

# STATE OF NORTH CAROLINA

**FINANCIAL STATEMENT AUDIT REPORT OF**

**APPALACHIAN STATE UNIVERSITY**

**BOONE, NORTH CAROLINA**

**FOR THE YEAR ENDED JUNE 30, 2002**

**OFFICE OF THE STATE AUDITOR**

**RALPH CAMPBELL, JR.**

**STATE AUDITOR**

**FINANCIAL STATEMENT AUDIT REPORT OF**

**APPALACHIAN STATE UNIVERSITY**

**BOONE, 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

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**AUDITOR'S TRANSMITTAL**

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

This report presents the results of our financial statement audit of Appalachian State University, a constituent institution of the sixteen-campus University of North Carolina System, which is a component unit of the State of North Carolina, 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 Appalachian State 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 Appalachian State 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 Appalachian State 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)

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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

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**INDEPENDENT AUDITOR'S REPORT**

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Board of Trustees  
Appalachian State University  
Boone, North Carolina

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

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

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

As discussed in Note 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 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,

## INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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

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



Ralph Campbell, Jr.  
State Auditor  
October 30, 2002

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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### Overview of the Financial Statement Information

Appalachian State University is pleased to present its financial statements for fiscal year 2002. These statements are prepared in accordance with the Governmental Accounting Standards Board (GASB) Statement No. 34, released in June 1999, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, which established a new reporting format for annual financial statements. In November 1999, GASB released Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities*, which applies the new reporting standards to public colleges and universities. These standards were used in the preparation of this document. Since this is a transition year for the new format, only one year of information is presented in the audited financial statements. In the future, comparative information will be reported.

The implementation of GASB Statements No. 34 and 35 resulted in a prior period adjustment of \$115.6 million for accumulated depreciation that was not previously required to be presented in the statements, and a \$34.3 million charge for library books that were written off that had previously been capitalized.

The Statement of Net Assets presents the assets, liabilities, and net assets of the University as of the end of the fiscal year. It provides readers with information on the assets available to continue operations, and the amounts owed to vendors, investors, and lending institutions. The change in net assets (assets minus liabilities) from year to year is an indicator of the financial condition of the institution.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

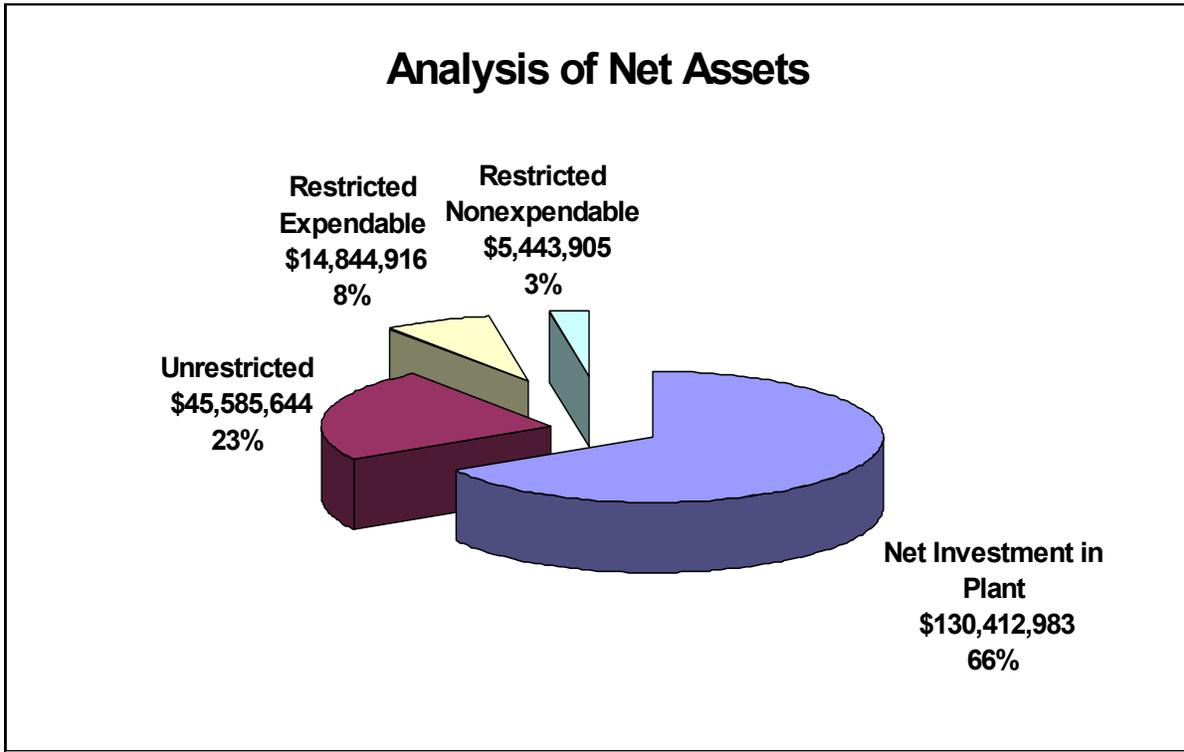
### Condensed Statement of Net Assets

<b>Assets</b>	
Current Assets	\$ 54,958,997.88
Noncurrent Assets:	
Capital	204,787,735.16
Other	45,899,504.62
	<hr/>
Total Assets	305,646,237.66
	<hr/>
<b>Liabilities</b>	
Current Liabilities	17,785,546.39
Noncurrent Liabilities	91,573,244.66
	<hr/>
Total Liabilities	109,358,791.05
	<hr/>
<b>Net Assets</b>	
Invested in Capital Assets, Net of Related Debt	130,412,982.77
Restricted - Nonexpendable	5,443,904.63
Restricted - Expendable	14,844,915.66
Unrestricted	45,585,643.55
	<hr/>
Total Net Assets	\$ 196,287,446.61
	<hr/>

#### Analysis of Net Assets

Restricted nonexpendable net assets consist of endowment gifts with specific restrictions on spending the principal given and certain loan funds.

Restricted expendable net assets consist of income from endowment funds, gifts and pledges with specific restrictions, and grants from third party agencies with expenditure restrictions.



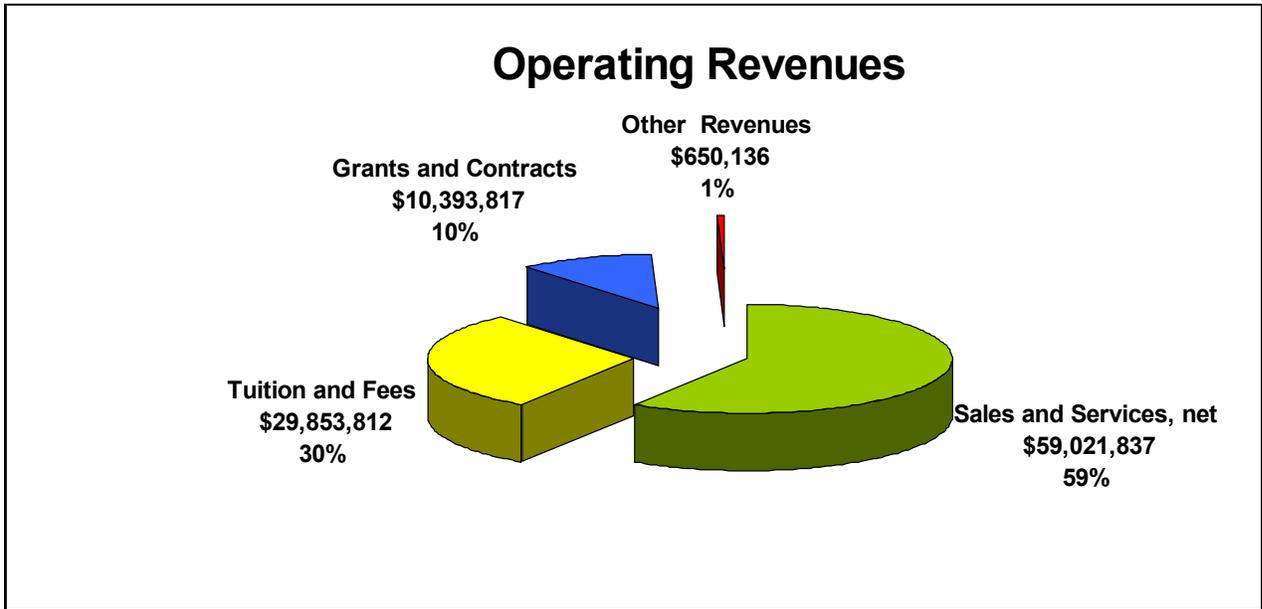
The Statement of Revenues, Expenses, and Changes in Net Assets depicts operating and nonoperating revenue and expense. Operating expenses included \$64.4 million (33.3%) for instruction, and depreciation of \$9.5 million. Note that State appropriations are considered nonoperating revenues.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

