



STATE OF NORTH CAROLINA

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

GREENSBORO, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2005

OFFICE OF THE STATE AUDITOR

LESLIE W. MERRITT, JR., CPA, CFP

STATE AUDITOR

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

GREENSBORO, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2005

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THE UNIVERSITY OF NORTH CAROLINA

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STATE OF NORTH CAROLINA
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AUDITOR'S TRANSMITTAL

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

We have completed a financial statement audit of North Carolina Agricultural and Technical State University for the year ended June 30, 2005, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

Our consideration of internal control over financial reporting and compliance and other matters based on an audit of the financial statements disclosed certain deficiencies or instances of noncompliance that are detailed in the Audit Findings and Recommendations section of this report. The University's response is included following the finding.

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

Leslie W. Merritt, Jr.

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

April 11, 2006

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of North Carolina Agricultural and Technical State University, a constituent institution of the 16-campus University of North Carolina System, which is a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 2005, which collectively comprise the University's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the North Carolina Agricultural and Technical State University's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of The North Carolina A&T University Foundation, Inc., which represent 100% of the University's discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for The North Carolina A&T University Foundation, Inc., is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of The North Carolina A&T University Foundation, Inc., were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provides a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of North Carolina Agricultural and Technical State University and its discretely presented component unit as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

As discussed in Note 15 to the financial statements, the University implemented Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures*, during the year ended June 30, 2005.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 24, 2006, on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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



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

February 24, 2006

NORTH CAROLINA AGRICULTURAL AND TECHNICAL STATE UNIVERSITY MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis provides an overview of the financial position and operating activities of North Carolina Agricultural and Technical State University for the year ended June 30, 2005, and includes comparative data for the year ended June 30, 2004. Information contained in this section has been prepared by University staff and is designed to complement the financial statements. This discussion and analysis describes important trends and events that have impacted the fiscal health of the University and that may continue to exert influence in future years.

The Financial Statements

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

The Statement of Net Assets

The Statement of Net Assets presents the financial position of the University at June 30, 2005, defined by the balances of assets, liabilities and assets net of liabilities. Assets are classified as current or noncurrent and cash is further identified as unrestricted or restricted. Current assets include those resources available to meet current obligations and operating requirements while noncurrent assets are to be held to meet future needs. Capital assets are shown net of depreciation. Assets, net of liabilities, are grouped into three categories: Investment in Capital Assets, Net of Related Debt, Restricted Net Assets, and Unrestricted Net Assets. Restricted Net Assets are further classified as unexpendable or expendable. Endowments and loan funds comprise the unexpendable net assets and expendable net assets are made up primarily of contracts, grants, and restricted gifts.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Condensed Statement of Net Assets

	<u>2005</u>	<u>2004</u>	<u>Change</u>
Assets			
Current Assets	\$ 41,346,755.42	\$ 39,732,356.28	\$ 1,614,399.14
Noncurrent Capital Assets, Net of Accumulated Depreciation	236,164,655.24	199,212,946.41	36,951,708.83
Other Noncurrent Assets	<u>31,665,583.61</u>	<u>15,316,981.21</u>	<u>16,348,602.40</u>
Total Assets	<u>309,176,994.27</u>	<u>254,262,283.90</u>	<u>54,914,710.37</u>
Liabilities			
Current Liabilities	14,703,595.26	15,465,629.28	(762,034.02)
Noncurrent Liabilities	<u>21,441,598.43</u>	<u>22,024,103.18</u>	<u>(582,504.75)</u>
Total Liabilities	<u>36,145,193.69</u>	<u>37,489,732.46</u>	<u>(1,344,538.77)</u>
Net Assets			
Investment in Capital Assets, Net of Related Debt	221,827,473.91	184,033,713.78	37,793,760.13
Restricted - Nonexpendable	9,145,957.88	7,282,221.05	1,863,736.83
Restricted - Expendable	21,659,167.37	7,831,243.31	13,827,924.06
Unrestricted	<u>20,399,201.42</u>	<u>17,625,373.30</u>	<u>2,773,828.12</u>
Total Net Assets	<u>\$ 273,031,800.58</u>	<u>\$ 216,772,551.44</u>	<u>\$ 56,259,249.14</u>

University assets increased by \$54,914,710.37 from 2004 to 2005. The net change is comprised primarily of increases in Net Capital Assets, an increase in Noncurrent Restricted Cash, and an increase in the receivable from the State for construction grants. Cash balances in noncurrent restricted funds increased \$5,642,611.43 due to increases in endowment gifts and the amount of cash on hand for construction projects. The amount the University recorded as a receivable from the State for construction grants increased \$10,523,416.57.

Net assets of the University increased \$56,259,249.14 resulting from the increase of \$54,914,710.37 in assets and a modest decrease in liabilities of \$1,344,538.77. Investment in Capital Assets, Net of Related Debt, posted a growth of \$37,793,760.13, driven by significant increases in both completed building projects and construction in progress. Restricted Net Assets increased by \$15,691,660.89, composed primarily of an increase of \$14,574,950.82 in Net Assets Restricted for Capital Projects. The increase in Net Assets Restricted for Capital Projects was fueled by the growth of resources available for construction, including cash and the receivable from the State for construction grant funds. There was also an increase in Unrestricted Net Assets of \$2,773,827.82 or 15.7%. While operating activities remained fairly consistent from 2004 to 2005, the transfer of unrestricted resources to construction projects for residence halls, the dining facility and stadium upgrades was not as significant in 2005 as they had been in the prior year.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Statement of Revenues, Expenses, and Changes in Net Assets

The Statement of Revenues, Expenses, and Changes in Net Assets reports the activity of the University during the year and is subdivided into four major components: Operating Revenues, Operating Expenses, Nonoperating Revenues and Expenses, and Other Revenues. Revenues are reported by major source and expenses are reported by natural classification. Intra-departmental sales, services, and transfers are eliminated and depreciation of capital assets is recorded.

