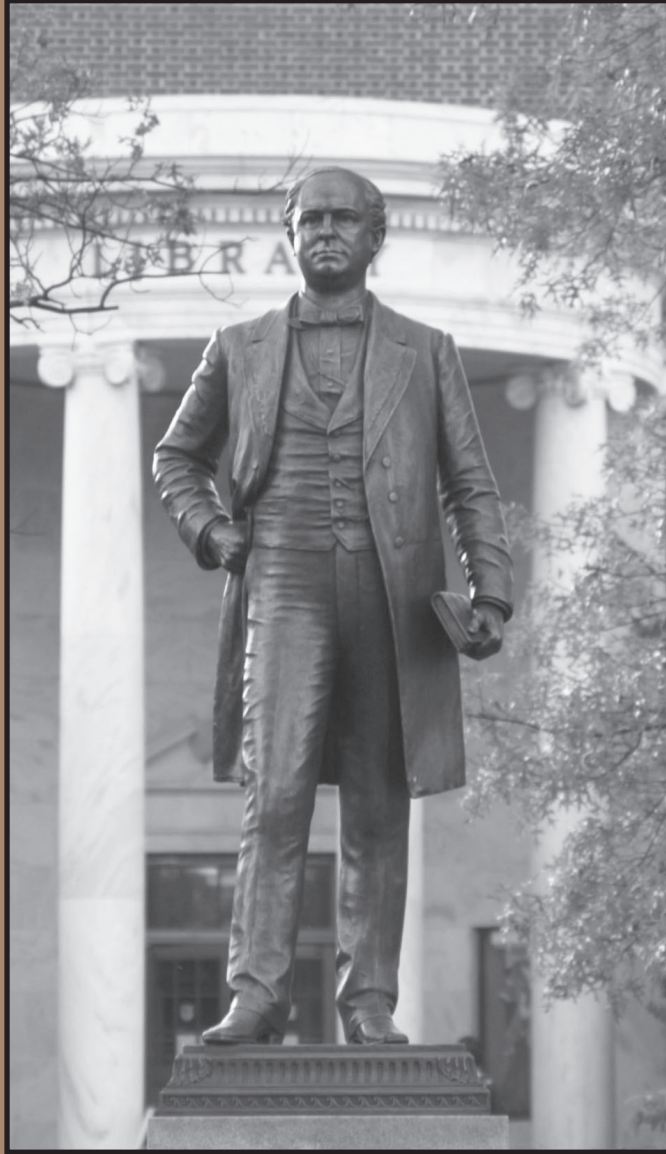


THE UNIVERSITY OF NORTH CAROLINA

GREENSBORO



The Financial Report 2001-2002

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THE UNIVERSITY OF NORTH CAROLINA
GREENSBORO

Business Affairs
Office of the Vice Chancellor

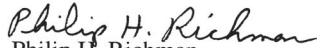
The Chancellor and The Board of Trustees
of The University of North Carolina at Greensboro

I am pleased to present the University's Financial Report for the year ended June 30, 2002. The report is comprised of four sections: the audit opinion letter from the North Carolina Office of State Auditor; management's discussion and analysis of the three required financial statements; the financial statements; and the related footnote disclosures.

During fiscal year 2001-02, the University was required to adopt a new financial reporting format as promulgated by the Governmental Accounting Standards Board, who establishes financial reporting standards for public colleges and universities. Under this new reporting format, financial statements are presented on a consolidated basis to focus on the University as a whole, rather than on individual fund groups as was done in prior years' financial statements.

I would like to recognize the employees working within the Office of Accounting Services who prepared this financial report. A tremendous amount of time and effort was required of them in order to make this report possible.

Sincerely,


Philip H. Richman
Vice Chancellor for Business Affairs

Introduction

The University of North Carolina at Greensboro (the "University") provides the following management's discussion and analysis (MD&A) as an overview of the financial activities for the fiscal year ended June 30, 2002. This discussion, along with the preceding transmittal letter and the following financial statements and related footnote disclosures, have been prepared by management and comprise the University's complete financial report. The financial statements, footnotes and this discussion are the responsibility of management.

The purpose of the MD&A is to identify significant transactions that have financial impact and to highlight favorable and unfavorable trends. However, this discussion and analysis should be read in conjunction with, and is qualified in its entirety by, the related financial statements and footnotes. Since this is a transition year for the new reporting format, only one year of financial data is presented. In future years the MD&A will have comparative data for both the prior and current years, with emphasis on the current year.

Using the Financial Report

The University's financial report includes three financial statements: the Statement of Net Assets; the Statement of Revenues, Expenses and Changes in Net Assets; and the Statement of Cash Flows. These financial statements are prepared in accordance with Governmental Accounting Standards Board (GASB) principles. During fiscal year 2001-02, the University adopted GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*, as amended by GASB Statements No. 37 and No. 38. These statements establish standards for external financial reporting for public colleges and universities and require that financial statements be presented on a consolidated basis to focus on the University as a whole, with resources classified for accounting and reporting purposes into three net asset categories. Previously, financial statements focused on the accountability of individual fund groups rather than on the University as a whole.

Statement of Net Assets

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

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

A condensed statement of net assets is reflected below.

Condensed Statement of Net Assets
June 30, 2002

Assets:	
Current assets	\$ 80,091,245
Noncurrent capital assets, net of accumulated depreciation	233,069,123
Other noncurrent assets	<u>129,441,697</u>
Total assets	<u>442,602,065</u>
Liabilities:	
Current liabilities	20,890,325
Noncurrent liabilities	<u>86,570,022</u>
Total liabilities	<u>107,460,347</u>
Nets assets:	
Invested in capital assets, net of related debt	170,721,608
Restricted - nonexpendable	89,600,352
Restricted - expendable	33,451,744
Unrestricted	<u>41,368,014</u>
Total net assets	<u>\$ 335,141,718</u>

The total assets of the University increased by \$17.8 million for the year (\$10.0 million for current assets, \$7.8 million for noncurrent assets). This overall increase was primarily attributable to an increase of \$29.8 million in capital assets, net of accumulated depreciation. Although cash and cash equivalents increased by \$6.9 million, investments decreased by \$14.1 million. Most of the other asset categories, both current and noncurrent, decreased during the year. This consumption of assets follows the institutional philosophy to use available resources to acquire and improve all areas of the institution to better serve the instruction, research and public service missions of the institution.

