



STATE OF NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT OF
THE UNIVERSITY OF NORTH CAROLINA AT ASHEVILLE
ASHEVILLE, NORTH CAROLINA
FOR THE YEAR ENDED JUNE 30, 2002

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR

**FINANCIAL STATEMENT AUDIT REPORT OF
THE UNIVERSITY OF NORTH CAROLINA AT ASHEVILLE**

ASHEVILLE, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2002

BOARD OF GOVERNORS

THE UNIVERSITY OF NORTH CAROLINA

MOLLY CORBETT BROAD, PRESIDENT

BOARD OF TRUSTEES

GEORGE M. GROOME, CHAIRMAN

SUE H. McCLINTON, VICE CHAIRMAN

**DR. LUTHER E. BARNHARDT, JR.
LESLIE H. BEVACQUA
JANICE W. BRUMIT
CHAPPELL A. CARTER
ROBERT L. CRANFORD**

**J. WELLS GREELEY
JAMES A. SHIELDS
MICHAEL S. TANNER
CHARLES R. TOLLEY
ALFRED J. WHITESIDES, JR.**

ADMINISTRATIVE OFFICERS

DR. JAMES H. MULLEN JR., CHANCELLOR

WAYNE McDEVITT, VICE CHANCELLOR FOR ADMINISTRATION AND FINANCIAL AFFAIRS



Ralph Campbell, Jr.
State Auditor

STATE OF NORTH CAROLINA
Office of the State Auditor

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

AUDITOR'S TRANSMITTAL

The Honorable Michael F. Easley, Governor
The General Assembly of North Carolina
Board of Trustees, The University of North Carolina at Asheville

This report presents the results of our financial statement audit of The University of North Carolina at Asheville, a constituent institution of the sixteen-campus University of North Carolina System, which is a component unit of the State of North Carolina, for the year ended June 30, 2002. Our audit was made by authority of Article 5A of Chapter 147 of the General Statutes.

The accounts and operations of the University are an integral part of the State's reporting entity represented in the State's *Comprehensive Annual Financial Report (CAFR)* and the State's *Single Audit Report*. In those reports, the State Auditor expresses an opinion on the State's financial statements. In the *Single Audit Report*, the State Auditor also presents the audit results on the State's internal controls and on the State's compliance with laws, regulations, contracts, and grants applicable to the State's financial statements and to its federal financial assistance programs.

As part of the audit work necessary for the CAFR and the *Single Audit Report*, the accounts and operations of the University were subjected to audit procedures as we considered necessary. In addition, we performed auditing procedures that we considered necessary for us to report on the accompanying financial statements that relate solely to The University of North Carolina at Asheville. The audit procedures were conducted in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States.

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

- 1. Objective** – To express an opinion on the accompanying financial statements that relate solely to The University of North Carolina at Asheville.

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

AUDITOR'S TRANSMITTAL (CONCLUDED)

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

Results - Our tests disclosed no material weaknesses in internal control over financial reporting and no instances of noncompliance which require disclosure herein under *Government Auditing Standards*. These matters are more fully described in the Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting.

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



Ralph Campbell, Jr.
State Auditor

TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITOR’S REPORT	1
MANAGEMENT’S DISCUSSION AND ANALYSIS	3
FINANCIAL STATEMENTS	
Exhibits	
A Statement of Net Assets	9
B Statement of Revenues, Expenses, and Changes in Net Assets	11
C Statement of Cash Flows	12
Notes to the Financial Statement	15
SUPPLEMENTARY INFORMATION	
Schedules	
1 Schedule of General Obligation Bond Project Authorizations, Budgets, and Expenditures.....	37
2 Statement of Current Funds Revenues and Expenditures – Intercollegiate Athletics Program..	38
INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	41
DISTRIBUTION OF AUDIT REPORT	43



Ralph Campbell, Jr.
State Auditor

STATE OF NORTH CAROLINA
Office of the State Auditor

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

INDEPENDENT AUDITOR'S REPORT

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

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The University of North Carolina at Asheville 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 17 to the financial statements, the University implemented Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as amended by GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*, and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, during the year ended June 30, 2002.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 2003 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 Management's Discussion and Analysis (MD&A) on pages 3 to 8 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.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. Schedules 1 and 2 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Ralph Campbell, Jr.
State Auditor

March 31, 2003

MANAGEMENT'S DISCUSSION AND ANALYSIS

Overview of the Financial Statement Information

The University of North Carolina at Asheville (UNCA) provides this overview and Management's Discussion and Analysis to assist in the understanding of the statements and notes presented herewith. These statements are prepared in accordance with the Governmental Accounting Standards Board (GASB) Statement No. 34, released in June 1999, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, which established a new reporting format for annual financial statements. In November 1999, GASB released Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*, which applies the new reporting standards to public colleges and universities. These standards were used in the preparation of this document. Since this is a transition year for the new format, only one year of information is presented. In the future, comparative information will be shown.

The new reporting standards resulted in several prior period adjustments. Accumulated depreciation was recorded as required by the new standards and library books previously capitalized were written off. The total adjustments resulting from the new standards resulted in a decrease in net assets.

The Statement of Net Assets presents the assets, liabilities, and net assets (the difference between the assets and liabilities) as of the date of the fiscal year end (June 30). This Statement assists in the determination of the financial condition of the University.

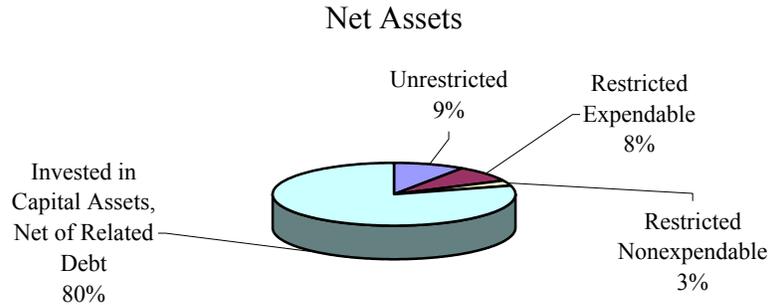
Condensed Statement of Net Assets

	Amount
Current Assets	\$ 12,442,715.69
Capital Assets	74,343,279.58
Other Noncurrent Assets	7,406,703.24
	<hr/>
Total Assets	94,192,698.51
	<hr/>
Current Liabilities	4,176,527.39
Noncurrent Liabilities	21,232,023.11
	<hr/>
Total Liabilities	25,408,550.50
	<hr/>
Invested in Capital Assets, Net of Related Debt	54,613,279.58
Restricted - Nonexpendable	2,035,920.00
Restricted - Expendable	5,719,325.76
Unrestricted	6,415,622.67
	<hr/>
Total Net Assets	\$ 68,784,148.01
	<hr/> <hr/>

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

The restricted, nonexpendable net assets are principal portions of endowed gifts that cannot be spent.