Total revenues for fiscal year 2005 were \$252,958,291.21 as compared to \$190,191,542.03 for fiscal year 2004. During fiscal year 2005, Operating Revenues contributed 42.2% of total revenues, while Nonoperating Revenues made up 57.8%. Major operating revenue categories that experienced gains include tuition and fees, grants and contracts, and sales and services. The \$6,253,788.20 combined increase in Tuition and Fees and Sales and Services reflects both growth in student enrollment and increases in amounts charged for fees and services. The \$3,129,689.62 growth in grants and contracts was due primarily to increases in financial aid and research grants. State appropriations increased \$9,759,867.31 as a result of the rise in student enrollment. Capital grant and capital appropriation funds increased \$40,807,805.46, with funds made available to the University through State bond proceeds issued to finance major building projects including two residence halls and a classroom/lab facility.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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

	<u>2005</u>	<u>2004</u>	<u>Change</u>
Operating Revenues			
Tuition and Fees	\$ 42,084,579.61	\$ 37,404,994.81	\$ 4,679,584.80
Grants and Contracts	35,449,353.48	32,319,663.86	3,129,689.62
Federal Appropriations	5,918,296.87	5,858,783.36	59,513.51
Sales and Services	21,991,977.65	20,417,774.25	1,574,203.40
Other Operating Revenues	1,410,037.64	1,193,551.53	216,486.11
Total Operating Revenues	<u>106,854,245.25</u>	<u>97,194,767.81</u>	<u>9,659,477.44</u>
Operating Expenses			
	<u>192,384,219.10</u>	<u>172,172,111.49</u>	<u>20,212,107.61</u>
Operating Loss	<u>(85,529,973.85)</u>	<u>(74,977,343.68)</u>	<u>(10,552,630.17)</u>
Nonoperating Revenues (Expenses)			
State Appropriations	75,997,662.36	66,237,795.05	9,759,867.31
Noncapital Grants and Gifts	9,012,550.40	9,399,942.26	(387,391.86)
Other Nonoperating Revenues (Expenses)	(2,947,229.12)	467,305.87	(3,414,534.99)
Net Nonoperating Revenues	<u>82,062,983.64</u>	<u>76,105,043.18</u>	<u>5,957,940.46</u>
Income (Loss) Before Other Revenues	<u>(3,466,990.21)</u>	<u>1,127,699.50</u>	<u>(4,594,689.71)</u>
Capital Grants	57,880,739.49	17,072,934.03	40,807,805.46
Capital Gifts		93,707.12	(93,707.12)
Additions to Permanent Endowments	1,845,499.86	782,602.02	1,062,897.84
Total Other Revenues	<u>59,726,239.35</u>	<u>17,949,243.17</u>	<u>41,776,996.18</u>
Total Increase in Net Assets	56,259,249.14	19,076,942.67	37,182,306.47
Net Assets			
Beginning of the Year	<u>216,772,551.44</u>	<u>197,695,608.77</u>	<u>19,076,942.67</u>
End of the Year	<u>\$ 273,031,800.58</u>	<u>\$ 216,772,551.44</u>	<u>\$ 56,259,249.14</u>

The rise in operating costs is attributed primarily to increases in payroll charges and expenditures for services. Payroll expenditures increased by \$10,665,283.30 resulting from the creation of 73 new positions, several at senior management levels, and a small pay increase granted by the State legislature. Services rose by \$7,261,196.50 from the previous year. That increase was led by \$3,361,774.27 in building repairs and small construction projects, followed by the lease of residence hall facilities for \$1,766,591.24, and sub-grants on contracts and grants for \$1,066,367.60.

The University presents expenditures by natural classification in the Statement of Revenues, Expenses, and Changes in Net Assets. Personnel services accounted for 57.4% of Operating Expenses, followed by Services at 21.6%, Supplies and Materials at 10.1%, Scholarships at 4.8%, Depreciation at 3.8%, and Utility Costs at 2.3%.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Construction

The cost of construction projects exerted significant influence on the University's financial statements for 2005 and will continue to do so over the next several years. Since the passage



Architect's rendering of the new Renick School of Education building.

in November 2000 of a \$2.5 billion bond package for the improvement and expansion of facilities on the 16 campuses of the University of North Carolina system, the University has received \$101,741,800.69 in State construction grants financed by the bond proceeds. All twenty-one of the University's bond-funded projects were under design, in the construction phase, or completed at June 30, 2005. During 2005, the University expended \$42,440,223.32 in State grant funds, completing two buildings of a multi-building residence hall complex, renovating several existing residence halls and classroom buildings, finishing much needed infrastructure improvements, and completing a new hazardous waste

storage facility. Substantial progress was also made on the remaining buildings of the residence hall complex, and on a new classroom and laboratory facility. In addition, the planning process for the new School of Education Building was underway by the end of the year. The University also used bond proceeds to purchase the remaining parcels of the land needed to implement the campus master plan. Other minor sources of funding for construction projects included auxiliary funds and federal grants. The University expended the following amounts during 2004-2005 on capital projects, land acquisition, and maintenance and repairs:

	<u>2004-2005</u>
Construction and Renovation of Buildings and Infrastructure	\$ 40,400,466.74
Land Acquisition	1,386,200.00
Maintenance and Repairs	<u>5,451,656.79</u>
 Total	 <u><u>\$ 47,238,323.53</u></u>

Forecast

North Carolina Agricultural and Technical State University continues to enhance its academic offerings and commitment to research. The University launched a new graduate degree program, Computational Science and Engineering, during the spring 2005 semester and plans to offer doctorates in energy and environmental sciences and leadership studies in the fall of 2005. The Department of Journalism and Mass Communication received national accreditation from the Accrediting Council on Education in Journalism and Mass Communication, making the University one of only two schools in North Carolina to receive the distinction. The Institute for Advanced Journalism, established in January 2005, sponsored a conference in March featuring nationally known speakers. In September 2004, the University formed a partnership with the United States Department of Agriculture's

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

Natural Resources Conservation Service (NRCS) to locate one of NRCS's three national technology centers in Greensboro. The partnership with NRCS will provide opportunities for the University's faculty and students in the area of research, technology transfer, and economic development. During 2005, the University also received major federally funded multi-year grants in the amount of \$3.4 million. These developments in the academic and research areas will help competitively position the University over the next several years.

The University enjoys a strong financial position; however, management recognizes that other resources will need to be secured to continue the move towards its goal of creating an interdisciplinary-centered university. With this vision in mind, the University launched a \$100 million capital campaign in 2002 that has brought in donations and pledges exceeding \$75 million. The funds will play an important role in the growth and development of the University's academic and community offerings, provide scholarships, and purchase state-of-the-art classroom equipment. The success of the capital campaign is made more important by the budgetary pressures from the State that will persist as a factor for the University to consider as it meets the needs of students, faculty, staff, and the community. Limited State appropriations will require careful management of all resources, while University personnel continue to raise capital through its campaign effort and to identify other funding opportunities.