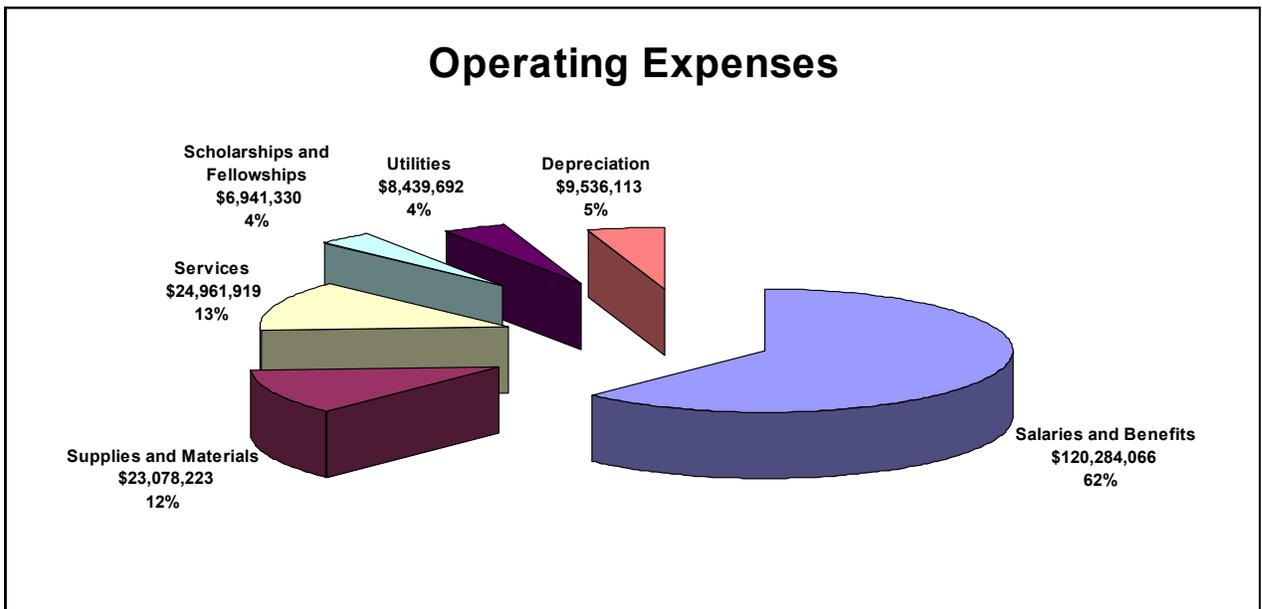
### Condensed Statement of Revenues, Expenses, and Changes in Net Assets

<b>Operating Revenues:</b>	
Tuition and Fees	\$ 29,853,811.53
Grants and Contracts	10,393,816.80
Sales and Services, Net	59,021,836.60
Other Operating Revenues	<u>650,136.04</u>
Total Operating Revenues	<u>99,919,600.97</u>
Total Operating Expenses	<u>193,241,343.90</u>
Operating Loss	<u>(93,321,742.93)</u>
<b>Nonoperating Revenues:</b>	
State Appropriations	81,877,819.00
Other Nonoperating Income	<u>8,155,349.64</u>
Net Nonoperating Revenues	<u>90,033,168.64</u>
Loss Before Other Revenues	(3,288,574.29)
Capital Grants	2,369,351.00
Capital Gifts, Net	<u>4,087,120.26</u>
Total Other Revenues	<u>6,456,471.26</u>
Total Increase in Net Assets	3,167,896.97
<b>Net Assets</b>	
Net Assets at Beginning of Year, as Restated	<u>193,119,549.64</u>
Net Assets at End of Year	<u>\$ 196,287,446.61</u>

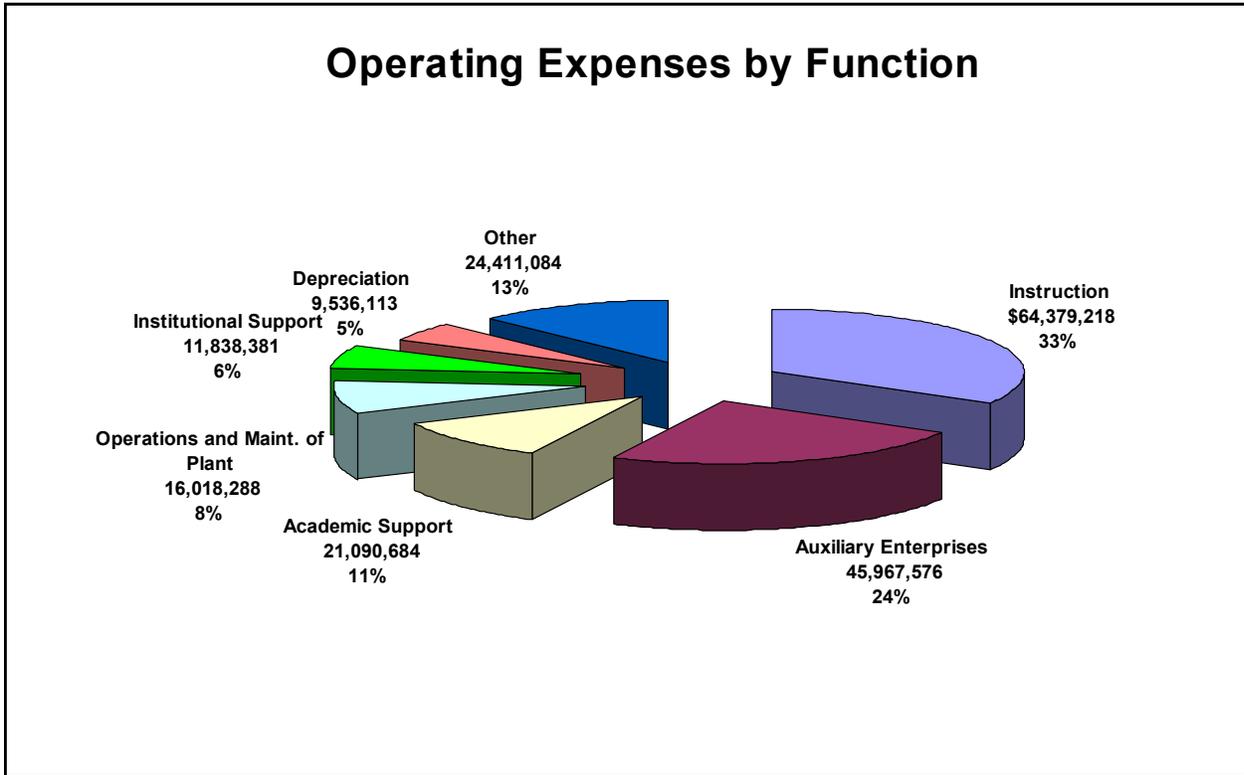
**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**



Operating expenses totaling \$193.2 million include salaries and benefits of \$120.3 million, supplies and materials of \$23.1 million, services of \$25.0 million, scholarships and fellowships of \$6.9 million, utilities of \$8.4 million, and depreciation of \$9.5 million. Interest expense is \$5.1 million.



**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**



The final Statement is the Statement of Cash Flows. The purpose of this Statement is to provide relevant information about the cash receipts and cash payments of the University during the period. The Statement of Cash Flows also helps users assess:

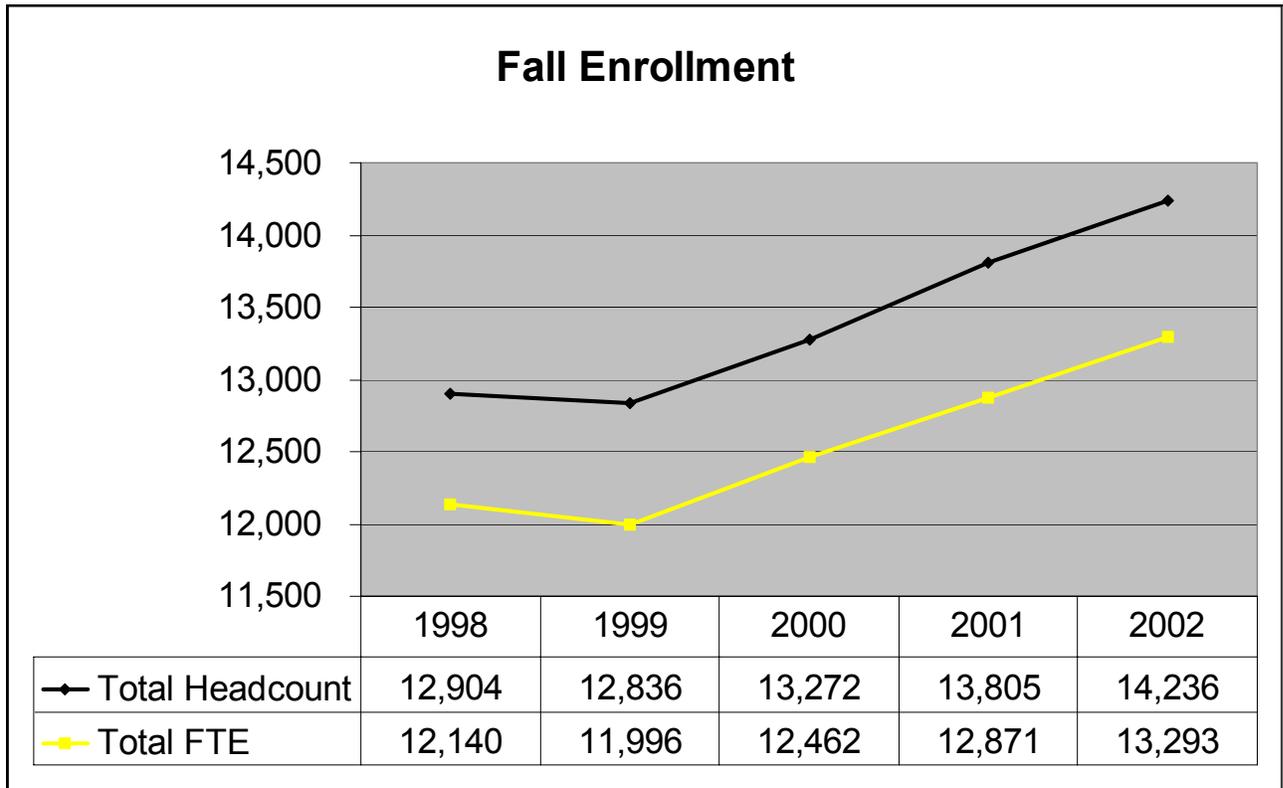
- The ability to generate future net cash flows,
- The ability to meet obligations as they come due, and
- Needs for external financing.

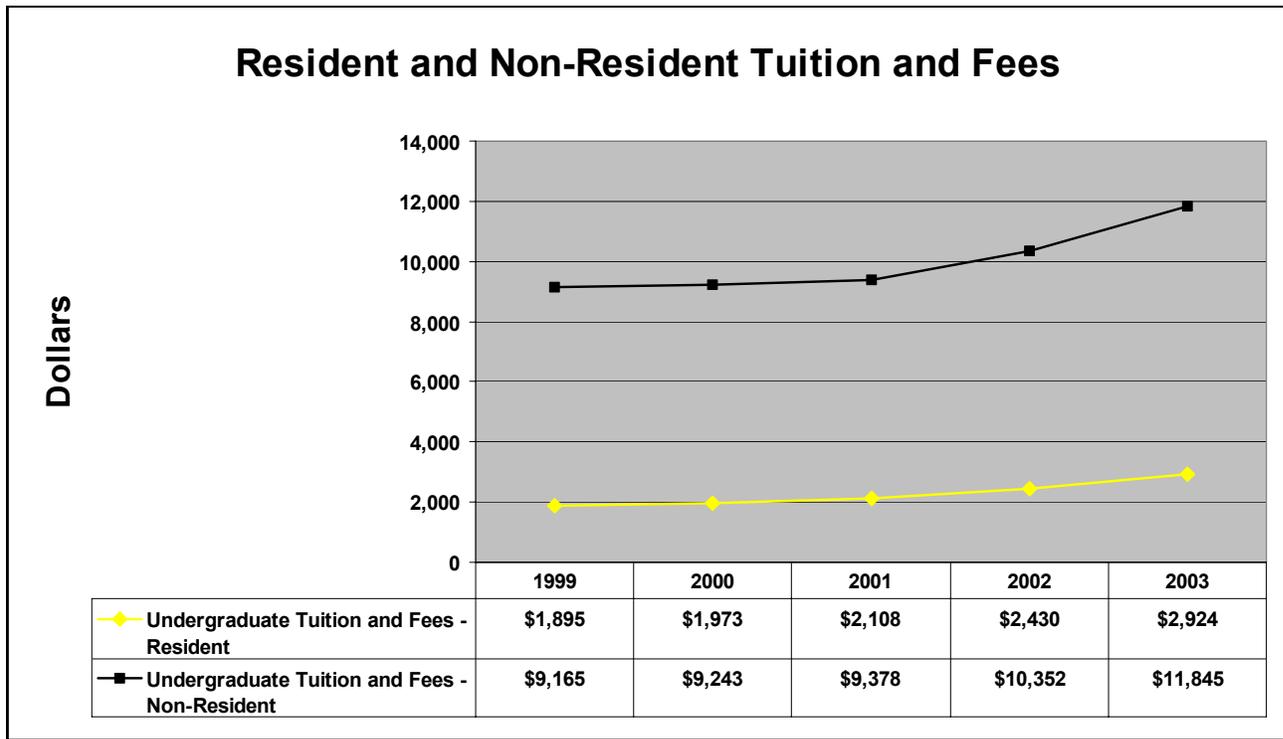
#### Condensed Statement of Cash Flows

Cash and Cash Equivalents Provided (Used) by:	
Operating Activities	\$ (83,356,151.65)
Noncapital Financing Activities	91,168,640.72
Capital and Related Financing Activities	(21,653,784.74)
Investing Activities	2,994,130.89
	<hr/>
Net Decrease in Cash and Cash Equivalents	(10,847,164.78)
Cash and Cash Equivalents – Beginning of the Year	74,319,909.85
	<hr/>
Cash and Cash Equivalents – End of the Year	<u>\$ 63,472,745.07</u>

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

Major sources of funds included in operating activities include sales and services, \$59.0 million, student tuition and fees, \$29.9 million, and grants and contracts of \$10.4 million. Major uses of funds were payments to employees of \$120.3 million, payments for services of \$25.0 million, and supply expenses of \$23.1 million. The largest inflow of cash in the noncapital financing activities group is the State appropriation of \$81.9 million.





**Economic Outlook**

Even though the economic environment has been difficult, the University still had a modest growth in net assets of \$3 million for the year. State appropriations were \$81.9 million during fiscal year 2002, compared to \$88.8 million (including capital grants of \$2.4 million) in fiscal year 2001. Despite the current economic conditions, the University will still provide excellent instruction and service to our students, although given the decrease in appropriations, this will be a formidable challenge. One initiative currently underway involves qualified administrators volunteering to teach classes.

**Capital Asset and Debt Administration**

Appalachian issued \$6.7 million in Revenue Bonds for our Bookstore renovation this year. We also issued \$13.2 million in Revenue Refunding Bonds for our Housing and Student Center System, including the defeasance of \$12.4 million of ASU Housing and Student Center System Revenue and Refunding Revenue Bonds, Series 1993. Annual debt service payments were \$2.7 million.

The University is involved in several construction, renovation, and property acquisition projects. The 1999-2000 Session of the General Assembly of North Carolina authorized the issuance of \$2.5 billion of general obligation bonds of the State, as subsequently approved by a vote of qualified voters of the State, to provide funds for capital improvements for the University of North Carolina System. The funds authorized are to be used solely for capital facilities cost on the University of North Carolina campuses as specified in the legislation.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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Appalachian State University will receive \$87.4 million of this bond issue for construction of new facilities, renovation of existing structures, and the purchase of additional buildings and land. Major projects related to the bond issue include the following:

- Library and Information Commons with a 300 space parking deck, cost \$45.2 million, expected completion in the year 2007
- Rankin Science Building comprehensive renovation and construction of new annex, cost \$15.7 million, expected completion in 2004
- Turchin Visual Arts Center/Education Outreach Renovation, total cost \$6.3 million, with \$4.2 million related to the bond issue, and \$2.1 million from other sources, expected completion in 2004
- Living & Learning Center academic building portion, cost \$3.8 million, expected completion in 2003

Other major capital projects (not funded through the University wide bond issue) to be completed in the near future include:

- Student Recreation Center, cost \$26 million, expected completion in 2005
- River Street Parking Deck with 750 available spaces, cost \$14.6 million, opened in 2002
- Living & Learning Center residence hall portion, cost \$13.2 million, expected completion in 2003
- Bookstore Renovation and Addition, cost \$6.7 million, expected completion in 2003
- Student Union Solarium, cost \$2.9 million, expected completion in 2003

These ambitious projects and others to come will enable Appalachian State University to meet the needs of its students and the community at large as Appalachian continues to forge into the future as a premier comprehensive educational institution.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