The total liabilities of the University increased by \$10.3 million for the year (\$4.6 million for current liabilities, \$5.7 million for noncurrent liabilities). This overall increase was primarily attributable to an increase of \$3.5 million in accounts payables and accrued liabilities, and an increase of \$5.3 million in long-term liabilities. Both of these increases in liabilities, along with the related increase in net capital assets mentioned above, contributed to the \$21.0 million increase in the investment of capital assets, net of related debt.

The combination of the increase in total assets of \$17.8 million and the increase in total liabilities of \$10.3 million yields an overall increase in total net assets of \$7.5 million. As stated above, the category of invested in capital assets, net of debt, increased by \$21.0 million. However, all other categories of net assets collectively decreased by \$13.5 million, primarily due to the decrease in investments mentioned above.

Statement of Revenues, Expenses and Changes in Net Assets

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

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

A condensed statement of revenues, expenses and changes in net assets is reflected below.

Condensed Statement of Revenues, Expenses and Changes in Net Assets For the Year Ended June 30, 2002	
Operating revenues	\$ 96,126,127
Operating expenses	<u>199,810,758</u>
Operating loss	(103,684,631)
Net nonoperating revenues	<u>89,275,728</u>
Loss before other revenues	(14,408,903)
Other revenues	<u>21,879,301</u>
Total increase in net assets	7,470,398
Net assets at beginning of year, as restated (note 17)	<u>327,671,320</u>
Net assets at end of year	<u><u>\$ 335,141,718</u></u>

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

- Operating revenues increased by \$8.6 million (9.9%), whereas operating expenses increased by only \$2.1 million (1.1%), for a combined net decrease in operating loss of \$6.5 million. The single largest increase within operating revenues was in net student tuition and fees, which increased by \$5.5 million. This substantial increase (17.4%) is attributable to increases in student enrollment and in tuition and fee rates. The modest increase in operating expenses is primarily the net result of a \$7.4 million increase in salaries and benefits, offset by a \$6.1 million decrease in supplies and materials. The significant decrease (25.6%) in supplies and materials is a direct result of reduced state funding for non-personnel expenditures.
- Net nonoperating revenues decreased by \$17.8 million (16.6%), primarily due to substantial decreases in state appropriations (\$8.3 million), investment income (\$7.0 million) and noncapital gifts (\$5.2 million). These decreases are primarily due to the current economic recession and corresponding instability in the stock market. There was, however, a \$3.3 million increase in funding for noncapital grants, primarily related to federal grants and contracts.
- Other revenues increased by only \$1.4 million (6.6%). Although funding by the state for construction activities increased \$7.5 million (79.7%) in the category of capital grants (from the statewide higher education bonds), there was also a substantial decrease of \$3.7 million (100%) in funding via state capital appropriations. Also, additions to permanent endowments decreased by \$2.4 million (36.7%). The reductions in state capital appropriations and in the additions to permanent endowments are related to the current economic recession mentioned above.
- The net assets at the beginning of the year have been reduced by \$140.8 million. This restatement is the result of accounting changes related to recording accumulated depreciation (\$75.0 million), removing library books from capital assets (\$61.1 million), and reclassifying US Grants Refundable from net assets to a noncurrent liability (\$4.7 million).

Statement of Cash Flows

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

A condensed statement of cash flows is reflected on the following page.

Condensed Statement of Cash Flows
For the Year Ended June 30, 2002

Cash provided (used) by:	
Operating activities	\$ (92,853,555)
Noncapital financing activities	102,133,151
Capital and related financing activities	(11,900,739)
Investing activities	<u>9,507,381</u>
Net change in cash	6,886,238
Cash, beginning of year	<u>72,907,790</u>
Cash, end of year	<u>\$ 79,794,028</u>

Major sources of funds included in operating activities are student tuition and fees (\$36.3 million), auxiliary sales and services (\$27.8 million), and contracts and grants (\$29.7 million). Major uses of funds included in operating activities are payments to employees (\$125.1 million) and to vendors/suppliers (\$53.1 million).

The major source of funds included in noncapital financing activities is state appropriations (\$86.2 million). The major source of funds included in capital and related financing activities is capital grants (\$20.0 million), whereas the major use is the acquisition and construction of capital assets (\$34.1 million). The major source of funds included in investing activities is proceeds from sales and maturities of investments (\$85.2 million), whereas the major use is purchase of investments and related fees (\$77.1 million).

Capital Asset and Debt Administration

During fiscal year 2001-02, the Residence Hall Technology Infrastructure Enhancement project was completed which brings all data/telephone wiring in the residence halls up to the campus standard. The completion of this project ensures that every room in the University's residence halls now has the capability for one telephone/data port for each bed and one cable TV port per room. Although the University had only one significant capital asset addition for facilities, almost \$34.0 million was spent on construction in progress as follows: \$17.9 million on the new Science Building; \$7.9 million on the renovation of the Elliott University Center; \$3.2 million on the new Oakland Avenue Parking Deck; \$2.3 million on the Campus Telecommunication Network project; and \$2.7 million on other projects.

Also during fiscal year 2001-02, the University issued \$16.4 million in General Revenue and Revenue Refunding Bonds, Series 2001B, and defeased \$8.1 million of outstanding Student Facilities Revenue Bonds, Series 1992A. The University used \$8.4 million of the net bond proceeds to provide for payments on the defeased bonds. The remaining net proceeds were used to fund the Oakland Avenue Parking Deck project that is currently under construction. As a result of the defeasance of the 1992 bonds, the University reduced its debt service requirements by \$420 thousand over the next 15 years and obtained an economic gain of \$299 thousand.

For additional information concerning Capital Assets and Debt Administration, see Notes 6 and 8 in the notes to the financial statements.

Economic Outlook

Management is not aware of any currently known facts, decisions, or conditions that are expected to have a significant effect on the University's financial position or results of operations during fiscal year 2002-03 beyond those unknown variations having a global effect on virtually all types of business operations. We anticipate the current fiscal year will be very similar to the 2001-02 fiscal year and, accordingly, will maintain a close watch over resources so that the University will be able to react to unknown internal and external issues.

The level of state support is one of the key factors influencing the University's financial condition and its ability to expand programs, undertake new initiatives, and meet its core mission and ongoing operational needs. In addition, there is a direct relationship between the level of state support and tuition increases, as declines in state support generally result in increased tuition rates. State appropriations constituted approximately forty-one percent of the University's total revenues for fiscal year 2001-02, down from forty-five percent for the previous fiscal year. The University expects a further decrease in state support for fiscal year 2002-03.

Due to an expected decrease in state support, management will continue the University's ongoing efforts toward revenue diversification, cost containment, and operating efficiencies. Management will also continue to employ the University's long-term investment strategy to maximize total returns, at an appropriate level of risk, while utilizing a spending rate policy to insulate the University's operations from temporary market volatility.