North Carolina Agricultural and Technical State University
Statement of Net Assets
June 30, 2005

Exhibit A-1

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 27,256,291.22
Restricted Cash and Cash Equivalents	3,561,633.97
Receivables, Net (Note 4)	8,544,467.25
Due from State of North Carolina Component Units	316,681.88
Due from University Component Units	288,075.33
Inventories	987,646.66
Notes Receivable	360,981.26
Other Assets	30,977.85
	<hr/>
Total Current Assets	41,346,755.42

Noncurrent Assets:

Restricted Cash and Cash Equivalents	7,962,377.82
Receivables	140,702.73
Restricted Due from Primary Government	14,051,840.20
Endowment Investments	7,525,659.24
Other Long-Term Investments	812,596.30
Notes Receivable, Net (Note 4)	1,172,407.32
Capital Assets - Nondepreciable (Note 5)	55,679,450.22
Capital Assets - Depreciable, Net (Note 5)	180,485,205.02
	<hr/>
Total Noncurrent Assets	267,830,238.85
	<hr/>
Total Assets	309,176,994.27

LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 6)	8,606,983.85
Due to Primary Government	58,815.26
Due to Institution Component Units	117,664.76
Deferred Revenue	4,501,554.43
Interest Payable	209,327.20
Long-Term Liabilities - Current Portion (Note 7)	1,209,249.76
	<hr/>
Total Current Liabilities	14,703,595.26

Noncurrent Liabilities:

Deposits Payable	317,022.81
Funds Held for Others	69,694.65
U. S. Government Grants Refundable	1,396,090.10
Long-Term Liabilities (Note 7)	19,658,790.87
	<hr/>
Total Noncurrent Liabilities	21,441,598.43
	<hr/>
Total Liabilities	36,145,193.69

North Carolina Agricultural and Technical State University
Statement of Net Assets
June 30, 2005

Exhibit A-1
Page 2

NET ASSETS

Invested in Capital Assets, Net of Related Debt	221,827,473.91
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	5,144,495.82
Endowed Professorships	3,631,992.18
Departmental Uses	73,079.31
Loans	296,390.57
Expendable:	
Scholarships and Fellowships	2,206,833.35
Research	313,246.76
Endowed Professorships	1,015,516.08
Departmental Uses	2,718,131.62
Capital Projects	15,096,867.21
Debt Service	308,572.35
Unrestricted	<u>20,399,201.42</u>
Total Net Assets	<u><u>\$ 273,031,800.58</u></u>

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

North Carolina Agricultural and Technical State University
Statement of Revenues, Expenses, and
Changes in Net Assets
For the Fiscal Year Ended June 30, 2005

Exhibit A-2

REVENUES

Operating Revenues:

Student Tuition and Fees, Net (Note 9)	\$ 42,084,579.61
Federal Appropriations	5,918,296.87
Federal Grants and Contracts	33,140,927.23
State and Local Grants and Contracts	476,265.35
Nongovernmental Grants and Contracts	1,832,160.90
Sales and Services, Net (Note 9)	21,991,977.65
Interest Earnings on Loans	3,658.24
Other Operating Revenues	1,406,379.40
	<hr/>
Total Operating Revenues	106,854,245.25

EXPENSES

Operating Expenses:

Salaries and Benefits	110,469,353.24
Supplies and Materials	19,492,524.13
Services	41,634,376.24
Scholarships and Fellowships	9,193,748.88
Utilities	4,352,728.11
Depreciation	7,241,488.50
	<hr/>
Total Operating Expenses	192,384,219.10
	<hr/>
Operating Loss	(85,529,973.85)

NONOPERATING REVENUES (EXPENSES)

State Appropriations	75,997,662.36
Noncapital Grants	9,012,550.40
Investment Income (Net of Investment Expense of \$33,445)	1,367,593.85
Interest and Fees on Capital Asset-Related Debt	(806,848.33)
Other Nonoperating Expenses	(3,507,974.64)
	<hr/>
Net Nonoperating Revenues	82,062,983.64
	<hr/>
Loss Before Other Revenues	(3,466,990.21)
Capital Appropriations	1,482,500.00
Capital Grants	56,398,239.49
Additions to Endowments	1,845,499.86
	<hr/>
Increase in Net Assets	56,259,249.14

NET ASSETS

Net Assets - July 1, 2004	216,772,551.44
	<hr/>
Net Assets - June 30, 2005	\$ 273,031,800.58
	<hr/> <hr/>

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

North Carolina Agricultural and Technical State University
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2005

Exhibit A-3

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 106,847,274.48
Payments to Employees and Fringe Benefits	(109,741,857.29)
Payments to Vendors and Suppliers	(65,272,398.27)
Payments for Scholarships and Fellowships	(9,193,748.88)
Loans Issued	(382,790.00)
Collection of Loans	295,820.00
Interest Earned on Loans	17,479.76
Other Receipts	1,405,344.40
	<hr/>
Net Cash Used by Operating Activities	(76,024,875.80)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Appropriations	75,997,662.36
Noncapital Grants	8,910,040.21
Noncapital Gifts	664,334.17
Additions to Permanent and Term Endowments	1,845,499.86
William D. Ford Direct Lending Receipts	42,905,304.00
William D. Ford Direct Lending Disbursements	(42,905,304.00)
Related Activity Agency Receipts	34,377.40
Related Activity Agency Disbursements	(128,724.16)
	<hr/>
Net Cash Provided by Noncapital Financing Activities	87,323,189.84

CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES

Proceeds from Capital Debt	2,424,419.83
State Capital Appropriations	1,482,500.00
Capital Grants	45,874,822.92
Proceeds from Sale of Capital Assets	13,079.19
Acquisition and Construction of Capital Assets	(50,213,305.39)
Principal Paid on Capital Debt and Leases	(3,261,381.13)
Interest and Fees Paid on Capital Debt and Leases	(795,272.09)
	<hr/>
Net Cash Used by Capital Financing and Related Financing Activities	(4,475,136.67)

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from Sales and Maturities of Investments	5,894,554.50
Investment Income	1,104,336.66
Purchase of Investments and Related Fees	(6,102,268.05)
	<hr/>
Net Cash Provided by Investing Activities	896,623.11

Net Increase in Cash and Cash Equivalents	7,719,800.48
Cash and Cash Equivalents - July 1, 2004	31,060,502.53
	<hr/>
Cash and Cash Equivalents - June 30, 2005	\$ 38,780,303.01

North Carolina Agricultural and Technical University
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2005

Exhibit A-3
Page 2

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

Operating Loss	\$ (85,529,973.85)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	7,241,488.50
Allowances, Write-Offs, and Amortizations	5,962.90
Changes in Assets and Liabilities:	
Receivables (Net)	51,952.16
Due from State of North Carolina Component Units	333,318.12
Due From University Component Units	163,031.69
Inventories	(197,263.21)
Accounts Payable and Accrued Liabilities	751,267.63
Due to Primary Government	13,794.66
Due to State of North Carolina Component Units	91,521.69
Deferred Revenue	780,802.97
Compensated Absences	218,016.48
Note Principle Repayments	433,994.46
Notes Issued	(382,790.00)
	<hr/>
Net Cash Used by Operating Activities	<u>\$ (76,024,875.80)</u>