**Library & Information Commons**



**Library & Information Commons**



**Rankin Science**



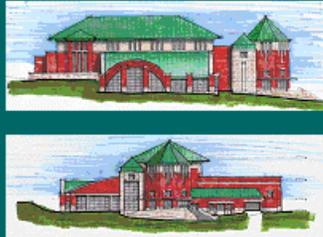
**Turchin Center**



**Living & Learning Center**



**Student Recreation Center**



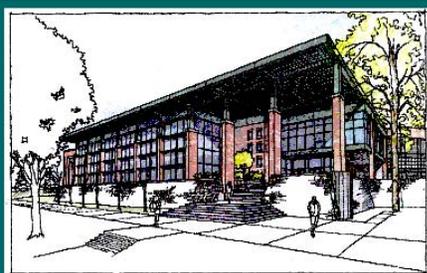
**Parking Deck**



**University Bookstore**



**Student Union Solarium**



***Appalachian State University***  
***Statement of Net Assets***  
***June 30, 2002***

***Exhibit A***

		<b><i>Exhibit A</i></b>
<b>ASSETS</b>		
Current Assets:		
Cash and Cash Equivalents	\$	33,379,138.04
Restricted Cash and Cash Equivalents		12,383,771.94
Receivables, Net (Note 5)		5,045,949.34
Due from Primary Government		35,994.30
Inventories		3,495,824.91
Notes Receivable, Net (Note 5)		618,319.35
<b>Total Current Assets</b>		<b>54,958,997.88</b>
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		17,709,835.09
Receivables, Net (Note 5)		918,182.12
Restricted Due from Primary Government		4,522,994.48
Endowment Investments		4,790,088.94
Other Long-Term Investments		14,760,195.31
Notes Receivable, Net (Note 5)		3,198,208.68
Capital Assets, Net (Note 6)		204,787,735.16
<b>Total Noncurrent Assets</b>		<b>250,687,239.78</b>
<b>Total Assets</b>		<b>305,646,237.66</b>
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts Payable and Accrued Liabilities (Note 7)		7,708,569.97
Deferred Revenue		4,884,428.06
Interest Payable		1,279,937.96
Long-Term Liabilities - Current Portion (Note 8)		3,912,610.40
<b>Total Current Liabilities</b>		<b>17,785,546.39</b>
Noncurrent Liabilities:		
Deposits Payable		487,271.17
Funds Held for Others		848,960.55
U. S. Government Grants Refundable		3,771,263.52
Long-Term Liabilities (Note 8)		86,465,749.42
<b>Total Noncurrent Liabilities</b>		<b>91,573,244.66</b>
<b>Total Liabilities</b>		<b>109,358,791.05</b>

***Appalachian State University***  
***Statement of Net Assets***  
***June 30, 2002***

***Exhibit A***  
***Page 2***

**NET ASSETS**

Invested in Capital Assets, Net of Related Debt	130,412,982.77
Restricted for:	
Nonexpendable:	
Research	18,003.94
Endowed Professorships	4,824,350.73
Loans	601,549.96
Expendable:	
Scholarships and Fellowships	92,184.91
Research	3,947.71
Departmental Uses	1,342,076.99
Capital Projects	9,246,591.04
Debt Service	3,929,146.74
Other	230,968.27
Unrestricted	45,585,643.55
<b>Total Net Assets</b>	<b>\$ 196,287,446.61</b>

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

***Appalachian State 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)	\$ 29,853,811.53
Federal Grants and Contracts	5,194,424.03
State and Local Grants and Contracts	4,986,535.66
Nongovernmental Grants and Contracts	212,857.11
Sales and Services, Net (Note 9)	59,021,836.60
Interest Earnings on Loans	47,122.08
Other Operating Revenues	603,013.96

Total Operating Revenues	99,919,600.97
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**EXPENSES**

Operating Expenses:

Salaries and Benefits	120,284,065.56
Supplies and Materials	23,078,222.95
Services	24,961,919.30
Scholarships and Fellowships	6,941,330.49
Utilities	8,439,692.32
Depreciation	9,536,113.28

Total Operating Expenses	193,241,343.90
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Operating Loss	(93,321,742.93)
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**NONOPERATING REVENUES (EXPENSES)**

State Appropriations	81,877,819.00
Noncapital Grants	5,107,240.80
Noncapital Gifts	4,902,493.06
Investment Income	3,020,788.76
Interest and Fees on Capital Asset-Related Debt	(5,060,528.15)
Other Nonoperating Revenues (Expenses)	185,355.17

Net Nonoperating Revenues	90,033,168.64
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Loss Before Other Revenues, Expenses, Gains, or Losses	(3,288,574.29)
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Capital Grants	2,369,351.00
Capital Gifts	4,087,120.26

Increase in Net Assets	3,167,896.97
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**NET ASSETS**

Net Assets - July 1, 2001, as Restated (Note 17)	193,119,549.64
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Net Assets - June 30, 2002	\$ 196,287,446.61
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The accompanying notes to the financial statements are an integral part of this statement.

***Appalachian State University***  
***Statement of Cash Flows***  
***For the Fiscal Year Ended June 30, 2002***

***Exhibit C***

**CASH FLOWS FROM OPERATING ACTIVITIES**

Received from Customers	\$	100,413,605.57
Payments to Employees and Fringe Benefits		(120,157,851.42)
Payments to Vendors and Suppliers		(57,181,379.97)
Payments for Scholarships and Fellowships		(6,941,330.49)
Loans Issued		(894,137.24)
Collection of Loans		745,329.34
Interest Earned on Loans		56,598.60
Other Receipts (Payments)		603,013.96
Net Cash Used by Operating Activities		(83,356,151.65)

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

State Appropriations		81,877,819.00
Grants for Other than Capital Purposes		4,860,441.75
Noncapital Gifts		4,257,581.75
Related Activity Agency Disbursements		(764,590.64)
Other Receipts (Payments)		937,388.86
Net Cash Provided by Noncapital Financing Activities		91,168,640.72

**CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES**

Proceeds from Capital Debt		19,920,000.00
Capital Grants		5,069,356.52
Capital Gifts		602,968.30
Proceeds from Sale of Capital Assets		16,030.14
Acquisition and Construction of Capital Assets		(27,006,920.30)
Principal Paid on Capital Debt and Leases		(15,125,623.56)
Interest and Fees Paid on Capital Debt and Leases		(4,213,261.72)
Payment to Bond Escrow Agent		(916,334.12)
Net Cash Used by Capital Financing and Related Financing Activities		(21,653,784.74)

**CASH FLOWS FROM INVESTING ACTIVITIES**

Interest on Investments		2,994,130.89
Net Cash Provided by Investing Activities		2,994,130.89

Net Decrease in Cash and Cash Equivalents		(10,847,164.78)
Cash and Cash Equivalents - July 1, 2001		74,319,909.85
Cash and Cash Equivalents - June 30, 2002	\$	63,472,745.07

***Appalachian State 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	\$ (93,321,742.93)
Adjustments to Reconcile Operating Loss to Net Cash Provided (Used) by Operating Activities:	
Depreciation Expense	9,536,113.28
Allowances, Write-Offs, and Amortizations	64,333.55
Changes in Assets and Liabilities:	
Receivables (Net)	(473,034.43)
Due from Primary Government	(35,994.30)
Inventories	380,209.07
Accounts Payable and Accrued Liabilities	(1,093,825.91)
Due to Primary Government	(77,043.48)
Deferred Revenue	2,665,131.39
Compensated Absences	215,329.06
Deposits Payable	(1,011,156.68)
Note Principle Repayments	689,666.97
Notes Issued	(894,137.24)
<b>Net Cash Used by Operating Activities</b>	<b>\$ (83,356,151.65)</b>

**RECONCILIATION OF CASH AND CASH EQUIVALENTS**

Current Assets:	
Cash and Cash Equivalents	\$ 33,379,138.04
Restricted Cash and Cash Equivalents	12,383,771.94
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	17,709,835.09
<b>Total Cash and Cash Equivalents - June 30, 2002</b>	<b>\$ 63,472,745.07</b>

**NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES**

Assets Acquired through a Gift	\$ 4,046,465.26
Change in Fair Value of Investments	228,916.82
Reinvested Distributions	334,957.48
Gain on Disposal of Capital Assets	25,013.73

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

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**APPALACHIAN STATE UNIVERSITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2002**

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES**

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

The accompanying financial statements present all funds belonging to the University. While the Board of Governors of the University of North Carolina System has ultimate responsibility, the Chancellor, the Board of Trustees, and the Board of Trustees of the Endowment Fund have delegated responsibilities for financial accountability of the University's funds. Related foundations and similar non-profit corporations for which the University is not financially accountable are not part of the accompanying financial statements. These entities are not included because they are separately incorporated and there are neither common directors nor other evidence of common control.

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

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

- D. Cash and Cash Equivalents** – This classification appears on the Statement of Net Assets and the Statement of Cash Flows and includes undeposited receipts, petty cash, cash on deposit with private bank accounts, 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 equity investments, mutual funds, money market funds, certificates of deposit, and other asset holdings by the University. Except for money market funds, certificates of deposit, and other asset holdings, investments are accounted for at fair value, as determined by quoted market prices, or an amount determined by management if quoted market prices are not available. The net increase (decrease) in the fair value of investments is recognized as a component of investment income.

Money market funds, certificates of deposit, 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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have been satisfied. Receivables are recorded net of estimated uncollectible amounts.