Net assets, reported as fund balance in previous years, are shown in the table below:



The Statement of Revenues, Expenses, and Changes in Net Assets presents revenues, expenses, and other changes in net assets resulting from University financial activity during the fiscal year ending on June 30. GASB Statement No. 35 requires these activities to be classified as either operating or nonoperating, and specifies State appropriations and gifts to be nonoperating. With this change in reporting, most public universities will show an operating loss with the State appropriation providing the additional resources to maintain positive net assets.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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

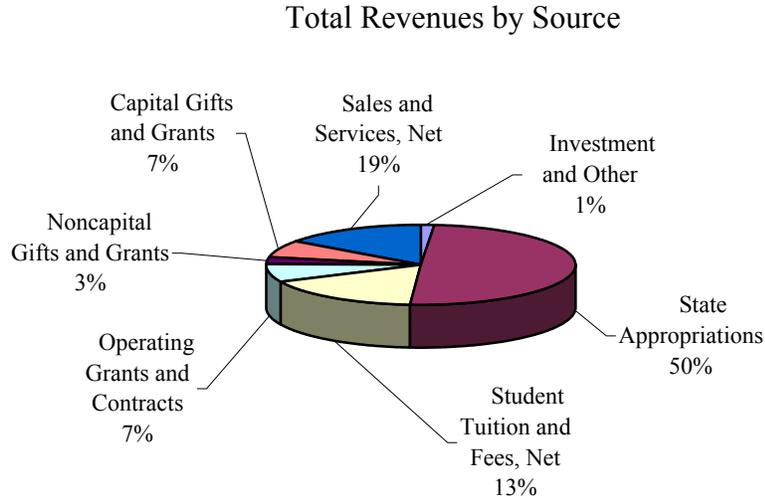
	<u>Amount</u>
Student Tuition and Fees, Net	\$ 6,289,732.91
Grants and Contracts	3,454,570.93
Sales and Services, Net	9,170,299.34
Other Operating Revenues	<u>328,319.98</u>
 Total Operating Revenues	 <u>19,242,923.16</u>
 Total Operating Expenses	 <u>48,846,223.81</u>
 Operating Loss	 <u>(29,603,300.65)</u>
 State Appropriations	 24,213,142.45
Noncapital Gifts	1,196,622.83
Interest and Fees on Capital Asset-Related Debt	(998,228.77)
Other Nonoperating Expenses	<u>(291,598.11)</u>
 Total Nonoperating Revenues	 <u>24,119,938.40</u>
 Capital Grants	 2,592,237.70
Capital Gifts	783,106.78
Additions to Permanent Endowments	<u>290.00</u>
 Decrease in Net Assets	 <u>(2,107,727.77)</u>
 Net Assets, Beginning of Year, as Restated	 <u>70,891,875.78</u>
 Net Assets, End of Year	 <u><u>\$ 68,784,148.01</u></u>

The decrease in net assets is due to funds expended to begin construction of the new residence hall. At June 30, 2002, \$2,606,767.81 had been paid for construction and was reimbursed from the bond proceeds received in September 2002.

The capital grants represent the portion of the statewide bond proceeds used by UNCA in the 2002 fiscal year. The 1999-2000 Session of the General Assembly of North Carolina authorized these bonds and UNCA will continue to receive grants for capital projects for several more years. For additional information on these statewide bonds, see Note 15C.

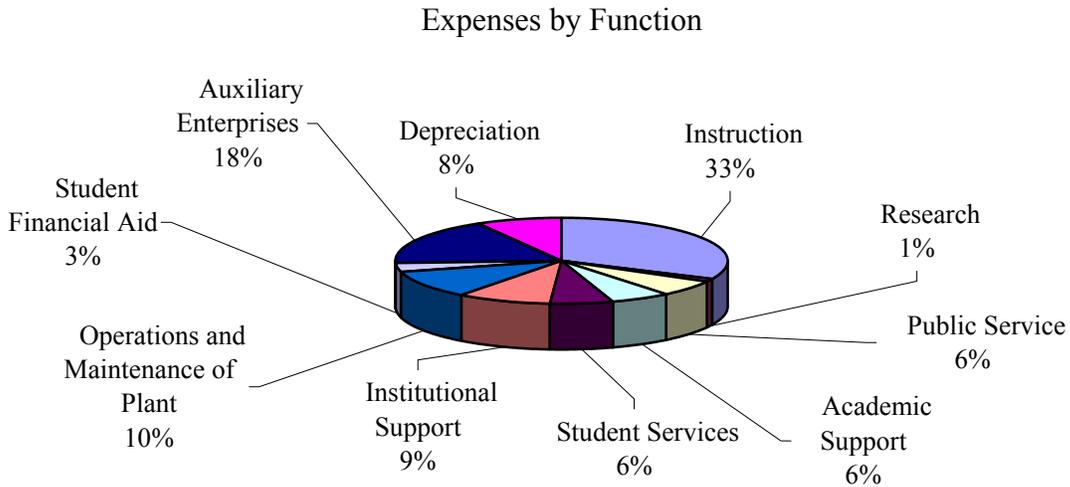
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Even though State appropriations are now considered nonoperating, they are still a significant part of the total University revenues as shown in the graph below:



Expenses during the 2001-2002 fiscal year had to be decreased due to cuts in the State appropriation. In addition to the decrease in regular appropriations, no repair and renovation funds were received from the State during this fiscal year. Although UNCA was able to maintain the high quality educational standards expected, many maintenance and equipment replacement purchases have been deferred. This will strain future years funding as well. UNCA also limited travel, held vacated positions open for 90 days (to generate savings in salary expense), and limited other expenses to manage the reduction in funding. Fortunately, no positions have been cut due to lack of funding.

The expenses by function are shown in the graph below:



MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

The Statement of Cash Flows presents information about the cash activity of the University during the year ending June 30. A reconciliation to the change in cash on the Statement of Net Assets is provided in the full Statement. A condensed version of the Statement is shown below:

Condensed Statement of Cash Flows

	Amount
Cash Used by:	
Operating Activities	\$ (24,898,852.85)
Noncapital Financing Activities	25,680,736.27
Capital Financing Activities	(6,162,630.80)
Investing Activities	981,261.31
Net Decrease in Cash	(4,399,486.07)
Cash – Beginning of the Year	17,202,218.83
Cash – End of the Year	\$ 12,802,732.76

Cash flows from operating activities include receipts from sales and services, student tuition and fees, and other operating revenues and disbursements such as salaries, payments for supplies and services, and other operating expenses. State appropriations received are shown in the noncapital financing activities as a source of cash and remain the largest inflow of cash on the Statement. Other noncapital financing activities include noncapital gifts, nonoperating grants, and receipts and disbursements in funds held for others. Capital financing activities include receipts and disbursements related to building projects and related financing. The large outflow in this category is partially due to the new residence hall construction for which no receipts are shown in this fiscal year (bonds were issued in September 2002).

Debt Administration and Capital Assets

UNCA has several capital projects underway. Projects are funded through State appropriations, statewide bonds issued (considered capital grants), donor gifts, and self-funded by UNCA. Some of the larger projects in progress are a new student center (renovating the former Highsmith Center), a new 185-bed residence hall, and a building for the Center for Creative Retirement (the Reuter Center). Other projects include upgrades to residence hall sprinkler systems, upgrades to electrical distribution systems, replacing or improving campus roads and parking areas, and expanding the technology infrastructure. Also in the planning stages are buildings for additional classroom space, a new facilities management building, new facilities at the North Carolina Arboretum, and an update for the campus master plan.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

The University had \$19,730,000 in outstanding debt at June 30, 2002. In September, UNCA issued another \$18,900,000 in debt to build a new residence hall, the first phase of replacing the Governor's Village Dorms, and to refund in advance of their maturity the portion of the 1993 bonds maturing on or after June 1, 2004.

UNCA's general obligation bond rating was established at AAA by Moody's Investor Service (Ambac Insured) for the bonds issued above. This increase in the troubled economic times, evidences the financial strength of this institution.

