

North Carolina State University

Annual Financial Report

*For the Fiscal Year Ended
June 30, 2002*



A constituent institution of the University of North Carolina and a component unit of the State of North Carolina

North Carolina State University

Mission Statement

The mission of North Carolina State University is to serve its students and the people of North Carolina as a doctoral/research-extensive, land-grant university. Through the active integration of teaching, research, extension, and engagement, North Carolina State University creates an innovative learning environment that stresses mastery of fundamentals, intellectual discipline, creativity, problem solving, and responsibility. Enhancing its historic strengths in agriculture, science, and engineering with a commitment to excellence in a comprehensive range of academic disciplines, North Carolina State University provides leadership for intellectual, cultural, social, economic, and technological development within the state, the nation, and the world.





UNIVERSITY GOALS

✓ *building a diverse and inclusive campus community, fostering demographic and intellectual diversity.*

✓ *fostering new partnerships, both internally and externally.*

✓ *adopting a new business model that embraces efficiency and accountability.*

Table of Contents

Introductory Section

- 4 Message from the Chancellor
- 5 Letter of Transmittal
- 6 North Carolina State University Board of Trustees
- 6 Executive and Administration Officers
- 7 Organization Chart

Financial Section

- 10 Management's Discussion & Analysis
- 22 Report of the Independent Auditor
- 24 Statement of Net Assets
- 25 Statement of Revenues, Expenses and Changes in Net Assets
- 26 Statement of Cash Flows
- 28 Index to the Notes to the Financial Statements
- 29 Notes to the Financial Statements

Statistical Section

- 56 Ratio of Net Gain in Endowment Assets
- 57 Revenue Bond Coverage
- 58 Admissions, Enrollment and Degree Statistics
- 63 Faculty Statistics

Message from the Chancellor



North Carolina State University — and our state — have weathered a challenging 2001-2002. As the nation recovered from the devastating terrorist attacks on September 11, 2001, North Carolina universities, agencies, and citizens coped with a worsening economic picture. Yet, NC State faculty, staff and students have continued to excel, and the University has made significant progress in advancing our teaching, research and engagement mission.

A construction wave unlike any in our history is under way as a result of funding provided by the \$3.1 billion Higher Education Bond referendum. From the Undergraduate Science Teaching Laboratory on the Main Campus to the initial phases of the upper-division Engineering Buildings on Centennial Campus, NC State is poised for tremendous growth and service to North Carolinians. The generosity of the NC State community has enabled the University to augment funding for bond projects, such as the Ruby C. McSwain Education Center at the JC Raulston Arboretum. We celebrated the opening of the Arboretum Center, the state's first bond project, in September 2002.

NC State's research expenditures continued to grow, thus providing much needed facilities-and-administration funding to support our research and graduate programs. In this time of budget reductions, NC State has worked to enhance the quality of the educational experience for our more than 29,000 on- and off-campus students. Revenue from tuition, including an increase enacted by the North Carolina General Assembly and a campus-initiated tuition increase, allowed NC State to allocate additional financial aid for needy students. The increases enabled the University to secure students' access to our academic programs, and permitted limited funding for faculty salaries.

The challenges before us in the year ahead will require our strongest efforts. Despite these difficult economic times, our exceptional faculty, staff, students, alumni and friends will ensure our ongoing growth, progress, and success. Greatness is truly within our grasp.

A handwritten signature in black ink that reads "Marye Anne Fox". The signature is written in a cursive, flowing style.

Marye Anne Fox

Letter of Transmittal

To: Chancellor Fox, Members of the Board of Trustees and Friends of North Carolina State University:

We are pleased to present to you the annual Financial Report of North Carolina State University for the year ended June 30, 2002. Responsibility for the accuracy of the financial information and fairness of its presentation, including all disclosures, rests with the management of the University. We believe the information is accurate in all material respects and fairly presents the University's financial position, as well as revenues, expenditures and changes in net assets. This report includes all disclosures necessary for the reader to gain a broad understanding of the University's operations for the year ended June 30, 2002. The report is organized into three sections:

The **Introductory Section** includes a message from the Chancellor, a transmittal letter, a listing of the University Board of Trustees, and information about the organization of the university.

The **Financial Section** presents management's discussion and analysis, a report from the Office of the State Auditor and the basic financial statements. The basic financial statements are prepared in accordance with generally accepted accounting principles for public colleges and universities, as defined by the Governmental Accounting Standards Board. These statements are prepared under new accounting and reporting standards which became effective July 1, 2001. An explanation of the changes is included in the management discussion and analysis.

The **Statistical Section** contains selected financial, statistical, and demographic information. This information is intended to present to readers a broad overview of trends in the finances of the University.

The accompanying financial statements present all funds of the University and its component units. While the Board of Governors of The University of North Carolina 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. There are twelve separately incorporated non-profit foundations associated with North Carolina State University. The University is not financially accountable for these foundations, but their financial support is included in the footnotes to the financial statements. North Carolina State University is a constituent institution of the sixteen campus University of North Carolina, which is a component unit of the State of North Carolina and an integral part of the State's *Comprehensive Annual Financial Report*.

The University is committed to maintaining a sound financial position while providing the teaching, research, engagement and extension opportunities consistent with our land-grant mission.



George Worsley
Vice Chancellor for
Finance and Business

Board of Trustees June 30, 2002

Peaches Gunter Blank
Nashville, TN

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Mount Airy, NC

Michael D. Anthony
Student Body President
Serves as ex officio

Executive & Administrative Officers June 30, 2002

Marye Anne Fox
Chancellor

Stuart L. Cooper
Provost & Vice Chancellor
for Academic Affairs

Charles G. Moreland
Vice Chancellor for Research
and Graduate Studies

Mary Elizabeth Kurz
Vice Chancellor and
General Counsel

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Vice Chancellor for
University Advancement

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Student Affairs

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Director of Athletics

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Agriculture & Life Sciences

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Dean of College of
Education

Nino A. Masnari
Dean of College of
Engineering

Larry A. Nielsen
Dean of College of
Natural Resources

Linda P. Brady
Dean of College of Humanities
and Social Sciences

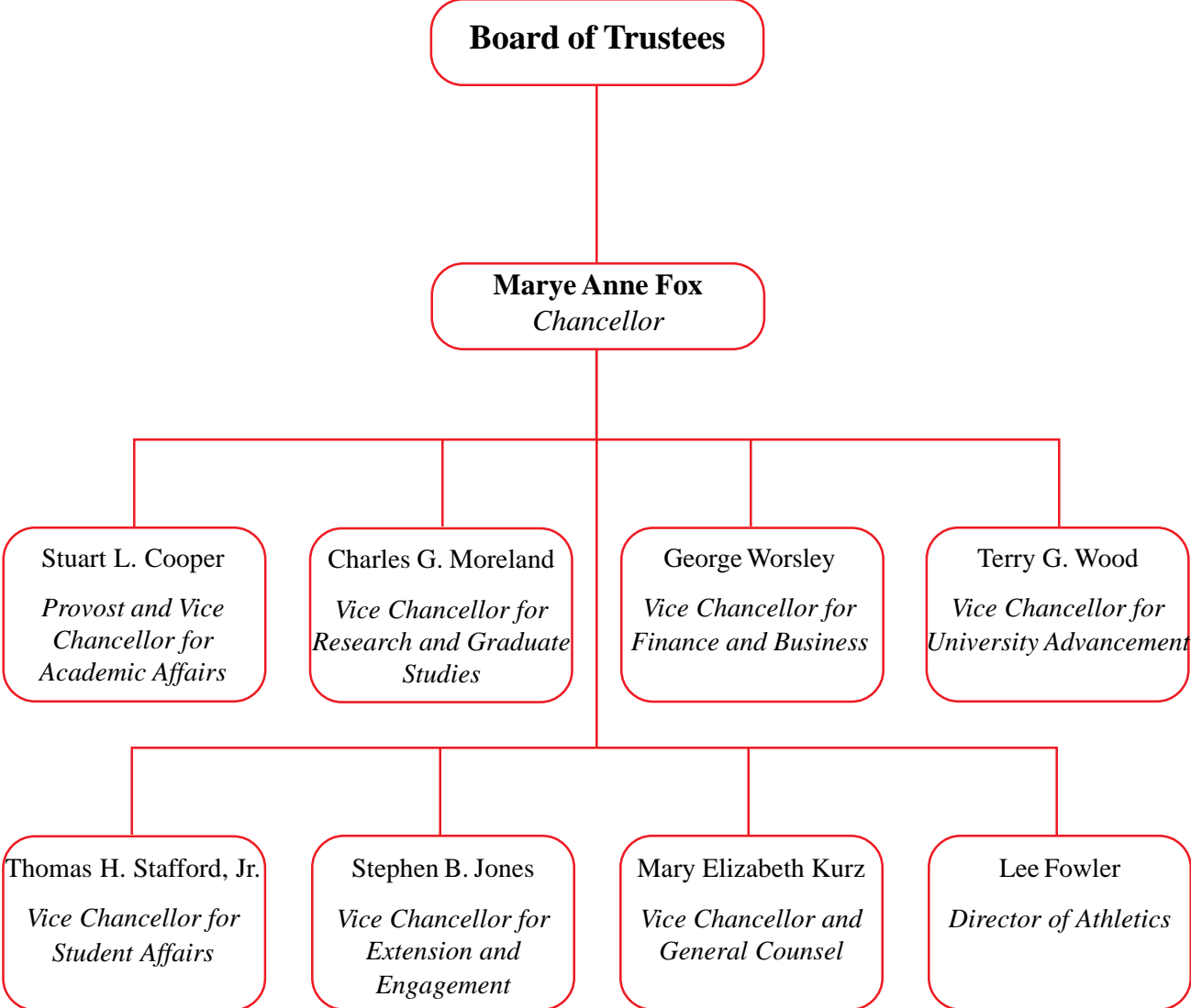
Jon W. Bartley
Dean of College of
Management

Daniel L. Solomon
Dean of College of Physical
& Mathematical Sciences

A. Blanton Godfrey
Dean of College of Textiles

Oscar J. Fletcher
Dean of College of
Veterinary Medicine

Robert S. Sowell
Dean of Graduate School



Financial



Section

NORTH CAROLINA STATE UNIVERSITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

Effective July 1, 2001, the University implemented new accounting and reporting standards required by the Governmental Accounting Standards Board (GASB), Statement # 34/35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*, Statement # 37, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus*, and Statement # 38, *Certain Financial Statement Note Disclosures*. Under these new standards, the University now reports its financial information similar to that required of private universities and uses reporting concepts in a manner similar to that required of a business enterprise. Prior to July 1, 2001, the University reported its financial information using a fund structure presentation.

The new reporting requirements include Management's Discussion and Analysis (MD&A), the Statement of Net Assets, the Statement of Revenues, Expenses, and Changes in Net Assets, the Statement of Cash Flows, and Financial Statement Note Disclosures.

This part of the financial report, Management's Discussion and Analysis, provides an introduction and overview to assist the reader in interpreting and understanding the basic financial statements. Currently known facts, decisions, or conditions are discussed in management's analysis of financial position and results of operations. While comparative analysis with the prior year financial report is important to understanding the University's financial position and results of operations, its use in the year of implementation is not advisable due to the many accounting and reporting changes resulting from the implementation. Such comparative analysis will be presented next year.

The Statement of Net Assets provides information relative to the University's assets, liabilities, and net assets as of the last day of the fiscal year, June 30th. Assets and liabilities on this statement are categorized as either current or non-current. Current assets are those that are available to pay for expenses in the next fiscal year. Current liabilities are those payable in the next fiscal year. Net assets on this statement are categorized as either invested in capital assets (net of related debt), restricted or unrestricted. Restricted net assets are categorized as either nonexpendable or expendable. Overall, the Statement of Net Assets provides information relative to the financial strength of the University and its ability to meet current and long-term obligations.

The Statement of Revenues, Expenses, and Changes in Net Assets provides information relative to the results of the University's operations, non-operating activities, and other activities affecting net assets which occurred during the fiscal year ended June 30th. Non-operating activities include primarily subsidies from the State in the form of appropriations, non-capital gifts and grants, interest expense on financing activities, investment income (net of investment expenses) and loss on disposition of capital assets. Other activities include capital gifts or grants, and additions to permanent endowments. Overall the Statement of Revenues, Expenses, and Changes in Net Assets provides

information relative to the University's management of its operations and its ability to maintain its financial strength.

The Statement of Cash Flows provides information relative to the University's sources and uses of cash funds for operating activities, non-capital financing activities, capital financing activities, and investing activities. This statement provides a reconciliation of beginning cash balances to ending cash balances and is representative of activity reported on the Statement of Revenues, Expenses and Changes in Net Assets as adjusted for changes in beginning and ending balances of non-cash accounts on the Statement of Net Assets.

The Financial Statement Note Disclosures provide information relative to the significant accounting principles applied in the financial statements, authority for and associated risk of deposits and investments, detailed information on long-term liabilities, detailed information on accounts receivable, accounts payable, revenues and expenses, required information on pension plans and other post employment benefits, insurance against losses, commitments and contingencies, accounting changes, and if necessary a discussion of adjustments to prior periods and events subsequent to the University's financial statement period. Overall, the Financial Statement Note Disclosures provide information to better understand details, risk, and uncertainty associated with amounts reported in the Financial Statements.

ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS

The University's financial position remains strong with net assets of \$667,426,000, an increase of \$7,924,000. The strength of the University's financial position is attributed to factors including enrollment growth, significant improvements to campus facilities, a strong research program, the evolution of Centennial Campus, advancements provided through the University's endowments and its affiliated foundations, and appropriated funds from the State of North Carolina.

During the fiscal year 2001-02, student enrollment increased from 23,586 FTE (full time equivalent) to 24,339 FTE. The average SAT score for incoming freshmen for the same period was 1175 and the average High School GPA was 3.91. Centennial campus plans continued to evolve with the ground breaking for relocation of the College of Engineering, Phase I on October 25, 2001. Capital improvements to buildings totaled \$28,266,000 with commitments of \$38,230,000 outstanding at June 30th. Research grants totaled 5,522 in number and \$140,607,000 in amount. Endowment gifts received by the University during the period were \$4,254,000 and support received by the University from its affiliated foundations was \$25,427,000.