**G. Inventories** – Inventories, consisting of expendable supplies and merchandise for resale, are stated at the lower of cost or market value using the first-in, first-out method.

**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 and/or units of output 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.

The scientific 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 10 years.

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

Bonds payable are reported net of unamortized premiums or discounts and deferred losses on refundings. 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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

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

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

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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- N. Revenue and Expense Recognition** – The University presents its revenues and expenses as operating or nonoperating based on recognition definitions from GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*. Operating activities are those activities that are necessary and essential to the mission of the University. Operating revenues include all charges to customers, grants received for student financial assistance, research contracts and grants, and interest earned on loans. Grants received for student financial assistance are considered operating revenues because they provide resources for student charges and such programs are necessary and essential to the mission of the University. Revenues from nonexchange transactions and State appropriations that represent subsidies or gifts to the University, as well as investment income, are considered nonoperating since these are either capital or noncapital financing or investing activities. Operating expenses are all expense transactions incurred other than those related to capital or noncapital financing or investing activities. Revenues received for capital financing activities, as well as related expenses, are considered neither operating nor nonoperating activities and are presented after nonoperating activities on the accompanying Statement of Revenues, Expenses, and Changes in Net Assets.
- O. Internal Sales Activities** – Certain institutional auxiliary operations provide goods and services to University departments as well as to its customers. These institutional auxiliary operations include activities such as central stores, copy centers, motor pool, postal services, and telecommunications. In addition, the University has other miscellaneous sales and service units that operated either on a reimbursement or charge basis. All internal sales activities to University departments from auxiliary operations and sales and service units have been eliminated in the accompanying financial statements. These eliminations are recorded by removing the revenue and expense in the auxiliary operations and sales and service units and, if significant, allocating any residual balances to those departments receiving the goods and services during the year.

### NOTE 2 - 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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. Appalachian State University has applied for and received special responsibility status.

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

### NOTE 3 - DEPOSITS AND INVESTMENTS

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

Deposits include cash and cash equivalents and certificates of deposit totaling \$63,518,645.07. At year-end, cash on hand was \$206,227.01. The University's portion of the State Treasurer's Cash and Investment Pool was \$61,251,769.27. 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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State Treasurer was \$2,060,648.79 and the bank balance was \$2,019,260.25. Of the bank balance, \$463,103.68 was covered by federal depository insurance and \$1,556,156.77 was uninsured and uncollateralized.

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

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

- B. Investments** - The University is authorized by The University of North Carolina Board of Governors pursuant to General Statute 116-36.2 to invest its special funds 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 various funds may be pooled unless prohibited by statute or by terms of the gift or contract. The University utilizes investment

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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 percentage method. Under this method, each participating fund's investment balance is determined on the basis of percentage of original investment. The investment strategy, including the selection of investment managers, is based on the directives of the University's Endowment Board.

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

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

### *Long-Term Investment Pool*

	<u>Fair Value</u>
	<u>Total</u>
<b>Investments Not Categorized:</b>	
Money Market Funds	\$ 135,825.18
Mutual Funds	<u>12,496,266.97</u>
<b>Total Investments Not Categorized</b>	<u>\$ 12,632,092.15</u>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### *Non-Pooled Investments*

	Fair Value			Total
	Risk Category			
	1	2	3	
<b>Categorized Investments:</b>				
Corporate Stocks	\$ 0.00	\$ 0.00	\$ 49,445.38	\$ 49,445.38
<b>Investments Not Categorized:</b>				
Money Market Funds				3,393.50
Certificates of Deposit				45,900.00
Other Investments				6,819,453.22
<b>Total Investments Not Categorized</b>				6,868,746.72
<b>Total Non-Pooled Investments</b>				\$ 6,918,192.10

### *Total Investments*

	Fair Value			Total
	Risk Category			
	1	2	3	
<b>Total Categorized Investments</b>	\$ 0.00	\$ 0.00	\$ 49,445.38	\$ 49,445.38
<b>Total Investments Not Categorized</b>				19,500,838.87
<b>Total Investments</b>				\$ 19,550,284.25

Certificates of deposit reported as investments are also a component of the deposit totals reported in the deposits section of this note.

#### **NOTE 4 - ENDOWMENT INVESTMENTS**

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

Investment return of the University's endowment funds is predicated on the total return concept (yield plus appreciation). Annual payouts from the University's endowment funds are based on an adopted spending policy which limits spending to 5% of the endowment principal's market value if the accumulated income at the end of the previous fiscal year is equal to or greater than 5% of the principal market value. Increases are allowed if excess

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

accumulated income is available and approved by the Vice Chancellor for Academic Affairs. If current year earnings do not meet the payout requirements for the succeeding year, the payout is limited to accumulated income at the end of the previous year. Both realized and unrealized net capital losses in the principal accounts that invade the original corpus amounts are recovered from accumulated income before any spending budgets are calculated. At June 30, 2002, these investments had a net unrealized loss of \$527,732.47 and a net realized loss of \$487,608.73.

### NOTE 5 - RECEIVABLES

Receivables at June 30, 2002 were as follows:

	<u>Gross Receivables</u>	<u>Less Allowance for Doubtful Accounts</u>	<u>Net Receivables</u>
<b>Current Receivables:</b>			
Students	\$ 945,051.96	\$ 193,291.10	\$ 751,760.86
Accounts	3,027,524.46	53,003.64	2,974,520.82
Intergovernmental	842,681.12		842,681.12
Pledges	153,275.78		153,275.78
Investment Earnings	239,111.73		239,111.73
Interest on Loans	81,509.86		81,509.86
Other	3,089.17		3,089.17
	<u>\$ 5,292,244.08</u>	<u>\$ 246,294.74</u>	<u>\$ 5,045,949.34</u>
<b>Total Current Receivables</b>			
<b>Noncurrent Receivables:</b>			
Pledges	<u>\$ 918,182.12</u>	<u>\$ 0.00</u>	<u>\$ 918,182.12</u>
<b>Notes Receivable:</b>			
<b>Notes Receivable - Current:</b>			
Federal Loan Programs	\$ 616,612.35	\$ 0.00	\$ 616,612.35
Institutional Student Loan Programs	2,849.25	1,142.25	1,707.00
	<u>\$ 619,461.60</u>	<u>\$ 1,142.25</u>	<u>\$ 618,319.35</u>
<b>Total Notes Receivable - Current</b>			
<b>Notes Receivable - Noncurrent:</b>			
Federal Loan Programs	<u>\$ 3,427,429.29</u>	<u>\$ 229,220.61</u>	<u>\$ 3,198,208.68</u>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 6 - CAPITAL ASSETS

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

	Balance July 1, 2001	Adjustments	Increases	Decreases	Balance June 30, 2002
<b>Capital Assets, Non-Depreciable:</b>					
Land	\$ 6,586,627.52	\$ 0.00	\$ 512,164.18	\$ 0.00	\$ 7,098,791.70
Construction in Progress	14,226,261.93	(3,208,130.29)	25,295,814.48	45,513.11	36,268,433.01
<b>Total Capital Assets, Non-Depreciable</b>	<b>20,812,889.45</b>	<b>(3,208,130.29)</b>	<b>25,807,978.66</b>	<b>45,513.11</b>	<b>43,367,224.71</b>
<b>Capital Assets, Depreciable:</b>					
Buildings	219,098,324.43	2,123,704.90	3,970,851.64		225,192,880.97
Machinery and Equipment	31,883,610.40	109,811.45	1,820,933.01	740,327.89	33,074,026.97
Art, Literature, and Artifacts	799,539.02		459,938.36		1,259,477.38
General Infrastructure	25,282,860.20	974,613.94	69,509.62	61,542.95	26,265,440.81
<b>Total Capital Assets, Depreciable</b>	<b>277,064,334.05</b>	<b>3,208,130.29</b>	<b>6,321,232.63</b>	<b>801,870.84</b>	<b>285,791,826.13</b>
<b>Less Accumulated Depreciation:</b>					
Buildings	89,194,311.22		6,465,801.38		95,660,112.60
Machinery and Equipment	20,561,706.82		2,372,501.07	667,456.71	22,266,751.18
Art, Literature, and Artifacts	169,677.11		102,350.82		272,027.93
General Infrastructure	5,650,482.60		595,460.01	73,518.64	6,172,423.97
<b>Total Accumulated Depreciation</b>	<b>115,576,177.75</b>		<b>9,536,113.28</b>	<b>740,975.35</b>	<b>124,371,315.68</b>
<b>Total Capital Assets, Depreciable, Net</b>	<b>161,488,156.30</b>	<b>3,208,130.29</b>	<b>(3,214,880.65)</b>	<b>60,895.49</b>	<b>161,420,510.45</b>
<b>Capital Assets, Net</b>	<b>\$ 182,301,045.75</b>	<b>\$ 0.00</b>	<b>\$ 22,593,098.01</b>	<b>\$ 106,408.60</b>	<b>\$ 204,787,735.16</b>

