

THE UNIVERSITY OF NORTH CAROLINA

# GREENSBORO



## The Financial Report 2002-2003

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THE UNIVERSITY OF NORTH CAROLINA  
**GREENSBORO**

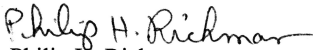
**Business Affairs**  
Office of the Vice Chancellor

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, 2003. 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. The accompanying financial statements are presented in accordance with accounting principles generally prescribed by the Governmental Accounting Standards Board.

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 discussion and analysis (MD&A) as an overview of the financial activities for the fiscal year ended June 30, 2003. This discussion, the preceding transmittal letter, the following financial statements, and the 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.

## **Using the Financial Report**

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

## **Statement of Net Assets**

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

### Condensed Statement of Net Assets

	6/30/03	(as restated) 6/30/02
<b>Assets:</b>		
Current assets	\$ 86,268,193	\$ 80,091,245
Noncurrent Capital assets, net of accumulated depreciation	262,432,188	233,069,123
Other noncurrent assets	124,129,120	129,441,697
<b>Total Assets</b>	<u>472,829,501</u>	<u>442,602,065</u>
<b>Liabilities:</b>		
Current Liabilities	21,763,910	21,240,985
Noncurrent Liabilities	90,814,250	86,219,362
<b>Total Liabilities</b>	<u>112,578,160</u>	<u>107,460,347</u>
<b>Net Assets:</b>		
Invested in capital assets, net of related debt	194,603,660	170,721,608
Restricted - nonexpendable	65,047,003	61,087,831
Restricted - expendable	47,809,392	56,495,509
Unrestricted	52,791,286	46,836,770
<b>Total Net Assets</b>	<u>\$ 360,251,341</u>	<u>\$ 335,141,718</u>

The total assets of the University increased by \$30.2 million for the year (\$6.2 million for current assets, \$24 million for noncurrent assets). This overall increase was primarily attributable to an increase of \$29.4 million in capital assets, net of accumulated depreciation. Although cash and cash equivalents decreased by \$5.7 million, investments increased by \$7 million. This change resulted primarily due to \$6 million cash on hand with the University's investment managers at June 30, 2002 being invested shortly after the beginning of the new fiscal year. Excluding this \$6 million exchange of cash for investments, investments actually increased by only \$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 \$5.1 million for the year (\$0.5 million for current liabilities, \$4.6 million for noncurrent liabilities). This overall increase was primarily attributable to an increase of \$2.6 million in bonds payable, and an increase of \$2 million in accrued vacation leave payable. The total increase in bonds payable, along with the related increase in net capital assets mentioned above, contributed to the \$23.9 million increase in the investment of capital assets, net of related debt. The increase in vacation leave payable is mainly attributable to the 80 hours of bonus leave given to all permanent employees by the General Assembly during fiscal year 2002-03. (Note: The June 30, 2002 balance of deposits payable, in the amount of \$350.6 thousand, has been restated as current liabilities instead of noncurrent.)

The combination of the increase in total assets of \$30.2 million and the increase in total liabilities of \$5.1 million yields an overall increase in total net assets of \$25.1 million. As stated above, the category of invested in capital assets, net of debt, increased by \$23.9 million. All other categories of net assets collectively increased by \$1.2 million, primarily due to the increase in investments mentioned above.

(Note: The June 30, 2002 balances reflected in the net asset section were restated to classify only permanently nonexpendable funds as "Restricted - nonexpendable". Undivided Gains and Losses associated with permanent true endowment funds were reclassified to "Restricted - expendable" or "Unrestricted" depending upon the classification of the income account associated with the permanent endowment account.)

### 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 Years Ended

	6/30/03	6/30/02	
Operating revenues	\$ 107,888,463	\$ 96,126,127	
Operating expenses	213,980,139	199,810,758	
Operating loss	(106,091,676)	(103,684,631)	
Net nonoperating revenues	101,914,840	89,275,728	
Loss before other revenues	(4,176,836)	(14,408,903)	
Other revenues	29,286,459	21,879,301	
Total increase in net assets	25,109,623	7,470,398	
Net assets - July 1, 2002	335,141,718	327,671,320	
Net assets - June 30, 2003	\$ 360,251,341	\$ 335,141,718	