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	\$ 27,256,291.22
Restricted Cash and Cash Equivalents	3,561,633.97
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	7,962,377.82
	<hr/>
Total Cash and Cash Equivalents - June 30, 2005	<u>\$ 38,780,303.01</u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Change in Fair Value of Investments	\$ (254,884.89)
Reinvested Distributions	14,474.77
Loss on Disposal of Capital Assets	(3,507,974.64)

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

North Carolina A&T University Foundation, Inc.
Statement of Financial Position
June 30, 2005

Exhibit B-1

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 1,205,097
Investments	2,759,258
Unconditional Promises to Give	327,225
Interest Receivable	8,237
Accounts Receivable	103,646
Other Assets	2,183,378
	<hr/>
Total Current Assets	6,586,841

Noncurrent Assets:

Restricted Deposits:	
Bond Operating Reserve Fund	502,871
Bond Interest Fund	167,959
Bond Surplus Fund	578,394
Bond Repair and Replacement Fund	78,075
Bond Construction Fund	4,105,764
Bond Debt Service Fund	3,128,500
Bond Fund Principal Fund	77,500
Bond Pledged Revenue Fund	10,000
	<hr/>
Total Restricted Deposits	8,649,063
Endowment Investments	3,176,454
Property, Furniture and Equipment, at Cost, Net	36,057,727
Long-term Unconditional Promises to Give, Net	482,303
Other Assets	4,407,535
	<hr/>
Total Noncurrent Assets	52,773,082

Total Assets	<hr/> <hr/> 59,359,923
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LIABILITIES

Current Liabilities

Accounts Payable	356,497
Other Liabilities	474,452
	<hr/>
Total Current Liabilities	830,949

Noncurrent Liabilities

Notes Payable	1,588,095
Bonds Payable	49,650,000
	<hr/>
Total Noncurrent Liabilities	51,238,095

Total Liabilities	<hr/> <hr/> 52,069,044
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North Carolina A&T University Foundation, Inc.
Statement of Financial Position
June 30, 2005

Exhibit B-1
Page 2

NET ASSETS

Unrestricted:	
Operating	(261,960)
Fixed Assets	27,872
	<hr/>
Total Unrestricted	(234,088)
	<hr/>
Temporarily Restricted	4,085,872
Permanently Restricted	3,439,095
	<hr/>
Total Net Assets	7,290,879
	<hr/>
Total Liabilities and Net Assets	<u><u>\$ 59,359,923</u></u>

See Note 1 in the Notes to the Financial Statements

North Carolina A&T University Foundation, Inc.
Statement of Activities
June 30, 2005

Exhibit B-2

CHANGES IN UNRESTRICTED NET ASSETS

Public Support, Revenues, and Reclassifications

Contributions		
Foundations & Corporations	\$	8,200
Board of Directors		5,200
Individuals and Friends		287,897
Interest and Dividends		263,948
Administrative Fee		106,026
Miscellaneous		1,961
Net Unrealized Gain From Investments		100,662
Satisfaction of Program Restrictions		2,329,439
Rental Income		5,880,091
Management Fees		256,932
Fundraising		124,219
		<hr/>
Total Public Support, Revenues, and Reclassifications		9,364,575
		<hr/>

Expenses:

Programs:		
Scholarships:		
Scholarships - Unrestricted		202,209
Scholarships - Departmental		900,316
		<hr/>
Total Scholarships		1,102,525
Academic Departmental Programs		1,429,123
Administration		1,096,005
Student Housing		5,851,637
		<hr/>
Total Expenses		9,479,290
		<hr/>
Decrease in Unrestricted Net Assets		(114,715)
		<hr/>

CHANGES IN TEMPORARILY RESTRICTED NET ASSETS

Public Support, Revenues, and Reclassification

Contributions		
Foundations & Corporations		1,313,738
Board of Directors		3,550
Individuals and Friends		986,918
Interest and Dividends		25,314
Miscellaneous		50,165
Net Unrealized Gain From Investments		154,949
Satisfaction of Program Restrictions		(2,329,439)
		<hr/>
Increase in Temporarily Restricted Net Assets		205,195
		<hr/>

North Carolina A&T University Foundation, Inc.
Statement of Activities
June 30, 2005

Exhibit B-2
Page 2

CHANGES IN PERMANENTLY RESTRICTED NET ASSETS

Public Support, Revenues, and Reclassifications

Contributions	
Individuals and Friends	282,549
Interest and Dividends	33,792
	<hr/>
Increase in Permanently Restricted Assets	316,341
	<hr/>
Increase in Net Assets	406,821
Net Assets at Beginning of Year	6,884,058
	<hr/>
Net Assets at End of Year	<u><u>\$ 7,290,879</u></u>

See Note 1 in the Notes to the Financial Statements

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NORTH CAROLINA AGRICULTURAL AND TECHNICAL STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

- A. Financial Reporting Entity** - The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their constituents for their actions. As required by accounting principles generally accepted in the United States of America, the financial reporting entity includes both the primary government and all of its component units. An organization other than a primary government serves as a nucleus for a reporting entity when it issues separate financial statements. North Carolina Agricultural and Technical State University is a constituent institution of the 16-campus University of North Carolina System, which is a component unit of the State of North Carolina and an integral part of the State's *Comprehensive Annual Financial Report*.

The accompanying financial statements present all funds belonging to the University and its component unit. While the Board of Governors of the University of North Carolina System has ultimate responsibility, the Chancellor, the Board of Trustees, and the Board of Trustees of the Endowment Fund have delegated responsibilities for financial accountability of the University's funds. The University's component unit is discretely presented in the University's financial statements. Discretely presented component unit's financial data is reported in separate financial statements because of its use of different GAAP reporting models and to emphasize its legal separateness.

Discretely Presented Component Unit - The North Carolina A&T University Foundation, Inc., is a legally separate not-for-profit corporation and is reported as a discretely presented component unit based on the nature and significance of its relationship to the University.

The North Carolina A&T University Foundation, Inc., is a legally separate, tax-exempt component unit of the University. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the University in support of its programs. The Foundation board consists of 16 elected members. Although the University does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, that the Foundation holds and invests are restricted to the activities of the University by the donors. Because these restricted resources held by the

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Foundation can only be used by, or for the benefit of the University, the Foundation is considered a component unit of the University and is reported in separate financial statements because of the difference in its reporting model, as described below.