State funding for operations decreased from \$352,462,000 to \$328,187,000. However, the tuition rates were increased 13% and enrollment was up 2%, which helped offset the decrease in State funding.

CONDENSED FINANCIAL INFORMATION

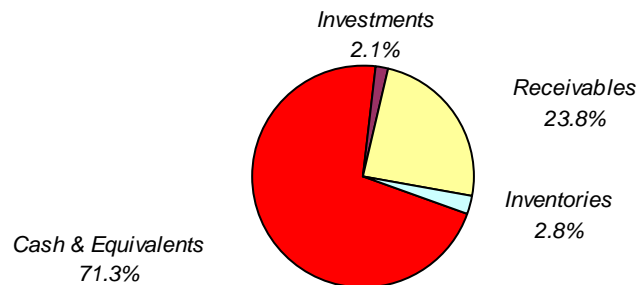
The following table summarizes the University's assets, liabilities and net assets as of June 30, 2002

Condensed Statement of Net Assets June 30, 2002 (in thousands)

	Amount	Percent
ASSETS		
Current Assets	\$ 182,982	19.87%
Capital Assets, Net	486,825	52.87%
Other Noncurrent Assets	250,977	27.26%
Total Assets	\$ 920,784	100.00%
LIABILITIES		
Current Liabilities	\$ 64,453	25.44%
Noncurrent Liabilities	188,905	74.56%
Total Liabilities	\$ 253,358	100.00%
NET ASSETS		
Invested in Capital Assets, Net of Related Debt Restricted	\$ 399,440	59.85%
Nonexpendable	43,368	6.50%
Expendable	147,185	22.05%
Unrestricted	77,433	11.60%
Total Net Assets	\$ 667,426	100.00%

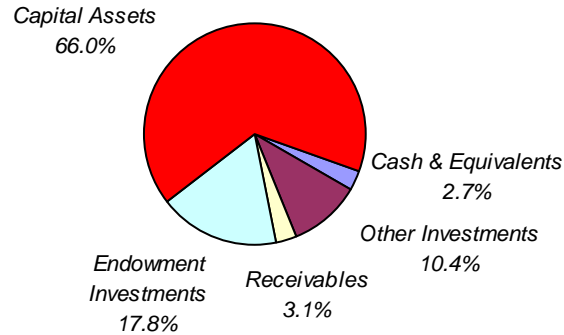
The following graphically illustrates the assets, liabilities and net assets of the University.

Current Assets



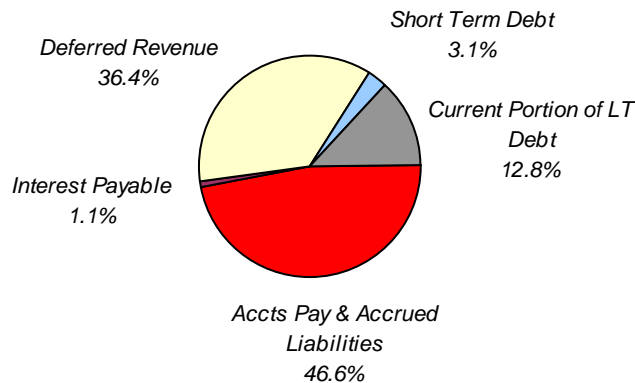
Current assets consist primarily of cash and equivalents, \$130,444,000, and accounts receivable, \$42,092,000.

NonCurrent Assets



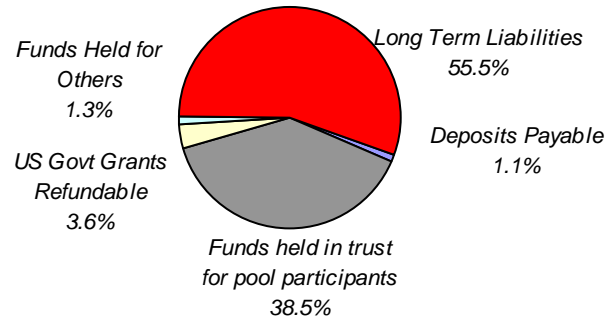
Noncurrent assets consist primarily of capital assets, \$486,825,000, endowment investments, \$131,241,000 and other investments, \$76,781,000. Other investments consist primarily of investments held for affiliated foundations in the University's external investment pool.

Current Liabilities

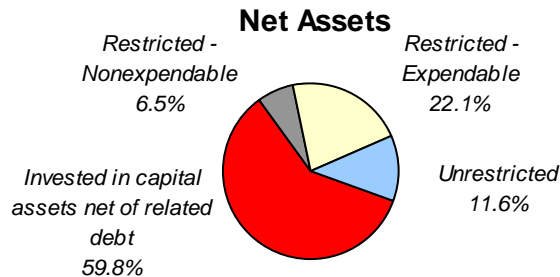


Current liabilities consist primarily of accounts payable and accrued liabilities, \$29,013,000, deferred revenue, \$23,451,000, and the current portion of long-term debt, \$8,267,000. Deferred revenue consists primarily of advance payments on operating grants/contracts.

NonCurrent Liabilities



Noncurrent liabilities consist primarily of long-term liabilities, \$104,788,000, and funds held in trust for pool participants, \$72,684,000. Long-term liabilities consist of \$80,781,000 in bonds payable, \$23,785,000 in accrued compensated absences, and \$222,000 in capital leases.



Net assets invested in capital assets, net of related debt, are \$399,440,000. Restricted expendable net assets of \$147,185,000 represent amounts subject to externally imposed restrictions. Unrestricted net assets of \$77,433,000 represent amounts not subject to externally imposed stipulations but are internally designated for various activities, research programs and initiatives, as well as capital improvement projects. Restricted nonexpendable net assets of \$43,368,000 represent endowment gifts held for investment purposes for which the principal amount is not available for expenditure, as stipulated by the donor.

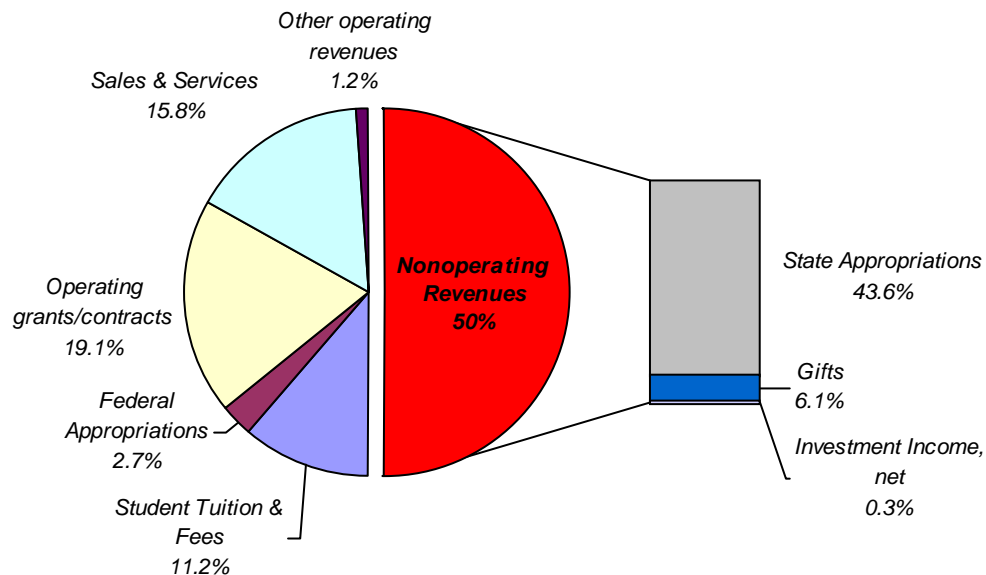
The Statement of Revenues, Expenses and Changes in Net Assets presents the results of the University operations for the report period. The following table summarizes the University's revenues, expenses, and changes in net assets for the year ended June 30, 2002.

**Condensed Statement of Revenues, Expenses and Changes in Net Assets
For the Fiscal Year Ended June 30, 2002**

(in thousands)

	Amount
Operating Revenues	\$ 375,774
Operating Expenses	<u>(774,280)</u>
Operating Loss	<u>(398,506)</u>
Nonoperating Revenues	376,315
Nonoperating Expenses	<u>(7,145)</u>
Loss Before Other Revenues and Expenses	<u>(29,336)</u>
Other Revenues	37,260
Increase in Net Assets	<u><u>\$ 7,924</u></u>
Net Assets Beginning of Year (restated)	659,502
Net Assets End of Year	667,426

While the University shows an operating loss, this is an expected outcome for public universities under the new accounting and reporting requirements. The operating loss occurs as a result of the new requirement to report State appropriations and gifts as other than operating revenue. In all, the University increased its net assets by \$7,924,000 of which \$2,586,000 was the result of permanent endowment additions. The following is a graphic illustration of revenues by source (both operating and nonoperating).



Operating revenues consist primarily of student tuition and fees, \$84,436,000, federal appropriations, \$20,529,000, operating grants/contracts, \$143,593,000, and sales and services, \$118,113,000. Non-operating revenues consist primarily of State appropriations, \$328,187,000.

As a result of the new accounting and reporting standards, tuition and fees are now shown net of amounts received in other revenue accounts for student financial aid. This method of net reporting is referred to as Discounting. In addition, sales and services are now shown net of amounts charged internally to other University departments. This method of net reporting is referred to as Elimination of Internal Sales. These changes remove the duplication of revenues and expenses on the University's financial statements as a whole. In prior years these items were shown as revenues and expenses as required in the fund based financial statements. Another change resulting from the new accounting and reporting standards is that the change in allowance for uncollectible accounts is now reported as a reduction to revenues rather than expensed as in prior years.

The following table summarizes the University's operating grants/contracts by funding source.

Operating Grants/Contracts by Funding Source

(in thousands)

	Amount
Federal Government Grants and Contracts	\$ 87,538
State Government Grants and Contracts	24,925
Nongovernmental Grants and Contracts	31,130
Total	<u>\$ 143,593</u>

Other revenues and expenses impact the change in the University's net assets for the reporting period. Other revenues represent gifts, grants, and other bequests received for improvement to capital assets or additions to permanent endowments. The following table summarizes the University's other revenues. There were no other expenses for the reporting period.

Other Revenues and Expenses

(in thousands)

	Amount
Capital Grants	\$ 24,763
Capital Gifts	9,911
Additions to Permanent Endowments	2,586
Total	<u>\$ 37,260</u>

The following table summarizes the University's expenses (operating and nonoperating) for the reporting period.

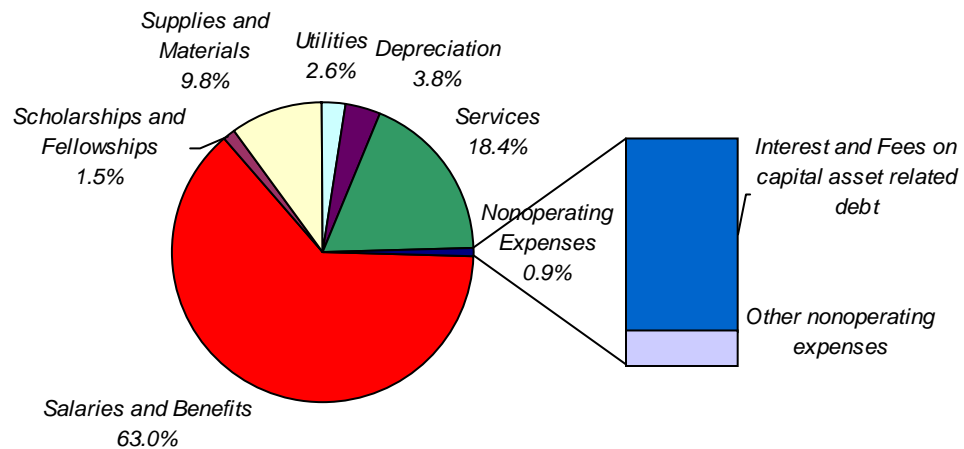
Operating and Nonoperating Expenses

(in thousands)

	Amount
Operating Expenses	
Salaries and Benefits	\$ 492,421
Supplies and Materials	76,951
Services	143,439
Scholarships and Fellowships	11,751
Utilities	20,030
Depreciation	29,688
Total Operating Expenses	<u>\$ 774,280</u>
Nonoperating Expenses	
Interest and Fees on Capital Asset Related Debt	\$ 6,088
Other Nonoperating Expenses	1,057
Total Nonoperating Expenses	<u>\$ 7,145</u>

As a result of the new accounting and reporting standards, operating expenses are reduced for discounting and the elimination of internal sales. Scholarships and fellowships now represent payments to students exclusive of tuition and fees amounts received from other university revenue sources. In addition, depreciation is now recorded to report the utilization of long-lived assets. In prior years, capital assets were shown at historical cost with no depreciation.

The following is a graphic illustration of expenses (operating and nonoperating) for the reporting period.