### NOTE 7 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	<u>Amount</u>
Accounts Payable	\$ 4,812,718.27
Accrued Payroll	556,101.22
Contract Retainage	2,252,150.60
Intergovernmental Payables	25,322.52
Arbitrage Rebate Payable	62,277.36
<b>Total Accounts Payable and Accrued Liabilities</b>	<b>\$ 7,708,569.97</b>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 8 - LONG-TERM LIABILITIES

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

	Balance July 1, 2001	Additions	Reductions	Balance June 30, 2002	Current Portion
Notes, Bonds, and Capital Leases Payable					
Notes Payable	\$ 2,871,835.03	\$ 0.00	\$ 391,840.41	\$ 2,479,994.62	\$ 384,418.47
Bonds Payable	77,952,000.00	19,920,000.00	14,728,000.00	83,144,000.00	3,315,000.00
Capital Leases Payable	5,783.15		5,783.15		
Total Notes, Bonds, and Capital Leases	<u>80,829,618.18</u>	<u>19,920,000.00</u>	<u>15,125,623.56</u>	<u>85,623,994.62</u>	<u>3,699,418.47</u>
Compensated Absences	<u>4,539,036.14</u>	<u>3,730,440.57</u>	<u>3,515,111.51</u>	<u>4,754,365.20</u>	<u>213,191.93</u>
<b>Total Long-Term Liabilities</b>	<u><u>\$ 85,368,654.32</u></u>	<u><u>\$ 23,650,440.57</u></u>	<u><u>\$ 18,640,735.07</u></u>	<u><u>\$ 90,378,359.82</u></u>	<u><u>\$ 3,912,610.40</u></u>

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

Purpose	Financial Institution	Interest Rate/ Ranges	Final Maturity Date	Original Amount Of Issue	Principal Paid Through 6/30/2002	Principal Outstanding 6/30/2002
Electric Utility	BB & T	5.16%	05/31/2006	\$ 1,000,000.00	\$ 600,000.00	\$ 400,000.00
Visual Arts Center	Bank One	4.91%	08/01/2008	2,700,000.00	678,969.74	2,021,030.26
Pulmonary Stress Equipment	BB & T	6.43%	12/22/2001	39,725.00	39,725.00	
Computer Equipment	IBM	5.97%	01/01/2003	108,204.80	85,622.53	22,582.27
HLES Dell Computers	BB & T	6.31%	01/19/2005	52,407.42	16,025.33	36,382.09
Total Notes Payable				<u>\$ 3,900,337.22</u>	<u>\$ 1,420,342.60</u>	<u>\$ 2,479,994.62</u>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### C. 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 6/30/2002	Principal Outstanding 6/30/2002
<u>Housing and Student Center System</u>						
ASU Housing and Student Center	C	3.50%	07/01/2001	\$ 256,000.00	\$ 256,000.00	\$ 0.00
System Revenue Bonds	D	3-3.625%	07/01/2004	3,654,000.00	3,190,000.00	464,000.00
	I	5.5-5.8%	07/01/2007	1,760,000.00	1,120,000.00	640,000.00
	J	5.5-5.8%	07/01/2007	1,722,000.00	1,082,000.00	640,000.00
ASU Housing and Student Center System Revenue and Refunding Revenue Bonds	1993	5.533914%	07/15/2003	17,760,000.00	16,365,000.00	1,395,000.00
ASU Housing and Student Center System Revenue Bonds	2000	5.606974%	07/15/2025	13,225,000.00		13,225,000.00
ASU Housing and Student Center System Revenue Bonds	2001	5.228044%	07/15/2027	6,680,000.00		6,680,000.00
ASU Housing and Student Center System Revenue Refunding Bonds	2002	4.304976%	07/15/2015	13,240,000.00		13,240,000.00
<b>Total Housing and Student Center System</b>				<u>58,297,000.00</u>	<u>22,013,000.00</u>	<u>36,284,000.00</u>
<u>Student Union System</u>						
ASU Student Fee Revenue Refunding Bonds Student Union Building	1998	4.87263%	05/15/2012	8,050,000.00	1,775,000.00	6,275,000.00
<u>Utility System</u>						
ASU Utility System Revenue Bonds	1994	5.339066%	05/15/2004	28,940,000.00	27,685,000.00	1,255,000.00
ASU Utility System Revenue Refunding Bonds	1998	5.2885%	05/15/2024	27,535,000.00	460,000.00	27,075,000.00
<b>Total Utility System</b>				<u>56,475,000.00</u>	<u>28,145,000.00</u>	<u>28,330,000.00</u>
<u>The University of North Carolina System Pool Revenue Bonds</u>						
Stadium Debt Fee Loan	(A)	4.338475%	10/01/2005	875,000.00	340,000.00	535,000.00
Broyhill Inn	(B)	5.514747%	10/01/2015	1,590,000.00	70,000.00	1,520,000.00
<b>Total The University of North Carolina System Pool Revenue Bonds</b>				<u>2,465,000.00</u>	<u>410,000.00</u>	<u>2,055,000.00</u>
<u>Parking System</u>						
Parking System Revenue Bonds	2000	5.608336%	07/15/2025	10,200,000.00		10,200,000.00
<b>Total Bonds Payable (principal only)</b>				<u>\$ 135,487,000.00</u>	<u>\$ 52,343,000.00</u>	<u>\$ 83,144,000.00</u>

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

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

Fiscal Year	Annual Requirements			
	Bonds Payable		Notes Payable	
	Principal	Interest	Principal	Interest
2003	\$ 3,315,000.00	\$ 3,948,355.76	\$ 384,418.47	\$ 120,960.32
2004	3,365,000.00	3,901,026.75	374,897.46	102,287.28
2005	3,489,000.00	3,745,854.50	383,621.39	83,450.61
2006	3,505,000.00	3,598,843.00	387,396.23	64,609.51
2007	3,510,000.00	3,448,473.75	301,507.38	46,628.36
2008-2012	19,100,000.00	14,746,163.75	648,153.69	48,117.81
2013-2017	17,970,000.00	10,038,411.25		
2018-2022	16,100,000.00	5,822,068.14		
2023-2027	12,350,000.00	1,420,721.93		
2028-2032	440,000.00	11,275.00		
<b>Total Requirements</b>	<b>\$ 83,144,000.00</b>	<b>\$ 50,681,193.83</b>	<b>\$ 2,479,994.62</b>	<b>\$ 466,053.89</b>

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

**ASU Housing System:** On March 28, 2002 the University defeased \$12,365,000.00 of outstanding ASU Housing and Student Center System Revenue and Refunding Revenue Bonds, Series 1993 (original issue amount \$17,760,000.00). Securities were deposited into an irrevocable trust with an escrow agent to provide for all future debt service payments on the defeased bonds. The trust assets and the liability for the defeased bonds are not included in the University's Statement of Net Assets. As a result, the University reduced its debt service requirements by \$318,248.75 over the next 14 years and obtained an economic gain of \$232,891.86. At June 30, 2002 the outstanding balance of the defeased ASU Housing and Student Center System Revenue and Refunding Revenue Bonds was \$12,365,000.00.

**ASU Utility System:** In 1998, the University defeased \$25,050,000.00 of outstanding ASU Utilities System Revenue Bonds, Series 1994. An irrevocable trust was established with an escrow agent to provide for all future debt service payments on the defeased bonds. The trust assets and the liability for the defeased bonds are not included in the University's Statement of Net Assets. At June 30, 2002, the outstanding balance of the defeased ASU Utility System Revenue Bonds was \$25,050,000.00.

## 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	
<b>Operating Revenues:</b>						
<b>Student Tuition and Fees</b>	\$ 32,865,010.49	\$ 0.00	\$ 2,868,064.47	\$ 143,134.49	\$ 29,853,811.53	
<b>Sales and Services:</b>						
Sales and Services of Auxiliary Enterprises:						
Residential Life	\$ 12,296,839.04	\$ 0.00	\$ 955,818.13	\$ (9,720.44)	\$ 11,350,741.35	(A)
Dining	10,843,512.25	822,892.06	664,968.41	(4,904.59)	9,360,556.37	
Student Union Services	3,011,743.11			(3,886.21)	3,015,629.32	(B)
Health, Physical Education and Recreation Services	5,486,053.44		174,740.10	(6,060.26)	5,317,373.60	
Bookstore	5,337,139.46	334,719.88	127,330.84	(9,496.43)	4,884,585.17	(C)
Parking	1,295,578.42			(14,842.52)	1,310,420.94	(D)
Broyhill Inn Conference and Lodging	2,114,553.09	345,025.60			1,769,527.49	(E)
Camp Programs	2,049,960.27				2,049,960.27	
Steam Utility System	4,495,843.49	4,495,843.49				(F)
Athletic	5,422,288.26		338,978.72	(8,322.21)	5,091,631.75	
Stadium Turf Replacement-Debt Fee	177,803.90				177,803.90	(G)
Other	6,957,151.33	2,215,419.92	343,203.02	(1,534.06)	4,400,062.45	
Sales and Services of Educational and Related Activities	1,106,907.69	638,950.14	88,482.60		379,474.95	
Independent Operations	13,454,389.03	3,524,582.88		15,737.11	9,914,069.04	
<b>Total Sales and Services</b>	<u>\$ 74,049,762.78</u>	<u>\$ 12,377,433.97</u>	<u>\$ 2,693,521.82</u>	<u>\$ (43,029.61)</u>	<u>\$ 59,021,836.60</u>	
<b>Nonoperating - Noncapital gifts</b>	<u>\$ 4,902,493.06</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 4,902,493.06</u>	
<b>Capital Gifts</b>	<u>\$ 4,000,703.16</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 4,000,703.16</u>	