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 \$11.8 million (12.2%), whereas operating expenses increased by \$14.2 million (7.1%), for a combined net increase in operating loss of \$2.4 million. The single largest increase within operating revenues was in net student tuition and fees, which increased by \$13 million. This substantial increase (35.2%) is equally attributable to: (1) increases in student enrollment and in tuition and fee rates; and (2) the reclassification of \$6.2 million of student athletic and health service fees from "Sales and Services" to "Student Tuition and Fees", as required by the UNC Office of the President. The increase in operating expenses is primarily the result of a \$3.6 million increase in salaries and benefits, a \$3.2 million increase in supplies and materials, a \$3 million increase in services, and a \$1.5 million increase in scholarships and fellowships. The increase in salaries and benefits is directly related to the additional 80 hours of bonus leave as discussed previously (\$1.7 million).
- Net nonoperating revenues increased by \$12.6 million (14.2%), primarily due to a modest increase in state appropriations (\$3.4 million) and a significant increase in investment income (\$10.4 million). There was, however, a \$1.1 million decrease in noncapital gifts. The increase in investment income is primarily related to a change in the University's investment strategy where fewer funds were invested in stock equities and more funds invested in alternative investments. This change in strategy, as well as the decrease in noncapital gifts, is primarily due to the state's economic recession and corresponding instability in the stock market.
- Other revenues increased by \$7.4 million (33.9%), primarily due to increased funding by the state for construction activities via the statewide higher education bonds. This increase of \$7.9 million (47.2%) is reflected in the category of capital grants.

### **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 Years Ended**

	<b>6/30/03</b>	<b>6/30/02</b>
Cash Provided (Used) by:		
Operating Activities	\$ (96,887,579)	\$ (92,853,555)
Noncapital Financing Activities	106,041,425	102,133,151
Capital and Related Financing Activities	(14,361,422)	(11,900,739)
Investing Activities	(515,385)	9,507,381
Net Change in Cash	(5,722,961)	6,886,238
Cash and Cash Equivalents - July 1, 2002	79,794,028	72,907,790
Cash and Cash Equivalents - June 30, 2003	\$ 74,071,067	\$ 79,794,028

Major sources of funds included in operating activities are student tuition and fees (\$50 million), auxiliary sales and services (\$22.8 million), and contracts and grants (\$28.1 million). Major uses of funds included in operating activities are payments to employees and related fringe benefits (\$128.9 million), payments to vendors/suppliers (\$58.5 million), and payments for scholarships and fellowships (\$10.2 million). Collectively, total sources of funds included in operating activities increased by 7.6% (\$7.3 million), whereas total uses increased by 6% (\$11.3 million).

The major source of funds included in noncapital financing activities is state appropriations (\$89.6 million) which increased by 4% (\$3.4 million) over the prior fiscal year.

The major source of funds included in capital and related financing activities is capital grants (\$24 million), whereas the major use is the acquisition and construction of capital assets (\$36.8 million). Collectively, total sources of funds included in capital and related financing activities decreased by 9.5% (\$3.5 million), whereas total uses decreased by 2.1% (\$1 million).

The major source of funds included in investing activities is proceeds from sales and maturities of investments (\$61.6 million), whereas the major use is purchase of investments and related fees (\$68.1 million). Collectively, total sources of funds included in investing activities decreased by 21.9% (\$19 million), whereas total uses decreased by only 11.6% (\$9 million).

**Capital Asset and Debt Administration**

During fiscal year 2002-03, the Elliott University Center renovation and expansion project was completed. This \$23 million project provided an additional 75,000 square feet to the fifty year old student center which first opened in 1953. The biggest new addition is a 480 seat auditorium. However, there are also expanded meeting rooms with state-of-the-art technology, expanded lounge spaces for students, and new office spaces for student organizations. Although the University had only one significant capital asset addition for facilities, \$27.4 million was spent on construction in progress as follows: \$14.4 million on the new Science Building; \$6.4 million on the new Oakland Avenue Parking Deck; \$3.4 million on the McIver Chiller Plant expansion; \$1.4 million on the Infrastructure Enhancement project; and \$1.8 million on other projects.

Also during fiscal year 2002-03, the University issued \$8.8 million in General Revenue and Revenue Refunding Bonds, Series 2002A, and defeased \$3.4 million of outstanding Housing and Dining Revenue Bonds, Series 1993C. The University used \$3.4 million of the net bond proceeds



to purchase securities that were placed in an irrevocable trust with an escrow agent to provide for all future payments on the defeased bonds. The remaining net proceeds were used to fund residence hall renovations. As a result of the defeasance of the 1993 bonds, The University reduced its debt service requirements by \$184 thousand over the next 16 years and obtained an economic gain of \$132 thousand.

For additional information concerning Capital Assets and Debt Administration, see Notes 5 and 7 in the notes to the financial statements.

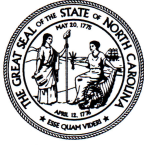
### **Economic Outlook**

Management is not aware of any currently known facts, decisions, or conditions that are expected to have a significant effect on the University's financial position or results of operations during fiscal year 2003-04 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 2002-03 fiscal year and, accordingly, will maintain a close watch over resources so that the University will be able to react to unknown internal and external issues.