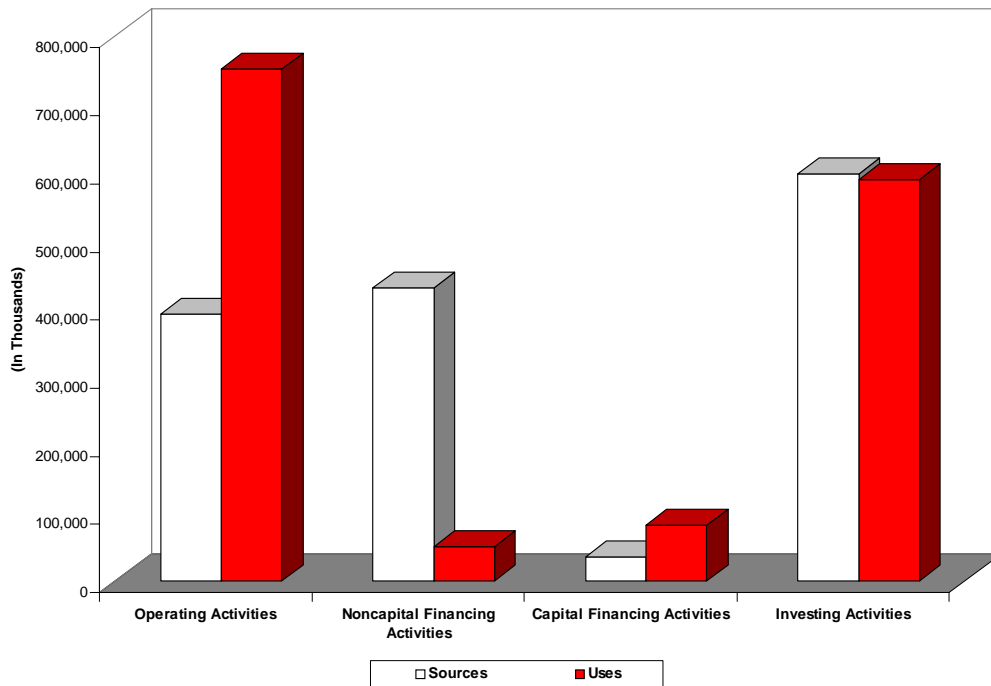


The Statement of Cash Flows provides additional information about the University's financial results, by reporting the major sources and uses of cash. The following table summarizes the University's cash receipts and payments for the year ended June 30, 2002.

Condensed Statement of Cash Flows
For the Fiscal Year Ended June 30, 2002
(in thousands)

	Amount
Cash Provided by/(Used by)	
Operating Activities	\$ (359,271)
Noncapital Financing Activities	379,560
Capital and Related Financing Activities	(46,483)
Investing Activities	7,628
Net Decrease in Cash	<u>\$ (18,566)</u>
Cash – Beginning of the Year	169,040
Cash – End of the Year	<u><u>\$ 150,474</u></u>

The following is a graphic illustration of operating activities, noncapital financing activities, capital financing activities, and investing activities for the reporting period.



CAPITAL ASSETS AND LONG-TERM DEBT ACTIVITIES

Capital Assets

With the passage of the Higher Education Improvement Bond Referendum by North Carolina voters on November 7, 2000, the University is in excellent position to improve and modernize its facilities. The Referendum provided \$468,257,000 in State funds to the University over a six-year period beginning in fiscal year 2001. As of June 30, 2002, the University had received \$29,050,000 from the State and had \$439,207,000 outstanding pending future bond sales and allotment approvals.

During the report period, the University received \$23,590,000 in funds from the Referendum, \$1,172,000 from Federal funds, \$2,000,000 from debt financing, and \$16,127,000 from available unrestricted funds. In total, the University received or made available from available funds \$42,889,000 during the report period for its capital improvements.

The University expended \$48,524,000 during the year for the construction of new buildings/infrastructure or for the renovation or repair of its facilities. Of this amount, \$10,302,000 was expended on improvements to Centennial Campus.

At June 30, 2002, outstanding commitments on construction contracts were \$38,230,000.

More information about the University's long-range capital plan is located at <http://www.ncsu.edu/facilities/masterplan/index.htm>.

Centennial Campus is a research and advanced technology community where the University, industry and government partners interact in multi-disciplinary programs directed toward the solution of contemporary problems. Since the Centennial Campus opened its first laboratory in 1988, its inventory of buildings has grown to 17 buildings, containing a total of approximately 1.5 million square feet of developed space and investment of \$340 million to date. Of this space, approximately 24% was for the University's use, 9% was for Governmental use, and 67% was leased to private companies.

More information about Centennial Campus is located at <http://www.centennial.ncsu.edu/>.

Long-term Debt Activities

As authorized by the General Assembly in fiscal year 2000, the University adopted a new financing methodology to allow it to pledge its available funds using general revenue bond acquisitions. Under this new financing methodology, the University entered into a joint Commercial Paper program with the University of North Carolina at Chapel Hill (UNC-CH) in March 2002. Proceeds of the program will be made available to UNC-CH (up to \$75,000,000) and to the University (up to \$25,000,000). In June 2002, the University issued \$2,000,000 in commercial paper with an interest rate of 1.45% and term of 161 days to finance construction projects. While considered a short-term loan, the University intends to refinance the borrowings either through additional short-term loans or by acquiring a long-term general revenue bond, depending on market interest rates.

In April 2002, the University issued \$15,960,000 in general revenue refunding bonds. The refunding was used to defease \$1,125,000 of outstanding North Carolina State University at Raleigh Housing System Revenue Refunding Bonds of 1991, Series L; \$7,520,000 of outstanding North Carolina

State University at Raleigh Housing System Revenue Bonds of 1994, Series M; and \$7,290,000 of outstanding North Carolina State University at Raleigh Taxable Revenue Bonds Centennial Campus Projects, Series 1993. With this refunding, the University reduced its debt service requirements by \$3,702,000 and recognized an economic gain of \$534,000 over the next 12 years.

As a result of this new financing methodology and the pledge of its available funds, the University's bond rating from Moody's Investor Service was upgraded to Aa3 from A1 for its outstanding Housing, Dining and Student Center bonds. In addition, Moody's assigned an Aa3 rating with a stable outlook for the University's series 2002B and 2002C General Revenue Refunding Bonds. The bond rating from Standards and Poor's remained the same at AA for the reporting period.

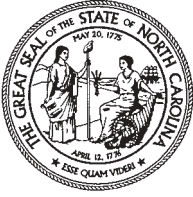
At June 30, 2002, the University had outstanding long-term bond indebtedness in the principal amount of \$87,092,000.

ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

A major source of funding for the University is appropriations from the State of North Carolina. As a result of increased enrollment growth at North Carolina State University in fiscal year 2002, the State authorized new appropriations to the University for fiscal year 2003 of more than \$22,000,000. Tuition rates were also increased providing for \$8,000,000 in enhancements to the University's revenue stream. As a result of the Higher Education Improvement Bond program, the University has \$439,207,000 in State resources still available for construction and facilities improvement over the next four years.

Other major sources of funding are from federal, state, and nongovernmental resources for research and technology development. With the development of Centennial Campus and the reputation of NCSU's research faculty and research centers, these resources are expected to increase. Research outcomes contribute to patents and technology transfers that will benefit the citizens of the State and contribute to the improvement of the State's economy.

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RALPH CAMPBELL, JR.
STATE AUDITOR

STATE OF NORTH CAROLINA
Office of the State Auditor

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20601 Mail Service Center
Raleigh, NC 27699-0601
Telephone: (919) 807-7500
Fax: (919) 807-7647
Internet <http://www.osa.state.nc.u>

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
North Carolina State University
Raleigh, North Carolina

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

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

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

As discussed in Note 18 to the financial statements, the University implemented Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as amended by GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – For Public Colleges and Universities* and Statement No. 38, *Certain Financial Statement Note Disclosures* during the year ended June 30, 2002.


Board of Trustees
December 11, 2002
Page 2

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

In accordance with *Government Auditing Standards*, we will also issue our report dated December 11, 2002 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit. The report on compliance and internal control will be issued under separate cover in the Financial Statement Audit Report of North Carolina State University published by this Office.

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

The introductory and statistical sections, identified in the table of contents, were not audited by us, and accordingly, we do not express an opinion thereon.


Ralph Campbell, Jr.
State Auditor

December 11, 2002

North Carolina State University
Statement of Net Assets
June 30, 2002
(in thousands)

ASSETS

Current Assets

Cash and cash equivalents	\$ 99,966
Restricted cash and cash equivalents	30,478
Restricted short-term investments	3,872
Receivables, net (Note 5)	33,835
Due from primary government	8,257
Inventories	5,174
Notes receivable, net (Note 5)	1,400
Total current assets	<u>182,982</u>

Noncurrent Assets

Restricted cash and cash equivalents	20,030
Restricted due from primary government	13,626
Endowment investments	131,241
Other long-term investments	76,781
Notes receivable, net (Note 5)	9,299
Capital assets, net (Note 6)	486,825
Total noncurrent assets	<u>737,802</u>

Total Assets

\$ 920,784

LIABILITIES

Current Liabilities

Accounts payable and accrued liabilities (Note 7)	\$ 29,013
Due to primary government	999
Deferred revenue	23,451
Interest payable	723
Short-term debt (Note 8)	2,000
Long-term liabilities-current portion (Note 9)	8,267
Total current liabilities	<u>64,453</u>

Noncurrent Liabilities

Deposits payable	2,135
Funds held for others	2,469
US Government grants refundable	6,829
Funds held in trust for pool participants	72,684
Long-term liabilities (Note 9)	104,788
Total noncurrent liabilities	<u>188,905</u>

Total Liabilities

\$ 253,358

NET ASSETS

Invested in capital assets, net of related debt \$ 399,440

Restricted for:

Nonexpendable:

Scholarships and fellowships	6,961
Endowed professorships	22,355
Departmental uses	13,041
Other	1,011

Expendable:

Scholarships and fellowships	10,052
Research	7,822
Endowed professorships	47,070
Departmental uses	25,431
Loans	5,921
Capital projects	30,639
Debt service	7,100
Other	13,150

Unrestricted

77,433

Total Net Assets

\$ 667,426

North Carolina State University
Statement of Revenues, Expenses, and Changes in Net Assets
For the Fiscal Year Ended June 30, 2002
(in thousands)

REVENUES

Operating Revenues

Student tuition and fees, net (Note 11)	\$ 84,436
Federal appropriations	20,529
Federal grants and contracts	87,538
State and local grants and contracts	24,925
Nongovernmental grants and contracts	31,130
Sales and services, net (Note 11)	118,113
Interest earnings on loans	232
Other operating revenues	<u>8,871</u>
Total operating revenues	<u>375,774</u>

EXPENSES

Operating Expenses

Salaries and benefits	492,421
Supplies and materials	76,951
Services	143,439
Scholarships and fellowships	11,751
Utilities	20,030
Depreciation	<u>29,688</u>
Total operating expenses	<u>774,280</u>
Operating loss	<u>(398,506)</u>

NONOPERATING REVENUES (EXPENSES)

State appropriations	328,187
Noncapital grants	1,669
Noncapital gifts	44,203
Investment income (net of investment expense of \$649)	2,256
Interest and fees on capital asset-related debt	(6,088)
Other nonoperating revenues (expenses)	<u>(1,057)</u>
Net nonoperating revenues	<u>369,170</u>
Income before other revenues, expenses, gains, or losses	<u>(29,336)</u>
Capital grants	24,763
Capital gifts	9,911
Additions to permanent endowments	<u>2,586</u>
Increase in net assets	<u>7,924</u>

NET ASSETS

Net assets - July 1, 2001, as restated (Note 19)	<u>659,502</u>
Net assets - June 30, 2002	<u>\$ 667,426</u>

North Carolina State University
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2002
(in thousands)

Cash Flows from Operating Activities

Received from customers	\$ 380,489
Payments to employees and fringe benefits	(503,137)
Payments to vendors and suppliers	(234,123)
Payments for scholarships and fellowships	(11,751)
Loans issued to students and employees	(2,231)
Loans collected from students and employees	2,057
Interest earned on loans	251
Other receipts	9,174
Net cash used by operating activities	<u>(359,271)</u>

Cash Flows from Noncapital Financing Activities

State appropriations	328,187
Grants for other than capital purposes	2,304
Noncapital gifts	46,593
Federal Family Education Loan receipts	51,359
Federal Family Education Loan disbursements	(50,452)
External participation in Investment Fund	1,405
Other receipts	164
Net cash provided by noncapital financing activities	<u>379,560</u>

Cash Flows from Capital Financing Activities

Proceeds from capital debt	17,946
Capital grants	16,155
Proceeds from sale of capital assets	789
Purchases of capital assets	(53,232)
Principal paid on capital debt and leases	(7,311)
Interest paid on capital debt and leases	(4,616)
Payment to bond escrow agent	(15,958)
Other receipts (payments)	(256)
Net cash used by capital financing activities	<u>(46,483)</u>

Cash Flows from Investing Activities

Proceeds from sales and maturities of investments	583,431
Dividends & interest on investments	13,968
Purchase of investments	(589,771)
Net cash provided by investing activities	<u>7,628</u>

Net decrease in cash	(18,566)
Cash - beginning of year	169,040
Cash - end of year	<u>\$ 150,474</u>

North Carolina State University
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2002
(in thousands)

**Reconciliation of Operating Loss to
Net Cash Used by Operating Activities**

Operating loss	\$ (398,506)
Adjustments to reconcile operating loss to net cash used by operating activities	
Depreciation expense	29,688
Allowances, write-offs and amortizations	(1,701)
Receivables	(1,901)
Inventories	(2,604)
Prepaid items	303
Accounts payable and accrued liabilities	(1,193)
Deposits payable	2,135
Deferred revenue	14,153
Compensated absences	355
Net cash used by operating activities	<u>\$ (359,271)</u>

**Noncash Investing, Capital and
Financing Activities**

Assets acquired through the assumption of a liability	\$ 319
Assets acquired through gifts	10,107
Change in fair value of investments	(4,766)

Reconciliation of Cash and Cash Equivalent Balances

Current Assets	
Cash and cash equivalents	\$ 99,966
Restricted cash and cash equivalents	30,478
Noncurrent Assets	20,030
Total cash and cash equivalent balances	<u>\$ 150,474</u>

Index to the Notes to the Financial Statements

			<u>Page</u>
Note	1	Significant Accounting Policies	29
Note	2	Budgeting and Budgetary Control	33
Note	3	Deposits and Investments	33
Note	4	Endowment Investments	38
Note	5	Receivables	39
Note	6	Capital Assets	39
Note	7	Accounts Payable and Accrued Liabilities	40
Note	8	Short-term Debt	40
Note	9	Long-term Liabilities	40
Note	10	Lease Obligations	44
Note	11	Revenues	45
Note	12	Operating Expenses by Function	45
Note	13	Pension Plans	46
Note	14	Other Postemployment Benefits	48
Note	15	Risk Management	49
Note	16	Commitments and Contingencies	50
Note	17	Related Parties	51
Note	18	Accounting Changes	52
Note	19	Net Asset Restatement	53

Notes to the Financial Statements

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 State University is a constituent institution of the sixteen campus University of North Carolina System, which is a component unit of the State of North Carolina and an integral part of the State's *Comprehensive Annual Financial Report*.