More detailed information about UNCA's debt obligations is provided in Note 8 in the Notes to the Financial Statements.

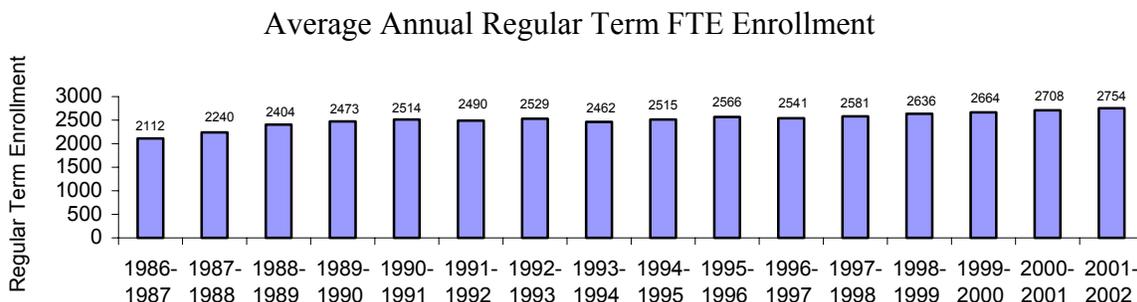
The capital assets, net of accumulated depreciation, at June 30, 2002 were \$74,343,279.58. For more detailed information about asset holdings, see Note 6 in the Notes to the Financial Statements.

Economic Outlook

Even though the State's economic condition declined during fiscal year 2001-2002, management believes the University will maintain its solid financial status, while continuing to provide an excellent liberal arts education to its students. UNCA is dependent on the State of North Carolina's commitment to higher education, shown through the State appropriations each year, but it is also expanding other sources of revenue, such as gifts, grants, and contracts. The University hopes to expand the endowed funds available for operating purposes (including scholarships for students) in the coming years with another capital campaign. The most recent capital campaign ended successfully in February 2002.

UNCA also increased local tuition rates for students during the 2001-2002 fiscal year and plans another increase in fiscal year 2002-2003. These increases will bring the cost of attending UNCA closer to the cost of institutions providing a similar quality of education, while still being affordable enough to be a "best buy" as quoted in the 2003 edition of *The Fiske Guide to Colleges*.

UNCA's commitment, as always, is to the students. They provide the support for UNCA shown as tuition and fees revenues and most of sales and services (housing, dining, and other fees). The graph below depicts several years of UNCA Average Annual FTE Enrollment.



<i>The University of North Carolina at Asheville</i>		
<i>Statement of Net Assets</i>		
<i>June 30, 2002</i>		<i>Exhibit A</i>
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$	8,215,465.26
Restricted Cash and Cash Equivalents		2,601,780.42
Restricted Short-Term Investments		50,006.65
Receivables, Net (Note 5)		866,504.91
Inventories		322,823.38
Notes Receivable, Net (Note 5)		386,135.07
		<hr/>
Total Current Assets		12,442,715.69
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		1,985,487.08
Restricted Due from Primary Government		272,013.85
Endowment Investments		4,727,930.06
Notes Receivable, Net (Note 5)		421,272.25
Capital Assets, Net (Note 6)		74,343,279.58
		<hr/>
Total Noncurrent Assets		81,749,982.82
		<hr/>
Total Assets		94,192,698.51
LIABILITIES		
Current Liabilities:		
Accounts Payable and Accrued Liabilities (Note 7)		2,220,595.09
Due to Primary Government		36,192.07
Deferred Revenue		702,146.52
Interest Payable		81,817.50
Long-Term Liabilities - Current Portion (Note 8)		1,135,776.21
		<hr/>
Total Current Liabilities		4,176,527.39
Noncurrent Liabilities:		
Deposits Payable		125,850.00
Funds Held for Others		257,371.83
U. S. Government Grants Refundable		1,035,880.49
Long-Term Liabilities (Note 8)		19,812,920.79
		<hr/>
Total Noncurrent Liabilities		21,232,023.11
		<hr/>
Total Liabilities		25,408,550.50

<i>The University of North Carolina at Asheville</i>		
<i>Statement of Net Assets</i>		<i>Exhibit A</i>
<i>June 30, 2002</i>		<i>Page 2</i>
<hr/>		
NET ASSETS		
Invested in Capital Assets, Net of Related Debt		54,613,279.58
Restricted for:		
Nonexpendable:		
Scholarships and Fellowships		533,420.00
Endowed Professorships		1,502,500.00
Expendable:		
Scholarships and Fellowships		1,326,026.57
Research		95,445.18
Departmental Uses		1,277,730.33
Loans		164,305.46
Capital Projects		1,749,467.28
Debt Service		1,098,500.00
Other		7,850.94
Unrestricted		6,415,622.67
Total Net Assets	\$	68,784,148.01
<hr/>		
The accompanying notes to the financial statements are an integral part of this statement.		
<hr/>		

***The University of North Carolina at Asheville
Statement of Revenues, Expenses, and
Changes in Net Assets
For the Fiscal Year Ended June 30, 2002***

Exhibit B

REVENUES

Operating Revenues:

Student Tuition and Fees, Net (Note 10)	\$ 6,289,732.91
Federal Grants and Contracts	2,484,756.46
State and Local Grants and Contracts	705,033.41
Nongovernmental Grants and Contracts	264,781.06
Sales and Services, Net (Note 10)	9,170,299.34
Interest Earnings on Loans	280.87
Other Operating Revenues	328,039.11
Total Operating Revenues	19,242,923.16

EXPENSES

Operating Expenses:

Salaries and Benefits	30,811,339.91
Supplies and Materials	4,818,625.37
Services	6,067,225.85
Scholarships and Fellowships	1,602,242.10
Utilities	1,461,150.54
Depreciation	4,085,640.04
Total Operating Expenses	48,846,223.81
Operating Loss	(29,603,300.65)

NONOPERATING REVENUES (EXPENSES)

State Appropriations	24,213,142.45
Noncapital Grants	175,113.33
Noncapital Gifts (Note 10)	1,196,622.83
Investment Income (Net of Investment Expense of \$9,109)	284,278.45
Interest and Fees on Capital Asset-Related Debt	(998,228.77)
Other Nonoperating Expenses	(750,989.89)
Net Nonoperating Revenues	24,119,938.40
Loss Before Other Revenues, Expenses, Gains, or Losses	(5,483,362.25)
Capital Grants	2,592,237.70
Capital Gifts (Note 10)	783,106.78
Additions to Permanent Endowments	290.00
Decrease in Net Assets	(2,107,727.77)

NET ASSETS

Net Assets - July 1, 2001, as Restated (Note 18)	70,891,875.78
Net Assets - June 30, 2002	\$ 68,784,148.01

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

The University of North Carolina at Asheville
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2002

Exhibit C

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 19,528,604.28
Payments to Employees and Fringe Benefits	(30,741,231.05)
Payments to Vendors and Suppliers	(12,292,993.08)
Payments for Scholarships and Fellowships	(1,602,242.10)
Loans Issued	(233,286.00)
Collection of Loans	439,065.75
Interest Earned on Loans	3,279.35
Student Deposits Received	80,600.00
Student Deposits Returned	(80,650.00)
Net Cash Used by Operating Activities	(24,898,852.85)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Appropriations	24,213,142.45
Grants for Other than Capital Purposes	175,113.33
Noncapital Gifts	1,196,622.83
Additions to Permanent and Term Endowments	290.00
William D. Ford Direct Lending Receipts	5,798,296.00
William D. Ford Direct Lending Disbursements	(5,798,296.00)
Related Activity Agency Receipts	139,857.37
Related Activity Agency Disbursements	(44,289.71)
Net Cash Provided by Noncapital Financing Activities	25,680,736.27