The level of state support is one of the key factors influencing the University's financial condition and its ability to expand programs, undertake new initiatives, and meet its core mission and ongoing operational needs. In addition, there is a direct relationship between the level of state support and tuition increases, as declines in state support have resulted in increased tuition rates. State appropriations constituted approximately thirty-seven percent of the University's total revenues for fiscal year 2002-03, down from forty-one percent for fiscal year 2001-02, and forty-five percent for fiscal year 2000-01. The University expects state support for fiscal year 2003-04 to remain at current levels.

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

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



RALPH CAMPBELL, JR.  
STATE AUDITOR

STATE OF NORTH CAROLINA  
**Office of the State Auditor**

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**INDEPENDENT AUDITOR'S REPORT**

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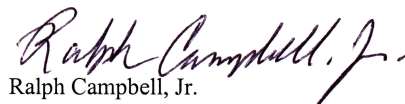
Board of Trustees  
The University of North Carolina at Greensboro  
Greensboro, North Carolina

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, 2003, 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, 2003, 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.

The Management's Discussion and Analysis (MD&A), as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

  
Ralph Campbell, Jr.  
State Auditor

October 24, 2003



<b>ASSETS</b>	
<b>Current Assets</b>	
Cash and cash equivalents	\$ 57,195,417
Restricted cash and cash equivalents	12,191,862
Short-term investments	600,029
Restricted short-term investments	6,665,385
Receivables, net (Note 4)	7,788,709
Inventories	430,222
Notes receivable, net (Note 4)	1,396,569
Total current assets	<u>86,268,193</u>
<b>Noncurrent Assets</b>	
Restricted cash and cash equivalents	4,683,788
Receivables, net (Note 4)	605,145
Restricted due from primary government	3,666,910
Endowment investments	107,003,049
Other long-term investments	3,841,198
Notes receivable, net (Note 4)	4,329,030
Capital assets - nondepreciable (Note 5)	100,198,860
Capital assets - depreciable, net (Note 5)	162,233,328
Total noncurrent assets	<u>386,561,308</u>
Total assets	<u>472,829,501</u>
<b>LIABILITIES</b>	
<b>Current Liabilities</b>	
Accounts payable and accrued liabilities (Note 6)	12,898,686
Due to primary government	7,093
Deposits payable	454,765
Deferred revenue	3,980,721
Interest payable	978,047
Long-term liabilities - current portion (Note 7)	3,444,598
Total current liabilities	<u>21,763,910</u>
<b>Noncurrent Liabilities</b>	
Funds held for others	673,239
U.S. government grants refundable	4,981,760
Funds held in trust for pool participants	1,641,935
Long-term liabilities (Note 7)	83,517,316
Total noncurrent liabilities	<u>90,814,250</u>
Total liabilities	<u>112,578,160</u>
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	194,603,660
Restricted for	
Nonexpendable	
Scholarships and fellowships	32,152,659
Endowed professorships	13,879,019
Departmental uses	8,237,461
Loans	919,652
Other	9,858,212
Expendable	
Scholarships and fellowships	22,147,694
Research	12,886
Endowed professorships	8,563,361
Departmental uses	10,069,659
Loans	1,273,826
Capital projects	586,364
Debt service	1,730,442
Other	3,425,160
Unrestricted	52,791,286
Total net assets	<u>\$ 360,251,341</u>

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

Year Ended  
June 30, 2003

Statement of  
Revenues, Expenses,  
and Changes in  
Net Assets

**REVENUES**

**Operating Revenues**

Student tuition and fees, net (Note 9)	\$ 49,750,299
Federal grants and contracts	26,711,899
State and local grants and contracts	445,340
Nongovernmental grants and contracts	1,309,149
Sales and services, net (Note 9)	29,183,409
Interest earnings on loans	219,894
Other operating revenues	268,473
Total operating revenues	<u>107,888,463</u>

**EXPENSES**

**Operating Expenses**

Salaries and benefits	130,876,104
Supplies and materials	20,834,159
Services	38,860,086
Scholarships and fellowships	10,152,406
Utilities	6,236,784
Depreciation	7,020,600
Total operating expenses	<u>213,980,139</u>
Operating loss	<u>(106,091,676)</u>

**NONOPERATING REVENUES (EXPENSES)**

State appropriations	89,580,341
Noncapital grants	9,429,506
Noncapital gifts	1,477,940
Investment income (net of investment expense of \$407,079)	5,966,257
Interest and fees on capital asset-related debt	(4,296,297)
Other nonoperating revenues (expenses)	(242,907)
Net nonoperating revenues	<u>101,914,840</u>
Loss before other revenues, expenses, gains, or losses	<u>(4,176,836)</u>
Capital grants	24,775,038
Capital gifts	707,184
Additions to permanent endowments	4,050,680
Transfer Paideia Center to UNC General Administration	(246,443)
Increase in net assets	<u>25,109,623</u>

**NET ASSETS**

Net Assets - July 1, 2002	335,141,718
Net Assets - June 30, 2003	<u>\$ 360,251,341</u>