The accompanying financial statements present all funds belonging to the University and its component units. While the Board of Governors of the University of North Carolina System has ultimate responsibility, the Chancellor, the Board of Trustees, and the Board of Trustees of the Endowment Fund have delegated responsibilities for financial accountability of the University's funds. Although legally separate, the NC State Investment Fund, Inc., (Investment Fund) and the NC State University Partnership Corporation (Corporation), component units of the University, are reported as if they were part of the University.

The Investment Fund is governed by a Member's Board consisting of six ex officio directors and five elected representatives from the participating entities. The Investment Fund's purpose is to support the University by operating an investment fund for charitable, nonprofit foundations, associations, trusts, endowments and funds that are organized and operated primarily to support the University. The Investment Fund is an external governmental investment pool. Because the majority of the Member's Board of the Investment Fund consists of University administrators and Board Members and the Investment Fund's primary purpose is to benefit North Carolina State University, its financial statements have been blended with those of the University.

The Corporation is governed by a Board of Directors appointed by the Chancellor of the University. The Corporation's purpose is to support and benefit the University with the aims of creating new knowledge and improving the lives of the people of North Carolina. In addition, the Corporation formed NC State University Conference Center, LLC (LLC) on January 25, 2002 to develop, own, and operate a hotel, conference center, and public golf course on the Centennial Campus as outlined in the Campus Master Plan. Because the Corporation's Board is appointed by the Chancellor and its sole purpose is to support and benefit the University, both the Corporation and the LLC are considered part of the University for financial reporting purposes.

Separate financial statements for the Investment Fund may be obtained from the Foundations Accounting and Investments Office, Campus Box 7207, Raleigh, NC 27695, or by calling (919) 515-2110. Financial information relative to the Corporation and the LLC may be obtained from the Corporation's Executive Director, Campus Box 7012, Raleigh, NC 27695, or by calling (919) 515-0388. Other related foundations and similar non-profit corporations for which the University is not financially accountable are not part of the accompanying financial statements.

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

Pursuant to the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, as amended by GASB Statement No. 35, *Basic Financial Statements – and Management’s Discussion and Analysis – For Public Colleges and Universities* effective for the University’s year ended June 30, 2002, the full scope of the University’s activities is considered to be a single business-type activity (BTA) and accordingly, is reported within a single column in the basic financial statements.

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

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

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

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

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

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

G. Inventories – Inventories, consisting of expendable supplies and merchandise for resale, are stated at the lower of cost or market value using the first-in, first-out method except for the bookstore that uses the retail method and physical plant that uses the moving weighted average 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 University capitalizes assets that have a value or cost in excess of \$5,000 at the date of acquisition and an expected useful life of one or more years. Library books are expensed.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 15 to 75 years for infrastructure, 10 to 50 years for buildings and 3 to 15 years for equipment.

The University does not capitalize its collections. Collections not capitalized adhere to the University's policy to maintain for public exhibition, education or research; protect, keep unencumbered, care for, and preserve; and requires proceeds from their sale to be used to acquire other collection items. Accounting principles generally accepted in the United States of America permit collections maintained in this manner to be charged to operations at time of purchase rather than capitalized.

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

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

K. Non-current Long-term Liabilities – Non-current long-term liabilities include principal amounts of bonds payable, notes payable, capital lease obligations and compensated absences that will not be paid within the next fiscal year.

Bonds payable are reported net of unamortized premium or discount. The University amortizes bond premiums/discounts over the life of the bonds using the straight-line method. Losses on refundings and issuance costs on bonds payable are not material to the accompanying financial statements and are expensed in the year incurred.

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

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

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

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

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

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

Restricted and unrestricted resources are tracked using a fund accounting system and are spent in accordance with established fund authorities. Fund authorities provide rules for the fund activity and are separately established for restricted and unrestricted activities. When both restricted and unrestricted funds are available for expenditure, the decision for funding is transactional based within the departmental management system in place at the University.

- N. Scholarship Discounts** – Student tuition and fees revenues and certain other revenues from University charges are reported net of scholarship discounts in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. The scholarship discount is the difference between the actual charge for goods and services provided by the University and the amount that is paid by students or by third parties on the students' behalf. Student financial assistance grants, such as Pell grants, and other federal, state or nongovernmental programs, are recorded as operating revenues in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. To the extent that revenues from these programs are used to satisfy tuition, fees, and other charges, the University has recorded a scholarship discount.
- O. Revenue and Expense Recognition** – The University presents its revenues and expenses as operating or nonoperating based on recognition definitions from GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*. Operating activities are those activities that are necessary and essential to the mission of the University. Operating revenues include all charges to customers, grants received for student financial assistance, research contracts and grants, and interest earned on loans. Grants received for student financial assistance are considered operating revenues because they provide resources for student charges and such programs are necessary and essential to the mission of the University. Revenues from nonexchange transactions and state appropriations that represent subsidies or gifts to the University, as well as investment income, are considered nonoperating since these are either investing, capital or noncapital financing activities. Operating expenses are all expense transactions incurred other than those related to investing, capital or noncapital financing activities. Revenues received for capital financing activities, as well as related expenses, are considered neither operating nor nonoperating activities and are presented after nonoperating activities on the accompanying Statement of Revenues, Expenses, and Changes in Net Assets.
- P. Internal Sales Activities** – Certain institutional auxiliary operations provide goods and services to University departments as well as to its customers. These institutional auxiliary operations include activities such as Central Stores, University Graphics, the Copy Center, the Creamery, Telecommunications, Physical Plant, and Motor Pool. 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 - BUDGETING AND BUDGETARY CONTROL

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

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

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

NOTE 3 - DEPOSITS AND INVESTMENTS

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

Deposits include cash and cash equivalents totaling \$150,244,000. At year-end, cash on hand was \$230,000. The University's portion of the State Treasurer's Cash and Investment Pool was \$149,762,000. It is the State Treasurer's policy and practice for deposits not covered by federal depository insurance to be covered by collateral held by the State of North Carolina's agent in the name of the State and for his investments to be held by the State's agent in the State's name. The carrying amount of the University's deposits not with the State Treasurer was \$483,000 and the

bank balance was \$498,000. Of the bank balance, \$290,000 was covered by federal depository insurance and \$208,000 was uninsured and uncollateralized.

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

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

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

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

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

Investments of the Investment Fund, a University component unit, are subject to and restricted by General Statute 36B "Uniform Management of Institutional Funds Act" (UMIFA) and any requirements placed on them by contract or donor agreements.

Investments of various funds may be pooled unless prohibited by statute or by terms of the gift or contract. The University utilizes the following investment pools:

Long Term Investment Pool - This is an internal investment pool that is utilized for the investment of the endowment funds. Pool 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 is based on the directives of the University's Endowment Board. This pool also participates in the Investment Fund.

The Investment Fund – This is a governmental external investment pool sponsored by the University. The Investment Fund was established in April 1999. The Investment Fund is utilized as one of the investment managers for the Long Term Investment Pool (the Investment Fund's internal participant) and to manage the investments for other affiliated organizations that are organized and operated primarily to support the University (the Investment Fund's external participants). Fund ownership of the pool is measured using the dollar-day method, which assigns a weighted value for the time

the funds are on deposit. The external portion of the pool is presented in the accompanying financial statements as “Funds Held in Trust for Pool Participants.”

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

Deutsche-Bankers Trust is the custodian for the pool and provides the University with quarterly statements defining income and fair value information, which is then allocated among the fund’s participants. There are no involuntary participants in the pool. The University has not provided or obtained any legally binding guarantees during the period to support the value of the pool’s investments. Separate financial statements for the Investment Fund may be obtained from the Foundations Accounting and Investments Office, Campus Box 7207, Raleigh, NC 27695, or by calling (919) 515-2110.

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

A summary of the University’s investments at June 30, 2002 is presented below. *(in thousands)*

*Long Term Investment Pool**

	Fair Value			Total
	Risk Category			
	1	2	3	
Categorized Investments:				
U. S. Government Securities	\$ 2,182	\$	\$	\$ 2,182
Corporate Bonds	1,960			1,960
International Bonds	108			108
Total Categorized Investments	\$ 4,250	\$	\$	\$ 4,250
Investments Not Categorized:				
Money Market Funds				3,101
Mutual Funds				11,508
Pooled Investments (Life Income Pools)				219
Other Investments				14,269
Total Investments Not Categorized				29,097
Total Long Term Investment Pool Investments				\$ 33,347

* Excludes amounts reported in the Investment Fund

Investment Fund (External Investment Pool)

	Fair Value			
	Risk Category			Total
	1	2	3	
Categorized Investments:				
U. S. Government Securities	\$ 6,228	\$	\$	\$ 6,228
Collateralized Mortgage Obligations	7,397			7,397
Corporate Bonds	15,571			15,571
International Bonds	1,924			1,924
Commercial Paper	6,587			6,587
Corporate Stocks	70,719			70,719
International Stocks	1,733			1,733
Total Categorized Investments	\$ 110,159	\$	\$	110,159
Investments Not Categorized:				
Money Market Funds				11,217
Mutual Funds				22,515
Real Estate Investment Trusts				5,646
Total Investments Not Categorized				39,378
Total External Pool Investments				\$ 149,537

Non Pooled Investments

	Fair Value			
	Risk Category			Total
	1	2	3	
Categorized Investments:				
U. S. Government Securities	\$ 4,132	\$	\$	\$ 4,132
Corporate Stocks	1,522			1,522
Total Categorized Investments	\$ 5,654	\$	\$	\$ 5,654
Investments Not Categorized:				
Money Market Funds				3,646
Real Estate				18,498
Other Investments				1,212
Total Investments Not Categorized				23,356
Total Non Pooled Investments				\$ 29,010

Total Investments

	Fair Value			
	Risk Category			Total
	1	2	3	
Total Categorized Investments	\$ 120,063	\$	\$	\$ 120,063
Total Investments Not Categorized				91,831
Total Investments				\$ 211,894

C. Derivative and Similar Transactions - A derivative is a financial instrument created from, or whose value depends on (is derived from), the value of one or more underlying assets, reference rates, or indexes of asset values. These instruments may include forwards, futures, currency and interest rate swaps, options, floaters/inverse floaters and caps/floors/collars. During the year the University did not invest in derivative investments but did invest in transactions similar to a derivative instrument. Investment transactions similar to a derivative may include securitized assets, such as mortgage-backed securities and other asset-backed securities. As required by accounting principles generally accepted in the United States of America, the nature of derivative or similar transactions entered into by the University, and the reasons for entering into those transactions follow:

Mortgage-Backed Securities - The University invests in mortgage-backed securities issued by the Government National Mortgage Association (GNMA), an agency of the United States government, government sponsored enterprises including the Federal Home Loan Mortgage Corporation (FHLMC) or the Federal National Mortgage Association (FNMA), and private trusts or corporations. The University invests in these securities to increase the yield and return on its investment portfolio given the available alternative investment opportunities.

The values of mortgage-backed securities are generally based on the cash flows from principal and interest receipts on the underlying mortgage pools. These securities may include mortgage pass-through securities and collateralized mortgage obligations (CMOs). Mortgage pass-through securities pay the holder of the security the principal and interest amounts received from the underlying pool of mortgages as these amounts are collected from the mortgage holders. In a CMO, the cash flows from principal and interest payments from one or more mortgage pass-through securities or a pool of mortgages may be reallocated to multiple security classes with different priority claims and payment streams (commonly referred to as tranches.) A holder of the CMO security thus chooses the classes of security that best meet its risk and return objectives. Both pass-through securities and CMOs are subject to significant market risk due to fluctuations in interest rates, prepayment rates and various liquidity factors related to their specific markets.

The mortgage pass-through securities issued by GNMA, FNMA, FHLMC are classified by the University as U.S. government securities. The mortgage pools underlying the GNMA pass-through securities are backed by the full faith and credit of the U.S. government by the Federal Housing Administration (FHA), Veterans Administration (VA), and the Farmers Home Administration (FHA). The FNMA and FHLMC securities are collateralized by underlying pools of mortgages primarily issued by GNMA, FNMA or FHLMC which guarantee full and timely payment of principal and interest.

The CMOs held by the University include mortgage backed securities issued by FNMA, FHLMC, and certain trusts and private corporations (including REMIC issuers). In addition, non-traditional mortgage pass-through securities, such as “interest-only strips” and “principal-only strips”, if held by the University, are classified as CMOs. The University did not hold any non-traditional pass-through securities during the year.

As of June 30, 2002, the University was holding \$12,517,000 in mortgage-backed securities valued at fair value representing approximately 5.91% of its total investments. Of this amount, \$7,397,000 represents investments in CMOs.

Other Asset-Backed Securities - The University invests in various asset-backed securities such as automobile loan securitizations, credit card securitizations, and home equity loans. The University

invests in the various asset-backed securities to increase the yield and return on its investment portfolio given the available alternative investment opportunities.

The values of these other asset-backed securities are generally based on the cash flows to be received from the underlying pools of assets. Accordingly, these securities are subject to market risk due to fluctuations in interest rates, prepayment rates, and various liquidity factors related to their specific markets. The market risk is reduced by the University's preference to invest in the shorter average life securities.

These security holdings are subject to credit-related losses in the event of non-performance by the issuers or counterparties to these instruments. However, the University does not expect any issuers or counterparties to fail to meet their obligation given their high credit ratings. The assets that collateralize these securities, which could be liquidated at market values at the time of non-performance, reduce the credit risk.

As of June 30, 2002, the University was holding \$2,068,000 in asset-backed securities valued at fair value representing approximately .98% of its total investments.