While it is not possible to predict ultimate results, we believe that the University's overall financial condition is strong enough to weather most economic uncertainties. We believe that sufficient resources will be available to allow the University to continue its current level of excellent service to its students, the community, and governmental agencies.



RALPH CAMPBELL, JR.
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.osa.state.nc.us>

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying basic financial statements of The University of North Carolina at Greensboro, a constituent institution of the sixteen-campus University of North Carolina System, which is a component unit of the State of North Carolina, as of and for the year ended June 30, 2002, as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The University of North Carolina at Greensboro as of June 30, 2002, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 16 to the financial statements, the University implemented 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 GASB Statement No. 38, *Certain Financial Statement Note Disclosures* during the year ended June 30, 2002.


Ralph Campbell, Jr.
State Auditor

October 14, 2002



ASSETS

Current Assets

Cash and cash equivalents	\$ 50,088,848
Restricted cash and cash equivalents	11,668,712
Short-term investments	650,713
Restricted short-term investments	8,105,775
Receivables, net (Note 5)	7,243,617
Due from primary government	481,045
Inventories	510,079
Notes receivable, net (Note 5)	1,342,456
Total current assets	<u>80,091,245</u>

Noncurrent Assets

Restricted cash and cash equivalents	18,036,468
Receivables, net (Note 5)	2,009,981
Restricted due from primary government	2,845,560
Endowment investments	98,577,030
Other long-term investments	3,723,282
Notes receivable, net (Note 5)	4,249,376
Capital assets, net (Note 6)	233,069,123
Total noncurrent assets	<u>362,510,820</u>
Total assets	<u>442,602,065</u>

LIABILITIES

Current Liabilities

Accounts payable and accrued liabilities (Note 7)	12,820,211
Due to primary government	6,871
Deferred revenue	3,896,873
Interest payable	954,703
Long-term liabilities - current portion (Note 8)	3,211,667
Total current liabilities	<u>20,890,325</u>

Noncurrent Liabilities

Deposits payable	350,660
Funds held for others	1,169,576
U.S. government grants refundable	4,811,466
Funds held in trust for pool participants	1,431,166
Long-term liabilities (Note 8)	78,807,154
Total noncurrent liabilities	<u>86,570,022</u>
Total liabilities	<u>107,460,347</u>

NET ASSETS

Invested in capital assets, net of related debt	170,721,608
Restricted for	
Nonexpendable	
Scholarships and fellowships	43,515,197
Endowed professorships	18,400,258
Departmental uses	11,074,900
Loans	1,211,235
Other	15,398,762
Expendable	
Scholarships and fellowships	10,443,875
Research	16,780
Endowed professorships	2,583,287
Departmental uses	7,892,527
Loans	1,066,243
Capital projects	4,751,663
Debt service	3,717,717
Other	2,979,652
Unrestricted	<u>41,368,014</u>
Total net assets	<u>\$ 335,141,718</u>

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

Year Ended
June 30, 2002

Statement of
Revenues, Expenses,
and Changes in
Net Assets

REVENUES

Operating Revenues

Student tuition and fees, net (Note 10)	\$ 36,786,961
Federal grants and contracts	23,848,416
State and local grants and contracts	3,247,976
Nongovernmental grants and contracts	1,161,497
Sales and services, net (Note 10)	30,814,813
Interest earnings on loans	135,692
Other operating revenues	<u>130,772</u>
Total operating revenues	<u>96,126,127</u>

EXPENSES

Operating Expenses

Salaries and benefits	127,249,657
Supplies and materials	17,651,096
Services	35,729,035
Scholarships and fellowships	8,643,554
Utilities	4,204,106
Depreciation	<u>6,333,310</u>
Total operating expenses	<u>199,810,758</u>
Operating loss	<u>(103,684,631)</u>

NONOPERATING REVENUES (EXPENSES)

State appropriations	86,170,155
Noncapital grants	9,208,212
Noncapital gifts	2,550,899
Investment income (net of investment expense of \$333,296)	(4,479,220)
Interest and fees on capital asset-related debt	(3,981,442)
Other nonoperating revenues (expenses)	<u>(192,876)</u>
Net nonoperating revenues	<u>89,275,728</u>
Loss before other revenues, expenses, gains, or losses	(14,408,903)
Capital grants	16,831,405
Capital gifts	963,348
Additions to permanent endowments	<u>4,084,548</u>
Increase in net assets	7,470,398

NET ASSETS

Net assets - beginning of the year, as restated (Note 17)	<u>327,671,320</u>
Net assets - end of the year	<u>\$ 335,141,718</u>

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

**Statement of
Cash Flows**

Cash flows from Operating Activities

Student tuition and fees, net	\$ 36,307,845
Auxiliary enterprise charges	27,806,765
Contracts and grants	29,716,891
Payments to employees and fringe benefits	(125,089,312)
Payments to vendors and suppliers	(53,147,955)
Payments for scholarships and fellowships	(8,643,554)
Loans issued	(1,448,698)
Collection of loans	1,262,683
Interest earned on loans	75,764
Other receipts	306,016
Net cash used by operating activities	<u>(92,853,555)</u>

Cash Flows from Noncapital Financing Activities

State appropriations	86,170,155
Grants for other than capital purposes	8,986,692
Noncapital gifts	2,886,189
Additions to permanent and term endowments	4,007,326
Related activity agency receipts	82,789
Net cash provided by noncapital financing activities	<u>102,133,151</u>

**Cash Flows from Capital Financing and Related
Financing Activities**

Proceeds from capital debt	16,085,000
Capital grants	20,023,863
Capital gifts	660,145
Acquisition and construction of capital assets	(34,098,088)
Principal paid on capital debt and leases	(10,876,897)
Interest and fees paid on capital debt and leases	(3,711,159)
Other receipts	16,397
Net cash used by capital financing activities	<u>(11,900,739)</u>

Cash Flows from Investing Activities

Proceeds from sales and maturities of investments	85,224,684
Interest on investments	1,398,669
Purchase of investments and related fees	(77,115,972)
Net cash provided by investing activities	<u>9,507,381</u>

Net increase in cash	6,886,238
Cash - beginning of the year	72,907,790
Cash - end of year	<u>\$ 79,794,028</u>