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

*Statement of  
Cash Flows*

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<b>Cash flows from Operating Activities</b>	
Student tuition and fees, net	\$ 49,959,917
Auxiliary enterprise charges	22,804,070
Grants and contracts	28,078,537
Payments to employees and fringe benefits	(128,903,020)
Payments to vendors and suppliers	(58,451,907)
Payments for scholarships and fellowships	(10,152,406)
Loans issued	(1,825,649)
Collection of loans	1,607,245
Interest earned on loans	303,635
Other payments	(308,001)
Net cash used by operating activities	<u>(96,887,579)</u>
<b>Cash Flows from Noncapital Financing Activities</b>	
State appropriations	89,580,341
Grants for other than capital purposes	9,536,325
Noncapital gifts	2,995,320
Additions to permanent and term endowments	4,050,680
Related activity agency receipts	125,202
Transfer of Paideia Center to UNC General Administration	(246,443)
Net cash provided by noncapital financing activities	<u>106,041,425</u>
<b>Cash Flows from Capital Financing and Related Financing Activities</b>	
Proceeds from capital debt	9,235,766
Capital grants	23,953,688
Capital gifts	64,108
Acquisition and construction of capital assets	(36,767,963)
Principal paid on capital debt and leases	(6,602,986)
Interest and fees paid on capital debt and leases	(4,272,953)
Other receipts	28,918
Net cash used by capital financing activities	<u>(14,361,422)</u>
<b>Cash Flows from Investing Activities</b>	
Proceeds from sales and maturities of investments	61,556,815
Interest on investments	6,073,983
Purchase of investments and related fees	(68,146,183)
Net cash provided by investing activities	<u>(515,385)</u>
Net decrease in cash and cash Equivalents	(5,722,961)
Cash and cash equivalents - July 1, 2002	79,794,028
Cash and cash equivalents - June 30, 2003	<u>\$ 74,071,067</u>

**Reconciliation of Operating Loss to  
Net Cash used by Operating Activities:**

Operating loss	\$ (106,091,676)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:	
Depreciation expense	7,020,600
Allowances, write-offs and amortizations	82,187
Changes in assets and liabilities:	
Receivables, net	(734,258)
Due from primary government	481,045
Inventories	79,856
Accounts payable & accrued liabilities	383,014
Due to primary government	222
Deferred revenue	192,535
Compensated absences	1,960,759
Note principal repayments	1,563,786
Notes issued	(1,825,649)
Net cash used by operating activities	<u>\$ (96,887,579)</u>

**Reconciliation of Cash and Cash Equivalent Balances:**

Current assets:	
Cash and cash equivalents	\$ 57,195,417
Restricted cash and cash equivalents	12,191,862
Noncurrent assets:	
Restricted cash and cash equivalents	4,683,788
Total cash and cash equivalent balances	<u>\$ 74,071,067</u>

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



<b>Note</b>	<b>Page</b>	<b>Description</b>
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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-three member board consisting of twenty-three 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 University of North Carolina at Greensboro Board of Trustees and the Foundation's sole purpose is to benefit The University of North Carolina at Greensboro, its financial statements have been blended with those of the University.

The Weatherspoon Arts Foundation is governed by a twenty-eight member board consisting of one ex officio director and twenty-seven elected directors. The Foundation's purpose is to acquire by gift, purchase, lease, loan, or other means of conveyance works of art and to maintain and enhance the arts collection 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 University of North Carolina at Greensboro Board of Trustees and the Foundation's sole purpose is to benefit The University of North Carolina at Greensboro, its financial statements have been blended with those of the University.

The UNCG Excellence Foundation is governed by a thirty member board consisting of three ex officio directors and twenty-seven elected directors. The Foundation's purpose is to aid, support, and promote teaching, research and service in the various educational, scientific, scholarly, professional, artistic and creative endeavors of the University. Because the elected directors of the Foundation are appointed by the members of The University of North Carolina at Greensboro Board of Trustees and the Foundation's sole purpose is to benefit The University of North Carolina at Greensboro as long as The University of North Carolina at Greensboro qualifies as an exempt organization under Section 501(c)(3) of the Internal Revenue Code of 1954

(or corresponding provisions of any future United States Internal Revenue law), its financial statements have been blended with those of the University.

The University of North Carolina at Greensboro Investment Fund, Inc. is governed by a board consisting of nine ex officio directors and 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 nonprofit corporations for which the University is not financially accountable are not part of the accompanying financial statements.

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

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

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

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

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

**D. Cash and Cash Equivalents** - This classification includes undeposited receipts, petty cash, cash on deposit with private bank accounts, cash on deposit with fiscal agents, and deposits held by the State Treasurer in the short-term investment portfolio. The short-term investment portfolio maintained by the State Treasurer has the general characteristics of a demand deposit

account in that participants may deposit and withdraw cash at any time without prior notice or penalty.