Indirect Derivative Holdings - The University identifies various external investment funds (mutual funds, external investment pools) that meet asset allocation and investment management objectives. The University invests in these funds to increase the yield and return on its investment portfolio given the available alternative investment opportunities and to diversify its asset holdings. Fund investments generally include equity and bond funds. Certain funds expose the University to significant amounts of market risk by trading or holding derivative instruments and by leveraging the securities in the fund.

The University limits the amount of funds managed by any single asset manager and also limits the amount of funds to be invested in particular security classes. As of June 30, 2002, the University was holding \$11,508,000 in a mutual fund for which investments in mortgage and asset backed securities totaled \$5,150,000 valued at fair value representing approximately 2.43% of the total investments. Of this amount \$4,667,000 represented investments in CMO's.

NOTE 4 - ENDOWMENT INVESTMENTS

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

Investment return of the University's endowment funds is predicated on the total return concept (yield plus appreciation). Annual payouts from the University's pooled endowment funds, which were 4.6% for the current year, are determined by applying the 4.6% rate to the average market value of each fund for the twelve quarters ending with the proper fiscal year. 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, 2002, the endowment fund had \$96,873,000 in expendable revenues and appreciation of which \$85,474,000 was restricted to specific purposes.

NOTE 5 - RECEIVABLES

Receivables at June 30, 2002 were as follows: (*in thousands*)

	Gross Receivables	Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	\$ 3,366	\$ (2,199)	\$ 1,167
Accounts	22,131	(2,258)	19,873
Intergovernmental	9,530		9,530
Investment Earnings	3,242		3,242
Interest on Loans	300	(277)	23
Total Current Receivables	\$ 38,569	\$ (4,734)	\$ 33,835
Notes Receivables:			
Notes Receivable - Current			
Federal Loan Programs	1,220		1,220
Institutional Student Loan Programs	180		180
Total Notes Receivable Current	\$ 1,400	\$	\$ 1,400
Notes Receivable - Noncurrent			
Federal Loan Programs	9,659	(745)	8,914
Institutional Student Loan Programs	527	(142)	385
Total Notes Receivable Noncurrent	\$ 10,186	\$ (887)	\$ 9,299

NOTE 6 - CAPITAL ASSETS

A summary of changes in the capital assets is presented as follows: (*in thousands*)

	Balance July 1, 2001	Adjustments	Increases	Decreases	Balance June 30, 2002
Capital Assets, Non-Depreciable					
Land	\$ 10,021	\$	\$ 343	\$	\$ 10,364
Construction in Progress	34,394	(20,585)	24,235		38,044
Total Capital Assets, Non-Depreciable	\$ 44,415	\$ (20,585)	\$ 24,578	\$ 0	\$ 48,408
Capital Assets, Depreciable					
Buildings	\$ 503,659	\$ 20,585	\$ 4,031	\$	\$ 528,275
Machinery and Equipment	191,539		26,848	(9,585)	208,802
General Infrastructure	52,801		8,100		60,901
Totals	747,999	20,585	38,979	(9,585)	797,978
Less Accumulated Depreciation/Amortization for:					
Buildings	197,039		13,562		210,601
Machinery and Equipment	127,818		14,806	(7,697)	134,927
General Infrastructure	12,713		1,320		14,033
Totals	337,570	0	29,688	(7,697)	359,561
Total Capital Assets, Depreciable, net	\$ 410,429	\$ 20,585	\$ 9,291	\$ (1,888)	\$ 438,417
Capital Assets, net	\$ 454,844	\$ 0	\$ 33,869	\$ (1,888)	\$ 486,825

NOTE 7 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2002 were as follows: *(in thousands)*

Accounts Payable	\$	19,495
Accrued Payroll		3,604
Contract Retainage		1,655
Other		4,259
Total Accounts Payable and Accrued Liabilities	\$	<u>29,013</u>

NOTE 8 - SHORT-TERM DEBT – COMMERCIAL PAPER PROGRAM

The University has available Commercial Paper Program financing for short-term credit up to \$25,000,000 to finance capital construction projects. As of June 30, 2002, \$2,000,000 of Commercial Paper was issued and is outstanding. The University's available funds are pledged to the Commercial Paper Program financing with the anticipation of converting to general revenue bond financing in the future.

Short-term debt activity for the year ended June 30, 2002 was as follows: *(in thousands)*

	Balance July 1, 2001	Issued	Redeemed	Balance June 30, 2002
Commercial Paper Program	\$ 0	\$ 2,000	\$ 0	\$ 2,000

NOTE 9 - LONG-TERM LIABILITIES

A. Changes in Long-Term Liabilities - A summary of changes in the University's long-term liabilities is presented as follows: *(in thousands)*

	Balance July 1, 2001	Additions	Reductions	Balance June 30, 2002	Current Portion
Notes, Bonds and Capital Leases Payable					
General Revenue Bonds Payable	\$	\$ 15,960	\$	\$ 15,960	\$ 1,115
Revenue Bonds Payable	93,069		(21,937)	71,132	5,213
Add/Deduct Premium/Discount	(40)	(14)	71	17	
Total Bonds Payable	93,029	15,946	(21,866)	87,109	6,328
Notes Payable	140		(140)	0	
Capital Leases Payable		319	(44)	275	53
Total Notes, Bonds, and Capital Leases	93,169	16,265	(22,050)	87,384	6,381
Compensated Absences	25,315	22,984	(22,628)	25,671	1,886
Total Long-Term Liabilities	\$ 118,484	\$ 39,249	\$ (44,678)	\$ 113,055	\$ 8,267

Additional information regarding capital lease obligations is included in Note 10.

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

Purpose	Series	Interest Rate/Ranges	Final Maturity Date	Original Amount of Issue	Principal Paid Through 6/30/2002	Principal Outstanding 6/30/2002
<u>STUDENT HOUSING SYSTEM</u>						
Dormitory - Sullivan Hall	(1) F	3.625%	9/1/2004	2,200	1,900	300
Dormitory Complex	(1) G	3.0%	9/1/2006	3,225	2,565	660
Avent Ferry Complex	(1) M	5.3-6.1%	9/1/2014	11,820	10,295	1,525
Refund Housing System Series H,J & K	(1) N	5-5.8%	9/1/2009	4,110	1,760	2,350
Residence Hall Improvement Project	(1) (A)	3.25-5%	10/1/2010	15,770	3,155	12,615
Housing System Project	(1) (B)	5-5.75%	10/1/2011	3,020	240	2,780
Refunding Housing Series L & M	(9) 2002B	2-5%	10/1/2014	8,800	0	8,800
Total Student Housing System				<u>48,945</u>	<u>19,915</u>	<u>29,030</u>
<u>DINING HALL SYSTEM</u>						
Dining Hall System Refunding Bonds	(2) 1996	4-5.3%	2/1/2012	2,345	375	1,970
<u>STUDENT HEALTH SYSTEM</u>						
Student Health Facility Project	(3) (A)	3.25-5.25	10/1/2013	5,615	835	4,780
<u>PARKING SYSTEM</u>						
Parking System Refunding Bonds	(4) 1996	4-5.1%	6/1/2009	6,530	1,790	4,740
<u>ATHLETIC SYSTEM</u>						
Entertainment and Sports Arena Project	(5) (A)	3.25-5.25%	10/1/2018	6,325	620	5,705
<u>CENTENNIAL CAMPUS SYSTEM</u>						
Centennial Campus Projects	(6) 1997A	6.55-7.04%	12/15/2010	7,765	2,130	5,635
Centennial Campus Projects	(6) 1997B	5.125%	12/15/2016	7,090	0	7,090
Centennial Campus Projects	(6) 1999A	Variable	12/15/2019	13,500	200	13,300
Centennial Campus Projects	(6) 1999B	7.04%	12/15/2004	2,117	805	1,312
Refunding Centennial Campus Series 1993	(9) 2002C	2.75-6.45%	10/1/2013	7,160	0	7,160
Total Centennial Campus System				<u>37,632</u>	<u>3,135</u>	<u>34,497</u>
<u>STUDENT CENTER SYSTEM</u>						
University Student Center	(7) 1996	4.5-5.1%	11/1/2009	2,210	445	1,765
<u>OTHER</u>						
Gymnasium Refunding Bonds	(8) (A)	3.25-4%	10/1/2007	1,695	360	1,335
Central Stores Expansion Project	(8) (B)	5-5.5%	10/1/2020	3,370	100	3,270
Total Other				<u>5,065</u>	<u>460</u>	<u>4,605</u>
Total Bonds Payable (principal only)				<u>\$114,667</u>	<u>\$ 27,575</u>	87,092
Less Unamortized Discount						(313)
Plus Unamortized Premium						<u>330</u>
Total Bonds Payable						<u>\$ 87,109</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

Designated student fees and revenue streams related to the systems financed above have been pledged for the payment of these bonds. In addition, fund reservations required by the Bond Indentures have been established and recorded as restricted net assets. The following revenues as summarized in Note 11 have been pledged or are security for the bonds:

- | | |
|---|---|
| (1) Residential Life Revenues (Housing) | (6) Other Revenues (Centennial Campus) |
| (2) Dining Revenues | (7) Student Center Revenues |
| (3) Student Health Revenues | (8) Other Sales & Service Revenues (Central Stores & Gymnasium) |
| (4) Parking Revenues | (9) Available Funds (General Revenue Bonds) |
| (5) Athletic Revenues | |

Available funds, as defined in the General Indenture dated October 1, 2001, are any funds of NC State in each fiscal year remaining after satisfying debt obligations excluding (1) state appropriations, (2) tuition payments, (3) funds restricted by gift, grant, or payee, (4) revenues from Special Facilities, and (5) funds restricted by law. Available funds are not pledged to the trustee, but rather are the source from which principal and interest on the Bonds will be paid.

- C. Demand Bonds** - Included in bonds payable is a variable rate demand bond issue. Demand bonds are securities that contain a “put” feature that allows bondholders to demand payment before the maturity of the debt upon proper notice of the University’s remarketing or paying agents.

With regards to the following demand bond, the University has entered into an agreement, which would convert the demand bond not successfully remarketed into another form of long-term debt.

The North Carolina State University at Raleigh Variable Rate Revenue Bonds (Centennial Campus Projects), Series 1999A: On September 22, 1999 the University issued tax-exempt variable rate revenue demand bonds in the amount of \$13,500,000 that have a final maturity date of December 15, 2019. The bonds are subject to mandatory sinking fund redemption that begins on December 1, 2000. The University’s proceeds of this issuance were used to (i) discharge a portion of a loan from First Union National Bank, the proceeds from which were used for the construction and equipping of a building known as the Partners II Building located on the Centennial Campus of NC State, (ii) paying the cost of relocating utility easements on the Centennial Campus of NC State, and (iii) paying the costs incurred in connection with the issuance of the 1999A Bonds.

While bearing interest at a weekly rate, the bonds are subject to purchase on demand with seven (7) days notice and delivery to the paying agent, The Bank of New York. Upon notice from the paying agent, the remarketing agent, Lehman Brothers, Inc., has agreed to exercise its best efforts to remarket the bonds for which a notice of purchase has been received.

Under a Standby Bond Purchase Agreement (Agreement) between the Board of Governors of the University of North Carolina and First Union National Bank, a Liquidity Facility has been established for the Trustee (The Bank of New York) to draw amounts sufficient to pay the purchase price and accrued interest on bonds delivered for purchase when remarketing proceeds or other funds are not available. This Agreement requires a commitment fee equal to 0.11% of the available commitment, payable quarterly in arrears, beginning on October 1, 1999 and on each January 1, April 1 and July 1 thereafter until the expiration date or the termination date of the Agreement.

Under the Agreement, any bonds purchased through the Liquidity Facility become Liquidity Provider Bonds and shall, from the date of such purchase and while they are Liquidity Provider Bonds, bear interest at the Liquidity Provider Rate (the greater of the Bank prime commercial lending rate and Federal Funds Rate plus 0.5%). Upon remarketing of Liquidity Provider Bonds and the receipt of the sales price by the Liquidity Provider, such bonds are no longer considered Liquidity Provider Bonds. Payment of the interest on the Liquidity Provider Bonds is due the first business day of each month in which Liquidity Provider Bonds are outstanding. At June 30, 2002 there were no Liquidity Provider Bonds held by the Liquidity Facility. The original Liquidity facility is scheduled to expire on September 15, 2003, unless otherwise extended based on the terms of the agreement.

Upon expiration or termination of the Agreement, the University is required to redeem (purchase) the Liquidity Provider Bonds held by the Liquidity Facility in twenty (20) quarterly installments, beginning the first business day that is at least 180 days following such expiration date or termination date along with accrued interest at the Liquidity Provider Rate.

Effective October 1, 1999, the University entered into an interest rate swap contractual agreement with Lehman Brothers, Inc. on \$9,000,000 of these demand bonds. Under this agreement the University will pay interest at a fixed rate of 4.574%. On a monthly basis the difference between 67% of the weighted average of the weekly LIBOR (London Interbank Offered Rates) rate and the fixed rate will be calculated. If the fixed rate is greater than the LIBOR calculated rate, the University will pay the difference to Lehman Brothers, Inc. If the LIBOR rate is greater, Lehman Brothers will refund the difference to the University. During the fiscal year the University paid Lehman Brothers \$269,000 under this agreement.

D. Annual Requirements - The annual requirements to pay principal and interest on the long-term obligations at June 30, 2002 are as follows: (*in thousands*)

Annual Requirements Bonds Payable		
Fiscal Year	Principal	Interest
2003	\$ 6,328	\$ 3,661
2004	6,587	3,399
2005	6,287	3,089
2006	6,525	2,785
2007	6,815	2,488
2008-2012	30,840	7,820
2013-2017	18,305	2,275
2018-2022	5,405	272
Total Requirements	\$ 87,092	\$ 25,789

Interest on the variable rate revenue bonds is calculated at 4.574% at June 30, 2002.

The variable rate is changed weekly every Wednesday by the Remarketing Agent with a maximum rate of 12%. In addition, the University has entered into an interest rate swap agreement to ensure that the net interest rate will not exceed a fixed rate of 4.574% over the life of the demand bond. See note 9C for more information on the demand bonds and the interest rate swap.

