

STATE OF NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT OF

WESTERN CAROLINA UNIVERSITY

CULLOWHEE, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2002

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR

FINANCIAL STATEMENT AUDIT REPORT OF

WESTERN CAROLINA UNIVERSITY

CULLOWHEE, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2002

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THE UNIVERSITY OF NORTH CAROLINA

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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, Western Carolina University

This report presents the results of our financial statement audit of Western Carolina University, 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 Western Carolina University. 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 Western Carolina University. 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 Western Carolina University.

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.

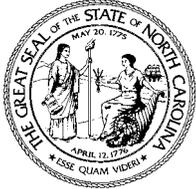
North Carolina General Statutes require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.



Ralph Campbell, Jr.
State Auditor

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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
Western Carolina University
Cullowhee, North Carolina

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

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

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

As discussed in Note 16 to the financial statements, the University implemented Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as amended by GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*, and GASB Statement No. 38, *Certain Financial Statement Note Disclosures* during the year ended June 30, 2002.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 2002 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis (MD&A) on pages 3 to 10 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. Schedule 1 is presented for purposes of additional analysis and is 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

November 21, 2002

MANAGEMENT'S DISCUSSION AND ANALYSIS

Introduction

The following discussion and analysis provides an overview of the financial position and activities of Western Carolina University (the "University") for the year ended June 30, 2002. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follow this section.

Reporting Entity

The financial statements report information about the University as a whole including its component unit, the Western Carolina University Foundation. While legally separate, Western Carolina University Foundation is a non-profit corporation organized to promote the growth, progress, and general welfare of the University through securing and administering gifts for such purposes. Because the directors of the Foundation are appointed by the members of the Western Carolina University Board of Trustees and the Foundation's sole purpose is to benefit Western Carolina University, its basic financial statements are blended with those of the University.

Using the Financial Statements

The University's financial report includes three financial statements: Statement of Net Assets; Statement of Revenues, Expenses, and Changes in Net Assets; and Statement of Cash Flows. These financial statements are prepared in accordance with the Governmental Accounting Standards Board Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities*, as amended by GASB Statements No. 37 and No. 38. These statements establish external financial reporting standards for public colleges and universities and require that financial statements be presented on a consolidated basis in order to focus on the University as a whole. Previously, financial statements focused on accountability for individual fund groups rather than on the University as a whole. For this first year of GASB Statement 35's implementation, a statewide decision was made not to present comparative totals in Management's Discussion and Analysis; however, comparative totals and analysis will be presented in future years.

Financial Highlights

The University's financial position remained strong at June 30, 2002, with assets of \$188.7 million and liabilities of \$26.5 million. Net assets, which represent the residual interest in the University's assets after liabilities are deducted, are valued at approximately \$162.3 million. Changes in net assets reflect revenues, expenses, and gains and losses for the year that result from operating activities of the University. The Statement of Revenues, Expenses, and Changes in Net Assets reflects a positive year with net assets increasing \$4.9 million from the prior year.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Among the University's greatest strengths are the diverse revenue streams that supplement student tuition and fees. These include private gifts from individuals, foundations, and corporations, along with sponsored programs, State appropriations, and investment income. The University has in the past and will continue to seek funding from available sources that are consistent with its mission and to prudently manage the financial resources realized from these efforts in order to supplement tuition revenues and fund its operating activities.

A critical factor to achieving quality in the University's academic endeavors and in the environment that students experience here is the development and renewal of its capital assets. The University continues to implement a long-range plan for modernizing its older teaching and research facilities, balanced with new construction. Capital asset additions and improvements during the current year were funded with federal and State capital grants, debt proceeds, and gifts and unrestricted net assets designated for capital purposes.

Statement of Net Assets

The Statement of Net Assets presents the financial position of the University at the end of the fiscal year and includes all assets and liabilities of the University. The difference between total assets and total liabilities - net assets - is one indicator of the current financial condition of the University, while the change in net assets is an indicator of whether the overall financial condition has improved or worsened during the year. Assets and liabilities are generally measured using current values. One notable exception is capital assets, which are stated at historical cost less an allowance for depreciation.

Net assets are divided into three major components:

- Net assets invested in capital assets represent the University's total capital assets less accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets.
- Restricted net assets are subject to externally imposed restrictions governing their use and are further divided into two categories: nonexpendable and expendable. Nonexpendable net assets primarily include the University's permanent endowment funds. Restricted expendable net assets are available for expenditure in accordance with the externally imposed restrictions. This category of net assets includes \$6.3 million of funds functioning as endowment.
- Unrestricted net assets are not subject to externally imposed stipulations, but many times are internally designated for various academic and research programs and initiatives, as well as capital projects. Included in this category is \$2.9 million of funds functioning as endowment.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Statement of Net Assets

	<u>2002</u>
Assets	
Current Assets	\$ 50,523,173
Capital Assets, Net	98,691,618
Other Noncurrent Assets	<u>39,502,008</u>
Total Assets	<u>188,716,799</u>
Liabilities	
Current Liabilities	8,430,404
Noncurrent Liabilities	<u>18,020,319</u>
Total Liabilities	<u>26,450,723</u>
Net Assets	
Invested in Capital Assets, Net of Related Debt	92,120,396
Restricted - Nonexpendable	12,621,595
Restricted - Expendable	17,552,465
Unrestricted	<u>39,971,620</u>
Total Net Assets	<u>\$ 162,266,076</u>

Statement of Revenues, Expenses, and Changes in Net Assets

The Statement of Revenues, Expenses, and Changes in Net Assets presents the results of University operations for the fiscal year. Changes in total net assets presented on the Statement of Net Assets are the result of activity presented in the Statement of Revenues, Expenses, and Changes in Net Assets. The purpose of this Statement is to report revenues received by the institution, both operating and nonoperating, and expenses paid by the institution, operating and nonoperating, and revenues, expenses, gains and losses of any other kind that the institution experienced.

Generally speaking, operating revenues are received for providing instruction, goods, or services to clients of the institution. Operating expenses are expenses incurred in acquiring or producing and performing the services for which operating revenues are paid and in conducting the affairs of the institution. Nonoperating revenues are revenues received for which goods and services are not provided. State appropriations of \$47.7 million, while budgeted for operations, are reported as nonoperating revenue in accordance with governmental accounting standards. Nonoperating expenses include interest expense, extraordinary items, and other expenses not involved in the normal operations of the University.