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Capital Grants	2,320,223.85
Capital Gifts	783,106.78
Acquisition and Construction of Capital Assets	(7,296,188.70)
Principal Paid on Capital Debt and Leases	(975,000.00)
Interest and Fees Paid on Capital Debt and Leases	(994,772.73)
Net Cash Used by Capital and Related Financing Activities	(6,162,630.80)

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from Sales and Maturities of Investments	162,066.00
Interest on Investments	882,578.42
Purchase of Investments and Related Fees	(63,383.11)
Net Cash Provided by Investing Activities	981,261.31

Net Decrease in Cash and Cash Equivalents	(4,399,486.07)
Cash and Cash Equivalents - July 1, 2001	17,202,218.83
Cash and Cash Equivalents - June 30, 2002	\$ 12,802,732.76

***The University of North Carolina at Asheville
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2002***

***Exhibit C
Page 2***

RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES

Operating Loss	\$ (29,603,300.65)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	4,085,640.04
Allowances, Write-Offs, and Amortizations	(4,720.46)
Changes in Assets and Liabilities:	
Receivables (Net)	305,592.78
Inventories	(108,030.37)
Other Assets	34,452.91
Accounts Payable and Accrued Liabilities	(218,460.37)
Due to Primary Government	(11,568.01)
Due to State of North Carolina Component Units	123,205.36
Deferred Revenue	123,390.17
Compensated Absences	169,216.00
Deposits Payable	(50.00)
Student Loan Repayments	439,065.75
Student Loans Issued	(233,286.00)
Net Cash Used by Operating Activities	<u>\$ (24,898,852.85)</u>

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	\$ 8,215,465.26
Restricted Cash and Cash Equivalents	2,601,780.42
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	1,985,487.08
Total Cash and Cash Equivalents - June 30, 2002	<u>\$ 12,802,732.76</u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through a Gift	\$ 9,000.00
Change in Fair Value of Investments	(645,434.18)
Loss on Disposal of Capital Assets	(752,888.66)

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

[This Page Left Blank Intentionally]

THE UNIVERSITY OF NORTH CAROLINA AT ASHEVILLE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

- A. Financial Reporting Entity** - The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their constituents for their actions. As required by accounting principles generally accepted in the United States of America, the financial reporting entity includes both the primary government and all of its component units. An organization other than a primary government serves as a nucleus for a reporting entity when it issues separate financial statements. The University of North Carolina at Asheville 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. 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. Related foundations and similar non-profit corporations for which the University is not financially accountable are not part of the accompanying financial statements. These entities are not included because they are separately incorporated and there are neither common directors nor other evidence of common control.

- 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- 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 petty cash, cash on deposit with private bank accounts, savings 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 mutual funds and money market funds. The mutual funds investments are accounted for at fair value, as determined by quoted market prices. The net increase (decrease) in the fair value of investments is recognized as a component of investment income.

Money market funds are reported at cost, if purchased, or at fair value or appraised value at date of gift, if donated.

- F. Receivables** – Receivables consist of tuition and fees charges to students and charges for auxiliary enterprises’ sales and services. Receivables also include amounts due from the federal government, State and local governments, and private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants. Receivables are recorded net of estimated uncollectible amounts.

- G. Inventories** – Inventories, consisting of expendable supplies and merchandise for resale, are stated using the moving average cost for Central Stores and the Bookstore and using the last invoice cost for all other inventories.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- 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 10 to 20 years for general infrastructure, 20 to 30 years for buildings, and 3 to 5 years for equipment.

The University does not capitalize the general collections available for use in the Ramsey Library or in other campus locations. These collections adhere to the University's policy to maintain for public exhibition, education or research; protect, keep unencumbered, care for and preserve; and require 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 be capitalized.

The Colonial Forge Artwork was capitalized at fair value at the date of donation. This artwork is depreciated over the life of the collection using the straight-line method. The estimated useful life for the artwork is 10 years.

The Bonsai Collection was capitalized at the fair value at the date of donation. This collection is considered inexhaustible and is therefore not depreciated.

- I. Restricted Assets** – Restricted assets represent assets whose use is restricted by external parties or by law through constitutional provisions or enabling legislation.
- J. Noncurrent Long-Term Liabilities** – Noncurrent long-term liabilities include principal amounts of bonds payable and compensated absences that will not be paid within the next fiscal year.

Bonds payable are reported net of unamortized premiums or discounts. The University amortizes bond premiums/discounts over the life of the bonds using the straight-line method. Issuance costs are expensed.

- K. Compensated Absences** - The University's policy is to record the cost of vacation leave when earned. The policy provides for a maximum accumulation of unused vacation leave of 30 days which can be carried forward each January 1st or for which an employee can be paid upon termination of employment. Also, any accumulated vacation leave in

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

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

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

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

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

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

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

M. Scholarship Discounts – Student tuition and fees revenues and certain other revenues from University charges are reported net of scholarship discounts in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. The scholarship discount is the difference between the actual charge for goods and services provided by the University and the amount that is paid by students or by third parties on the students’ behalf. Student financial assistance grants, such as Pell grants, and other federal, State, or nongovernmental programs, are

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

recorded as either operating or nonoperating revenues in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. To the extent that revenues from these programs are used to satisfy tuition, fees, and other charges, the University has recorded a scholarship discount.

- N. Revenue and Expense Recognition** – The University 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 capital or noncapital financing or investing activities. Operating expenses are all expense transactions incurred other than those related to capital or noncapital financing or investing 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.
- O. Internal Sales Activities** – Certain institutional auxiliary operations provide goods and services to University departments, as well as to its customers. These institutional auxiliary operations include activities such as Central Stores, Printing Services, Postal Services, and Telecommunication Services. In addition, the University has other miscellaneous sales and service units that operated either on a reimbursement or charge basis. All internal sales activities to University departments from auxiliary operations and sales and service units have been eliminated in the accompanying financial statements. These eliminations are recorded by removing the revenue and expense in the auxiliary operations and sales and service units and, if significant, allocating any residual balances to those departments receiving the goods and services during the year.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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. The University of North Carolina at Asheville has applied for and received special responsibility status.

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

NOTE 3 - DEPOSITS AND INVESTMENTS

A. **Deposits** - The University is required by General Statute 147-77 to deposit its budget code cash, as defined in Note 2, and by the University of North Carolina Board of Governors pursuant to General Statute 116-36.1 to deposit its institutional trust funds in the State Treasurer's Cash and Investment Pool. In addition, the University may voluntarily deposit endowment funds, special funds, revenue bond proceeds, and debt service funds 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Deposits include cash and cash equivalents and certificates of deposit totaling \$12,802,732.76. At year-end, cash on hand was \$10,460.00. The University's portion of the State Treasurer's Cash and Investment Pool was \$12,741,070.09. It is the State Treasurer's policy and practice for deposits not covered by federal depository insurance to be covered by collateral held by the State of North Carolina's agent in the name of the State and for investments to be held by the State's agent in the State's name. The carrying amount of the University's deposits not with the State Treasurer was \$51,202.67 and the bank balance was \$96,944.69. Of the bank balance, \$83,423.47 was covered by federal depository insurance and \$13,521.22 was on deposit with a bank in England with 90% of the balance covered by the United Kingdom Deposit Protection Board.