**E. Investments** - This classification includes long-term fixed income investments, equity investments, mutual funds, money market funds, limited partnerships, real estate investment trusts, real estate, and other asset holdings by the University. Except for money market funds, real estate not held by a governmental external investment pool, and other asset holdings, investments are accounted for at fair value, as determined 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 provider's conditions have been satisfied, and accrued interest receivable from investments and student loans. Receivables are recorded net of estimated uncollectible amounts.

**G. Inventories** - Inventories, consisting of expendable supplies, merchandise for resale, postage, and fuel oil held for consumption are 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 value of assets constructed includes all material direct and indirect construction costs.

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

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

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

**I. Restricted Assets** - Unexpended proceeds of revenue bonds and unexpended capital contributions are classified as restricted assets because their use is limited by applicable bond covenants or donor/grantor agreements. Certain other assets are classified as restricted because their use is limited by external parties or statute.

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

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

Bonds payable are reported net of unamortized premiums or discounts and deferred losses on refundings. The University amortizes bond premiums/discounts over the life of the bonds using the proportionate-to-stated interest 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.

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

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

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

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

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

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

Restricted and unrestricted resources are tracked using a fund accounting system and are spent in accordance with established fund authorities. Fund authorities provide rules for the fund

activity and are separately established for restricted and unrestricted activities. When both restricted and unrestricted funds are available for expenditure, the decision for funding is transactional based within the departmental management system in place at the University. For projects funded by tax-exempt debt proceeds and other sources, the debt proceeds are always used first.

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

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

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

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

## **NOTE 2 - DEPOSITS AND INVESTMENTS**

**A. Deposits** - Unless specifically exempt, the University is required by General Statute 147-77 to deposit moneys received with the State Treasurer or with a depository institution in the name

of the State Treasurer. In addition, the University of North Carolina Board of 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 and certificates of deposit totaling \$74,015,824. At year-end, cash on hand was \$55,243. The University's portion of the State Treasurer's Investment Pool was \$72,127,676. 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 \$1,888,148 and the bank balance was \$1,889,759. Of the bank balance, \$480,021 was covered by federal depository insurance and \$1,409,738 was uninsured and uncollateralized.

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

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

**B. Investments** - The University is authorized by The University of North Carolina Board of Governors pursuant to General Statute 116-36.2 and Chapter VI of the Administrative 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 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 on them by the donor upon that part of the Endowment Fund to be invested

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

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

**External Investment Pool** - The external investment pool sponsored by the University was established 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, 2003 is presented on the following page.

### External Investment Pool

	Fair Value			Total
	Risk Category			
	1	2	3	
<b>Categorized Investments:</b>				
Corporate Stocks	\$	\$ 17,396,813	\$	\$ 17,396,813
International Stocks		1,402,037		1,402,037
<b>Total Categorized Investments</b>	<b>\$</b>	<b>\$ 18,798,850</b>	<b>\$</b>	<b>18,798,850</b>
<b>Investments Not Categorized:</b>				
Money Market Funds				2,624,340
Mutual Funds				54,158,415
Limited Partnerships				21,466,394
Real Estate Investment Trusts				9,829,286
<b>Total Investments Not Categorized</b>				<b>88,078,435</b>
<b>Total External Pool Investments</b>				<b>\$ 106,877,285</b>

### Non-Pooled Investments

	Fair Value			Total
	Risk Category			
	1	2	3	
<b>Categorized Investments:</b>				
U.S. Government Securities	\$	\$ 1,560,252	\$	\$ 1,560,252
Corporate Bonds		602,383		602,383
Corporate Stocks		1,623,965		1,623,965
International Stocks		78,266		78,266
<b>Total Categorized Investments</b>	<b>\$</b>	<b>\$ 3,864,866</b>	<b>\$</b>	<b>3,864,866</b>
<b>Investments Not Categorized:</b>				
Money Market Funds				3,744,118
Mutual Funds				3,612,464
Real Estate				10,928
<b>Total Investments Not Categorized</b>				<b>7,367,510</b>
<b>Total Non-Pooled Investments</b>				<b>\$ 11,232,376</b>

### Total Investments

	Fair Value			Total
	Risk Category			
	1	2	3	
<b>Total Categorized Investments</b>	<b>\$</b>	<b>\$ 22,663,716</b>	<b>\$</b>	<b>22,663,716</b>
<b>Total Investments Not Categorized</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>95,445,945</b>
<b>Total Investments</b>				<b>\$ 118,109,661</b>



**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 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, 2003, net appreciation of \$2,874,852 was available to be spent, of which \$2,735,687 was restricted to specific purposes.