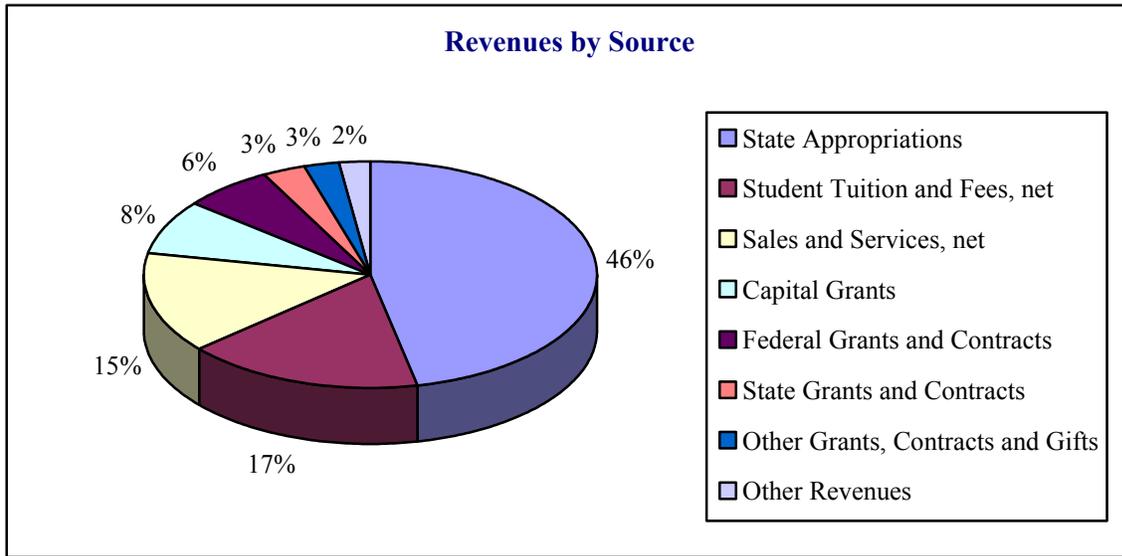
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Statement of Revenues, Expenses, and Changes in Net Assets

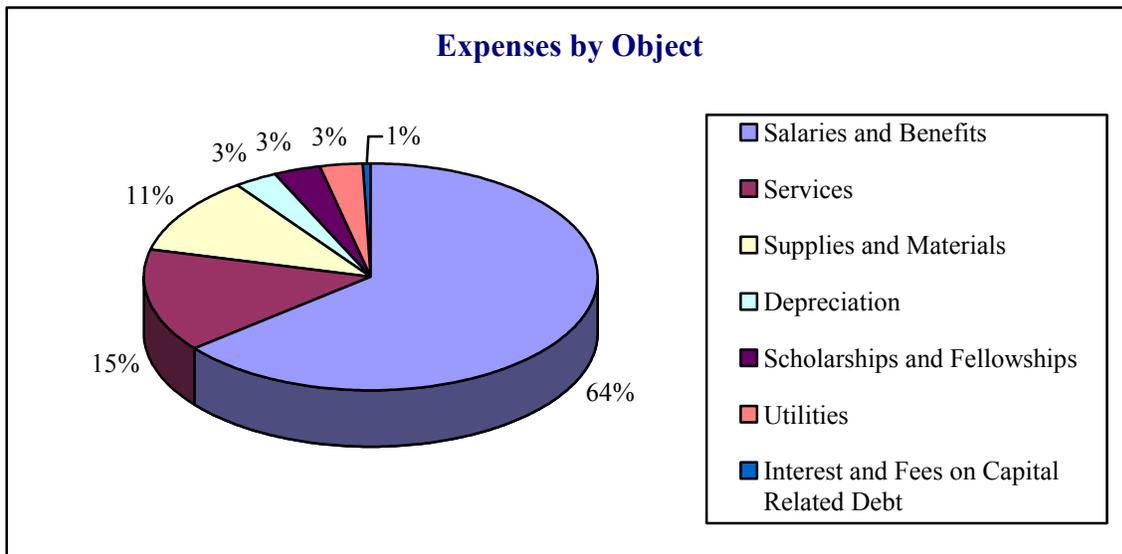
	<u>2002</u>
Operating Revenues:	
Student Tuition and Fees, Net	\$ 17,305,159
Grants and Contracts	10,516,661
Sales and Services, Net	14,865,198
Other Operating Revenues	<u>439,100</u>
 Total Operating Revenues	 <u>43,126,118</u>
 Operating Expenses	 <u>96,950,762</u>
 Operating Loss	 <u>(53,824,644)</u>
Nonoperating Revenues (Expenses):	
State Appropriations	47,667,671
Gifts and Grants	1,712,231
Investment Income (Net of Investment Expense)	1,453,906
Other Nonoperating Revenues and Expenses	<u>(414,368)</u>
 Net Nonoperating Revenues	 <u>50,419,440</u>
 Loss Before Other Revenues, Expenses, Gains, or Losses	 (3,405,204)
 Capital Grants	7,825,164
Capital Gifts	29,955
Additions to Permanent Endowments	<u>400,591</u>
 Total Other Revenue	 <u>8,255,710</u>
 Change in Net Assets	 4,850,506
 Net Assets	
Beginning Net Assets	<u>157,415,570</u>
 Ending Net Assets	 <u><u>\$ 162,266,076</u></u>

The following is a graphic illustration of the breakdown of revenues by source (both operating and nonoperating) which are used to fund the University's operating activities for the year ended June 30, 2002. It will show that significant, recurring sources of the University's revenues are considered nonoperating, as defined by GASB Statement No. 35.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)



The following is a graphic illustration of expenses (both operating and nonoperating) by object:



Statement of Cash Flows

The final Statement presented, the Statement of Cash Flows, provides detailed information about the cash activity of the institution during the year. Cash provided or used is categorized based on the following four types of activities: operating, noncapital financing, capital financing, and investing. The Statement of Cash Flows also helps users assess:

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

- The ability to generate future net cash flows,
- The ability to meet obligations as they come due, and
- A need for external financing.