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 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

Credit Risk Categories - The University's investments (pooled and non-pooled) are categorized below to give an indication of the level of risk assumed by the entity at year-end. The credit risk categories are concerned with custodial credit risk, which is the risk that a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party if the counterparty to the 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.

The University's investments at June 30, 2002 consisted of \$50,006.65 in money market funds and \$4,727,930.06 in mutual funds. Money market funds and mutual funds are investments not categorized to indicate the level of custodial credit risk.

NOTE 4 - ENDOWMENT INVESTMENTS

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

expenditure the net appreciation, realized and unrealized, of the investments of the endowment funds.

Investment return of the University's endowment funds is predicated on the total return concept (yield plus appreciation). Annual payouts from the University's endowment funds are based on an adopted spending policy, which currently limits spending to 5% of the endowment principal's three-year trailing market value. Under this policy, the spending level is agreed upon prior to the beginning of the University's fiscal year and is maintained at that level unless altered by Board action. To the extent that the total return for the current year exceeds the payout, the excess is added to the appreciation of principal. If current year earnings do not meet the payout requirements, the University uses accumulated appreciation in expendable net asset endowment balances to make up the difference. At June 30, 2002, net appreciation of \$1,569,672.88 was available to be spent, of which \$1,414,848.23 was restricted to specific purposes.

NOTE 5 - RECEIVABLES

Receivables at June 30, 2002 were as follows:

	<u>Gross Receivables</u>	<u>Less Allowance for Doubtful Accounts</u>	<u>Net Receivables</u>
Current Receivables:			
Students	\$ 296,902.65	\$ 5,938.05	\$ 290,964.60
Accounts	285,276.52		285,276.52
Intergovernmental	152,165.40		152,165.40
Investment Earnings	41,877.95		41,877.95
Interest on Loans	37,657.37		37,657.37
Other	58,563.07		58,563.07
Total Current Receivables	<u>\$ 872,442.96</u>	<u>\$ 5,938.05</u>	<u>\$ 866,504.91</u>
Notes Receivable:			
Notes Receivable - Current:			
Federal Loan Programs	<u>\$ 454,251.25</u>	<u>\$ 68,116.18</u>	<u>\$ 386,135.07</u>
Notes Receivable - Noncurrent:			
Federal Loan Programs	<u>\$ 495,586.80</u>	<u>\$ 74,314.55</u>	<u>\$ 421,272.25</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 6 - CAPITAL ASSETS

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

	Balance July 1, 2001	Adjustments	Increases	Decreases	Balance June 30, 2002
Capital Assets, Non-Depreciable:					
Land	\$ 2,515,703.97	\$ 0.00	\$ 0.00	\$ 0.00	\$ 2,515,703.97
Art, Literature, and Artifacts	45,150.00				45,150.00
Construction in Progress	<u>3,275,051.37</u>	<u>(2,282,380.68)</u>	<u>7,821,010.08</u>		<u>8,813,680.77</u>
Total Capital Assets, Non-Depreciable	<u>5,835,905.34</u>	<u>(2,282,380.68)</u>	<u>7,821,010.08</u>		<u>11,374,534.74</u>
Capital Assets, Depreciable:					
Buildings	78,703,384.44	1,319,126.21		(2,171,614.00)	77,850,896.65
Machinery and Equipment	4,502,022.45		98,217.80	(397,663.07)	4,202,577.18
Art, Literature, and Artifacts	35,000.00				35,000.00
General Infrastructure	<u>19,164,006.01</u>	<u>963,254.47</u>			<u>20,127,260.48</u>
Total Capital Assets, Depreciable:	<u>102,404,412.90</u>	<u>2,282,380.68</u>	<u>98,217.80</u>	<u>(2,569,277.07)</u>	<u>102,215,734.31</u>
Less Accumulated Depreciation for:					
Buildings	27,495,924.10		2,572,613.77	(1,422,113.33)	28,646,424.54
Machinery and Equipment	3,882,292.62		299,300.76	(394,275.08)	3,787,318.30
Art, Literature, and Artifacts	14,000.00		3,500.00		17,500.00
General Infrastructure	<u>5,585,521.12</u>		<u>1,210,225.51</u>		<u>6,795,746.63</u>
Total Accumulated Depreciation	<u>36,977,737.84</u>		<u>4,085,640.04</u>	<u>(1,816,388.41)</u>	<u>39,246,989.47</u>
Total Capital Assets, Depreciable, Net	<u>65,426,675.06</u>	<u>2,282,380.68</u>	<u>(3,987,422.24)</u>	<u>(752,888.66)</u>	<u>62,968,744.84</u>
Capital Assets, Net	<u>\$ 71,262,580.40</u>	<u>\$ 0.00</u>	<u>\$ 3,833,587.84</u>	<u>\$ (752,888.66)</u>	<u>\$ 74,343,279.58</u>

NOTE 7 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	Amount
Accounts Payable	\$ 1,427,832.91
Accrued Payroll	594,235.61
Contract Retainage	<u>198,526.57</u>
Total Accounts Payable and Accrued Liabilities	<u>\$ 2,220,595.09</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 8 - LONG-TERM LIABILITIES

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

	Balance July 1, 2001	Additions	Reductions	Balance June 30, 2002	Current Portion
Bonds Payable	\$ 20,705,000.00	\$ 0.00	\$ (975,000.00)	\$ 19,730,000.00	\$ 1,020,000.00
Compensated Absences	1,049,481.00	1,074,856.00	(905,640.00)	1,218,697.00	115,776.21
Total Long-Term Liabilities	\$ 21,754,481.00	\$ 1,074,856.00	\$ (1,880,640.00)	\$ 20,948,697.00	\$ 1,135,776.21

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

Purpose	Series	Interest Rate/ Ranges	Final Maturity Date	Original Amount of Issue	Principal Paid Through 06/30/2002	Principal Outstanding 06/30/2002
<u>Dormitory and Dining System</u>						
UNCA Issued Revenue Bonds	B	5.3-5.6	06/01/2018	\$ 9,600,000.00	\$ 2,045,000.00	\$ 7,555,000.00
UNCA Issued Revenue Bonds	C	4.75-5	06/01/2023	7,600,000.00	690,000.00	6,910,000.00
UNCA Issued Revenue Bonds	D	4.3-4.9	06/01/2012	3,695,000.00	985,000.00	2,710,000.00
UNC System Pool Revenue Bonds (A)	1998A	Variable	10/01/2008	2,580,000.00	675,000.00	1,905,000.00
Total Dormitory and Dining System				23,475,000.00	4,395,000.00	19,080,000.00
<u>Parking System</u>						
UNC System Pool Revenue Bonds	2000	5.0-5.5	10/01/2010	705,000.00	55,000.00	650,000.00
Total Bonds Payable (principal only)				\$ 24,180,000.00	\$ 4,450,000.00	\$ 19,730,000.00

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

C. Demand Bonds - Included in bonds payable is one 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 to the University’s remarketing or paying agents.