Revenue bonds secured by pledged revenues:

- (A) ASU Housing and Student Center System Bonds
- (B) ASU Student Union System Bonds  
    Student Union Building
- (C) ASU Housing and Student Center System Bonds  
    Bookstore
- (D) ASU Parking System Bonds
- (E) UNC Pooled Revenue Bonds-  
    Broyhill Inn and Conference Center
- (F) ASU Utility System Bonds
- (G) UNC Pooled Revenue Bonds-  
    Stadium Debt Fee

### 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	\$ 60,395,329.06	\$ 1,673,537.57	\$ 2,299,203.23	\$ 11,148.00	\$ 0.00	\$ 0.00	\$ 64,379,217.86
Research	325,296.14	68,073.19	176,395.81				569,765.14
Public Service	3,998,266.94	128,057.02	951,007.38	913,179.79	9,486.37		5,999,997.50
Academic Support	13,949,419.66	3,251,616.75	3,799,396.44	89,838.03	413.02		21,090,683.90
Student Services	4,254,897.68	120,577.18	562,987.73	38,060.00			4,976,522.59
Institutional Support	9,755,874.36	838,745.98	1,243,760.34				11,838,380.68
Operations and Maintenance of Plant	8,241,935.24	690,644.28	2,799,688.44		4,286,020.34		16,018,288.30
Student Financial Aid	44,299.10	389.88	64,200.98	4,936,293.80			5,045,183.76
Auxiliary Enterprises	18,561,622.13	10,133,042.80	12,176,327.47	952,810.87	4,143,772.59		45,967,575.86
Independent Operations	757,125.25	6,173,538.30	888,951.48				7,819,615.03
Depreciation						9,536,113.28	9,536,113.28
<b>Total Operating Expenses</b>	<u>\$ 120,284,065.56</u>	<u>\$ 23,078,222.95</u>	<u>\$ 24,961,919.30</u>	<u>\$ 6,941,330.49</u>	<u>\$ 8,439,692.32</u>	<u>\$ 9,536,113.28</u>	<u>\$ 193,241,343.90</u>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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### 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 \$101,844,080.81, of which \$51,021,538.90 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were \$3,061,292.33 and \$1,005,124.32, respectively. The University made one hundred percent of its annual required contributions for the years ended June 30, 2002, 2001, and 2000, which were \$1,005,124.32, \$2,657,589.88, and \$3,743,819.88, respectively.

The Teachers' and State Employees' Retirement System's financial information is included in the State of North Carolina *Comprehensive Annual Financial Report*. An electronic version of this report is available

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.state.nc.us/> and clicking on "Financial Reports", or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

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

Participant eligibility and contributory requirements are established by General Statute 135-5.1. Employer and member 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 \$101,844,080.81, of which \$36,531,376.08 was covered under the Optional Retirement Program. Total employee and employer contributions for pension benefits for the year were \$2,191,882.56 and \$2,498,746.12, 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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Employee Deferred Compensation Plan (the Plan). The Plan permits each participating employee to defer a portion of his or her salary until future years. The deferred compensation is available to employees upon separation from service, death, disability, retirement or financial hardships if approved by the Board of Trustees of the Plan. The Board, a part of the North Carolina Department of Administration, maintains a separate fund for the exclusive benefit of the participating employees and their beneficiaries, *the North Carolina Public Employee Deferred Compensation Trust Fund*. The Board also contracts with an external third party to perform certain administrative requirements and to manage the trust fund's assets. All costs of administering and funding the Plan are the responsibility of the Plan participants. No costs are incurred by the University. The voluntary contributions by employees amounted to \$47,210.67 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 \$63,593.60. The voluntary contributions by employees amounted to \$585,792.00 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 \$1,568,934.62 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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former employees include long-term disability beneficiaries of the Disability Income Plan of North Carolina and retirees of the Teachers' and State Employees' Retirement System or the Optional Retirement Program. These benefits were established by Chapter 135, Article 3, Part 3, of the General Statutes and may be amended only by the North Carolina General Assembly. Funding for the health care benefit for long-term disability beneficiaries and retirees is financed on a pay-as-you-go basis. The University contributed 2.35% of the covered payroll under the Teachers' and State Employees' Retirement System and the Optional Retirement Program for these health care benefits. For the fiscal year ended June 30, 2002, the University's total contribution to the Plan was \$2,057,493.50. 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 \$455,275.16. 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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

All State-owned vehicles are covered by liability insurance through a private insurance company and handled by the North Carolina Department of Insurance. The liability limits for losses occurring in State are \$500,000 per claim and \$5,000,000 per occurrence. 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. Health care coverage is provided to participants in international educational programs through the Preferred Health Plan for the University of North Carolina System for participants engaged in international educational activities. All exchange students and visitors are required to have medical insurance in effect for themselves and any accompanying spouse and dependants. The maximum coverage for sickness or injury is \$150,000 for the participant and \$50,000 for dependants with a basic medical deductible of \$100 per injury or sickness.

The University also purchased health care and life insurance for participants in the University camp programs with coverages of \$5,000 for accidental death and dismemberment and \$500 for sickness medical expense benefit. These plans are funded by individual contributions and the coverages were effected and placed by the North Carolina Department of Insurance through the State's agent of record.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

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

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

### 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 \$23,705,531.41 and on other purchases were \$2,115,918.56 at June 30, 2002.
- B. **Pending Litigation and Claims** – The University is a party to litigation and claims in the ordinary course of its operations. Since it is not possible to predict the ultimate outcome of these matters, no provision for any liability has been made in the financial statements. University management is of the opinion that the liability, if any, for any of these matters will not have a material adverse effect on the financial position of the University.
- C. **University Improvement General Obligation Bonds** – The 1999-2000 Session of the General Assembly of North Carolina authorized the issuance of two billion five hundred million dollars of general obligation bonds of the State, as subsequently approved by a vote of qualified voters of the State, to provide funds for capital improvements for the University of North Carolina. The funds authorized are to be used solely for capital

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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facilities cost on the University of North Carolina campuses as specified in the legislation. The bond legislation specifies the amount of bond funding for each University campus and the level of bond funding intended for each project. The bonds are authorized to be issued over a six-year period beginning in 2001 at a level not to exceed amounts provided in the legislation. Using a cash flow financing approach, The University of North Carolina – General Administration (UNC-GA), establishes annual amounts not to exceed for each approved project. The amounts not to exceed are subject to change due to actual cash availability and needs during the year. Subsequent to the bond sales and the availability of bond proceeds, UNC-GA notifies the Office of State Budget and Management (OSBM) of the amounts not to exceed for each approved project. Within these amounts, based on an official request of cash needs from the University, OSBM authorizes allotments. The University records the allotments as revenue on the accompanying financial statements. The University's remaining authorization \$82,336,843.48 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 - RELATED PARTIES

- A. Foundation** - There is one separately incorporated non-profit foundation associated with the University. This Foundation is the Appalachian State University Foundation, Inc.

The Appalachian State University Foundation, Inc. serves as the primary fundraising arm of the University through which individuals, corporations, and other organizations support University programs by providing scholarships, fellowships, faculty salary supplements, and unrestricted funds to specific colleges and the University's overall academic environment. The University's financial statements do not include the assets, liabilities, net assets, or operational transactions of the Foundation, except for support from the organization to the University. This support approximated \$9,521,696.00 for the year ended June 30, 2002.

- B. Non-profit Corporation** – The Appalachian Student Housing Corporation is a separately incorporated non-profit entity associated with the University.

The Appalachian Student Housing Corporation's purpose is to develop, finance, prepare, provide, and supervise residential housing facilities for

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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the students and faculty of Appalachian State University and provide financial resources which will enhance the University's ability to carry out its mission of providing post-secondary education to the general public. The University's financial statements do not include the assets, liabilities, net assets, or operational transactions of the corporation except for support from the organization to the University. There was no support provided 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 and obligations under leases. New disclosures include the major components of receivable and payable balances.