Reconciliation of Operating Loss to Net Cash used by Operating Activities:	
Operating loss	\$ (103,684,631)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:	
Depreciation expense	6,333,310
Allowances, write-offs and amortizations	62,898
Changes in assets and liabilities:	
Receivables, net	1,251,411
Due from primary government	580,596
Inventories	(33,429)
Accounts payable & accrued liabilities	1,955,060
Due to primary government	(99,659)
Deferred revenue	427,434
Compensated absences	561,798
Note principal repayments	1,240,355
Notes issued	(1,448,698)
Net cash used by operating activities	<u>\$ (92,853,555)</u>

Reconciliation of Cash and Cash Equivalent Balances:	
Current assets:	
Cash and cash equivalents	\$ 50,088,848
Restricted cash and cash equivalents	11,668,712
Noncurrent assets	18,036,468
Total cash and cash equivalent balances	<u>\$ 79,794,028</u>

Noncash Investing, Capital, and Financing Activities:	
Change in fair value of investments	\$ 9,659,345
Change in contract retainage	\$ 1,035,466

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



Note	Page	Description
Note 1	16	Significant Accounting Policies A. Financial Reporting Entity B. Basis of Presentation C. Basis of Accounting D. Cash and Cash Equivalents E. Investments F. Receivables G. Inventories H. Capital Assets I. Restricted Assets J. Funds Held in Trust for Pool Participants K. Noncurrent Long-Term Liabilities L. Compensated Absences M. Net Assets N. Scholarship Discounts O. Revenue and Expense Recognition P. Internal Sales Activities
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NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity - The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their constituents for their actions. As required by accounting principles generally accepted in the United States of America, the financial reporting entity includes both the primary government and all of its component units. An organization other than a primary government serves as a nucleus for a reporting entity when it issues separate financial statements. The University of North Carolina at Greensboro is a constituent institution of the sixteen campus University of North Carolina System, which is a component unit of the State of North Carolina and an integral part of the State's *Comprehensive Annual Financial Report*. The accompanying financial statements present all funds belonging to the University and its component units. While the Board of Governors of the University of North Carolina System has ultimate responsibility, the Chancellor, the Board of Trustees, and the Board of Trustees of the Endowment Fund have delegated responsibilities for financial accountability of the University's funds. Although legally separate, The Human Environmental Sciences Foundation, Inc., The Weatherspoon Arts Foundation, The UNCG Excellence Foundation, and The University of North Carolina at Greensboro Investment Fund, Inc., component units of the University, are reported as if they were part of the University.

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

The Weatherspoon Arts Foundation is governed by a thirty member board consisting of thirty elected directors. The Foundation's purpose is to acquire by gift, purchase, lease, loan, or other means of conveyance works of art and to maintain and enhance the arts collection of teaching, research, and public services purposes exclusively for the use and benefit of The University of North Carolina at Greensboro. Because the elected directors of the Foundation are appointed by the members of the The University of North Carolina at Greensboro Board of Trustees and the Foundation's sole purpose is to benefit The University of North Carolina at Greensboro, its financial statements have been blended with those of the University.

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

The University of North Carolina at Greensboro Investment Fund, Inc. is governed by a board consisting of eight ex officio directors and six elected directors. The Investment Fund's purpose is to support the University by operating an investment fund for charitable, nonprofit foundations, associations, trusts, endowments and funds that are organized and operated primarily to support the University. The

Investment Fund is an external governmental investment pool. Because the elected directors of the Investment Fund are appointed by the members of The University of North Carolina at Greensboro Board of Trustees and the Investment Fund's primary purpose is to benefit The University of North Carolina at Greensboro, its financial statements have been blended with those of the University.

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

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

Pursuant to the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as amended by GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – For Public Colleges and Universities* effective for the University's year ended June 30, 2002, 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.

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.

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, for proprietary activities, unless the GASB amends its pronouncements to specifically adopt FASB pronouncements issued after that date.

D. Cash and Cash Equivalents – This classification appears on the Statement of Net Assets and the Statement of Cash Flows and includes undeposited receipts, petty cash, cash on deposit with private bank accounts, cash on deposit with fiscal agents, and short-term investments with the State Treasurer's Cash and Investment Pool (a governmental external investment pool). The short-term investment portfolio maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.

E. Investments - This classification includes long-term fixed income investments, equity investments, mutual funds, money market funds, limited partnerships, real estate investment trusts, real estate, and other asset holdings by the University. Except for money market funds, real estate not held by a governmental external investment pool and other asset holdings, investments are accounted for at fair value, as determined by quoted market prices, or an amount determined by management if quoted market prices are not available. The net increase (decrease) in the fair value of investments is recognized as a component of investment income.

Money market funds, real estate not held by a governmental external investment pool and other asset holdings are reported at cost, if purchased, or at fair value or appraised value at date of gift, if donated.

F. Receivables – Receivables consist of tuition and fees charges to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from the Federal government, state and local governments, other universities, private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants, pledges that are verifiable, measurable, and expected to be collected and available for expenditures for which the resource providers conditions have been satisfied, and accrued interest receivable from investments and student loans. Receivables are recorded net of estimated uncollectible amounts.

G. Inventories – Inventories, consisting of expendable supplies, merchandise for resale, postage, and fuel oil held for consumption are stated at cost using the last invoice cost.

H. Capital Assets – Capital assets are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. The University capitalizes assets that have a value or cost of \$5,000 or greater at the date of acquisition and an expected useful life of one or more years. Library books are expensed.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, 25 years for infrastructure, 50 years for buildings and 4 to 10 years for equipment.

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

I. Restricted Assets – Restricted assets represent assets whose use is restricted by external parties or by law through constitutional provisions or enabling legislation.

J. Funds Held in Trust for Pool Participants – Funds held in trust for pool participants represent the external portion of the University's governmental external investment pool more fully described in Note 3.

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

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

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

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

M. Net Assets

The University's net assets are classified as follows:

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

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

Restricted Net Assets – Expendable – Expendable restricted net assets include resources in which the University is legally or contractually obligated to spend the resources 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.

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

O. Revenue and Expense Recognition – The University presents its revenues and expenses as operating or nonoperating based on recognition definitions from GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*. Operating activities are those activities that are necessary and essential to the mission of the University. Operating revenues include all charges to customers, grants received for student financial assistance, research contracts and grants, and interest earned on loans. Grants received for student financial assistance are considered operating revenues because they provide resources for student charges and such programs are necessary and essential to the mission of the University. 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. Operating expenses are all expense transactions incurred other than those related to investing, capital or noncapital financing activities. Revenues received for capital financing activities, as well as related expenses, are considered neither operating nor nonoperating activities and are presented after nonoperating activities on the accompanying Statement of Revenues, Expenses, and Changes in Net Assets.