The University of North Carolina System Variable Rate Demand Pool Revenue Bonds, Series 1998A: In 1998, the Board of Governors of the University of North Carolina issued variable rate demand bonds in a system-wide financing arrangement for the benefit of its constituent universities. Through this system-wide financing, the University issued debt in the amount of \$2,580,000 with a final maturity date of October 1, 2008. These bonds are subject to mandatory sinking fund redemption that began on October 1, 1999. The University’s proceeds from this issuance were used to construct a 200-car parking structure

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

adjacent to the housing structures. While bearing interest at a weekly rate, these bonds are subject to purchase on demand with seven days' notice and delivery to the bond paying agent, The Bank of New York. Upon notice from the bond paying agent, the remarketing agent, Salomon Smith Barney, 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 NationsBank, N.A. (now part of Bank of America, N.A.), 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 standby fee equal to .13% of the available commitment, payable semiannually in advance, beginning on November 3, 1998, and on each May 1 and November 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 (LIBOR plus one percent). LIBOR is the average of rates per annum for deposits to major money center banks in the London interbank market. 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.

Upon expiration or termination of the Agreement, the University is required to redeem (purchase) the Liquidity Provider Bonds held by the Liquidity Facility in 60 equal monthly 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.

Amounts due under this Standby Bond Purchase Agreement are allocated by the Trustee directly to and paid by the constituent universities participating in the system-wide bond issuance.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

<u>Fiscal Year</u>	<u>Annual Requirements</u>	
	<u>Bonds Payable</u>	
	<u>Principal</u>	<u>Interest</u>
2003	\$ 1,020,000.00	\$ 975,915.00
2004	1,065,000.00	929,500.00
2005	1,115,000.00	880,910.00
2006	1,165,000.00	830,105.00
2007	1,220,000.00	776,700.00
2008-2012	6,010,000.00	3,025,645.00
2013-2017	4,650,000.00	1,697,898.00
2018-2022	2,955,000.00	542,317.00
2023-2027	530,000.00	27,560.00
Total Requirements	<u>\$ 19,730,000.00</u>	<u>\$ 9,686,550.00</u>

Interest on the variable rate 1998A revenue bonds is calculated at 5% at June 30, 2002.

NOTE 9 - OPERATING LEASE OBLIGATIONS

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

<u>Fiscal Year</u>	<u>Amount</u>
2003	\$ 131,675.88
2004	117,007.47
2005	116,328.54
2006	19,388.08
Total Minimum Lease Payments	<u>\$ 384,399.97</u>

Rental expense for all operating leases during the year was \$275,169.64.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 10 - REVENUES

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

	Gross Revenues	Internal Sales Eliminations	Less Scholarship Discounts	Less Allowance for Uncollectibles	Net Revenues	Net Revenues Pledged as Security for Debt	
Operating Revenues:							
Student Tuition and Fees	\$ 7,163,250.01	\$ 0.00	\$ 873,905.00	\$ (387.90)	\$ 6,289,732.91	\$ 0.00	
Sales and Services:							
Sales and Services of Auxiliary Enterprises:							
Residential Life	\$ 2,368,225.79	\$ 0.00	\$ 319,931.27	\$ (381.30)	\$ 2,048,675.82	\$ 2,039,240.82	(A)
Dining	2,781,951.36		391,494.30	(497.22)	2,390,954.28	2,390,954.28	(A)
Student Union Services	320,445.18		59,804.21	(38.88)	260,679.85		
Health Services	939,842.28		102,792.07	(93.79)	837,144.00		
Bookstore	1,676,149.56			(394.13)	1,676,543.69		
Parking	315,392.42		36,644.97	(58.64)	278,806.09	278,806.09	(B)
Athletic	1,498,565.59		175,080.30	(137.04)	1,323,622.33		
Other	650,385.65	490,250.29			160,135.36		
Sales and Services of Educational and Related Activities	419,267.94	225,026.96		503.06	193,737.92		
Total Sales and Services	<u>\$ 10,970,225.77</u>	<u>\$ 715,277.25</u>	<u>\$ 1,085,747.12</u>	<u>\$ (1,097.94)</u>	<u>\$ 9,170,299.34</u>	<u>\$ 4,709,001.19</u>	
Nonoperating - Noncapital Gifts	<u>\$ 1,196,622.83</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 1,196,622.83</u>	<u>\$ 0.00</u>	
Capital Gifts	<u>\$ 783,106.78</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 783,106.78</u>	<u>\$ 0.00</u>	

Revenue bonds secured by pledged revenues:

- (A) Dormitory and Dining Hall System Revenue Bonds
- (B) Parking System Revenue Bonds

NOTE 11 - OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	\$ 14,285,994.18	\$ 635,692.61	\$ 678,312.94	\$ 21,187.66	\$ 194.71	\$ 0.00	\$ 15,621,382.10
Research	387,256.71	58,764.99	100,189.87				546,211.57
Public Service	2,293,940.20	134,067.17	499,890.22	16,560.00	73,212.39		3,017,669.98
Academic Support	1,989,619.82	572,176.52	245,412.78				2,807,209.12
Student Services	2,011,989.16	185,150.73	777,970.88				2,975,110.77
Institutional Support	3,887,824.00	130,486.18	562,245.49	4,665.00	(71,547.04)		4,513,673.63
Operations and Maintenance of Plant	2,835,543.29	1,099,253.11	188,020.38		996,023.74		5,118,840.52
Student Financial Aid	35,866.56		39,757.13	1,556,233.34			1,631,857.03
Auxiliary Enterprises	3,083,305.99	2,003,034.06	2,975,426.16	3,596.10	463,266.74		8,528,629.05
Depreciation						4,085,640.04	4,085,640.04
Total Operating Expenses	<u>\$ 30,811,339.91</u>	<u>\$ 4,818,625.37</u>	<u>\$ 6,067,225.85</u>	<u>\$ 1,602,242.10</u>	<u>\$ 1,461,150.54</u>	<u>\$ 4,085,640.04</u>	<u>\$ 48,846,223.81</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 12 - PENSION PLANS

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

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

Benefit and contribution provisions for the Teachers' and State Employees' Retirement System are established by North Carolina General Statutes 135-5 and 135-8 and may be amended only by the North Carolina General Assembly. Employer and member contribution rates are set each year by the North Carolina General Assembly based on annual actuarial valuations. For the year ended June 30, 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 \$25,599,526.21, of which \$12,736,426.00 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were \$764,185.56 and \$250,907.59, respectively. The University made one hundred percent of its annual required contributions for the years ended June 30, 2002, 2001, and 2000, which were \$250,907.59, \$661,767.74, and \$957,399.18, respectively.

The Teachers' and State Employees' Retirement System's financial information is included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.state.nc.us/> and clicking on "Financial

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 contribution 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 \$25,599,526.21, of which \$9,831,570.36 was covered under the Optional Retirement Program. Total employee and employer contributions for pension benefits for the year were \$589,894.22 and \$672,479.41, respectively.

- B. Deferred Compensation and Supplemental Retirement Income Plans** - IRC Section 457 Plan - The State of North Carolina offers its permanent employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 through the North Carolina Public Employee Deferred Compensation Plan (the Plan). The Plan permits each participating employee to defer a portion of his or her salary until future years. The deferred compensation is available to employees

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

upon separation from service, death, disability, retirement, or financial hardships if approved by the Board of Trustees of the Plan. The Board, a part of the North Carolina Department of Administration, maintains a separate fund for the exclusive benefit of the participating employees and their beneficiaries, *the North Carolina Public Employee Deferred Compensation Trust Fund*. The Board also contracts with an external third party to perform certain administrative requirements and to manage the trust fund's assets. All costs of administering and funding the Plan are the responsibility of the Plan participants. No costs are incurred by the University. The voluntary contributions by employees amounted to \$75,107.90 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 \$14,880.83. The voluntary contributions by employees amounted to \$174,276.00 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 \$326,061.14 for the year ended June 30, 2002.

