

May 18, 2005

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20601 Mail Service Center
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