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

On April 16, 2002 the University defeased \$1,125,000 of outstanding North Carolina State University at Raleigh Housing System Revenue Refunding Bonds of 1991, Series L (original issue amount \$4,985,000); \$7,520,000 of outstanding North Carolina State University at Raleigh Housing System Revenue Bonds of 1994, Series M (original issue amount \$11,820,000); and \$7,290,000 of outstanding North Carolina State University at Raleigh Taxable Revenue Bonds Centennial Campus Projects, Series 1993 (original issue amount \$9,855,000). Securities were deposited into an irrevocable trust with an escrow agent to provide for all future debt service payments on the defeased bonds. The trust assets and the liability for the defeased bonds are not included in the University's Statement of Net Assets. As a result of the refunding, the University reduced its debt service requirements by \$3,702,000 over the next 12 years and obtained an economic gain of \$534,000. At June 30, 2002 the outstanding balance of the defeased bonds was \$14,810,000.

NOTE 10 - LEASE OBLIGATIONS

- A. Capital Lease Obligations** – A Capital lease obligation relating to a DNA Analyzer Sequencer was recorded at the present value of the minimum lease payments. Future minimum lease payments under capital lease obligations consist of the following at June 30, 2002: (*in thousands*)

Fiscal Year	Amount
2003	\$ 78
2004	79
2005	79
2006	79
2007	13
Total Minimum Lease Payments	\$ 328
Amount Representing Interest (8.77% Rate of Interest)	53
Present Value of Future Lease Payments	<u>\$ 275</u>

Leased assets amounted to \$319,000 less accumulated depreciation of \$23,000 at June 30, 2002.

- B. Operating Lease Obligations** - Future minimum lease payments under non-cancelable operating leases consist of the following at June 30, 2002: (*in thousands*)

Fiscal Year	Amount
2003	\$ 2,240
2004	1,670
2005	1,473
2006	773
2007	412
Total Minimum Lease Payments	<u>\$ 6,568</u>

Rental expense for all operating leases during the year was \$2,410,000.

NOTE 11 - REVENUES

A summary of eliminations and allowances by revenue classification and revenues pledged as security for revenue bonds is presented as follows: *(in thousands)*

	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	\$ 105,087	\$ (1,486)	\$ (20,948)	\$ 1,783	\$ 84,436	\$ 0
Sales and services						
Residential Life	21,942	(72)	(3,745)	186	18,311	21,942 (A)
Dining	17,709	(1,435)	(3,086)	118	13,306	17,709 (B)
Bookstore	12,725	(645)			12,080	
Athletic	23,404		(399)	3	23,008	23,404 (C)
Parking	7,797	(565)		53	7,285	7,797 (D)
Student Center	4,928	(108)	(925)	24	3,919	4,928 (E)
Student Health	7,769		(437)	25	7,357	7,769 (F)
Other	11,938	(10,412)	(1,207)		319	2,360 (G)
Sales and services of educational and related activities	48,925	(16,659)		262	32,528	407 (G)
Total Sales and Services	\$ 157,137	\$ (29,896)	\$ (9,799)	\$ 671	\$ 118,113	\$ 86,316

Revenue Bonds Secured by Pledged Revenues:

- (A) Student Housing System
- (B) Dining System
- (C) Athletics System
- (D) Parking System

- (E) Student Center System
- (F) Student Health System
- (G) Other

NOTE 12 - OPERATING EXPENSES BY FUNCTION

The University's operating expenses by functional classification are presented as follows: *(in thousands)*

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	\$185,252	\$16,959	\$ 19,080	\$ 0	\$ 4	\$ 0	\$221,295
Research	115,898	7,622	38,909		441		162,870
Public Service	67,580	7,434	23,552		277		98,843
Academic Support	29,522	4,040	6,614		8		40,184
Student Services	9,453	1,932	10,914				22,299
Institutional Support	36,951	2,000	11,583		453		50,987
Operations and Maintenance of Plant	15,534	11,490	5,699		15,969		48,692
Student Financial Aid				11,751			11,751
Auxiliary Enterprises	32,231	25,474	27,088		2,878		87,671
Depreciation						29,688	29,688
Total Operating Expenses	\$492,421	\$76,951	\$143,439	\$11,751	\$20,030	\$29,688	\$774,280

NOTE 13 - PENSION PLANS

- A. Retirement Plans** - Each permanent full-time employee, as a condition of employment, is a member of either the Teachers' and State Employees' Retirement System or the Optional Retirement Program. The Teachers' and State Employees' Retirement System (System) is a multiple-employer cost sharing defined benefit pension plan administered by the North Carolina State Treasurer.

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

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

For the year ended June 30, 2002, the University had a total payroll of \$438,967,000 of which \$234,943,000 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were \$14,097,000 and \$4,628,000, respectively. The University made one hundred percent of its annual required contributions for the years ended June 30, 2002, 2001, and 2000, which were \$4,628,000, \$11,938,000, and \$17,430,000, respectively.

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

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

Participant eligibility and contributory requirements are established by General Statute 135-5.1. Employer and member contributions rates are set each year by the North Carolina General Assembly. For the year ended June 30, 2002, these rates were set at 6.84% of covered payroll for employers and 6% of covered payroll for members. The University assumes no liability other than its contribution.

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

For the year ended June 30, 2002, the University had a total payroll of \$438,967,000 of which \$120,169,000 was covered under the Optional Retirement Program. Total employee and employer contributions for pension benefits for the year were \$7,210,000 and \$8,220,000, respectively.

- B. Deferred Compensation and Supplemental Retirement Income Plans** IRC Section 457 Plan - The State of North Carolina offers its permanent employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 through the North Carolina Public Employee Deferred Compensation Plan (the Plan). The Plan permits each participating employee to defer a portion of his or her salary until future years. The deferred compensation is available to employees upon separation from service, death, disability, retirement or financial hardships if approved by the Board of Trustees of the Plan. The Board, a part of the North Carolina Department of Administration, maintains a separate fund for the exclusive benefit of the participating employees and their beneficiaries, *the North Carolina Public Employee Deferred Compensation Trust Fund*. The Board also contracts with an external third party to perform certain administrative requirements and to manage the trust fund's assets. All costs of administering and funding the Plan are the responsibility of the Plan participants. No costs are incurred by the University. The voluntary contributions by employees amounted to \$530,000 for the year ended June 30, 2002.

IRC Section 401(k) Plan - All members of the Teachers' and State Employees' Retirement System and the Optional Retirement Program are eligible to enroll in the Supplemental Retirement Income Plan, a defined contribution plan, created under Internal Revenue Code Section 401(k). All costs of administering the plan are the responsibility of the Plan participants. No costs are incurred by the University except for a 5% employer contribution for the University's law enforcement officers, which is mandated under General Statute 143-166.30(e). Total employer contributions on behalf of University law enforcement officers for the year ended June 30, 2002 were \$101,000. The voluntary contributions by employees amounted to \$2,748,000 for the year ended June 30, 2002.

IRC Section 403(b) and 403(b)(7) Plans - Eligible University employees can participate in tax sheltered annuity plans created under Internal Revenue Code Sections 403(b) and 403(b)(7). The employee's eligible contributions, made through salary reduction agreements, are exempt from federal and state income taxes until the annuity is received or the contributions are withdrawn. These plans are exclusively for employees of universities and certain charitable and other non-profit institutions. All costs of administering and funding these plans are the responsibility of the Plan participants. No costs are incurred by the University. The voluntary contributions by employees amounted to \$7,375,000 for the year ended June 30, 2002.

- C. Federal Employment Retirement** - The Federal Retirement System is a multiple-employer retirement system and is composed of three retirement programs: the Civil Service Retirement

System (CSRS) for participants employed prior to January 1, 1987, the Federal Employees Retirement System (FERS) for participants employed after January 1, 1987, and the Civil Service Retirement Offset System for reemployed CSRS employees.

North Carolina Cooperative Extension employees with federal appointments prior to January 1, 1987 participate in the Civil Service Retirement System. Currently, 235 employees participate in CSRS. Participating employees are required by federal statute to contribute 7% of salary and the University 8.51% of salary to CSRS. In addition, the employees may contribute up to 6% of salary to the Thrift Savings Plan (a defined contribution plan managed by the Federal Retirement Thrift Investment Board). The contribution for CSRS for the year ended June 30, 2002, was \$2,418,000, which consisted of \$1,340,000 from the University, \$1,078,000 from the employees and \$54,000 from the employees for the Thrift Savings Plan.

Under the Federal Employees Retirement System (FERS), employees are required to contribute .8% of salary and the University 10.7%. Currently, 15 employees participate in FERS. The University is also required to contribute 1% of participant's salary to the Thrift Savings Plan, plus up to an additional 4% depending upon employee's contribution, which can range from 0 to 11% of their salary. The contribution for the year ended June 30, 2002 was \$276,000, which consisted of \$9,000 from employees and \$128,000 from the University for FERS and \$96,000 from employees and \$43,000 from the University for the Thrift Savings Plan.

NOTE 14 - OTHER POSTEMPLOYMENT BENEFITS

- A. Health Care for Long-Term Disability Beneficiaries and Retirees** - The University participates in state administered programs, which provide postemployment health insurance to eligible former employees. Eligible former employees include long-term disability beneficiaries of the Disability Income Plan of North Carolina and retirees of the Teachers' and State Employees' Retirement System or the Optional Retirement Program. These benefits were established by Chapter 135, Article 3, Part 3, of the General Statutes and may be amended only by the North Carolina General Assembly. Funding for the health care benefit for long-term disability beneficiaries and retirees is financed on a pay-as-you-go basis. The University contributed 2.35% of the covered payroll under the Teachers' and State Employees' Retirement System and the Optional Retirement Program for these health care benefits. For the fiscal year ended June 30, 2002, the University's total contribution to the Plan was \$8,345,000. The University assumes no liability for retiree health care benefits provided by the programs other than its required contribution. Additional detailed information about these programs can be located in the State of North Carolina's *Comprehensive Annual Financial Report*.
- B. Long-Term Disability** - The University participates in the Disability Income Plan of North Carolina (DIPNC). Established by Chapter 135, Article 6, of the General Statutes, DIPNC provides short-term and long-term disability benefits to eligible members of the Teachers' and State Employees' Retirement System or the Optional Retirement Program. Long-term disability income benefits are advance funded on an actuarially determined basis using the one-year term cost method. The University contributes .52% of covered payroll under the Teachers' and State Employees' Retirement System and the Optional Retirement Program to the DIPNC. For the fiscal year ended June 30, 2002, the University's total contribution to the DIPNC was \$1,847,000. 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 15 - 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 been within coverage limits in any of the past three fiscal years.

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

The University is required to maintain fire and lightning coverage on all State-owned buildings and contents through the State Property Fire Insurance Fund (Fund), an internal service fund of the State. Such coverage is provided at no cost to operations supported by the State's General Fund. Other operations not supported by the State's General Fund are charged for the coverage. Losses covered by the Fund are subject to a \$500 per occurrence deductible, except for the peril of theft with an applicable \$1,000 per occurrence deductible. University departments, as an individual business decision, may also purchase through the Fund primary extended coverage for buildings and contents. Coverage may also be purchased through the Fund for theft, vandalism, sprinkler leakage, or all-risk perils. University departments also have the option to purchase all-risk coverage for specific computers and "miscellaneous equipment" on a scheduled basis.

All State-owned vehicles are covered by a liability insurance program through Travelers Insurance Company as administered by the North Carolina Department of Insurance. The liability limits for losses occurring in state are \$500,000 per claim and \$5,000,000 per occurrence. The University pays premiums to the Department of Insurance for the coverage. While liability coverage is required by Statute for all University vehicles, departments may also individually opt to purchase collision and comprehensive physical damage coverage.

The University is protected for losses from employee dishonesty and computer fraud. This coverage is with a private insurance company and is administered by the North Carolina Department of Insurance. Coverage limit is \$1,000,000 per occurrence with a \$10,000 deductible.

The University purchased other authorized coverage from private insurance companies through the North Carolina Department of Insurance and the State's Agent of Record. The types of insurance policies purchased include: Medical Professional Liability, Veterinary Professional Liability, Fine Arts Property, Master Crime, Inland Marine Property For Musical Instruments, Motor Sports Liability, Campers Accident and Sickness, Athletic Accident, Boiler and Machinery, Watercraft, Nuclear Energy Liability, and Surety Bonds.

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

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

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

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

NOTE 16 - 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 \$38,230,000 at June 30, 2002.
- B. Pending Litigation and Claims** – As previously reported, the Environmental Protection Agency (EPA) filed a civil action against the University pursuant to the Comprehensive Environmental Response, Compensation and Liability Act. The complaint sought relief that would cause the University to enter into remediation of a hazardous waste site known as “Lot 86.” The University is involved in ongoing discussions and negotiations with the EPA concerning the appropriate means for addressing the remediation. A Consent Decree executed by North Carolina State University and the EPA has been approved by the Court. Remedial clean up pursuant to the Consent Decree continues. The remediation costs paid by the University for the year ended June 30, 2002 totaled \$182,000.

As previously reported, litigation is still pending in Superior Court between NC School Boards Association, et. al. V. Harlan Boyles, et. al. which involves various state officials in their official capacity which seeks a judicial determination as to whether the state constitution requires certain monetary payments collected by state agencies to be paid to the local county school funds rather than statutorily designated recipients. The complaint alleges in part that the monetary payments collected pursuant to statutory authority by the University for violations of parking traffic regulations and library fines are “civil penalties” which the State Constitution requires to be paid to the school fund in the county where they are collected. The lawsuit seeks declaratory judgment that the State Civil Penalty and Forfeiture Fund, the State School Technology Fund, and the Public Settlement Reserve Fund are unconstitutional. The Wake County Superior Court ruled in favor of the Plaintiffs. The order is retroactive for a three-year statute of limitations from the date the civil action was filed to include all affected civil fines and penalties collected by state agencies since December 1995. The court has stayed enforcement of this ruling, pending the State's appeal. On January 8, 2002, the Defendants appealed the ruling. The school board plaintiffs have filed a motion for discretionary review by the Supreme Court prior to decision by the Court of Appeals (A.K.A. a “by-pass” motion). The Defendants filed a reply resisting the motion. If the appellate courts uphold the Superior Court decision, the University may be required to pay the Wake County School Board parking and library fines amounting to approximately \$5,828,000 since 1995 and approximately \$900,000 annually.