NOTE 13 - OTHER POSTEMPLOYMENT BENEFITS

- A. Health Care for Long-Term Disability Beneficiaries and Retirees -** The University participates in State-administered programs which provide postemployment health insurance to eligible former employees. Eligible former employees include long-term disability beneficiaries of the Disability Income Plan of North Carolina and retirees of the Teachers' and State Employees' Retirement System or the Optional Retirement Program. These benefits were established by Chapter 135, Article 3,

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 \$530,348.24. 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 \$117,353.64. The University assumes no liability for long-term disability benefits under the plan other than its contribution. Additional detailed information about the DIPNC is disclosed in the State of North Carolina's *Comprehensive Annual Financial Report*.

NOTE 14 - RISK MANAGEMENT

The University is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These exposures to loss are handled via a combination of methods, including participation in State-administered insurance programs, purchase of commercial insurance, and self-retention of certain risks. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years. Tort claims of up to \$500,000 are self-insured under the authority of the State Tort Claims Act. In addition, the State provides excess public officers' and employees' liability insurance up to \$11,000,000 via contract with a private insurance company. The University pays the premium, based on a composite rate, 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(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 theft losses carry a \$1,000 per occurrence deductible. The University also purchased through the Fund extended coverage for boiler and machinery components, fine arts for artwork, and musical instruments.

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

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

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 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 15 - COMMITMENTS AND CONTINGENCIES

- A. Commitments** - The University has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were \$12,395,508.51 and on other purchases were \$504,649.71 at June 30, 2002.
- B. Pending Litigation and Claims** – The University is a party to 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. The University's remaining authorization \$57,358,296.80 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 16 - RELATED PARTIES

Foundations - There is a separately incorporated non-profit foundation associated with the University. The University of North Carolina at Asheville Foundation, Inc. was incorporated June 25, 1965 as a non-profit corporation under the laws of the State of North Carolina. The Foundation is exempt from federal income tax by the Internal Revenue Service as an organization described in Section 501 (c)(3) of the Internal Revenue Code.

The Foundation serves as the primary fundraising arm of the University through which individuals, corporations, and other organizations support University programs by providing scholarships, fellowships, prizes and awards, and unrestricted funds to specific departments 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 Foundation, except for support from each organization to the University. This support approximated \$1,759,906.71 for the year ended June 30, 2002.

Other Entities - Additionally, there are entities in existence to support individual programs of the University. These include the North Carolina Arboretum Society and the Center for Craft, Creativity and Design Foundation (both are 501 (c)(3) organizations as described above). The support provided to the University from these Foundations is not considered material for the year ended June 30, 2002. Further information, including audit reports, may be obtained directly from these entities.

NOTE 17 - 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 interfund 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

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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 18 - NET ASSET RESTATEMENTS

As referred to in Note 17, the University implemented GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, as amended by GASB Statement No. 35, *Basic Financial Statements – and Management’s Discussion and Analysis – for Public Colleges and Universities*.

July 1, 2001 Fund Equity as previously reported	\$ 120,195,770.00
Implementation of GASB 34/35	(49,538,177.97)
Audit Adjustments	<u>234,283.75</u>
July 1, 2001 Net Assets as Restated	<u>\$ 70,891,875.78</u>

NOTE 19 - SUBSEQUENT EVENTS

UNC-Asheville issued revenue bonds in the amount of \$18,900,000 in September of 2002. The anticipated amount was \$19,500,000. Due to an upgrade in UNCA’s bond rating and a good bond market, UNCA was able to reduce the amount of the issue and will realize further savings in lower interest rates. These revenue bonds will be used for the construction of a new residence hall, the first phase of replacing the Governor’s Village Dorms, and to refund in advance of their maturity the portion of the 1993 bonds maturing on or after June 1, 2004.

At June 30, 2002 UNCA had spent \$2,206,767.81 on the construction of a new residence hall. These funds were reimbursed from the bond proceeds in the 2002-2003 fiscal year.

***The University of North Carolina at Asheville
Schedule of General Obligation Bond Project Authorizations,
Budgets, and Expenditures
For Project-to-Date as of June 30, 2002***

Schedule 1

Capital Improvement Projects	Projected Start Date	General Obligation Bonds Authorized	Other Sources	Total Project Budget	Amount Expended	Percent Completed	Expected Completion Date
<i>Projects Started</i>							
301 Math and Science Building	Aug 2001	\$ 22,203,200.00	\$ 0.00	\$ 22,203,200.00	\$ 353,655.79	1.59%	Jan 2007
302 Highsmith Center I	Jan 2002	11,522,000.00		11,522,000.00	120.52	0.01%	Jun 2004
303 Carmichael Hall Classroom Buildings	Sep 2001	5,524,200.00		5,524,200.00	42,437.22	0.77%	Mar 2006
304 Zagier Hall Classroom Building	Sep 2001	2,569,100.00		2,569,100.00	25,625.00	1.00%	Mar 2006
305 Campus Primary Electrical Distribution System	Sep 2001	1,023,800.00		1,023,800.00	399,018.13	38.97%	Jun 2003
306 Relocate Physical Plant Facilities	Oct 2001	6,318,900.00		6,318,900.00	101,650.21	1.61%	Sep 2005
307 Technology Infrastructure Expansion	Sep 2001	751,200.00		751,200.00	671,564.29	89.40%	Feb 2003
302 UNCA - Arboretum Operation Support Facility	Nov 2001	1,640,200.00		1,640,200.00	244,558.42	14.91%	May 2004
303 UNCA - Arboretum Main Entrance Road Utility	Jul 2001	3,899,673.00		3,899,673.00	326,959.77	8.38%	Oct 2004
<i>Projects Not Started - To Be Funded in Future Years</i>							
308 Highsmith Center II	Jan 2002	356,800.00		356,800.00			Jun 2004
309 Justice Gym - Renovations	Jan 2002	195,000.00		195,000.00			Dec 2003
306 UNCA - Arboretum Greenhouse Exhibition Center	Jun 2002	3,791,827.00		3,791,827.00			Jan 2006
Total All Projects		\$ 59,795,900.00	\$ 0.00	\$ 59,795,900.00	\$ 2,165,589.35		

Note: The 1999-2000 Session of the General Assembly of North Carolina authorized the issuance of six 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 North Carolina Community College System. The projects listed on this schedule are those funded or to be funded by bond proceeds from the general obligation bonds authorized by Senate Bill 912.