P. Internal Sales Activities – Certain institutional auxiliary operations provide goods and services to University departments as well as to its customers. These institutional auxiliary operations include activities such as Maintenance Materials Storeroom, Motor Pool, Postal Operations, Printing Services, and Telephone Services. In addition, the University has other miscellaneous sales and service units that operated either on a reimbursement or charge basis. All internal sales activities to University departments from auxiliary operations and sales and service units have been eliminated in the accompanying financial statements. These eliminations are recorded by removing the revenue and expense in the auxiliary operations and sales and service units and, if significant, allocating any residual balances to those departments receiving the goods and services during the year.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgeting and Budgetary Control - The State of North Carolina operates on a biennial budget cycle with separate annual departmental and institutional certified budgets adopted by the General Assembly.

Chapter 116, Article 1, Part 2A of the North Carolina General Statutes authorizes the universities within the sixteen campus University of North Carolina System to apply for special responsibility status, which sets the legal level of budgetary control at the institution's budget code level. A budget code is a convention used in the State's accounting system to distinguish the type of fund and the responsible department or institution. Budget codes are also used to segregate certain purposes within departments or institutions. Institutions with special responsibility status must still have certain budget revisions, primarily those associated with unanticipated revenues, approved by the Office of State Budget and Management. Additionally, universities must maintain programs and services in accordance with the guidelines established by the Board of Governors of the consolidated University of North Carolina System. The University of North Carolina at Greensboro has applied for and received special responsibility status.

After the budget is approved by the General Assembly and adopted by the Board of Governors, the University follows an established system of budgetary controls. Periodic interim budget statements to department heads guide them in managing budget allocations. Monthly financial reports, which include budget and actual data, are provided for each fund to individual managers responsible for the fund. When actual conditions require changes to the budget, revisions are prepared and communicated to those affected. Changes to the budget are reviewed and approved at the University or State level as required. The University maintains an encumbrance accounting system as another method to ensure that imposed expenditure constraints are observed. The State budgetary control is maintained on a cash basis of accounting.

NOTE 3 - DEPOSITS AND INVESTMENTS

A. Deposits - The University is required by General Statute 147-77 to deposit its budget code cash, as defined in Note 2, and by the University of North Carolina Board of Governors pursuant to General Statute 116-36.1 to deposit its institutional trust funds, except for funds received for services rendered by health care professionals, in the State Treasurer's Cash and Investment Pool. In addition, 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's Cash and Investment Pool. Special funds consist of moneys for intercollegiate athletics and agency funds held directly by the University.

Deposits include cash and cash equivalents and certificates of deposit totaling \$79,719,577. At

year-end, cash on hand was \$74,451. The University's portion of the State Treasurer's Cash and Investment Pool was \$71,733,237. 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 his 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 \$7,986,340 and the bank balance was \$7,993,487. Of the bank balance, \$443,491 was covered by federal depository insurance and \$7,549,996 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 Cash and Investment Pool are included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.state.nc.us/> and clicking on "Financial Reports", or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

B. Investments - The University is authorized by The University of North Carolina Board of Governors pursuant to General Statute 116-36.2 to invest its special funds and funds received for services rendered by health care professionals in the same manner as the State Treasurer is required to invest, as previously discussed.

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

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

Investments of The Human Environmental Sciences Foundation, Inc., The Weatherspoon Arts Foundation, The UNCG Excellence Foundation, and the University of North Carolina at Greensboro Investment Fund, Inc. are restricted only by the requirements placed on them by the donor or pool participant agreement.

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

External Investment Pool - The external investment pool sponsored by the University was established on July 1, 1992. The pool is utilized to manage the investments for charitable, nonprofit organizations, associations, trusts, endowments and funds that are organized and operated primarily to support the

University. Endowment funds of the University, as well as those of The Human Environmental Sciences Foundation, Inc. and The UNCG Excellence Foundation which are component units included in the University's reporting entity, represent the pool's internal participants. Other affiliated organizations not included in the University's reporting entity represent the pool's external participants. Fund ownership of the pool is measured using the unit market value method. Under this method, each participating fund's investment balance is determined based on the number of units of ownership purchased when joining the pool. Thereafter, the pooled assets are valued monthly, and a new unit market value is determined. The external portion of the pool is presented in the accompanying financial statements as "Funds Held in Trust for Pool Participants".

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

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

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

A summary of the University's investments at June 30, 2002 is presented on the following page.

External Investment Pool

	Fair Value			Total
	Risk Category			
	1	2	3	
Categorized Investments:				
Corporate Stocks	\$	\$ 32,985,484	\$	\$ 32,985,484
International Stocks		849,520		849,520
Total Categorized Investments	<u>\$</u>	<u>\$ 33,835,004</u>	<u>\$</u>	<u>33,835,004</u>
Investments Not Categorized:				
Money Market Funds				3,759,694
Mutual Funds				48,671,816
Limited Partnerships				12,099,164
Real Estate Investment Trusts				193,050
Total Investments Not Categorized				<u>64,723,724</u>
Total External Pool Investments				<u>\$ 98,558,728</u>

Non Pooled Investments

	Fair Value			Total
	Risk Category			
	1	2	3	
Categorized Investments:				
U. S. Government Securities	\$	\$ 1,884,687	\$	\$ 1,884,687
Corporate Bonds		667,899		667,899
Corporate Stocks		1,946,712		1,946,712
International Stocks		86,108		86,108
Total Categorized Investments	<u>\$</u>	<u>\$ 4,585,406</u>	<u>\$</u>	<u>4,585,406</u>
Investments Not Categorized:				
Money Market Funds				5,478,576
Mutual Funds				2,423,162
Real Estate				10,928
Total Investments Not Categorized				<u>7,912,666</u>
Total Non Pooled Investments				<u>\$ 12,498,072</u>

Total Investments

	Fair Value			Total
	Risk Category			
	1	2	3	
Total Categorized Investments	<u>\$</u>	<u>\$ 38,420,410</u>	<u>\$</u>	<u>\$ 38,420,410</u>
Total Investments Not Categorized				<u>72,636,390</u>
Total Investments				<u>\$ 111,056,800</u>

Certificates of deposit reported as investments are also a component of the deposit totals reported in the deposits section of this note.

NOTE 4 - 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 pooled endowment funds are equal to 4.3 percent of the average market value of the Investment Pool at December 31 for the past three years. To the extent that the current year earnings do not meet the payout requirements, the University uses accumulated realized appreciation to fund the difference. At June 30, 2002, net appreciation of \$2,419,374 was available to be spent of which \$2,301,360 was restricted to specific purposes.