On May 9, 2002, the UNC Board of Governors authorized a resolution for the University to join as co-plaintiffs in a civil action filed against two business entities. This action is brought by the plaintiffs for patent infringement. An entity affiliated with one of the defendants in this action has filed a complaint for declaratory judgment in the U.S. District Court for the District of Alabama against the co-plaintiffs. The entity seeks a judgment that several of the University's patents relating to pasteurized liquid whole eggs are invalid and unenforceable. If successful, the University could lose several million dollars in annual revenue that the University now earns from licensing the patents.

A publishing company has reportedly filed a civil action in Wisconsin state court against the University. The complaint has not yet been officially served on the University. This appears to be a breach of contract action, claiming damages of approximately \$1,000,000.

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

- C. University Improvement General Obligation Bonds** – The 1999-2000 Session of the General Assembly of North Carolina authorized the issuance of two billion five hundred million dollars of general obligation bonds of the State, as subsequently approved by a vote of qualified voters of the State, to provide funds for capital improvements for the University of North Carolina. The funds authorized are to be used solely for capital facilities cost on the University of North Carolina campuses as specified in the legislation. The bond legislation specifies the amount of bond funding for each University campus and the level of bond funding intended for each project. The bonds are authorized to be issued over a six-year period beginning in 2001 at a level not to exceed amounts provided in the legislation. Using a cash flow financing approach, The University of North Carolina – General Administration (UNC-GA), establishes annual amounts not to exceed for each approved project. The amounts not to exceed are subject to change due to actual cash availability and needs during the year. Subsequent to the bond sales and the availability of bond proceeds, UNC-GA notifies the Office of State Budget and Management (OSBM) of the amounts not to exceed for each approved project. Within these amounts, based on an official request of cash needs from the University, OSBM authorizes allotments. The University records the allotments as revenue on the accompanying financial statements. In addition, amounts not allotted but accrued as expended at year-end are recorded as revenue. The University's remaining authorization, \$439,207,000, 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.

NOTE 17 - RELATED PARTIES

Foundations - There are twelve separately incorporated non-profit foundations associated with the University. These foundations are the North Carolina Agricultural Foundation, Inc., North Carolina State University Foundation, Inc., North Carolina Dairy Foundation, Inc., North Carolina Tobacco Foundation, Inc., Pulp and Paper Foundation, Inc., North Carolina State University Physical and Mathematical Sciences Foundation, Inc., North Carolina Engineering Foundation, Inc., North Carolina Veterinary Medical Foundation, Inc., The North Carolina Forestry Foundation, Inc., North

Carolina Textile Foundation, Inc., North Carolina State University Student Aid Association, Inc., and the North Carolina State Alumni Association, Inc.

These organizations serve as the primary fundraising arm of the University through which individuals, corporations and other organizations support University programs by providing scholarships, fellowships, faculty salary supplements, and unrestricted funds to specific colleges and the University's overall academic environment. The University's financial statements do not include the assets, liabilities, net assets or operational transactions of the foundations, except for support from each organization to the University. This support approximated \$30,163,000 for the year ended June 30, 2002.

Non-Profit Corporation - The Centennial Authority (Authority) was created by the 1995 General Assembly (Senate Bill 606) for the purpose of studying, designing, planning, constructing, owning, promoting, financing and operating a regional facility on land owned by the State. Prior to this act, the General Assembly authorized the construction by the University of a facility to be known as the "Entertainment and Sports Arena" (ESA). This facility serves as a regional sports entertainment center and is available for cultural performances, sporting events and other activities of the University or of other entities (the centennial center project). With the 1995 legislation, the centennial center project was transferred to the Authority.

The Authority entered into a Ground Lease with the State of North Carolina to lease land for the ESA for a period of 99 years at an annual rent of \$1. The University entered into a Use Agreement with the Authority. Both parties agreed that the University shall be the primary and preferred user of all areas of the ESA. The University is required to pay the greater of 10% of gross ticket revenues or \$40,700 for each men's and \$17,800 for each women's basketball game to compensate the Authority for facility rental and operating expenses. Rent and expense payments for miscellaneous events will be negotiated on an event-by-event basis based on the availability of the ESA and the anticipated attendance.

Subsequent to year-end, a naming rights agreement was executed to change the name of the ESA to the "RBC Center." As a result of this agreement, the University will receive \$13,184,000 over a ten-year period beginning in fiscal year 2003.

NOTE 18 - ACCOUNTING CHANGES

Effective July 1, 2001, the University implemented GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as amended by GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – For Public Colleges and Universities*. The financial statement presentation required by these Statements is a single-column enterprise activity rather than the fund-group perspective previously reported. Significant accounting changes in order to comply with the new requirements include adopting depreciation on capital assets, reporting revenues net of discounts and allowances, eliminating inter-fund activities, classifying activities as operating or nonoperating, classifying assets and liabilities as current or noncurrent, and prorating summer school activities to periods earned.

In addition, the University implemented GASB Statement No. 38, *Certain Financial Statement Note Disclosures*. Changes in existing disclosures include more detailed information on debt service requirements, obligations under leases, and short-term debt. New disclosures include variable debt interest information and the major components of receivable and payable balances.

NOTE 19 - NET ASSET RESTATEMENT

As referred to in Notes 1B and 18, the University implemented GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, as amended by GASB Statement No. 35, *Basic Financial Statements – and Management’s Discussion and Analysis – For Public Colleges and Universities*. As of July 1, 2001, the fund equity as previously reported was restated as follows: (*in thousands*)

July 1, 2001 Fund equity as previously reported	\$1,118,990
Implementation of GASB 34/35	<u>(459,488)</u>
July 1, 2001 Net assets as restated	<u>\$ 659,502</u>

Statistical



Section

Ratio of Net Gain in Endowment Assets

Ten Year History

For the Year Ended June 30
(in thousands)

Endowment Assets - Market Value

Fiscal Year	End of Year	Beginning of Year	Yearly Change	Ratio
2001-2002	\$131,241	\$135,427	\$(4,186)	(3.09)
2000-2001	135,427	133,847	1,580	1.18
1999-2000	133,847	123,849	9,998	8.07
1998-1999	123,849	109,692	14,157	12.91
1997-1998	109,692	92,173	17,519	19.01
1996-1997	92,173	79,544	12,629	15.88
1995-1996	79,544	69,953	9,591	13.71
1994-1995	69,953	60,121	9,832	16.35
1993-1994	60,121	58,418	1,703	2.92
1992-1993	58,418	53,441	4,977	9.31

Revenue Bond Coverage

Ten Year History

For the Year Ended June 30

(in thousands)

Fiscal Year	Gross Operating Revenues	Direct Operating Expenses	Net Revenue Available for Debt Service	Principal	Interest	Total	Coverage Ratio
2001-2002	\$ 94,447	\$ 74,828	\$ 19,619	\$ 6,234	\$ 4,006	\$ 10,240	1.94
2000-2001	89,910	71,237	18,673	5,378	4,800	10,178	1.83
1999-2000	83,740	63,452	20,288	4,770	4,910	9,680	2.10
1998-1999	81,784	61,240	20,544	3,101	3,885	6,986	2.94
1997-1998	46,918	33,385	13,533	3,339	3,631	6,970	1.94
1996-1997	42,438	29,182	13,256	2,878	2,885	5,763	2.30
1995-1996	41,418	28,698	12,721	2,637	3,123	5,760	2.21
1994-1995	38,061	25,066	11,995	2,131	2,983	5,114	2.35
1993-1994	31,961	23,481	8,479	1,786	2,720	4,506	1.88
1992-1993	31,069	23,682	7,387	1,634	2,379	4,013	1.84

Admissions, Enrollment and Degree Statistics

Ten Year History

Fall Enrollment (Headcount)

Freshmen Admissions	2001	2000	1999	1998	1997	1996	1995	1994	1993	1992
Applied	11,835	12,040	12,227	11,060	10,412	10,159	10,534	9,661	10,634	10,503
Accepted	7,789	7,824	7,555	7,621	7,814	7,514	7,606	7,443	7,064	6,539
Enrolled	3,831	3,748	3,553	3,641	3,650	3,535	3,528	3,530	3,176	3,065
SAT Total	1,175	1,185	1,179	1,159	1,154	1,149	1,149	1,143	1,158	1,156
SAT Verbal	573	578	577	567	567	565	567	561	569	569
SAT Math	602	607	602	592	587	584	582	582	589	587
High School GPA	3.91	3.94	3.86	3.80	3.69	3.65	3.56	3.51	3.53	3.45
High School Valedictorians	89	99	75	97	70	99	68	79	83	87
High School Salutatorians	75	80	67	69	58	74	55	52	65	68
Transfer Admissions										
Applied	2,985	2,932	2,948	2,847	2,940	3,108	3,092	3,352	3,250	3,347
Accepted	1,447	1,435	1,547	1,495	1,585	1,640	1,895	1,895	1,734	1,722
Enrolled	1,063	1,091	1,085	1,012	1,093	1,199	1,235	1,294	1,219	1,217
Graduate Admissions										
Applied	6,925	7,096	6,278	5,755	5,345	5,243	5,164	4,858	5,014	5,095
Accepted	2,715	2,371	2,252	1,924	2,083	2,110	2,247	2,164	2,217	2,266
Enrolled	1,779	1,566	1,471	1,270	1,343	1,268	1,355	1,237	1,221	1,221

(Percentage of Total Applications)

Freshmen Admissions	2001	2000	1999	1998	1997	1996	1995	1994	1993	1992
Accepted	65.8%	65.0%	61.8%	68.9%	75.1%	74.0%	72.2%	77.0%	66.4%	62.3%
Enrolled	32.4%	31.1%	29.1%	32.9%	35.1%	34.8%	33.5%	36.5%	29.9%	29.2%
Transfer Admissions										
Accepted	48.5%	48.9%	52.5%	52.5%	53.9%	52.8%	61.3%	56.5%	53.4%	51.4%
Enrolled	35.6%	37.2%	36.8%	35.5%	37.2%	38.6%	39.9%	38.6%	37.5%	36.4%
Graduate Admissions										
Accepted	39.2%	33.4%	35.9%	33.4%	39.0%	40.2%	43.5%	44.5%	44.2%	44.5%
Enrolled	25.7%	22.1%	23.4%	22.1%	25.1%	24.2%	26.2%	25.5%	24.4%	24.0%

Degrees Conferred

	2001	2000	1999	1998	1997	1996	1995	1994	1993	1992
Bachelors	3,836	3,690	3,703	3,713	3,673	3,720	3,983	3,880	3,889	3,481
Masters	1,189	1,168	1,115	1,075	1,047	1,014	939	889	790	731
Doctoral	306	317	357	324	302	331	297	297	287	273
First Professional (DMV)	70	73	77	68	65	70	71	73	61	68
Total	5,401	5,248	5,252	5,180	5,087	5,135	5,290	5,139	5,027	4,553

Admissions, Enrollment and Degree Statistics

Ten Year History

	Fall Enrollment (Headcount)									
	2001	2000	1999	1998	1997	1996	1995	1994	1993	1992
Undergraduate	19,839	19,591	19,429	19,395	19,176	18,965	18,821	18,792	18,644	18,692
Graduate	5,920	5,519	5,390	5,401	5,366	5,338	5,439	5,307	4,834	4,673
Lifelong Education	3,527	3,509	3,192	3,164	2,987	2,866	3,277	3,478	3,692	3,791
Full-time	21,891	20,981	20,496	20,098	19,484	18,862	18,674	18,616	18,398	18,450
Part-time	7,395	7,638	7,515	7,862	8,045	8,307	8,863	8,961	8,772	8,706
Male	16,782	16,517	16,257	16,320	16,179	16,009	16,180	16,420	16,432	16,515
Female	12,504	12,102	11,754	11,640	11,350	11,160	11,357	11,157	10,738	10,641
White	22,406	22,196	21,968	22,159	21,946	21,804	22,229	22,403	22,202	22,259
African-American	2,849	2,823	2,759	2,719	2,629	2,542	2,607	2,533	2,488	2,461
Asian	1,443	1,358	1,329	1,331	1,226	1,208	1,133	1,068	923	825
Hispanic	558	508	467	428	396	372	345	317	293	289
Other	2,030	1,734	1,488	1,323	1,332	1,243	1,223	1,256	1,264	1,322
In-state	25,271	24,838	24,471	24,531	24,187	23,756	23,950	23,837	23,360	23,267
Out-of-state	2,175	2,240	2,235	2,282	2,181	2,331	2,529	2,622	2,683	2,688
International	1,840	1,541	1,305	1,147	1,161	1,082	1,058	1,118	1,127	1,201
Total Enrollment	29,286	28,619	28,011	27,960	27,529	27,169	27,537	27,577	27,170	27,156
	(Percentage of Total)									
Undergraduate	67.8%	68.4%	69.4%	69.4%	69.7%	69.8%	68.4%	68.1%	68.6%	68.8%
Graduate	20.2%	19.3%	19.2%	19.3%	19.5%	19.7%	19.7%	19.3%	17.8%	17.2%
Lifelong Education	12.0%	12.3%	11.4%	11.3%	10.8%	10.5%	11.9%	12.6%	13.6%	14.0%
Full-time	74.7%	73.3%	73.2%	71.9%	70.8%	69.4%	67.8%	67.5%	67.7%	67.9%
Part-time	25.3%	26.7%	26.8%	28.1%	29.2%	30.6%	32.2%	32.5%	32.3%	32.1%
Male	57.3%	57.7%	58.0%	58.4%	58.8%	58.9%	58.8%	59.5%	60.5%	60.8%
Female	42.7%	42.3%	42.0%	41.6%	41.2%	41.1%	41.2%	40.5%	39.5%	39.2%
White	76.5%	77.6%	78.4%	79.3%	79.7%	80.2%	80.7%	81.2%	81.7%	82.0%
African-American	9.7%	9.9%	9.9%	9.7%	9.6%	9.4%	9.5%	9.2%	9.2%	9.1%
Asian	4.9%	4.7%	4.7%	4.8%	4.5%	4.4%	4.1%	3.9%	3.4%	3.0%
Hispanic	2.0%	1.8%	1.7%	1.5%	1.4%	1.4%	1.3%	1.1%	1.1%	1.1%
Other	6.9%	6.0%	5.3%	4.7%	4.8%	4.6%	4.4%	4.6%	4.6%	4.8%
In-state	86.3%	86.8%	87.4%	87.7%	87.9%	87.4%	87.0%	86.4%	86.0%	85.7%
Out-of-state	7.4%	7.8%	8.0%	8.2%	7.9%	8.6%	9.2%	9.5%	9.9%	9.9%
International	6.3%	5.4%	4.6%	4.1%	4.2%	4.0%	3.8%	4.1%	4.1%	4.4%

Note: Students enrolled in distance education courses only are excluded from these headcounts.