The University of North Carolina at Asheville
Intercollegiate Athletics Program
Statement of Current Funds Revenues and Expenditures
Year Ended June 30, 2002

Schedule 2

	Men's Basketball	Women's Basketball	Other Sports	Nonprogram Specific	Total
Revenues:					
Student Fees	\$ 0.00	\$ 0.00	\$ 0.00	\$ 1,252,746.07	\$ 1,252,746.07
Ticket Sales				22,602.00	22,602.00
Contest Guarantees				238,200.00	238,200.00
Advertising Income				15,310.00	15,310.00
Concessions				6,406.81	6,406.81
Gifts and Grants				487,830.50	487,830.50
Other Fund Contributions				344,176.03	344,176.03
State Appropriations				311,525.06	311,525.06
Other Sources				6,722.00	6,722.00
Total Revenues				2,685,518.47	2,685,518.47
Expenditures:					
Salaries and Related	57,444.99	73,938.57	316,265.40	625,959.59	1,073,608.55
Travel:					
Team	62,553.19	38,566.30	67,607.73	79,941.61	248,668.83
Recruiting	8,210.62	10,906.37	10,393.86		29,510.85
Financial Aid	127,743.04	138,038.02	452,889.89		718,670.95
Maintenance and General Administration	29,319.92	17,951.25	21,349.47	162,935.50	231,556.14
Supplies and Uniforms	7,711.95	14,064.38	51,679.12	9,816.00	83,271.45
Equipment Purchases	1,102.84	49.95	1,630.59	19,464.39	22,247.77
Publicity	2,297.50	1,547.50	1,797.50	15,669.35	21,311.85
Insurance				47,136.29	47,136.29
Telephone	3,180.10	2,885.40	4,352.86	10,847.86	21,266.22
Total Expenditures	299,564.15	297,947.74	927,966.42	971,770.59	2,497,248.90
Excess (Deficiency) of Revenues over Expenditures	\$ (299,564.15)	\$ (297,947.74)	\$ (927,966.42)	\$ 1,713,747.88	\$ 188,269.57
The accompanying notes are an integral part of this statement.					

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

- A. Organization and Purpose** - The University of North Carolina at Asheville is a constituent institution of The University of North Carolina System which is a component unit of the State of North Carolina and an integral part of the State's *Comprehensive Annual Financial Report*. The University of North Carolina at Asheville is classified as a Division I institution by the National Collegiate Athletic Association (NCAA).
- B. Basis of Presentation** - The preceding Statement of Current Funds Revenues and Expenditures presents the University's Intercollegiate Athletics Program's activity in accordance with the National Collegiate Athletic Association Financial Audit Guidelines. Those guidelines issued on May 2, 1996 require only a presentation of the current funds revenues and expenditures by major program and have not been updated for Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as amended by GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities* and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*. This presentation is not intended to provide a complete presentation of the Program's financial position or its changes in fund balances.
- C. Revenue Recognition** – Current funds revenues include all gifts, grants, fees, sales receipts, and other resources earned and for which the resource provider conditions attached to those amounts were satisfied during the reporting period.
- D. Basis of Accounting** - The preceding Statement of Current Funds Revenues and Expenditures was prepared in accordance with the accrual basis of accounting, except that no depreciation expense is reflected.
- E. Non-Monetary Transactions** - The University reports goods and services received either by donation or in an exchange transaction at their fair value at the date of receipt. Only services of those individuals possessing skills which would be purchased if not received through a non-monetary transaction are recorded. During 2001–2002 donated items included sports supplies, items for prizes in tournaments and auctions, hotel rooms for visiting teams, use of vehicles, advertising, hospitality items, and donated services to assist with fundraising and ticket sales.

NOTE 2 - THE UNCA FOUNDATION

The UNCA Foundation is a separate and legal entity established to promote and support the University, including the Intercollegiate Athletics Program. During the fiscal year, the University's Intercollegiate Athletics Program received direct current funds support from the Foundation, as well as indirect support through payments made on behalf of the University's current fund activities by the Foundation. These amounts are reported as contributions and expenditures on the preceding Statement of Current Funds Revenues and Expenditures. The amounts provided as direct support and as indirect support follow:

<u>Current Funds</u>	<u>Amount</u>
Direct Support Funds	\$ 187,912
Indirect Support	96,718

NOTE 3 - CONTRIBUTIONS

Individual contributions of moneys, goods, or services received directly by the University's Intercollegiate Athletics Program from organizations other than the Foundation or from groups of individuals that constitute more than 10% of all contributions received for the Intercollegiate Athletics Program during the year consisted of \$125,281.00 from the Big South Conference.



Ralph Campbell, Jr.
State Auditor

STATE OF NORTH CAROLINA
Office of the State Auditor

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

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

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

We have audited the financial statements of The University of North Carolina at Asheville, 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, and have issued our report thereon dated March 31, 2003.

As discussed in Note 17 to the financial statements, the University implemented Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as amended by GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*, and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, during the year ended June 30, 2002.

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.

Compliance

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

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the University's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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



Ralph Campbell, Jr.
State Auditor

March 31, 2003

DISTRIBUTION OF AUDIT REPORT

In accordance with General Statutes 147-64.5 and 147-64.6(c)(14), copies of this report have been distributed to the public officials listed below. Additional copies are provided to other legislators, state officials, the press, and the general public upon request.

EXECUTIVE BRANCH

The Honorable Michael F. Easley	Governor of North Carolina
The Honorable Beverly M. Perdue	Lieutenant Governor of North Carolina
The Honorable Richard H. Moore	State Treasurer
The Honorable Roy A. Cooper, III	Attorney General
Mr. David T. McCoy	State Budget Officer
Mr. Robert L. Powell	State Controller
Ms. Molly Corbett Broad	President, The University of North Carolina
Dr. James H. Mullen Jr.	Chancellor, The University of North Carolina at Asheville
Mr. Wayne McDevitt	Vice Chancellor for Administration and Financial Affairs
	The University of North Carolina at Asheville
Mr. George M. Groome	Chairman, Board of Trustees
	The University of North Carolina at Asheville

LEGISLATIVE BRANCH

Appointees to the Joint Legislative Commission on Governmental Operations

Senator Marc Basnight, Co-Chairman	Representative James B. Black, Co-Chairman
Senator Charlie Albertson	Representative Richard T. Morgan, Co-Chairman
Senator Kever M. Clark	Representative Martha B. Alexander
Senator Daniel G. Clodfelter	Representative E. Nelson Cole
Senator Walter H. Dalton	Representative James W. Crawford, Jr.
Senator James Forrester	Representative William T. Culpepper, III
Senator Linda Garrou	Representative W. Pete Cunningham
Senator Wilbur P. Gulley	Representative Beverly M. Earle
Senator Kay R. Hagan	Representative Stanley H. Fox
Senator David W. Hoyle	Representative R. Phillip Haire
Senator Ellie Kinnaird	Representative Dewey L. Hill
Senator Jeanne H. Lucas	Representative Maggie Jeffus
Senator William N. Martin	Representative Edd Nye
Senator Stephen M. Metcalf	Representative William C. Owens, Jr.
Senator Eric M. Reeves	Representative Drew P. Saunders
Senator Larry Shaw	Representative Wilma M. Sherrill
Senator R. C. Soles, Jr.	Representative Joe P. Tolson
Senator David F. Weinstein	Representative Thomas E. Wright
	Representative Douglas Y. Yongue

Other Legislative Officials

Senator Anthony E. Rand	Majority Leader of the N. C. Senate
Senator Patrick J. Ballantine	Minority Leader of the N. C. Senate
Representative N. Leo Daughtry	N. C. House of Representatives
Mr. James D. Johnson	Director, Fiscal Research Division

May 22, 2003

ORDERING INFORMATION

Copies of this report may be obtained by contacting the:

Office of the State Auditor
State of North Carolina
2 South Salisbury Street
20601 Mail Service Center
Raleigh, North Carolina 27699-0601

Internet: <http://www.ncauditor.net>

Telephone: 919/807-7500

Facsimile: 919/807-7647