NOTE 5 - RECEIVABLES

Receivables at June 30, 2002 were as follows:

	Gross Receivables	Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	\$ 1,070,353	\$ (335,332)	\$ 735,021
Accounts	1,610,966		1,610,966
Intergovernmental	2,980,788		2,980,788
Pledges	914,408		914,408
Investment Earnings	316,449		316,449
Interest on Loans	284,078		284,078
Other	401,907		401,907
Total Current Receivables	<u>\$ 7,578,949</u>	<u>\$ (335,332)</u>	<u>\$ 7,243,617</u>
Noncurrent Receivables:			
Pledges	<u>\$ 2,009,981</u>	<u>\$</u>	<u>\$ 2,009,981</u>
Notes Receivables:			
Notes Receivable - Current			
Federal Loan Programs	\$ 1,136,343	\$ (88,700)	\$ 1,047,643
Institutional Student Loan Programs	<u>297,078</u>	<u>(2,265)</u>	<u>294,813</u>
Total Notes Receivable Current	<u>\$ 1,433,421</u>	<u>\$ (90,965)</u>	<u>\$ 1,342,456</u>
Notes Receivable - Noncurrent:			
Federal Loan Programs	<u>\$ 4,749,262</u>	<u>\$ (499,886)</u>	<u>\$ 4,249,376</u>
Total Notes Receivable Noncurrent	<u>\$ 4,749,262</u>	<u>\$ (499,886)</u>	<u>\$ 4,249,376</u>

NOTE 6 - CAPITAL ASSETS

A summary of changes in the capital assets is presented as follows:

	Balance July 1, 2001	Transfer of Assets	Increases	Decreases	Balance June 30, 2002
Capital Assets, Non-Depreciable:					
Land	\$ 17,484,156	\$	\$ 40,502	\$	\$ 17,524,658
Art, Literature, and Artifacts	18,416,640		763,833		19,180,473
Construction in Progress	20,068,596	(3,420,369)	33,938,740		50,586,967
Total Capital Assets, Non-Depreciable	<u>55,969,392</u>	<u>(3,420,369)</u>	<u>34,743,075</u>		<u>87,292,098</u>
Capital Assets, Depreciable:					
Buildings	175,697,946	655,461	4,536		176,357,943
Machinery and Equipment	22,688,387		1,551,126	(1,275,055)	22,964,458
General Infrastructure	23,971,872	2,764,908	6,374	(11,863)	26,731,291
Totals	<u>222,358,205</u>	<u>3,420,369</u>	<u>1,562,036</u>	<u>(1,286,918)</u>	<u>226,053,692</u>
Less Accumulated Depreciation/Amortization for:					
Buildings	(54,489,965)		(3,160,863)		(57,650,828)
Machinery and Equipment	(13,465,258)		(2,350,391)	1,074,086	(14,741,563)
General Infrastructure	(7,065,779)		(822,056)	3,559	(7,884,276)
Totals	<u>(75,021,002)</u>		<u>(6,333,310)</u>	<u>1,077,645</u>	<u>(80,276,667)</u>
Total capital assets, depreciable, net	<u>147,337,203</u>	<u>3,420,369</u>	<u>(4,771,274)</u>	<u>(209,273)</u>	<u>145,777,025</u>
Capital Assets, net	<u>\$ 203,306,595</u>	<u>\$ 0</u>	<u>\$ 29,971,801</u>	<u>\$ (209,273)</u>	<u>\$ 233,069,123</u>

NOTE 7 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2002 were as follows:

	Totals
Accounts Payable	\$ 5,475,077
Accrued Payroll	4,963,224
Contract Retainage	1,754,620
Intergovernmental Payables	73,245
Other	554,045
Total accounts payable and accrued liabilities	<u>\$ 12,820,211</u>

NOTE 8 - LONG-TERM LIABILITIES

A. Changes in Long-Term Liabilities - A summary of changes in the long-term liabilities is presented as follows:

	Balance July 1, 2001	Additions	Reductions	Balance June 30, 2002	Current Portion
Bonds Payable	\$ 70,968,000	\$ 16,445,000	\$ (10,916,000)	\$ 76,497,000	\$ 3,046,000
Add/Deduct Premium/Discount	(526,800)		25,157	(501,643)	
Deduct Deferred Charge on Refunding		(360,000)	13,946	(346,054)	
Total Bonds Payable	70,441,200	16,085,000	(10,876,897)	75,649,303	3,046,000
Compensated Absences	3,977,377	5,335,211	(4,773,413)	4,539,175	165,667
Annuity & Life Income Payable	1,844,020		(13,677)	1,830,343	
Total long-term liabilities	\$ 76,262,597	\$ 21,420,211	\$ (15,663,987)	\$ 82,018,821	\$ 3,211,667

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

Purpose	Series	Interest Rate/ Ranges	Final Maturity Date	Original Amount of Issue	Principal Paid Through 6/30/02	Principal Outstanding 6/30/02
Housing and Dining System						
Dormitory System Bonds of 1962	B	3.50%	7/1/02	\$ 1,800,000	\$ 1,721,000	\$ 79,000
Dormitory Systems Bonds of 1966	C	4.75%	7/1/05	2,550,000	2,072,000	478,000
Housing and Dining System Revenue Bonds (1993)	C	5.60%	4/1/18	4,265,000	870,000	3,395,000
Housing and Dining System Revenue Bonds (1997)	D	5.10%	4/1/23	6,000,000	530,000	5,470,000
Housing and Dining System Revenue Bonds (1997)	E	4.60%	4/1/07	7,290,000	3,820,000	3,470,000
Housing and Dining System Revenue Bonds (1997)	F	5.10%	4/1/16	8,750,000	1,630,000	7,120,000
Housing and Dining System Revenue Bonds (2000)	G	6.00%	4/1/26	6,425,000	130,000	6,295,000
Total Housing and Dining System				37,080,000	10,773,000	26,307,000
Student Facilities System						
Student Facilities Revenue Bonds (1992)	A	5.70%	4/1/17	10,425,000	10,425,000	0
Student Facilities Revenue Bonds (1997)	B	5.10%	4/1/23	3,755,000	335,000	3,420,000
Student Facilities Revenue Bonds (1997)	C	5.30%	4/1/23	12,200,000	1,130,000	11,070,000
Total Student Facilities System				26,380,000	11,890,000	14,490,000
General Revenue Bonds (2001)	A	4.70%	4/1/26	19,870,000	440,000	19,430,000
General Revenue Bonds (2001)	B	4.87%	4/1/26	16,445,000	175,000	16,270,000
Total Bonds Payable (principal only)				\$ 99,775,000	\$ 23,278,000	76,497,000
Less: Unamortized Loss on Refunding						(346,054)
Less: Unamortized Discount						(501,643)
Plus: Unamortized Premium						
Total Bonds Payable						\$ 75,649,303