**NOTE 4 - RECEIVABLES**

Receivables at June 30, 2003 were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
<b>Current Receivables:</b>			
Students	\$ 1,009,888	\$ 331,772	\$ 678,116
Accounts	2,627,203		2,627,203
Intergovernmental	2,676,930		2,676,930
Pledges	801,864		801,864
Investment Earnings	220,951		220,951
Interest on Loans	282,524		282,524
Other	501,121		501,121
	<u>8,120,481</u>	<u>331,772</u>	<u>7,788,709</u>
<b>Total Current Receivables</b>	<b>\$ 8,120,481</b>	<b>\$ 331,772</b>	<b>\$ 7,788,709</b>
<b>Noncurrent Receivables:</b>			
Pledges	\$ 605,145		\$ 605,145
	<u>605,145</u>		<u>605,145</u>
<b>Notes Receivable:</b>			
<b>Notes Receivable - Current:</b>			
Federal Loan Programs	\$ 1,224,508	\$ 91,836	\$ 1,132,672
Institutional Student Loan Programs	305,884	41,987	263,897
	<u>1,530,392</u>	<u>133,823</u>	<u>1,396,569</u>
<b>Total Notes Receivable Current</b>	<b>\$ 1,530,392</b>	<b>\$ 133,823</b>	<b>\$ 1,396,569</b>
<b>Notes Receivable - Noncurrent:</b>			
Federal Loan Programs	\$ 4,814,054	\$ 485,024	\$ 4,329,030
	<u>4,814,054</u>	<u>485,024</u>	<u>4,329,030</u>
<b>Total Notes Receivable Noncurrent</b>	<b>\$ 4,814,054</b>	<b>\$ 485,024</b>	<b>\$ 4,329,030</b>

## NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2003, is presented as follows:

	Balance July 1, 2002	Adjustments	Increases	Decreases	Balance June 30, 2003
Capital Assets, Non-Depreciable:					
Land	\$ 17,524,658	\$	\$ 1,045,333	\$	\$ 18,569,991
Art, Literature, and Artifacts	19,180,473		576,133	(300)	19,756,306
Construction in Progress	50,586,967	(20,846,817)	32,132,413		61,872,563
<b>Total Capital Assets, Non-Depreciable</b>	<b>87,292,098</b>	<b>(20,846,817)</b>	<b>33,753,879</b>	<b>(300)</b>	<b>100,198,860</b>
Capital Assets, Depreciable:					
Buildings	176,357,943	20,846,817	649,391	(1,994,557)	195,859,594
Machinery and Equipment	22,964,458		2,224,499	(1,226,813)	23,962,144
General Infrastructure	26,731,291		27,721	(139,417)	26,619,595
<b>Total Capital Assets, Depreciable</b>	<b>226,053,692</b>	<b>20,846,817</b>	<b>2,901,611</b>	<b>(3,360,787)</b>	<b>246,441,333</b>
Less Accumulated Depreciation/ Amortization for:					
Buildings	(57,650,828)		(3,684,629)	1,858,799	(59,476,658)
Machinery and Equipment	(14,741,562)		(2,346,821)	1,172,372	(15,916,011)
General Infrastructure	(7,884,277)		(989,149)	58,090	(8,815,336)
<b>Total Accumulated Depreciation</b>	<b>(80,276,667)</b>	<b>0</b>	<b>(7,020,599)</b>	<b>3,089,261</b>	<b>(84,208,005)</b>
<b>Total Capital Assets, Depreciable, Net</b>	<b>145,777,025</b>	<b>20,846,817</b>	<b>(4,118,988)</b>	<b>(271,526)</b>	<b>162,233,328</b>
<b>Capital Assets, Net</b>	<b>\$ 233,069,123</b>	<b>\$ 0</b>	<b>\$ 29,634,891</b>	<b>\$ (271,826)</b>	<b>\$ 262,432,188</b>

## NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2003 were as follows:

	Amount
Accounts Payable	\$ 4,639,291
Accrued Payroll	4,975,550
Contract Retainage	2,432,371
Intergovernmental Payables	244,573
Other	606,901
<b>Total Accounts Payable and Accrued Liabilities</b>	<b>\$ 12,898,686</b>

**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, 2003 is presented as follows:

	Balance July 1, 2002	Additions	Reductions	Balance June 30, 2003	Current Portion
Bonds Payable	\$ 76,497,000	\$ 8,835,000	\$ (6,687,000)	\$ 78,645,000	\$ 3,115,000
Add/Deduct Premium/Discount	(501,643)	245,766	59,444	(196,433)	
Deduct Deferred Charge on Refunding	(346,054)	155,000	24,570	(166,484)	
<b>Total Bonds Payable</b>	<b>75,649,303</b>	<b>9,235,766</b>	<b>(6,602,986)</b>	<b>78,282,083</b>	<b>3,115,000</b>
Compensated Absences	4,539,175	7,213,546	(5,252,788)	6,499,933	329,598
Annuity and Life Income Payable	1,830,343	349,555		2,179,898	
<b>Total Long-Term Liabilities</b>	<b>\$ 82,018,821</b>	<b>\$ 16,798,867</b>	<b>\$ (11,855,774)</b>	<b>\$ 86,961,914</b>	<b>\$ 3,444,598</b>