Statement of Cash Flows

	<u>2002</u>
Cash Provided (Used) by:	
Operating Activities	\$ (48,898,583)
Noncapital Financing Activities	50,249,647
Capital and Related Financing Activities	(10,653,279)
Investing Activities	<u>6,118,557</u>
Net Change in Cash	(3,183,658)
Cash, Beginning of the Year	<u>58,266,804</u>
Cash, End of the Year	<u><u>\$ 55,083,146</u></u>

Enrollment

A significant factor in the University's capacity to generate resources relates to its ability to recruit and retain high quality students. First-year students applied in record numbers for the second straight year - over 4,100 applications were processed. Just over 71% of these students were admitted as the University continues to upgrade the academic qualifications of students accepted for admission. Of these, 1,220 freshmen enrolled to begin the fall 2002 semester.

Enrollment growth targets for the next 8 - 10 years have been established, and the University continues to vigorously pursue growth in all categories of enrollment: resident credit and distance learning enrollments at both the undergraduate and graduate levels. With the total enrollment for fall 2002 surpassing 7,000 students for the first time in the institution's history, the total enrollment target of 9,500 set for the University appears reachable.

In addition to recruiting record numbers of students, substantial efforts are ongoing to enhance persistence to graduation. Over 71% of fall 2001 freshmen enrolled for fall 2002, up from the previous year, but still lower than the University's goals. Higher retention rates and higher graduation rates are seen as key indicators of success, both for the University and its students.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Economic Outlook

Looking toward the future, management believes that the University is well positioned to maintain its strong financial condition and advance both the quality and scope of its service to students, the State, and the nation. The University's strong financial position is externally acknowledged by the recent upgrade of its credit rating to A+. This rating brings great advantage in borrowing funds on favorable terms and with the University's ongoing efforts toward revenue diversification and cost containment, will enable the University to secure the necessary resources to sustain and advance its level of excellence.

Passage of North Carolina's Higher Education Bond Referendum in November 2000 will bring Western over \$100 million to fund 10 facility construction projects, infrastructure improvements, land acquisition, and technology expansion. Construction projects include two new buildings, the Fine and Performing Arts Center and a 300-bed residence hall, and renovation of McKee, Bird, Killian, Killian Annex, Breese Gymnasium, Graham Infirmary, Stillwell and Forsyth buildings. Infrastructure improvements include chiller replacements, electrical distribution improvement and steam / condensate line replacement. Funds were also provided to improve traffic conditions on campus by relocating Centennial Drive and creating a pedestrian only quadrangle between Walker Residence Hall and Dodson Cafeteria. All of these projects, except for Forsyth and Graham, are either in construction or design.



Fine and Performing Arts Center

Construction projects funded by non-State sources include new facilities for a Regional Labor Force Development Center, a Hospitality Management Studies Center, and a Student Recreation Center. Also funded from such sources are improved and expanded athletic facilities and an addition to the Hinds University Center. Total budgets for these projects exceed \$42 million.



Workforce Development Center

A crucial element in the University's future will be our relationships with the University of North Carolina System and the North Carolina General Assembly, as we work to maintain competitive costs while providing an outstanding education for our students. There is a direct relationship between the growth of the University and the demand for State appropriations to operate the University. Also, declines in State appropriations generally exert pressure for increased tuition fee levels. As an institution targeted for growth in the years ahead, Western will be greatly affected by the availability and levels of State operating and capital resources to support that growth.

Private gifts are an important supplement to the University's base support from State appropriations and student tuition. Such gifts can provide the increment needed to elevate beneficiary programs to higher levels of quality and service. Economic pressures affecting donors, as well as investment returns, may affect future levels of support that the University can obtain from corporate and individual giving. Despite world market pressures and State budget constraints, however, Western experienced increases in both the number of donors and total private gifts received in the fiscal year ended June 30, 2002.

The University will continue to pursue its long-term investment strategy to maximize total returns, at an appropriate level of risk, while utilizing a spending rate policy that is consistent with long-term market results and that insulates operations from temporary market volatility.

While the future cannot be predicted with certainty, management believes that the University's strong financial condition equips it well to weather the economic uncertainties presently known and those that can be reasonably expected.

Western Carolina University
Statement of Net Assets
June 30, 2002

Exhibit A

ASSETS

Current Assets:

Cash and Cash Equivalents	\$	36,844,379.28
Restricted Cash and Cash Equivalents		6,717,784.68
Restricted Short-Term Investments		496,990.25
Receivables, Net (Note 4)		3,170,606.97
Inventories		2,565,834.26
Notes Receivable, Net (Note 4)		727,577.80
Total Current Assets		50,523,173.24

Noncurrent Assets:

Restricted Cash and Cash Equivalents		11,520,981.74
Receivables, Net (Note 4)		31,400.00
Restricted Due from Primary Government		6,270,543.47
Endowment Investments		16,079,284.99
Other Long-Term Investments		1,079,862.11
Notes Receivable, Net (Note 4)		4,519,935.22
Capital Assets, Net (Note 5)		98,691,618.46
Total Noncurrent Assets		138,193,625.99

Total Assets		188,716,799.23
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LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 6)		5,620,105.84
Due to Primary Government		33,613.58
Deferred Revenue		1,614,350.74
Interest Payable		112,916.96
Long-Term Liabilities - Current Portion (Note 7)		1,049,416.51
Total Current Liabilities		8,430,403.63

Noncurrent Liabilities:

Deposits Payable		177,363.79
Funds Held for Others		324,913.81
U. S. Government Grants Refundable		5,280,795.22
Long-Term Liabilities (Note 7)		12,237,246.63
Total Noncurrent Liabilities		18,020,319.45

Total Liabilities		26,450,723.08
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Western Carolina University**Statement of Net Assets****June 30, 2002****Exhibit A****Page 2**

NET ASSETS	
Invested in Capital Assets, Net of Related Debt	92,120,396.41
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	4,520,004.23
Endowed Professorships	8,101,591.16
Expendable:	
Scholarships and Fellowships	3,368,115.29
Research	170,066.47
Endowed Professorships	1,839,495.71
Departmental Uses	2,868,305.04
Loans	1,199,226.61
Capital Projects	3,974,361.23
Debt Service	3,849,920.15
Other	282,973.80
Unrestricted	39,971,620.05
Total Net Assets	<u>\$ 162,266,076.15</u>
The accompanying notes to the financial statements are an integral part of this statement.	