C. Annual Requirements - The annual requirements to pay principal and interest on the long-term obligations at June 30, 2002 are as follows:

Fiscal Year	Annual Requirements	
	Bonds Payable	
	Principal	Interest
2003	\$ 3,046,000	\$ 3,788,504
2004	3,097,000	3,657,331
2005	3,252,000	3,519,457
2006	3,387,000	3,373,181
2007	3,435,000	3,226,189
2008-2012	15,455,000	13,956,701
2013-2017	19,190,000	9,742,955
2018-2022	15,460,000	5,135,263
2023-2026	10,175,000	1,232,287
Total Requirements	<u>\$ 76,497,000</u>	<u>\$ 47,631,868</u>

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

Student Facilities System: On January 4, 2002, the University defeased \$8,085,000 of outstanding Student Facilities Revenue Bonds, Series A (original issue amount \$10,425,000). As a result, the University reduced its debt service requirements by \$420,184 over the next 15 years and obtained an economic gain of \$298,691.

Housing and Dining System: In 1997, the University defeased \$8,045,000 of outstanding Dining System Revenue Bonds, Series B (1991). An irrevocable trust was established with an escrow agent to provide for all future debt service payments on the defeased bonds. The trust assets and the liability for the defeased bonds are not included in the University's Statement of Net Assets. At June 30, 2002, the outstanding balance of the defeased Housing and Dining System Revenue Bonds was \$6,785,000.

NOTE 9 - LEASE OBLIGATIONS

Operating Lease Obligations - Future minimum lease payments under non-cancelable operating leases consist of the following at June 30, 2002:

Fiscal Year	Amount
2003	\$ 332,073
2004	284,640
2005	255,257
2006	155,714
2007	47,500
Total Minimum Lease Payments	\$ 1,075,184

Rental expense for all operating leases during the year was \$319,965.

NOTE 10 - REVENUES

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

	Gross Revenues	Less Internal Sales Eliminations	Less Scholarship Discounts	Less: Allowance for Uncollectibles	Net Revenues	Net Revenues Pledged as Security for Debt	
Operating revenues:							
Student tuition and fees	\$ 41,510,816	\$ 13,514	\$ 4,634,694	\$ 75,647	\$ 36,786,961	\$ 3,214,776	(B)
Sales and services:							
Sales and services of auxiliary enterprises:							
Residential life	10,537,315	361,787	1,135,675	15,891	9,023,962	9,023,962	(A)
Dining	7,934,743		848,474	12,108	7,074,161	7,074,161	(A)
Student Union services	946,315				946,315	0	
Health	2,642,267	2,344	274,515	3,608	2,361,800	0	
Parking	2,958,550	90,226		(10,008)	2,878,332	0	
Athletic	4,348,329	27,657	433,635	5,749	3,881,288	0	
Other	5,542,570	5,028,014			514,556	0	
Sales and services of educational and related activities	5,759,725	1,625,326			4,134,399	0	
Total sales and services	\$ 40,669,814	\$ 7,135,354	\$ 2,692,299	\$ 27,348	\$ 30,814,813	\$ 16,098,123	

Revenue bonds secured by pledged revenues:

- (A) Housing and Dining System
(B) Student Facilities System

NOTE 11 - 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	\$ 64,145,611	\$ 2,128,217	\$ 2,964,595	\$ 15,810	\$	\$	\$ 69,254,233
Research	7,976,467	812,688	4,847,900	139,779	435		13,777,269
Public Service	4,530,805	1,096,070	7,093,316	258,900	2,908		12,981,999
Academic Support	14,362,727	4,728,191	4,095,498	312,920	739		23,500,075
Student Services	7,056,451	767,242	2,283,242	1,000	81		10,108,016
Institutional Support	11,961,938	1,376,315	4,049,113	1,580	1,520		17,390,466
Operations and Maintenance of Plant	7,744,241	4,252,069	403,995		3,818,269		16,218,574
Student Financial Aid			(35,656)	7,913,565			7,877,909
Auxiliary Enterprises	9,471,417	2,490,304	10,027,032		380,154		22,368,907
Depreciation						6,333,310	6,333,310
Total Operating Expenses	\$ 127,249,657	\$ 17,651,096	\$ 35,729,035	\$ 8,643,554	\$ 4,204,106	\$ 6,333,310	\$ 199,810,758

NOTE 12 - 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. The Teachers' and State Employees' Retirement System (System) is a multiple-employer cost sharing defined benefit pension plan administered by the North Carolina State Treasurer.

After five years of creditable service, members of the Teachers' and State Employees' Retirement System qualify for a vested deferred benefit. Employees who retire on or after age 65 and complete 5 years of membership service (age 55 and 5 years of creditable service for law enforcement officers), reach age 60 with 25 years of membership service, or complete 30 years of creditable service receive a retirement allowance of 1.81% of an average final compensation (based on the 4 consecutive years that produce the highest average) multiplied by the number of years of creditable service. Employees may retire with reduced benefits if they reach age 50 with 20 years of creditable service or reach age 60 with 5 years of creditable service (age 50 with 15 years creditable service for law enforcement officers).

Benefit and contribution provisions for the Teachers' and State Employees' Retirement System are established by North Carolina General Statute 135-5 and 135-8 and may be amended only by the North Carolina General Assembly. Employer and member contributions rates are set each year by the North Carolina General Assembly based on annual actuarial valuations. For the year ended June 30, 2002, these rates were set at 1.97% of covered payroll for employers and 6% of covered payroll for members.

For the year ended June 30, 2002, the University had a total payroll of \$108,393,184 of which \$55,988,719 as covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were \$3,359,323 and \$1,102,978, respectively. The University made one hundred percent of its annual required contributions for the years ended June 30, 2002, 2001, and 2000, which were \$1,102,978, \$2,764,708, and \$3,773,711, respectively.

The Teachers' and State Employees' Retirement System's financial information is included in the State of North Carolina *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, which provides retirement benefits with options for payments to beneficiaries in the event of the participant's death. Administrators and eligible faculty of the University may join the Program instead of the Teachers' and State Employees' Retirement System. The Board of Governors of The University of North Carolina is responsible for the administration of the Program and designates the companies authorized to offer investment products. The Board has authorized the following carriers: Teachers' Insurance and Annuity Association - College Retirement Equities Fund (TIAA-CREF), Lincoln Life Insurance Company, Variable Annuity Life Insurance Company (VALIC), and Fidelity Investments. Participants may elect to allocate their contributions and the University contributions to any one of the carriers or may direct their contributions to one carrier and the University contributions to another. Each carrier offers a variety of investment funds, including both fixed and variable account investment options and mutual funds.