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

During the year ended June 30, 2005, the Foundation distributed \$1,229,525.23 to the University for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from the North Carolina A&T University Foundation, Inc., located at 100 North Booker Street, 172 Aggie Suites, Greensboro, NC 27411. The mailing address is P.O. Box 20366, Greensboro, NC 27420.

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, money market accounts, and deposits held by the State Treasurer in the short-term investment fund. The short-term investment fund maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.

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

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

F. Receivables - Receivables consist of tuition and fees charged to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from the federal government, State and local governments, private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants, and pledges that are verifiable, measurable, and expected to be collected and available for expenditures for which the resource provider's conditions have been satisfied. Receivables are recorded net of estimated uncollectible amounts.

G. Inventories - Inventories, consisting of expendable supplies, are valued using average cost of last invoice unit price, using first-in, first-out method or, in the case of agricultural supplies inventory, current market

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

value. Merchandise for resale is valued using the first-in, first-out method.

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

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

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 10 to 50 years for general infrastructure, 10 to 50 years for buildings, and 5 to 15 years for equipment

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

carried forward at the previous December 31 plus the leave earned, less the leave taken between January 1 and June 30. The accumulated leave for EPA employees is equal to the balance held at June 30th up to 30 days.

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

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

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

NOTE 2 - DEPOSITS AND INVESTMENTS

- A. Deposits** - Unless specifically exempt, the University is required by *North Carolina 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 G.S. 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.

At June 30, 2005, the University's deposit with the State Treasurer's Short-Term Investment Fund totaled \$38,688,334.13. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's Short-Term Investment Fund) 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.ncosc.net/> and clicking on "Financial Reports", or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

The carrying amount of the University's deposits not with the State Treasurer was \$46,127.07 and the bank balance was \$1,158,233.05. Custodial credit risk is the risk that in the event of a bank failure, the University's deposits may not be returned to it. Pursuant to G.S. 116-36.1, funds received for health care services not deposited with

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

the State Treasurer shall be fully secured in the manner as prescribed by the State Treasurer for the security of public deposits. The University does not have a deposit policy for custodial credit risk. As of June 30, 2005, the University's bank balance was exposed to custodial credit risk as follows:

Uninsured and Uncollateralized	<u>\$ 1,019,359.00</u>
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- B. Investments** - The University is authorized by The University of North Carolina Board of Governors pursuant to G.S. 116-36.2 and Section 600.2.4 of the Policy Manual of the University of North Carolina, to invest its special funds and funds received for services rendered by health care professionals in the same manner as the State Treasurer is required to invest, as discussed below.

G.S. 147-69.1(c), applicable to the State's General Fund, and G.S. 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, G.S. 147-69.1(c) authorizes the following: specified bills of exchange or time drafts and corporate bonds and notes with specified ratings. G.S. 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.

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

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

Investments of the University's component unit, The North Carolina A&T State University Foundation, Inc., are subject to and restricted by G.S. 36B "Uniform Management of Institutional Funds Act" (UMIFA) and any requirements placed on them by contract or donor agreements.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

The following table presents the fair value of investments by type and investments subject to interest rate risk at June 30, 2005, for the Long-Term Investment Pool. Interest rate risk is defined by GASB Statement No. 40 as the risk a government may face should interest rate variances affect the fair value of investments. The University's Endowment Board does not have a formal investment policy that addresses interest rate risk.

Long-Term Investment Pool

Investment Type	Fair Value	Investment Maturities (in Years)		
		Less Than 1	1 to 5	6 to 10
Debt Securities				
U.S. Agencies	\$ 548,243.50	\$ 0.00	\$ 497,181.00	\$ 51,062.50
Asset-Backed Securities	99,061.59		99,061.59	
Money Market Funds	353,012.63	353,012.63		
Domestic Corporate Bonds	1,325,603.50	202,594.00	961,394.50	161,615.00
		<u>\$ 555,606.63</u>	<u>\$ 1,557,637.09</u>	<u>\$ 212,677.50</u>
Other Securities				
Other Mutual Funds	1,465,522.03			
Investments in Real Estate	11,690.00			
Domestic Stocks	3,527,246.22			
Foreign Stocks	195,279.77			
Total Long-Term Investment Pool	<u>\$ 7,525,659.24</u>			

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

In addition to the interest rate risk disclosed above, the Long-Term Investment Pool portfolio includes investments with fair values highly sensitive to interest rate changes. The University invested in asset backed securities in the form of inflation-linked United States Treasury Notes.

Credit Risk: The University's Endowment Board's policy does address credit risk by requiring high quality fixed income instruments, evaluating mutual funds on the basis of their standing on the Lipper 500 Index, and by evaluating stocks on their ability to sustain long-term total returns. As of June 30, 2005, the investments in the Long-Term Investment Pool were rated as follows:

	Fair Value	AAA Aaa	AA Aa	A
U.S. Agencies	\$ 548,243.50	\$ 548,243.50	\$ 0.00	\$ 0.00
Asset-backed Securities	99,061.59	99,061.59		
Money Market funds	353,012.63	330,866.25		
Domestic Corporate Bonds	1,325,603.50		745,352.00	527,777.00

Rating Agency: Moody's

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the University will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The University Endowment Board does not have a formal policy for custodial credit risk. At June 30, 2005, the University did not have any investments requiring disclosure of custodial credit risk.

Concentration of Credit Risk: The University Endowment Board limits the amount the Board may invest in any one issuer to 5% of the long-term investment pool and that policy was adhered to at year end.

Non-Pooled Investments - The following table presents the fair value of investments by type and investments subject to interest rate risk at June 30, 2005, for the University's non-pooled investments. Interest rate risk is defined by GASB Statement No. 40 as the risk a government may face should interest rate variances affect the fair value of investments. The University does not have a formal investment policy that addresses interest rate risk.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Non-Pooled Investments

Investment Type	Fair Value	Investment Maturities (in Years) Less Than 1
Debt Securities - Money Market Funds	\$ 811,294.86	\$ 811,294.86
Money Market Funds		
Other Securities - Domestic Stocks	1,301.44	
Total Non-Pooled Investments	\$ 812,596.30	

Credit Risk: The University does not have a formal policy that addresses credit risk. As of June 30, 2005, the University's non-pooled investments were rated as follows:

	Fair Value	Unrated
Money Market Funds	\$ 811,294.86	\$ 811,294.86

NOTE 3 - ENDOWMENT INVESTMENTS

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

Investment return of the University's endowment funds is predicated on the total return concept (yield plus appreciation). Annual payouts from the University's endowment funds are based on an adopted spending policy which limits spending to 5% or less of the endowment principal's average market value at December 31 for the past three years. To the extent that the total return for the current year exceeds the payout, the excess is added to principal. If current year earnings do not meet the payout requirements, the University uses accumulated income and appreciation from restricted, expendable net asset endowment balances to make up the difference. At June 30, 2005, net appreciation of \$344,500.00 was available to be spent, all of which was restricted to specific purposes.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 4 - RECEIVABLES