Western Carolina University
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 9)	\$ 17,305,159.37
Federal Grants and Contracts	6,456,645.34
State and Local Grants and Contracts	3,211,074.97
Nongovernmental Grants and Contracts	848,941.27
Sales and Services, Net (Note 9)	14,865,197.61
Interest Earnings on Loans	19,067.66
Other Operating Revenues	420,031.95
Total Operating Revenues	43,126,118.17

EXPENSES

Operating Expenses:	
Salaries and Benefits	62,625,525.98
Supplies and Materials	10,872,101.14
Services	14,313,323.00
Scholarships and Fellowships	3,058,309.65
Utilities	2,984,559.00
Depreciation	3,096,943.67
Total Operating Expenses	96,950,762.44
Operating Loss	(53,824,644.27)

NONOPERATING REVENUES (EXPENSES)

State Appropriations	47,667,671.34
Noncapital Grants	290,704.35
Noncapital Gifts, Net (Note 9)	1,421,527.10
Investment Income (Net of Investment Expense of \$37,244.40)	1,453,905.96
Interest and Fees on Capital Asset-Related Debt	(617,883.75)
Other Nonoperating Revenues	203,515.27
Net Nonoperating Revenues	50,419,440.27
Loss Before Other Revenues, Expenses, Gains, or Losses	(3,405,204.00)

Capital Grants	7,825,163.43
Capital Gifts, Net (Note 9)	29,955.00
Additions to Permanent Endowments	400,591.34
Increase in Net Assets	4,850,505.77

NET ASSETS

Net Assets - July 1, 2001, as Restated (Note 17)	157,415,570.38
Net Assets - June 30, 2002	\$ 162,266,076.15

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

Western Carolina University
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2002

Exhibit C

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 42,673,925.16
Payments to Employees and Fringe Benefits	(62,456,475.24)
Payments to Vendors and Suppliers	(26,392,459.34)
Payments for Scholarships and Fellowships	(3,058,309.65)
Loans Issued	(1,063,108.50)
Collection of Loans	953,721.54
Interest Earned on Loans	19,832.73
Other Receipts	424,290.26
Net Cash Used by Operating Activities	(48,898,583.04)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Appropriations	47,667,671.34
Grants for Other than Capital Purposes	313,829.35
Noncapital Gifts	1,238,385.35
Additions to Permanent and Term Endowments	400,591.34
William D. Ford Direct Lending Receipts	14,012,971.00
William D. Ford Direct Lending Disbursements	(13,946,193.00)
Related Activity Agency Receipts	498,478.35
Related Activity Agency Disbursements	(139,552.26)
Other Receipts	203,465.27
Net Cash Provided by Noncapital Financing Activities	50,249,646.74

CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES

Capital Grants	6,036,248.53
Acquisition and Construction of Capital Assets	(15,210,099.70)
Principal Paid on Capital Debt and Leases	(853,945.35)
Interest and Fees Paid on Capital Debt and Leases	(616,766.14)
Other Payments	(8,715.64)
Net Cash Used by Capital Financing and Related Financing Activities	(10,653,278.30)

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from Sales and Maturities of Investments	4,377,870.27
Interest on Investments	3,258,648.00
Purchase of Investments and Related Fees	(1,517,961.48)
Net Cash Provided by Investing Activities	6,118,556.79

Net Decrease in Cash and Cash Equivalents	(3,183,657.81)
Cash and Cash Equivalents - July 1, 2001	58,266,803.51
Cash and Cash Equivalents - June 30, 2002	\$ 55,083,145.70

Western Carolina University
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2002

Exhibit C
Page 2

**RECONCILIATION OF NET OPERATING REVENUES (EXPENSES)
TO NET CASH USED BY OPERATING ACTIVITIES**

Operating Loss	\$ (53,824,644.27)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	3,096,943.67
Allowances, Write-Offs, and Amortizations	69,872.39
Noncash Contributed Expenses	29,016.73
Changes in Assets and Liabilities:	
Receivables (Net)	(118,161.48)
Due to Primary Government	(32,688.89)
Inventories	(207,905.64)
Accounts Payable and Accrued Liabilities	2,199,297.22
Deferred Revenue	(63,167.28)
Compensated Absences	53,547.62
Deposits Payable	8,693.85
Note Principle Repayments	953,721.54
Notes Issued	(1,063,108.50)
Net Cash Used by Operating Activities	\$ (48,898,583.04)

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	\$ 36,844,379.28
Restricted Cash and Cash Equivalents	6,717,784.68
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	11,520,981.74
Total Cash and Cash Equivalents - June 30, 2002	\$ 55,083,145.70

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through a Gift	\$ 77,994.57
Change in Fair Value of Investments	(1,817,408.82)
Reinvested Distributions	(676,718.57)

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

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

The accompanying financial statements present all funds belonging to the University and its component units. While the Board of Governors of the University of North Carolina System has ultimate responsibility, the Chancellor, the Board of Trustees, and the Board of Trustees of the Endowment Fund have delegated responsibilities for financial accountability of the University's funds. Although legally separate, Western Carolina University Foundation (Foundation), a component unit of the University, is reported as if it were part of the University.

The Foundation is governed by a 28-member board consisting of 4 ex officio directors and 24 appointed directors. The Foundation's purpose is to aid, support, and promote teaching, research, and service in the various educational, scientific, scholarly, professional, artistic, and creative endeavors of the University. Because the elected directors of the Foundation are appointed by the members of the Western Carolina University Board of Trustees and the Foundation's sole purpose is to benefit Western Carolina University, its financial statements have been blended with those of the University.