Participant eligibility and contributory requirements are established by General Statute 135-5.1. Employer and member contributions rates are set each year by the North Carolina General Assembly. For the year ended June 30, 2002, 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.

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.

For the year ended June 30, 2002, the University had a total payroll of \$108,393,184 of which \$37,361,916 was covered under the Optional Retirement Program. Total employee and employer contributions for pension benefits for the year were \$2,241,715 and \$2,555,555, respectively.

B. Deferred Compensation and Supplemental Retirement Income Plans

IRC Section 457 Plan - The State of North Carolina offers its permanent employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 through the North Carolina Public Employee Deferred Compensation Plan (the Plan). The Plan permits each participating employee to defer a portion of his or her salary until future years. The deferred compensation is available to employees upon separation from service, death, disability, retirement or financial hardships if approved by the Board of Trustees of the Plan. The Board, a part of the North Carolina Department of Administration, maintains a separate fund for the exclusive benefit of the participating employees and their beneficiaries, the *North Carolina Public Employee Deferred Compensation Trust Fund*. The Board also contracts with an external third party to perform certain administrative requirements and to manage the trust fund's assets. All costs of administering and funding the Plan are the responsibility of the Plan participants. No costs are incurred by the University. The voluntary contributions by employees amounted to \$91,912 for the year ended June 30, 2002.

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, 2002 were \$64,824. The voluntary contributions by employees amounted to \$709,944 for the year ended June 30, 2002.

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 non-profit 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 \$1,624,554 for the year ended June 30, 2002.

NOTE 13 - OTHER POSTEMPLOYMENT BENEFITS

A. Health Care for Long-Term Disability Beneficiaries and Retirees - The University participates in state administered programs which provide postemployment health insurance to eligible former

employees. Eligible former employees include long-term disability beneficiaries of the Disability Income Plan of North Carolina and retirees of the Teachers' and State Employees' Retirement System or the Optional Retirement Program. These benefits were established by Chapter 135, Article 3, Part 3, of the General Statutes and may be amended only by the North Carolina General Assembly. Funding for the health care benefit for long-term disability beneficiaries and retirees is financed on a pay-as-you-go basis. The University contributed 2.35% of the covered payroll under the Teachers' and State Employees' Retirement System and the Optional Retirement Program for these health care benefits. For the fiscal year ended June 30, 2002, the University's total contribution to the Plan was \$2,193,740. 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 or the Optional Retirement Program. Long-term disability income benefits are advance funded on an actuarially determined basis using the one-year term cost method. The University contributes 0.52% of covered payroll under the Teachers' and State Employees' Retirement System and the Optional Retirement Program to the DIPNC. For the fiscal year ended June 30, 2002, the University's total contribution to the DIPNC was \$485,423. 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 14 - RISK MANAGEMENT

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

Tort claims of up to \$500,000 are self-insured under the authority of the State Tort Claims Act. In addition, the State provides excess public officers' and employees' liability insurance up to \$11,000,000 via contract with a private insurance company. The University pays the premium, based on a composite rate, to the State's Agent of Record.

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

A number of University departments have also elected to purchase "all-risk" insurance through the Fund. The principal cause of loss addressed by this coverage is theft. Losses covered by the Fund are

subject to a \$500 per occurrence deductible except theft losses, which carry a \$1,000 per occurrence deductible.

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

The University is protected for losses from employee dishonesty and computer fraud. This coverage is with a private insurance company and is handled by the North Carolina Department of Insurance. Coverage limit is \$5,000,000 per occurrence with a \$50,000 deductible.

Other coverage not handled by the North Carolina Department of Insurance is purchased through the State's Agent of Record.

Employees and retirees are provided health care coverage by the Comprehensive Major Medical Plan (Plan), a component unit of the State. The Plan is funded by employer and employee contributions and is administered by a third party contractor. Effective for the October 1, 2001 through September 30, 2002 year, the Plan no longer offers health coverage through HMO plans.

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 of \$25,000 to \$50,000 is provided to eligible workers. This self-insured death benefit program is administered by the State Treasurer's Office and funded via employer contributions.

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 15 - COMMITMENTS AND CONTINGENCIES

A. Commitments - The University has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were \$29,512,651 at June 30, 2002.

B. Pending Litigation and Claims - The University is a party to other litigation and claims in the ordinary course of its operations. Since it is not possible to predict the ultimate outcome of these matters, no provision for any liability has been made in the financial statements. University management is of the opinion that the liability, if any, for any of these matters will not have a material adverse effect on the financial position of the University.

C. University Improvement General Obligation Bonds – The 1999-2000 Session of the General Assembly of North Carolina authorized the issuance of \$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. In addition, amounts not allotted but accrued as expended at year-end are recorded as revenue. The University’s remaining authorization of \$139,808,255 is contingent on future bond sales and OSBM allotment approval. Because of uncertainty and time restrictions, the remaining authorization is not recorded as an asset or revenue on the accompanying financial statements.

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

<u>Purpose</u>	<u>Amount</u>
Pledges to the Excellence Foundation Endowment Fund	\$ 1,313,681
Pledges to the Human Environmental Sciences Foundation Endowment Fund	\$ 65,849
Pledges to the UNCG Endowment Fund	\$ 215,130

NOTE 16 - ACCOUNTING CHANGES

Effective July 1, 2001, the University implemented 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 financial statement presentation required by these Statements is a single-column enterprise activity rather than the fund-group perspective previously reported. Significant accounting changes in order to comply with the new requirements include adopting depreciation on capital assets, reporting revenues net of discounts and allowances, eliminating inter-fund activities, classifying activities as operating or nonoperating, classifying assets and liabilities as current or noncurrent, and prorating summer school activities to periods earned.

In addition, the University implemented GASB Statement No. 38, *Certain Financial Statement Note Disclosures*. Changes in existing disclosures include more detailed information on debt service requirements, obligations under leases, and short-term debt.

NOTE 17 - NET ASSET RESTATEMENTS

As referred to in Note 16, the University implemented 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*:

July 1, 2001 Fund Equity as previously reported	\$ 468,513,372
Accumulated Depreciation as of July 1, 2001	75,021,002
Write-off of Library Books	61,126,420
Reclassify U.S. Grants Refundable to a Liability	<u>4,694,630</u>
July 1, 2001 Net Assets as Restated	<u>\$ 327,671,320</u>

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