Receivables at June 30, 2005, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	\$ 1,439,677.53	\$ 551,586.30	\$ 888,091.23
Accounts	1,476,183.23	793,505.17	682,678.06
Intergovernmental	6,019,822.38		6,019,822.38
Pledges	196,528.87		196,528.87
Investment Earnings	110,306.16		110,306.16
Interest on Loans	120,586.40		120,586.40
Other	526,454.15		526,454.15
Total Current Receivables	\$ 9,889,558.72	\$ 1,345,091.47	\$ 8,544,467.25
Notes Receivable - Noncurrent:			
Federal Loan Programs	\$ 1,763,986.05	\$ 591,578.73	\$ 1,172,407.32

NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2005, is presented as follows:

	Balance July 1, 2004	Adjustments	Increases	Decreases	Balance June 30, 2005
Capital Assets, Nondepreciable:					
Land	\$ 7,485,786.09	\$ 0.00	\$ 1,386,200.00	\$ 0.00	\$ 8,871,986.09
Art, Literature, and Artifacts	2,502,077.00				2,502,077.00
Construction in Progress	44,868,490.43	(31,258,707.26)	30,695,603.96		44,305,387.13
Total Capital Assets, Nondepreciable	54,856,353.52	(31,258,707.26)	32,081,803.96		55,679,450.22
Capital Assets, Depreciable:					
Buildings	173,109,875.02	27,163,629.36	9,999,131.98	5,888,016.44	204,384,619.92
Machinery and Equipment	30,126,296.45	2,575,328.70	5,010,603.42	2,223,697.87	35,488,530.70
General Infrastructure	8,082,264.93	1,519,749.20	622,711.80		10,224,725.93
Total Capital Assets, Depreciable	211,318,436.40	31,258,707.26	15,632,447.20	8,111,714.31	250,097,876.55
Less Accumulated Depreciation/Amortization for:					
Buildings	46,316,159.61		3,563,403.65	2,603,340.20	47,276,223.06
Machinery and Equipment	19,261,751.07		3,292,973.41	1,987,320.28	20,567,404.20
General Infrastructure	1,383,932.83		385,111.44		1,769,044.27
Total Accumulated Depreciation	66,961,843.51		7,241,488.50	4,590,660.48	69,612,671.53
Total Capital Assets, Depreciable, Net	144,356,592.89	31,258,707.26	8,390,958.70	3,521,053.83	180,485,205.02
Capital Assets, Net	\$ 199,212,946.41	\$ 0.00	\$ 40,472,762.66	\$ 3,521,053.83	\$ 236,164,655.24

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2005, were as follows:

	Amount
Accounts Payable	\$ 3,801,450.97
Accrued Payroll	2,716,066.52
Contract Retainage	1,823,210.14
Intergovernmental Payables	125,074.01
Other	141,182.21
Total Accounts Payable and Accrued Liabilities	\$ 8,606,983.85

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, 2005, is presented as follows:

	Balance July 1, 2004	Additions	Reductions	Balance June 30, 2005	Current Portion
Bonds Payable	\$ 15,640,000.00	\$ 2,395,000.00	\$ 3,275,000.00	\$ 14,760,000.00	\$ 935,000.00
Add/Deduct Premium/Discount	(6,993.79)	131,170.20	12,294.23	111,882.18	
Deduct Deferred Charge on Refunding	(133,773.58)	(101,750.37)	(25,913.10)	(209,610.85)	
Total Bonds Payable	15,499,232.63	2,424,419.83	3,261,381.13	14,662,271.33	935,000.00
Compensated Absences	5,987,752.82	4,288,924.89	4,070,908.41	6,205,769.30	274,249.76
Total Long-Term Liabilities	\$ 21,486,985.45	\$ 6,713,344.72	\$ 7,332,289.54	\$ 20,868,040.63	\$ 1,209,249.76

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 June 30, 2005	Principal Outstanding June 30, 2005
<u>UNC System Pool revenue Bonds</u>						
Student Union (A)	1998B	3.25-5.25	10/1/2013	\$ 5,860,000.00	\$ 4,285,000.00	\$ 1,575,000.00
Student Union Refunding (C)	2005A	3.00-4.89	4/1/2014	2,395,000.00	0.00	2,395,000.00
Parking System (A)	1998B	3.25-5.25	10/1/2013	1,465,000.00	475,000.00	990,000.00
Dining System (B)	2000	5.00-5.25	10/1/2020	9,875,000.00	1,245,000.00	8,630,000.00
Stadium System (B)	2000	5.00-5.25	10/1/2020	1,555,000.00	385,000.00	1,170,000.00
Total Bonds Payable (principal only)				<u>\$ 21,150,000.00</u>	<u>\$ 6,390,000.00</u>	<u>14,760,000.00</u>
Less: Unamortized Loss on Refunding						(209,610.85)
Less: Unamortized Discount						(6,171.00)
Plus: Unamortized Premium						<u>118,053.18</u>
Total Bonds Payable						<u>\$ 14,662,271.33</u>

(A) The University of North Carolina System Pool Revenue Bonds, Series 1998B

(B) The University of North Carolina System Pool Revenue Bonds, Series 2000

(C) The University of North Carolina System Pool Revenue Bonds, Series 2005A

C. Annual Requirements - The annual requirements to pay principal and interest on the long-term obligations at June 30, 2005, are as follows:

Fiscal Year	Annual Requirements	
	Bonds Payable	
	Principal	Interest
2006	\$ 935,000.00	\$ 835,823.53
2007	985,000.00	794,150.02
2008	1,030,000.00	746,237.52
2009	1,085,000.00	637,184.39
2010	1,130,000.00	535,006.26
2011-2015	5,460,000.00	1,804,003.13
2016-2020	3,355,000.00	665,493.75
2021-2025	780,000.00	20,475.00
Total Requirements	<u>\$ 14,760,000.00</u>	<u>\$ 6,038,373.60</u>

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

UNC System Pool Revenue Bonds: On April 14, 2005, the University defeased \$2,390,000.00 of outstanding UNC Pool Revenue Bonds, Series 1998 Student Union, original issue amount \$5,860,000.00. Securities were deposited into an irrevocable trust with an escrow agent to provide

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for all future debt service payments on the defeased bonds. The trust assets and the liability for the defeased bonds are not included in the University's Statement of Net Assets. As a result, the University reduced its debt service requirements by \$26,485,923.00 over the next 10 years and obtained an economic gain of \$60,504.04. At June 30, 2005, the outstanding balance of the defeased UNC Pool Series 1998 Student Union bonds was \$2,390,000.00.