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

Purpose	Series	Interest Rate Average	Final Maturity Date	Original Amount of Issue	Principal Paid Through 6/30/03	Principal Outstanding 6/30/03
<b>Housing and Dining System</b>						
Dormitory System Bonds of 1962	B	3.50%	7/1/02	\$ 1,800,000	\$ 1,800,000	\$ 0
Dormitory Systems Bonds of 1966	C	4.75%	7/1/05	2,550,000	2,550,000	0
Housing and Dining System Revenue Bonds (1993)	C	5.60%	4/1/18	4,265,000	4,265,000	0
Housing and Dining System Revenue Bonds (1997)	D	5.10%	4/1/23	6,000,000	680,000	5,320,000
Housing and Dining System Revenue Bonds (1997)	E	4.60%	4/1/07	7,290,000	4,450,000	2,840,000
Housing and Dining System Revenue Bonds (1997)	F	5.10%	4/1/16	8,750,000	1,985,000	6,765,000
Housing and Dining System Revenue Bonds (2000)	G	6.00%	4/1/26	6,425,000	270,000	6,155,000
<b>Total Housing and Dining System</b>				<b>37,080,000</b>	<b>16,000,000</b>	<b>21,080,000</b>
<b>Student Facilities System</b>						
Student Facilities Revenue Bonds (1997)	B	5.10%	4/1/23	3,755,000	430,000	3,325,000
Student Facilities Revenue Bonds (1997)	C	5.30%	4/1/23	12,200,000	1,445,000	10,755,000
<b>Total Student Facilities System</b>				<b>15,955,000</b>	<b>1,875,000</b>	<b>14,080,000</b>
General Revenue Bonds (2001)	A	4.70%	4/1/26	19,870,000	900,000	18,970,000
General Revenue Bonds (2001)	B	4.87%	4/1/26	16,445,000	750,000	15,695,000
General Revenue Bonds (2002)	A	5.14%	4/1/27	8,835,000	15,000	8,820,000
<b>Total Bonds Payable (principal only)</b>				<b>\$ 98,185,000</b>	<b>\$ 19,540,000</b>	<b>78,645,000</b>
Less: Unamortized Loss on Refunding						(166,484)
Less: Unamortized Discount						(430,569)
Plus: Unamortized Premium						234,136
<b>Total Bonds Payable</b>						<b>\$ 78,282,083</b>

**C. Annual Requirements** - The annual requirements to pay principal and interest on the long-term obligations at June 30, 2003 are as follows:

<u>Fiscal Year</u>	<u>Bonds Payable</u>	
	<u>Principal</u>	<u>Interest</u>
2004	\$ 3,115,000	\$ 3,912,185
2005	3,270,000	3,775,630
2006	3,405,000	3,630,948
2007	3,580,000	3,480,236
2008	2,955,000	3,316,762
2009-2013	17,085,000	14,360,155
2014-2018	19,730,000	9,667,944
2019-2023	17,405,000	4,923,910
2024-2027	8,100,000	887,800
Total Requirements	\$ 78,645,000	\$ 47,955,570

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

**Housing and Dining System:** On November 14, 2002, the University defeased \$3,395,000 of outstanding Housing and Dining Revenue Bonds, Series C (original issue amount \$4,265,000). As a result, the University reduced its debt service requirements by \$184,249 over the next 16 years and obtained an economic gain of \$132,089.

**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, 2003, the outstanding balance of the defeased Housing and Dining System Revenue Bonds was \$6,480,000.

## NOTE 8 - LEASE OBLIGATIONS

**Operating Lease Obligations** - Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2003:

<u>Fiscal Year</u>	<u>Amount</u>
2004	\$ 691,620
2005	366,107
2006	219,694
2007	54,843
Total Minimum Lease Payments	\$ 1,332,264

Rental expense for all operating leases during the year was \$797,208.

**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	Net Revenues Pledged as Security for Debt
<b>Operating Revenues:</b>						
<b>Student Tuition and Fees</b>	\$ 56,749,210	\$ 11,484	\$ 6,896,258	\$ 91,169	\$ 49,750,299	\$ 3,355,403 (B)
<b>Sales and Services:</b>						
Sales and Services of Auxiliary Enterprises:						
Residential Life	\$ 11,126,192	\$ 372,763	\$ 1,315,546	\$ 15,524	\$ 9,422,359	\$ 9,422,359 (A)
Dining	8,636,796		1,022,163	12,500	7,602,133	7,602,133 (A)
Student Union Services	960,846				960,846	
Health, Physical Education, and Recreation Services	805,442	893		4,058	800,491	
Parking	2,986,917	77,908		(3,538)	2,912,547	
Athletic	611,494	15,832		6,486	589,176	
Other	5,422,998	5,040,891			382,107	
Sales and Services of Education and Related Activities	6,651,199	137,449			6,513,750	
<b>Total Sales and Services</b>	\$ 37,201,884	\$ 5,645,736	\$ 2,337,709	\$ 35,030	\$ 29,183,409	\$ 17,024,492