Separate financial statements for the Foundation may be obtained from the University Controller's Office, HFR 317, Cullowhee, NC 28723 or by calling 828-227-7308. Other related foundations and similar non-profit corporations for which the University is not financially accountable are not part of the accompanying financial statements.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

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

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

- D. Cash and Cash Equivalents** – This classification appears on the Statement of Net Assets and the Statement of Cash Flows and includes cash on deposit with private bank accounts, petty cash, undeposited receipts, savings accounts, money market accounts, cash on deposit with fiscal agents, and short-term investments with the State Treasurer’s Cash and Investment Pool (a governmental external investment pool). The short-term investment portfolio maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.
- E. Investments** - This classification includes long-term fixed income investments, equity investments, mutual funds, limited partnerships, real estate, and other asset holdings by the University. Except for money market funds, certificates of deposit, real estate not held by a governmental external investment pool, and other asset holdings, investments are accounted for at fair value, as determined by quoted market prices, or an amount determined by management if quoted market

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

prices are not available. The net increase (decrease) in the fair value of investments is recognized as a component of investment income.

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

- F. Receivables** – Receivables consist of tuition and fees charges to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from the federal government, State and local governments, private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants, and pledges that are verifiable, measurable, and expected to be collected and available for expenditures for which the resource providers conditions have been satisfied. Receivables are recorded net of estimated uncollectible amounts.
- G. Inventories** – Inventories, consisting of expendable supplies and merchandise for resale, are stated at cost using the last invoice price.
- H. Capital Assets** – Capital assets are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. The University capitalizes assets that have a value or cost in excess of \$5,000 at the date of acquisition and an expected useful life of one or more years. Library books are expensed.

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

Certain book and art collections are capitalized at cost or fair value at the date of donation. These collections are depreciated over the life of the collection using the straight-line method. The estimated useful lives for the collections are 25 years.

The Hayes and other artifact collections are capitalized at cost or fair value at the date of donation. These collections are considered inexhaustible and are therefore not depreciated.

- I. Restricted Assets** – 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, notes payable, capital lease

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

obligations, and compensated absences that will not be paid within the next fiscal year.

Bonds payable are reported net of unamortized premium or discount and deferred losses on refundings. The University amortizes bond premiums/discounts over the life of the bonds using the straight-line method. The deferred losses on refundings are amortized over the life of the old debt or new debt (whichever is shorter) 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 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

customers. These institutional auxiliary operations include activities such as Food, Residential, and Printing Services. In addition, the University has other miscellaneous sales and service units that operated either on a reimbursement or charge basis. All internal sales activities to University departments from auxiliary operations and sales and service units have been eliminated in the accompanying financial statements. These eliminations are recorded by removing the revenue and expense in the auxiliary operations and sales and service units and, if significant, allocating any residual balances to those departments receiving the goods and services during the year.

NOTE 2 - 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. Western Carolina University has applied for and received special responsibility status.

After the budget is approved by the General Assembly and adopted by the Board of Governors, the University follows an established system of budgetary controls. 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

Deposits include cash and cash equivalents totaling \$55,083,145.70. At year-end, cash on hand was \$32,146.75. The University's portion of the State Treasurer's Cash and Investment Pool was \$54,936,471.02. 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 \$114,527.93 and the bank balance was \$130,079.91. Of the bank balance, \$130,079.91 was covered by federal depository insurance.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 exercise of their sound discretion, without regard to any statute or rule of law relating to the investment of funds by fiduciaries but in compliance with any lawful condition placed by the donor upon that part of the Endowment Fund to be invested.

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

investments for which the securities are held by a counterparty's trust department or agent in the University's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by a counterparty's trust department or agent but not in the University's name.

A summary of the University's investments at June 30, 2002 is presented below:

Long-Term Investment Pool

	Total
Investments Not Categorized:	
Mutual Funds	\$ 16,943,561.91

Non-Pooled Investments

	Fair Value			Total
	Risk Category			
	1	2	3	
Categorized Investments:				
Corporate Stocks	\$ 31,556.00	\$ 0.00	\$ 0.00	\$ 31,556.00
State and Municipal Securities	12,166.54			12,166.54
US Government Securities	496,990.25			496,990.25
Total Categorized Investments	\$ 540,712.79	\$ 0.00	\$ 0.00	540,712.79
Investments Not Categorized:				
Real Estate				90,538.53
Limited Liability Corporation				16,689.00
Collections				64,635.12
Total Investments Not Categorized				171,862.65
Total Non-Pooled Investments				\$ 712,575.44

Total Investments

	Fair Value			Total
	Risk Category			
	1	2	3	
Total Categorized Investments	\$ 540,712.79	\$ 0.00	\$ 0.00	\$ 540,712.79
Total Investments Not Categorized				17,115,424.56
Total Investments				\$ 17,656,137.35

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

C. Endowment Investments - Investments of the University's endowment funds are pooled unless required to be separately invested by the donor. If a donor has not provided specific instructions, State law permits the Board of Trustees to authorize for expenditure the net appreciation, realized or 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). The current spending policy for the University's pooled endowment funds provides 5.5% of a three-year average of market values as of December 31. The Board of Trustees annually reviews the spending policy and makes adjustments accordingly. At June 30, 2002, net appreciation of \$7,515,665.37 was available to be spent, of which \$4,673,141.91 was restricted to specific purposes.

NOTE 4 - 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	\$ 925,156.69	\$ 605,509.28	\$ 319,647.41
Accounts	941,602.30		941,602.30
Intergovernmental	1,284,649.20		1,284,649.20
Pledges	220,989.50	8,462.48	212,527.02
Investment Earnings	187,872.79		187,872.79
Interest on Loans	174,712.61		174,712.61
Other	49,595.64		49,595.64
Total Current Receivables	<u>\$ 3,784,578.73</u>	<u>\$ 613,971.76</u>	<u>\$ 3,170,606.97</u>
Noncurrent Receivables:			
Pledges	<u>\$ 31,400.00</u>	<u>\$ 0.00</u>	<u>\$ 31,400.00</u>
Notes Receivables:			
Notes Receivable - Current			
Federal Loan Programs	\$ 719,507.03	\$ 0.00	\$ 719,507.03
Institutional Student Loan Programs	52,639.79	44,569.02	8,070.77
Total Notes Receivable - Current	<u>\$ 772,146.82</u>	<u>\$ 44,569.02</u>	<u>\$ 727,577.80</u>
Notes Receivable - Noncurrent:			
Federal Loan Programs	\$ 5,478,638.66	\$ 979,750.00	\$ 4,498,888.66
Institutional Student Loan Programs	21,046.56		21,046.56
Total Notes Receivable - Noncurrent	<u>\$ 5,499,685.22</u>	<u>\$ 979,750.00</u>	<u>\$ 4,519,935.22</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 5 - CAPITAL ASSETS