NOTE 8 - OPERATING LEASE OBLIGATIONS

The University entered into operating leases for equipment and property. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2005:

<u>Fiscal Year</u>	<u>Amount</u>
2006	\$ 312,984.35
2007	40,146.57
2008	25,239.96
2009	<u>24,747.96</u>
Total Minimum Lease Payments	<u>\$ 403,118.84</u>

Rental expense for all operating leases during the year was \$1,376,446.23.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 9 - REVENUES

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

	Gross Revenues	Internal Sales Eliminations	Less Scholarship Discounts	Less Allowance for Uncollectibles	Net Revenues	Revenues Pledged as Security for Debt
Operating Revenues:						
Student Tuition and Fees	\$ 53,866,944.42	\$ 0.00	\$ 11,196,347.71	\$ 586,017.10	\$ 42,084,579.61	\$ 1,543,273.52 (A)
Sales and Services:						
Sales and Services of Auxiliary Enterprises:						
Residential Life	\$ 8,460,926.91	\$ 0.00	\$ 1,689,269.72	\$ 74,403.47	\$ 6,697,253.72	\$ 0.00
Dining	8,662,043.07		1,764,830.72	76,604.16	6,820,608.19	6,820,608.19 (A)
Student Union Services	36,732.55				36,732.55	(B)
Health, Physical Education, and Recreation Services	5,601.48				5,601.48	
Bookstore	5,368,988.71	489,414.93		7.64	4,879,566.14	
Parking	1,494,323.39				1,494,323.39	1,494,323.39 (C)
Athletic	1,721,109.73				1,721,109.73	
Other	296,490.15				296,490.15	
Sales and Services of Education and Related Activities	1,670,346.67	1,630,054.37			40,292.30	
Total Sales and Services	<u>\$ 27,716,562.66</u>	<u>\$ 2,119,469.30</u>	<u>\$ 3,454,100.44</u>	<u>\$ 151,015.27</u>	<u>\$ 21,991,977.65</u>	<u>\$ 8,314,931.58</u>

Revenue Bonds Secured by Pledged Revenues:

(A) Student Union and Stadium Bonds

(B) Dining System Bonds

(C) Parking System Bonds

NOTE 10 - OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	\$ 50,865,566.20	\$ 2,300,962.59	\$ 1,850,112.08	\$ 188,235.55	\$ 0.00	\$ 0.00	\$ 55,204,876.42
Research	12,349,850.88	2,298,159.44	5,142,035.97	958,430.58	972.99		20,749,449.86
Public Service	4,168,612.21	522,100.09	1,373,135.25	26,979.74	6,939.74		6,097,767.03
Academic Support	11,236,132.58	5,107,817.38	4,386,086.81	1,203,878.26			21,933,915.03
Student Services	4,122,843.84	367,409.01	1,054,561.32	43,966.72			5,588,780.89
Institutional Support	11,712,376.79	743,089.46	4,976,114.00	39,241.20			17,470,821.45
Operations and Maintenance of Plant	7,250,211.44	3,161,804.27	7,001,178.82		2,901,518.81		20,314,713.34
Student Financial Aid	195,455.11	31,340.15	493,184.47	4,610,711.73			5,330,691.46
Auxiliary Enterprises	8,568,304.19	4,959,841.74	15,357,967.52	2,122,305.10	1,443,296.57		32,451,715.12
Depreciation						7,241,488.50	7,241,488.50
Total Operating Expenses	<u>\$ 110,469,353.24</u>	<u>\$ 19,492,524.13</u>	<u>\$ 41,634,376.24</u>	<u>\$ 9,193,748.88</u>	<u>\$ 4,352,728.11</u>	<u>\$ 7,241,488.50</u>	<u>\$ 192,384,219.10</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 2005, these rates were set at 2.17% of covered payroll for employers and 6% of covered payroll for members.

For the year ended June 30, 2005, the University had a total payroll of \$92,143,611.65, of which \$50,088,317.73 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were \$3,005,299.06 and \$1,086,916.49, respectively. The University made 100% of its annual required contributions for the years ended June 30, 2005, 2004, and 2003, which were \$1,086,916.49, \$102,415.91, and \$0, 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 2005, 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, 2005, the University had a total payroll of \$92,143,611.65, of which \$25,986,552.12 was covered under the Optional Retirement Program. Total employee and employer contributions for pension benefits for the year were \$1,559,193.13 and \$1,777,480.17, respectively.

The Federal Retirement System is a multiple-employer system. University extension employees participate in the Civil Service Retirement System (CSRS), a program for participants employed prior to January 1, 1987. Participants contributed 7.0% of their salary to CSRS and the University match was 8.45%. For the year ended June 30, 2005, covered payroll was \$861,944, and total employee and employer contribution was \$60,336.08 and \$72,998.67, 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 \$206,726.60 for the year ended June 30, 2005.

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, 2005, were \$46,404.18. The voluntary contributions by employees amounted to \$349,783.00 for the year ended June 30, 2005.

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 \$1,131,874.77 for the year ended June 30, 2005.

NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS

- A. Health Care for Long-Term Disability Beneficiaries and Retirees -** The University participates in State-administered programs that provide postemployment health insurance to eligible former employees. Eligible former employees include long-term disability beneficiaries of the Disability Income Plan of North Carolina and retirees of the Teachers' and State Employees' Retirement System or the Optional Retirement

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Program. These benefits were established by Chapter 135, Article 3, Part 3, of the General Statutes and may be amended only by the North Carolina General Assembly. Funding for the health care benefit for long-term disability beneficiaries and retirees is financed on a pay-as-you-go basis. The University contributed 3.2% of the covered payroll under the Teachers' and State Employees' Retirement System and the Optional Retirement Program for these health care benefits. For the fiscal year ended June 30, 2005, the University's total contribution to the Plan was \$2,434,395.84. 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 .445% of covered payroll under the Teachers' and State Employees' Retirement System and the Optional Retirement Program to the DIPNC. For the year ended June 30, 2005, the University's total contribution to the DIPNC was \$338,533.17. 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 \$5,000,000 via contract with a private insurance company. The University pays the premium, based on a composite rate, directly to the private insurer.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The University is required to maintain fire and lightning coverage on all State-owned buildings and contents through the State Property Fire Insurance Fund (Fund), an internal service fund of the State. Such coverage is provided at no cost to operations supported by the State's General Fund. Other operations not supported by the State's General Fund are charged for the coverage. Losses covered by the Fund are subject to a \$500 per occurrence deductible.