Revenue Bonds Secured by Pledged Revenues:

(A) Housing and Dining System

(B) Student Facilities System

**NOTE 10 - OPERATING EXPENSES BY FUNCTION**

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

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	\$ 66,538,307	\$ 4,390,143	\$ 4,469,066	\$ 45,380	\$	\$	\$ 75,442,896
Research	7,811,478	805,224	4,919,152	233,988	3,235		13,773,077
Public Service	4,935,555	528,582	6,472,531	349,479	3,859		12,290,006
Academic Support	14,855,555	6,020,530	4,814,260	419,970	5		26,110,320
Student Services	6,404,643	1,079,340	2,030,197	107,620	89		9,621,889
Institutional Support Operations and Maintenance of Plant	12,307,386	749,860	3,816,276	1,340	1,577		16,876,439
Student Financial Aid	8,180,654	5,128,761	703,642		4,552,747		18,565,804
Auxiliary Enterprises			245,184	8,994,629			9,239,813
Depreciation	9,842,526	2,131,719	11,389,778		1,675,272		25,039,295
						7,020,600	7,020,600
<b>Total Operating Expenses</b>	\$ 130,876,104	\$ 20,834,159	\$ 38,860,086	\$ 10,152,406	\$ 6,236,784	\$ 7,020,600	\$ 213,980,139

## NOTE 11 - PENSION PLANS

**A. Retirement Plans** - Each permanent full-time employee, as a condition of employment, is a member of either the Teachers' and State Employees' Retirement System or the Optional Retirement Program. Eligible employees can elect to participate in the Optional Retirement Program at the time of employment, otherwise they are automatically enrolled in the Teachers' and State Employees' Retirement System.

The Teachers' and State Employees' Retirement System is a cost sharing multiple-employer defined benefit pension plan established by the State to provide pension benefits for employees of the State, its component units and local boards of education. The plan is administered by the North Carolina State Treasurer.

Benefit and contribution provisions for the Teachers' and State Employees' Retirement System are established by North Carolina General Statutes 135-5 and 135-8 and may be amended only by the North Carolina General Assembly. Employer and member contribution rates are set each year by the North Carolina General Assembly based on annual actuarial valuations. For the year ended June 30, 2003, the General Assembly required no contribution by employers and 6% of covered payroll for members.

For the year ended June 30, 2003, the University had a total payroll of \$110,836,445, of which \$55,771,636 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were \$3,346,298 and \$0, respectively. The University made one hundred percent of its annual required contributions for the years ended June 30, 2003, 2002, and 2001, which were \$0, \$1,102,978, and \$2,764,708, respectively.

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

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

Participants in the Program are immediately vested in the value of employee contributions. The value of employer contributions is vested after five years of participation in the Program. Participants become eligible to receive distributions when they terminate employment or retire.

Participant eligibility and contributory requirements are established by General Statute 135-5.1. Employer and member contribution rates are set each year by the North Carolina General Assembly. For the year ended June 30, 2003, 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, 2003, the University had a total payroll of \$110,836,445, of which \$38,648,301 was covered under the Optional Retirement Program. Total employee and employer contributions for pension benefits for the year were \$2,318,898 and \$2,643,544, 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 \$146,453 for the year ended June 30, 2003.

**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, 2003 were \$63,186. The voluntary contributions by employees amounted to \$736,789 for the year ended June 30, 2003.

**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 \$1,729,181 for the year ended June 30, 2003.

## **NOTE 12 - 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, 2003, the University's total contribution to the Plan was \$2,218,869. 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. 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, 2003, the University's total contribution to the DIPNC was \$490,984. 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. 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, directly 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 and out-of-State are \$1,000,000 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. 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.

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

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. The employer contribution rate was 0.16% for the current fiscal year.

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

#### **NOTE 14 - COMMITMENTS AND CONTINGENCIES**

**A. Commitments** - The University has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were \$15,675,134 at June 30, 2003.

**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. The University’s remaining authorization \$115,033,217 is contingent on future bond sales and OSBM allotment approval. Because of uncertainty and time restrictions, the remaining authorization is not recorded as an asset or revenue on the accompanying financial statements.

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

Purpose	Amount
Pledges to the Excellence Foundation Endowment	\$ 1,269,252
Pledges to the Human Environmental Sciences Foundation Endowment Fund	\$ 47,067
Pledges to the UNCG Endowment Fund	\$ 245,069

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