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

	Balance July 1, 2001	Increases	Decreases	Balance June 30, 2002
Capital Assets, Non-Depreciable:				
Land	\$ 2,755,590.30	\$ 0.00	\$ 0.00	\$ 2,755,590.30
Art, Literature, and Artifacts	105,433.00			105,433.00
Construction in Progress	10,435,506.32	13,898,012.23		24,333,518.55
Total Capital Assets, Non-Depreciable	13,296,529.62	13,898,012.23		27,194,541.85
Capital Assets, Depreciable:				
Buildings	98,996,254.62	14,403.47		99,010,658.09
Machinery and Equipment	9,270,547.88	1,136,252.47	405,133.07	10,001,667.28
Art, Literature, and Artifacts	110,468.00		7,280.00	103,188.00
General Infrastructure	12,431,231.81	179,736.51	6,670.92	12,604,297.40
Intangible	1.00			1.00
Total Capital Assets, Depreciable	120,808,503.31	1,330,392.45	419,083.99	121,719,811.77
Less Accumulated Depreciation:				
Buildings	38,594,807.17	1,889,405.34		40,484,212.51
Machinery and Equipment	4,796,732.04	704,924.95	405,133.07	5,096,523.92
Art, Literature, and Artifacts	68,891.13	18,771.92	7,280.00	80,383.05
General Infrastructure	4,084,445.14	483,841.46	6,670.92	4,561,615.68
Total Accumulated Depreciation	47,544,875.48	3,096,943.67	419,083.99	50,222,735.16
Total Capital Assets, Depreciable, Net	73,263,627.83	(1,766,551.22)		71,497,076.61
Capital Assets, Net	\$ 86,560,157.45	\$ 12,131,461.01	\$ 0.00	\$ 98,691,618.46

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	Amount
Accounts Payable	\$ 3,598,473.95
Accrued Payroll	838,840.25
Contract Retainage	698,091.84
Other	484,699.80
Total Accounts Payable and Accrued Liabilities	\$ 5,620,105.84

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 7 - 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
Notes, Bonds, and Capital Leases Payable					
Notes Payable	\$ 2,803,911.76	\$ 0.00	\$ 228,704.20	\$ 2,575,207.56	\$ 242,647.23
Bonds Payable	8,728,000.00		615,000.00	8,113,000.00	554,000.00
Capital Leases Payable	41,413.18		10,241.15	31,172.03	10,737.28
Total Notes, Bonds, and Capital Leases	<u>11,573,324.94</u>		<u>853,945.35</u>	<u>10,719,379.59</u>	<u>807,384.51</u>
Compensated Absences	<u>2,513,735.95</u>	<u>3,997,304.41</u>	<u>3,943,756.81</u>	<u>2,567,283.55</u>	<u>242,032.00</u>
Total Long-Term Liabilities	<u>\$ 14,087,060.89</u>	<u>\$ 3,997,304.41</u>	<u>\$ 4,797,702.16</u>	<u>\$ 13,286,663.14</u>	<u>\$ 1,049,416.51</u>

Additional information regarding capital lease obligations is included in Note 8.

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

Purpose	Series	Interest Rate/ Ranges	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2002	Principal Outstanding June 30, 2002
<u>Dormitory System</u>						
Dormitory System Revenue Bonds	C	3.625	May 1, 2003	\$ 2,200,000.00	\$ 2,141,000.00	\$ 59,000.00
Dormitory System Revenue Bonds	D	3.00	May 1, 2007	2,394,000.00	1,915,000.00	479,000.00
Dormitory System Revenue Bonds	G	6.2-6.7	May 2, 2011	2,865,000.00	2,685,000.00	180,000.00
UNC System Pool Revenue Bonds (A)	1998B	3.25-5.25	October 1, 2013	465,000.00	70,000.00	395,000.00
UNC System - Series 2000 (B)	2000	5.00	October 1, 2010	<u>1,370,000.00</u>	<u>10,000.00</u>	<u>1,360,000.00</u>
Total Dormitory System				<u>9,294,000.00</u>	<u>6,821,000.00</u>	<u>2,473,000.00</u>
<u>Student Center</u>						
Student Center Revenue Bonds	A	3.75	November 1, 2001	900,000.00	900,000.00	0.00
UNC System - Series 2000	2000	5.00-5.75	October 1, 2025	<u>5,355,000.00</u>	<u>105,000.00</u>	<u>5,250,000.00</u>
Total Student Center				<u>6,255,000.00</u>	<u>1,005,000.00</u>	<u>5,250,000.00</u>
<u>Faculty Housing</u>						
Faculty Housing Revenue Bonds		3.00	November 1, 2007	280,000.00	220,000.00	60,000.00
Faculty Housing Revenue Bonds	A	5.0-7.0	May 1, 2003	<u>442,000.00</u>	<u>417,000.00</u>	<u>25,000.00</u>
Total Faculty Housing				<u>722,000.00</u>	<u>637,000.00</u>	<u>85,000.00</u>
<u>Stadium System</u>						
Stadium System Student Fee Revenue		5.5-7.5	April 1, 2008	<u>865,000.00</u>	<u>560,000.00</u>	<u>305,000.00</u>
Total Bonds Payable (Principal Only)				<u>\$ 17,136,000.00</u>	<u>\$ 9,023,000.00</u>	<u>\$ 8,133,000.00</u>

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

C. Notes Payable - The University was indebted for notes for the purposes shown in the following table:

Purpose	Financial Institution	Interest Rate/ Ranges	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2002	Principal Outstanding June 30, 2002
UC Renovation	First Union National Bank	6.18	12-01-2010	\$ 3,800,000.00	\$ 1,230,764.58	\$ 2,569,235.42
Purchase Automobile	Ford Motor Credit	3.9	08-06-2003	25,552.00	19,579.86	5,972.14
Total Notes Payable				<u>\$ 3,825,552.00</u>	<u>\$ 1,250,344.44</u>	<u>\$ 2,575,207.56</u>