Other operations not supported by the State's General Fund are charged for the coverage. The University purchased fire, extended coverage and "all risks" coverage for all buildings and contents used in auxiliary services through the Fund. Total protection in the amount of \$230,997,927 was purchased during the year ended June 30, 2005. Covered losses are subject to a \$500 deductible per occurrence.

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

The University is protected for losses from employee dishonesty and computer fraud. This coverage is with a private insurance company and is handled by the North Carolina Department of Insurance. Universities are charged a premium by the private insurance company. Coverage limit is \$5,000,000 per occurrence with a \$50,000 deductible and a 10% participation in each loss above the deductible. University employees and retirees are provided comprehensive major medical care benefits. Coverage is funded by contributions to the State Health Plan (Plan), a pension and other employee benefit trust fund of the State of North Carolina. The Plan has contracted with third parties to process claims.

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

Term life insurance (death benefits) of \$25,000 to \$50,000 is provided to eligible workers. This Death Benefit Plan is administered by the State Treasurer and funded via employer contributions. There were no employer contributions required for the current fiscal year.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 \$11,598,151.28 and on other purchases were \$6,595,999.21 at June 30, 2005.
- B. University Improvement General Obligation Bonds** - The 1999-2000 Session of the General Assembly of North Carolina authorized the issuance of \$2.5 billion of general obligation bonds of the State, as subsequently approved by a vote of qualified voters of the State, to provide funds for capital improvements for the University of North Carolina. The funds authorized are to be used solely for capital facilities cost on the University of North Carolina campuses as specified in the legislation. The bond legislation specifies the amount of bond funding for each University campus and the level of bond funding intended for each project. The bonds are authorized to be issued over a six-year period beginning in 2001 at a level not to exceed amounts provided in the legislation. Using a cash flow financing approach, The University of North Carolina – General Administration (UNC-GA), establishes annual amounts not to exceed for each approved project. The amounts not to exceed are subject to change due to actual cash availability and needs during the year. Subsequent to the bond sales and the availability of bond proceeds, UNC-GA notifies the Office of State Budget and Management (OSBM) of the amounts not to exceed for each approved project. Within these amounts, based on an official request of cash needs from the University, OSBM authorizes allotments. The University records the allotments as revenue on the accompanying financial statements. The University's remaining authorization of \$47,173,283.00 is contingent on future bond sales and OSBM allotment approval. Because of uncertainty and time restrictions the remaining authorization is not recorded as an asset or revenue on the accompanying financial statements.
- C. Other Contingent Receivables** - The University has received notification of other gifts and grants for which funds have not been disbursed by the resource provider and for which conditions attached to the gift or grant have not been satisfied or, in the case of permanent endowments, cannot begin to be satisfied. In accordance with accounting principles generally

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

accepted in the United States of America, these amounts have not been recorded on the accompanying financial statements. The purpose and amount of other contingent receivables at year-end is as follows:

Purpose	Amount
Pledge to an Endowed Professorship	\$ 403,000.00
Pledge to Endowed Scholarship	5,000.00

NOTE 15 - CHANGE IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2005, the University implemented Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures*. This Statement establishes and modifies disclosure requirements related to investment risks: credit risk, interest rate risk, and foreign currency risk. This statement also establishes and modifies disclosure requirements for deposit risks: custodial credit risk and foreign currency risk.

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

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

We have audited the financial statements of North Carolina Agricultural and Technical State University, a constituent institution of the 16-campus University of North Carolina System, which is a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 2005, which collectively comprise the University's basic financial statements and have issued our report thereon dated February 24, 2006. We did not audit the financial statements of The North Carolina A&T University Foundation, Inc., which represent 100% of the University's discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for The North Carolina A&T University Foundation, Inc., is based on the report of the other auditors.

As discussed in Note 15 to the financial statements, the University implemented Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures*, during the year ended June 30, 2005.

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the University's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the

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

internal control over financial reporting that, in our judgment, could adversely affect the University's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the Audit Findings and Recommendations section of this report.

Finding

Noncompliance with University Policy Regarding Purchasing Bids/Quotes

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe the reportable condition described above is a material weakness.

Compliance and Other Matters

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

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

Leslie W. Merritt, Jr.

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

February 24, 2006

AUDIT FINDINGS AND RECOMMENDATIONS

Matters Related to Financial Reporting or Federal Compliance Objectives

The following audit finding was identified during the current audit and describes conditions that represent significant deficiencies in internal control.

NONCOMPLIANCE WITH UNIVERSITY POLICY REGARDING PURCHASING BIDS/QUOTES

We reviewed ten purchase transactions from a vendor that supplies computer equipment. University policy requires that at least three quotes be obtained for purchases over \$5,000. Of the transactions reviewed there were seven in excess of \$5,000. For five of these transactions there had been no quotes obtained. In one instance there had been one additional quote obtained from a vendor on state contract. The price charged by the vendor that the university purchased from was \$3,444 higher than the vendor on state contract. No explanation was documented as to the reason for not purchasing from the vendor with the lowest quote. University policy also states that computer purchases are required to be pre-approved by the Information Technology and Telecommunications department. In six of the transactions that we reviewed there was no evidence that the pre-approval had been obtained.

We reviewed fourteen transactions from a vendor that supplies landscaping services. All of these transactions occurred within a six week period and were for services similar in nature. The total amount of these transactions was \$49,610. The department made these purchases by dividing the order into transactions less than \$5,000, resulting in competitive bids not being sought. University policy states that purchases greater than \$25,000 require a formal bid process. University policy also states that departments may not divide orders to circumvent the necessity of obtaining competitive bids or quotes.

Recommendation: The University should comply with State and University policies and procedures related to obtaining quotes for purchases over \$5,000 and following a formal bid process for purchases over \$25,000. University departments should also comply with the policy requiring that orders not be divided to circumvent the competitive bid/quote process. Computer purchases should be pre-approved by Information Technology and Telecommunication to ensure that equipment purchased is not outdated and is compatible with other university equipment.

Response: The University concurs with the finding.

In attempting to procure goods and services from Historically Underutilized Businesses (HUB), two departments failed to observe proper quote and bid procedures. Though the University has set a goal that 13% of our purchases come from HUB vendors, the University realizes that procurement policies must be followed while seeking that goal.

The Vice Chancellor for Business and Finance met with the departments involved and has issued a memorandum to the campus stressing the importance of adhering to State and University purchasing procedures. Additionally, the Purchasing Office will reinforce these policies and procedures in their quarterly training to the University community.

ORDERING INFORMATION

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