Admissions, Enrollment and Degree Statistics

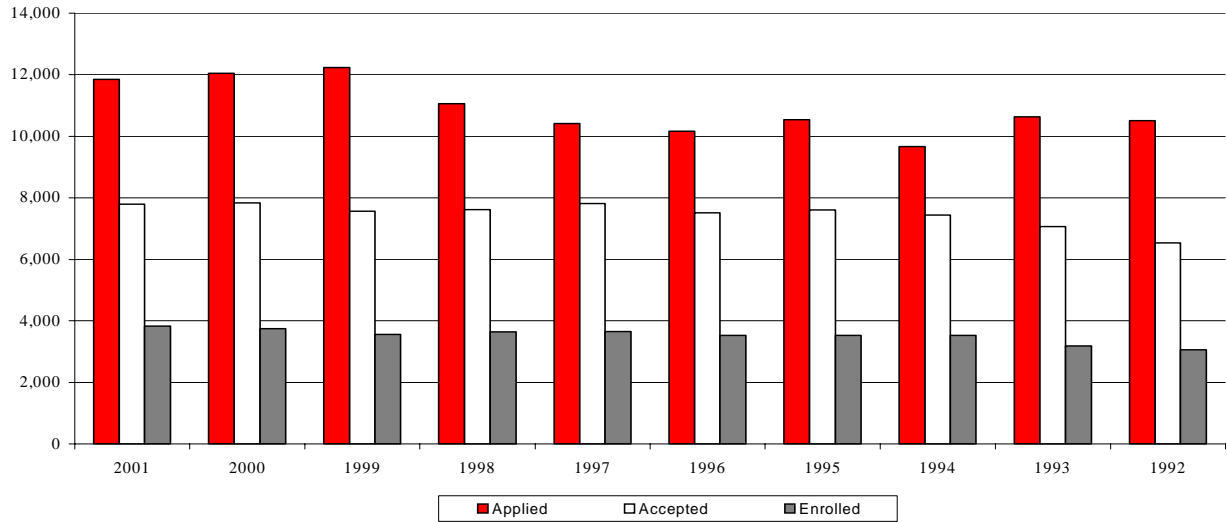
Enrollment - by Level and College - five year comparison

	Student Enrollment (Fall Semester)				
	2001	2000	1999	1998	1997
Undergraduate					
Agriculture and Life Sciences	3,366	3,289	3,351	3,484	3,463
Design	553	556	567	535	508
Education ²	376	837	857	823	793
Engineering	5,519	5,544	5,500	5,187	5,031
Natural Resources	751	746	790	852	832
Humanities and Social Sciences	3,504	2,815	2,629	2,580	2,559
Management	2,304	2,150	2,078	2,291	2,309
Physical and Mathematical Sciences	754	743	722	716	730
Textiles	704	751	784	859	852
University Undesignated ¹	1,721	1,806	1,749	1,607	1,639
Agriculture Institute	287	354	402	461	460
Lifelong Education	<u>2,579</u>	<u>2,399</u>	<u>2,255</u>	<u>2,279</u>	<u>2,344</u>
Total Undergraduate	22,418	21,990	21,684	21,674	21,520
Total FTE Undergraduate	19,541	19,160	18,955	19,006	18,463
Graduate					
Agriculture and Life Sciences	783	754	772	783	806
Design	186	169	161	180	174
Education ²	921	992	928	871	907
Engineering	1,754	1,528	1,383	1,374	1,243
Graduate School	4	6	4	7	0
Natural Resources	197	197	192	218	243
Humanities and Social Sciences	580	440	453	480	514
Management	362	344	378	369	376
Physical and Mathematical Sciences	600	551	583	576	574
Textiles	125	127	120	132	137
Veterinary Medicine	408	411	416	411	392
Lifelong Education	<u>948</u>	<u>1,110</u>	<u>937</u>	<u>885</u>	<u>643</u>
Total Graduate	6,868	6,629	6,327	6,286	6,009
Total FTE Graduate	4,798	4,426	4,129	4,010	4,461
Total Headcount	29,286	28,619	28,011	27,960	27,529
Total FTE Enrollment	24,339	23,586	23,084	23,016	22,924
Percentage of Students (FTE) from outside state	14.2%	13.3%	12.7%	12.1%	12.4%

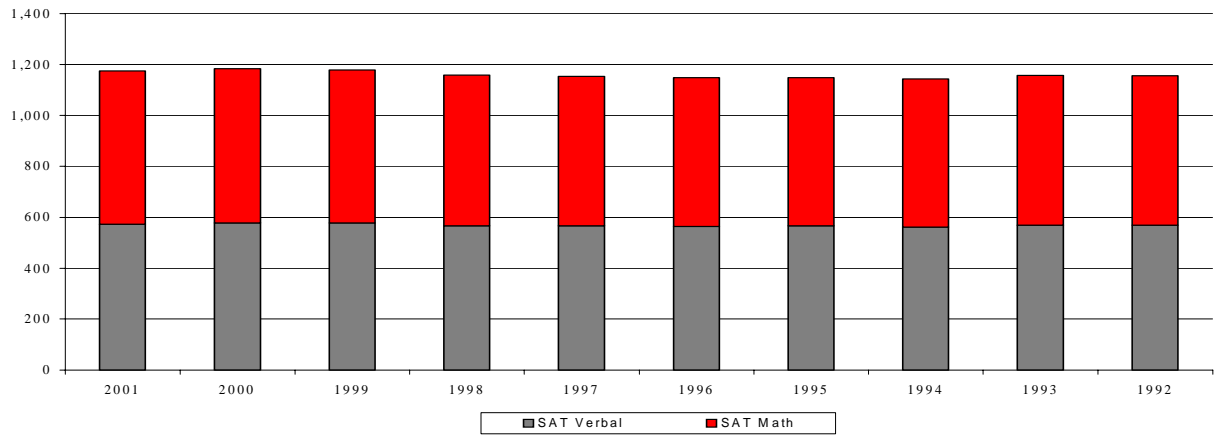
¹ Includes First Year College.

² Psychology moved from College of Education to College of Humanities and Social Sciences in the summer of 2001.

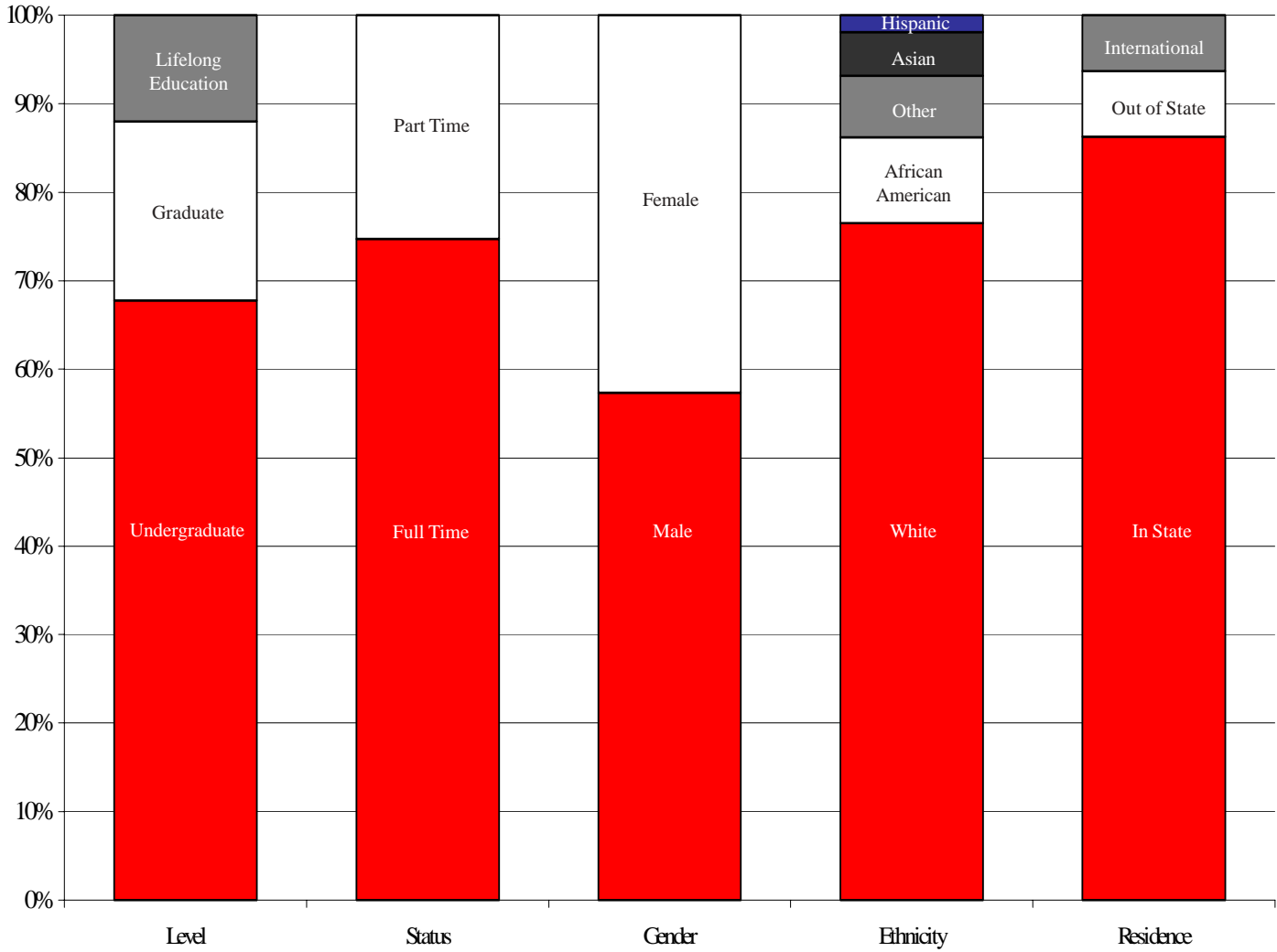
Fall Enrollment Freshman Admissions by Year



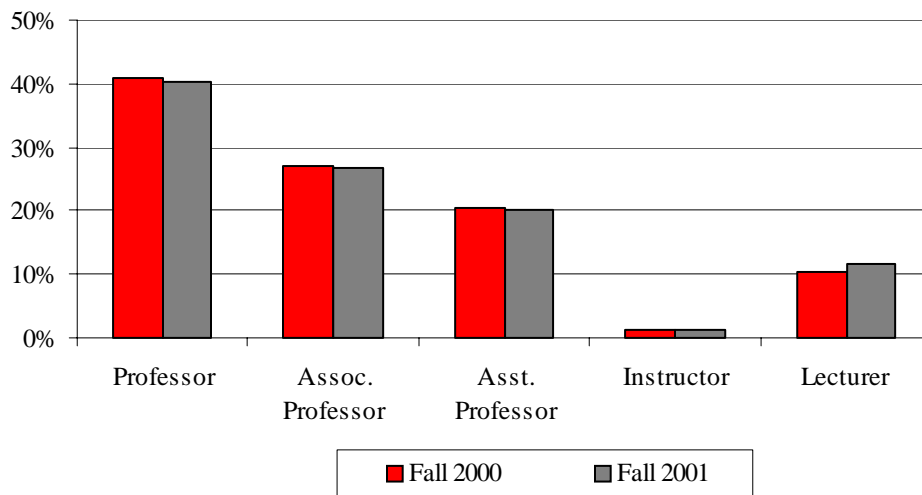
SAT Scores Freshman Admissions by Year



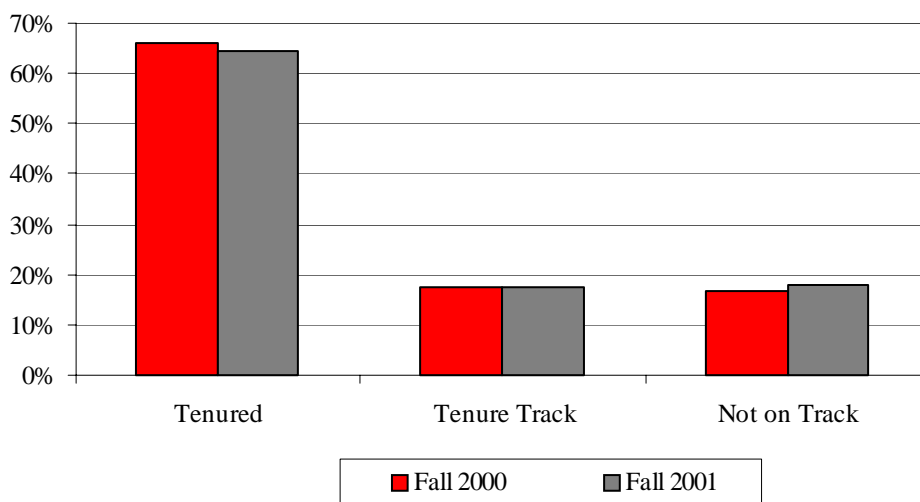
Student Profile Fall 2001



Faculty by Rank



Full Time Faculty by Tenure





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