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

Fiscal Year	Annual Requirements			
	Bonds Payable		Notes Payable	
	Principal	Interest	Principal	Interest
2003	\$ 554,000.00	\$ 414,692.52	\$ 242,647.23	\$ 152,242.05
2004	495,000.00	381,758.76	252,693.00	137,024.41
2005	445,000.00	360,331.26	268,259.57	120,987.67
2006	465,000.00	339,606.26	285,315.74	103,931.50
2007	489,000.00	317,331.26	303,456.37	85,790.87
2008-2012	1,760,000.00	1,270,604.41	1,222,835.65	139,529.69
2013-2017	1,130,000.00	906,500.00		
2018-2022	1,375,000.00	576,775.00		
2023-2028	1,400,000.00	159,500.00		
Total Requirements	<u>\$ 8,113,000.00</u>	<u>\$ 4,727,099.47</u>	<u>\$ 2,575,207.56</u>	<u>\$ 739,506.19</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 8 - LEASE OBLIGATIONS

- A. Capital Lease Obligations** - Capital lease obligations relating to machinery and equipment are recorded at the present value of the minimum lease payments. Future minimum lease payments under capital lease obligations consist of the following at June 30, 2002:

<u>Fiscal Year</u>	<u>Amount</u>
2003	\$ 12,333.24
2004	11,376.24
2005	8,505.24
2006	<u>2,126.31</u>
Total Minimum Lease Payments	\$ 34,341.03
Amount Representing Interest (7.48% Rate of Interest)	<u>3,169.00</u>
Present Value of Future Lease Payments	<u>\$ 31,172.03</u>

Leased assets amounted to \$42,394.21 at June 30, 2002.

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

<u>Fiscal Year</u>	<u>Amount</u>
2003	\$ 71,547.16
2004	38,746.42
2005	<u>5,628.00</u>
Total Minimum Lease Payments	<u>\$ 115,921.58</u>

Rental expense for all operating leases during the year was \$74,248.91.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 9 - REVENUES

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

	Gross Revenues	Internal Sales Eliminations	Less Scholarship Discounts	Less Allowance for Uncollectibles	Net Revenues	Net Revenues Pledged as Security for Debt	
Operating Revenues:							
Student Tuition and Fees	\$ 20,447,970.84	\$ 48,886.41	\$ 2,796,694.98	\$ 297,230.08	\$ 17,305,159.37	\$ 862,433.19	A
Sales and Services:							
Sales and Services of Auxiliary Enterprises:							
Residential Life	\$ 5,683,938.69	\$ 266,917.17	\$ 768,460.73	\$ 64,582.00	\$ 4,583,978.79	\$ 4,583,978.79	B
Dining	5,623,352.02	508,450.21	699,762.61	41,021.61	4,374,117.59		
Book Rental	948,286.36	114.28	114,974.10	57,116.52	776,081.46		
Bookstore	1,407,346.32			1,032.02	1,406,314.30		
Print Shop	464,572.77	406,184.88			58,387.89		
Athletic	677,905.46				677,905.46	551,228.59	C
Other	932,303.12	159,744.29		477.64	772,081.19	185,615.56	D
Sales and Services of Educational and Related Activities	1,743,244.27	1,185,383.42			557,860.85		
Independent Operations	1,753,124.62	94,654.54			1,658,470.08		
Total Sales and Services	<u>\$ 19,234,073.63</u>	<u>\$ 2,621,448.79</u>	<u>\$ 1,583,197.44</u>	<u>\$ 164,229.79</u>	<u>\$ 14,865,197.61</u>	<u>\$ 5,320,822.94</u>	
Nonoperating - Noncapital Gifts	<u>\$ 1,421,527.10</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 1,421,527.10</u>	<u>\$ 0.00</u>	
Capital Gifts	<u>\$ 29,955.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 29,955.00</u>	<u>\$ 0.00</u>	

Revenue bonds secured by pledged revenues:

- A - Student Center
- B - Student Housing
- C - Stadium System
- D - Apartment and House Management

NOTE 10 - OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	\$ 29,736,645.74	\$ 1,020,259.24	\$ 1,765,294.64	\$ 2,751.58	\$ 1,055.84	\$ 0.00	\$ 32,526,007.04
Research	826,919.59	116,790.09	168,607.82	497.92	17,482.80		1,130,298.22
Public Service	6,390,020.73	917,060.23	1,904,432.61	79,730.78	86,544.94		9,377,789.29
Academic Support	5,012,363.12	1,301,764.87	633,623.31	43.17	837.45		6,948,631.92
Student Services	2,390,343.65	137,009.97	748,215.02				3,275,568.64
Institutional Support	7,374,448.44	525,667.01	1,898,569.59	159,307.92	619.64		9,958,612.60
Operations and Maintenance of Plant	4,569,827.22	2,436,048.24	235,608.62		1,926,016.48		9,167,500.56
Student Financial Aid	88,490.96	469.50	19,255.03	2,093,919.80			2,202,135.29
Auxiliary Enterprises	6,061,495.75	3,233,075.99	6,906,969.13	722,058.48	952,001.85		17,875,601.20
Independent Operations	174,970.78	1,183,956.00	32,747.23				1,391,674.01
Depreciation						3,096,943.67	3,096,943.67
Total Operating Expenses	<u>\$ 62,625,525.98</u>	<u>\$ 10,872,101.14</u>	<u>\$ 14,313,323.00</u>	<u>\$ 3,058,309.65</u>	<u>\$ 2,984,559.00</u>	<u>\$ 3,096,943.67</u>	<u>\$ 96,950,762.44</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 11 - PENSION PLANS

- A. **Retirement Plans** - Each permanent full-time employee, as a condition of employment, is a member of either the Teachers' and State Employees' Retirement System or the Optional Retirement Program. 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 \$52,594,180.99, of which \$28,172,911.50 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were \$1,690,374.69 and \$550,006.36, respectively. The University made one hundred percent of its annual required contributions for the years ended June 30, 2002, 2001, and 2000, which were \$555,006.36, \$1,486,034.56, and \$2,136,210.17, 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 \$52,594,180.99, of which \$17,005,670.84 was covered under the Optional Retirement Program. Total employee and employer contributions for pension benefits for the year were \$1,020,403.54 and \$1,162,337.26, respectively.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 \$72,900.58 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 \$19,176.51. The voluntary contributions by employees amounted to \$313,213.00 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 \$815,491.20 for the year ended June 30, 2002.

NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS

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

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 \$1,061,696.68. 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 \$234,928.63. The University assumes no liability for long-term disability benefits under the plan other than its contribution. Additional detailed information about the DIPNC is disclosed in the State of North Carolina's *Comprehensive Annual Financial Report*.

NOTE 13 - RISK MANAGEMENT

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The University is required to maintain fire and lightning coverage on all State-owned buildings and contents through the State Property Fire Insurance Fund (Fund), an internal service fund of the State. Such coverage is provided at no cost to operations supported by the State's General Fund. Other operations not supported by the State's General Fund are charged for the coverage. Losses covered by the Fund are subject to a \$500 per occurrence deductible except that theft losses carry a \$1,000 per occurrence deductible. The University also purchased through the Fund extended coverage, sprinkler leakage, business interruption, vandalism, theft, flood, and "all risks" for buildings and contents.

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.

The University purchased other authorized coverages from private insurance companies through the North Carolina Department of Insurance. These coverages provide insurance for medical malpractice, accident coverage for students participating in University athletic events, boiler and machinery coverage, general liability, and various other commercial applications. These coverages were affected and placed by the North Carolina Department of Insurance through the State's agent of record.

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

NOTE 14 - COMMITMENTS AND CONTINGENCIES

- A. Commitments** - The University has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were \$30,371,314.02 and on other purchases were \$1,179,261.01 at June 30, 2002.
- B. Pending Litigation and Claims** – The University is a party to other litigation and claims in the ordinary course of its operations. Since it is not possible to predict the ultimate outcome of these matters, no provision for any liability has been made in the financial statements. University management is of the opinion that the liability, if any, for any of these matters will not have a material adverse effect on the financial position of the University.
- C. University Improvement General Obligation Bonds** – The 1999-2000 Session of the General Assembly of North Carolina authorized the issuance of 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

financial statements. The University's remaining authorization \$89,549,600.00 is contingent on future bond sales and OSBM allotment approval. Because of uncertainty and time restrictions the remaining authorization is not recorded as an asset or revenue on the accompanying financial statements.

NOTE 15 - THE DEVELOPMENT FOUNDATION OF THE NORTH CAROLINA CENTER FOR THE ADVANCEMENT OF TEACHING, INC.

The Development Foundation of the North Carolina Center for the Advancement of Teaching, Inc. was incorporated in North Carolina on January 31, 1994 for the purpose of supporting the programs of, and providing supplemental funding for, the North Carolina Center for the Advancement of Teaching. The University's financial statements do not include the assets, liabilities, net assets, or operational transactions of the Foundation, except for support from the organization to the University. This support approximated \$60,743.97 for the year ended June 30, 2002.

NOTE 16 - ACCOUNTING CHANGES

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

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

NOTE 17 - NET ASSET RESTATEMENT

As referred to in Note 16, the University implemented GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, as amended by GASB Statement No. 35, *Basic Financial Statements – and Management’s Discussion and Analysis – for Public Colleges and Universities*.

July 1, 2001 Fund Equity as previously reported	\$ 230,403,986.19
Implementation of GASB 34/35	<u>(72,988,415.81)</u>
July 1, 2001 Net Assets as Restated	<u>\$ 157,415,570.38</u>

NOTE 18 - SUBSEQUENT EVENTS

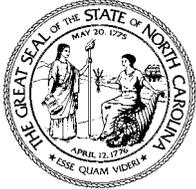
On October 11, 2002, the University of North Carolina Board of Governor’s ratified the issuance of bonds for a system wide tax-exempt bond financing. The University intends to borrow approximately \$8,070,000.00.

Western Carolina University
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
Projects Started							
Humanities and Fine Arts (301 and 315)	Jan 2001	\$ 27,919,644.00	\$ 2,611,056.00	\$ 30,530,700.00	\$ 6,103,752.26	19.99%	Oct 2003
McKee and Bird Renovations (303 and 304)	Nov 2001	10,256,100.00		10,256,100.00	1,335,333.06	13.02%	May 2003
New Student Housing (307)	Jan 2001	15,204,600.00	250,000.00	15,454,600.00	1,035,826.37	6.70%	Jul 2003
Steam and Electrical Infrastructure Improvements (309)	Jan 2002	10,639,000.00		10,639,000.00	177,312.93	1.67%	Dec 2004
Chiller Replacement and Retrofit (308)	Apr 2001	1,489,600.00		1,489,600.00	175,519.84	11.78%	Apr 2004
Breese Gym Conversion (306)	Nov 2001	1,161,300.00		1,161,300.00	31,150.00	2.68%	Oct 2003
Killian and Killian Annex Renovations (310 and 311)	Nov 2001	1,546,300.00		1,546,300.00	205,165.53	13.27%	Jun 2004
Projects Not Started - To Be Funded in Future Years							
Stillwell Lab Renovation (302)		15,057,500.00		15,057,500.00			
Student Health Center Conversion (305)		1,887,100.00		1,887,100.00			
Forsythe Renovation (312)		7,064,000.00		7,064,000.00			
Land Acquisition (313)		3,093,000.00		3,093,000.00			
Technology Infrastructure Expansion (314)		5,018,600.00		5,018,600.00			
Total All Projects		\$ 100,336,744.00	\$ 2,861,056.00	\$ 103,197,800.00	\$ 9,064,059.99		

Note: 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 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.



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
Western Carolina University
Cullowhee, North Carolina

We have audited the financial statements of Western Carolina University, a constituent institution of the sixteen-campus University of North Carolina System, which is a component unit of the State of North Carolina, as of and for the year ended June 30, 2002, and have issued our report thereon dated November 21, 2002.

As discussed in Note 16 to the financial statements, the University implemented Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as amended by GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities* and GASB Statement No. 38, *Certain Financial Statement Note Disclosures* during the year ended June 30, 2002.

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

November 21, 2002

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. John W. Bardo	Chancellor, Western Carolina University
Mr. George W. Wooten	Vice Chancellor for Administration and Finance Western Carolina University
Mr. Joseph D. Crocker	Chairman, Board of Trustees Western Carolina University

LEGISLATIVE BRANCH

Appointees to the Joint Legislative Commission on Governmental Operations

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February 20, 2003

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