### 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	\$ 347,367,723.50
Implementation of GASB 34/35	<u>(154,248,173.86)</u>
July 1, 2001 Net Assets as Restated	<u>\$ 193,119,549.64</u>

## **NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)**

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### **NOTE 18 - SUBSEQUENT EVENTS**

On October 11, 2002, the University of North Carolina Board of Governors ratified the issuance of bonds for a system-wide tax-exempt bond financing. The University intends to borrow approximately \$5,000,000.00 through the financing.

**Appalachian State University  
Schedule of General Obligation Bond Project Authorizations,  
Budgets, and Expenditures  
For Project-to-Date as of June 30, 2002**

**Schedule 1**

<b>Capital Improvement Projects</b>	<b>Projected Start Date</b>	<b>General Obligation Bonds Authorized</b>	<b>Other Sources</b>	<b>Total Project Budget</b>	<b>Amount Expended</b>	<b>Percent Completed</b>	<b>Expected Completion Date</b>
<b>Projects Started</b>							
Central Library Complex	Mar 2003	\$ 45,207,460.00	\$ 0.00	\$ 45,207,460.00	\$ 1,089,928.85	2.41%	May 2007
Science Bldg. Complete Interior Labs/Academic	May 2002	1,197,000.00		1,197,000.00			Nov 2002
Rankin Science Building-Comprehensive Renovation	Jun 2003	10,599,150.00		10,599,150.00	256,423.14	2.42%	Dec 2004
Living Learning Center-Academic Portion	Oct 2001	3,821,660.00		3,821,660.00	367,115.96	9.61%	May 2003
Visual Arts Center/Education Outreach Renovation	Jan 2002	4,155,965.00	2,160,000.00	6,315,965.00	998,627.22	15.81%	Aug 2004
Walker Hall Classroom Building-Comprehensive Renovation	Jan 2003	1,647,110.00		1,647,110.00	40,000.00	2.43%	Jul 2005
B.B. Dougherty Hall-Comprehensive Renovation	Oct 2002	950,000.00		950,000.00	33,929.51	3.57%	Jun 2003
Water System Improvements	Sep 2003	2,722,890.00		2,722,890.00	14,852.00	0.55%	Jul 2004
Land Acquisition	Nov 2001	829,300.00		829,300.00	510,414.18	61.55%	Dec 2002
Technology Infrastructure Expansion	Sep 2001	4,596,955.00		4,596,955.00	560,375.78	12.19%	Jan 2007
Rankin Science Building-Addition	Sep 2001	5,056,500.00		5,056,500.00	1,443,171.33	28.54%	Jan 2003
Reserve for Effective Project Management	Aug 2001	4,076,020.00		4,076,020.00	55,588.31	1.36%	Dec 2007
<b>Projects Not Started - To Be Funded in Future Years</b>							
Smith-Wright Hall Classroom Building	Dec 2005	1,554,295.00		1,554,295.00			
Founders Hall-Comprehensive Renovation	Jan 2003	991,895.00		991,895.00			
<b>Total All Projects</b>		<b>\$ 87,406,200.00</b>	<b>\$ 2,160,000.00</b>	<b>\$ 89,566,200.00</b>	<b>\$ 5,370,426.28</b>		

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.

**Appalachian State University**  
**Intercollegiate Athletics Program**  
**Statement of Current Funds Revenues and Expenditures**  
**Year Ended June 30, 2002**

**Schedule 2**

	Football	Men's Basketball	Women's Basketball	Other Sports	Nonprogram Specific	Total
<b>Revenues:</b>						
Student Fees	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 3,769,574.20	\$ 3,769,574.20
Ticket Sales	432,471.04	61,850.66	3,222.94			497,544.64
Radio and TV Rights	29,459.78			8,351.39	261,423.07	299,234.24
Contest Guarantees	110,000.00	110,000.00	2,000.00	3,550.00	500.00	226,050.00
Other Sales and Services	4,622.00	12,193.07	1,708.33	46,791.85	457,052.24	522,367.49
Advertising Income					32,750.00	32,750.00
Concessions	5,907.00				65,347.67	71,254.67
Gifts - Unrestricted	61,936.39	8,382.67	8,571.06	78,722.57	891,340.09	1,048,952.78
Investment Income - Unrestricted					51,744.32	51,744.32
State Appropriations					11,154.70	11,154.70
Other Sources				35,985.38	27,971.97	63,957.35
<b>Total Revenues</b>	<b>644,396.21</b>	<b>192,426.40</b>	<b>15,502.33</b>	<b>173,401.19</b>	<b>5,568,858.26</b>	<b>6,594,584.39</b>
<b>Expenditures:</b>						
Coaches' Salaries	407,537.42	184,567.00	154,390.66	484,460.26	603,156.50	1,834,111.84
Other Salaries	61,799.19	27,821.55		41,650.42	397,845.85	529,117.01
Staff Benefits	66,745.16	30,272.64	27,398.71	105,359.66	189,378.75	419,154.92
Travel:						
Team	82,933.99	49,289.94	55,476.63	249,024.87	39,256.69	475,982.12
Recruiting	87,812.42	44,353.32	27,813.13	49,511.03	52,834.41	262,324.31
Financial Aid	668,691.76	136,744.82	142,785.73	691,718.28	37,627.88	1,677,568.47
Maintenance and General Administration	180,239.14	50,241.10	28,867.11	78,527.39	436,465.81	774,340.55
Supplies and Uniforms	183,334.76	34,585.25	22,762.35	157,889.05	151,371.73	549,943.14
Equipment Purchases	27,443.57	2,160.43	2,119.94	1,656.18	9,456.92	42,837.04
Insurance					68,121.99	68,121.99
Telephone	9,614.69	7,651.55	3,701.04	5,990.89	28,146.62	55,104.79
Entertainment	2,674.51			5,361.00	1,649.18	9,684.69
<b>Total Expenditures</b>	<b>1,778,826.61</b>	<b>567,687.60</b>	<b>465,315.30</b>	<b>1,871,149.03</b>	<b>2,015,312.33</b>	<b>6,698,290.87</b>
<b>Excess (Deficiency) of Revenues over Expenditures</b>	<b>\$ (1,134,430.40)</b>	<b>\$ (375,261.20)</b>	<b>\$ (449,812.97)</b>	<b>\$ (1,697,747.84)</b>	<b>\$ 3,553,545.93</b>	<b>\$ (103,706.48)</b>
The accompanying notes are an integral part of this statement.						

**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES**

- A. Organization and Purpose** – Appalachian State University is a constituent institution of The University of North Carolina System which is a component unit of the State of North Carolina and an integral part of the State’s *Comprehensive Annual Financial Report*. Appalachian State University is classified as a Division I institution by the National Collegiate Athletic Association (NCAA).
- B. Basis of Presentation** - The preceding Statement of Current Funds Revenues and Expenditures presents the University’s intercollegiate athletics program’s activity in accordance with the National Collegiate Athletic Association Financial Audit Guidelines. Those guidelines issued on May 2, 1996 require only a presentation of the current funds revenues and expenditures by major program and have not been updated for Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, as amended by GASB Statement No. 35, *Basic Financial Statements – and Management’s Discussion and Analysis – for Public Colleges and Universities* and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*. This presentation is not intended to provide a complete presentation of the Program’s financial position or its changes in fund balances.
- C. Revenue Recognition** – Current funds revenues include all gifts, grants, fees, sales receipts, and other resources earned and for which the resource provider condition(s) attached to those amounts were satisfied during the reporting period.
- D. Basis of Accounting** - The preceding Statement of Current Funds Revenues and Expenditures was prepared in accordance with the accrual basis of accounting, except that no depreciation expense is reflected.
- E. Nonmonetary Transactions** - The University reports goods and services received either by donation or in an exchange transaction at their fair value at the date of receipt. During the year, uniforms, athletic supplies and equipment, internet service, local cellular phone service, local television time, and cable TV service were provided to the University at

no charge. Leased automobiles were provided to athletics administrative and coaching staff by regional area automobile dealers, also at no charge. The leased vehicles were provided in exchange for free tickets and recognition as sponsors and/or advertising. Based on the value of the leased vehicles, revenue was recorded for the fair value as private gifts received and as transportation and personnel expenses.



Ralph Campbell, Jr.  
State Auditor

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Office of the State Auditor

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**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**

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Board of Trustees  
Appalachian State University  
Boone, North Carolina

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

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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  
October 30, 2002

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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.

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Governor of North Carolina  
Lieutenant Governor of North Carolina  
State Treasurer  
Attorney General  
State Budget Officer  
State Controller  
President, The University of North Carolina  
Chancellor, Appalachian State University  
Vice Chancellor for Business Affairs  
Appalachian State University  
Chairman, Board of Trustees  
Appalachian State University

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Representative Joe Hackney  
Mr. James D. Johnson

Majority Leader of the N.C. House of Representatives  
Majority Leader of the N.C. Senate  
Minority Leader of the N.C. Senate  
Minority Leader of the N.C. House of Representatives  
N. C. House Speaker Pro-Tem  
Director, Fiscal Research Division

January 8, 2003

## ORDERING INFORMATION

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Copies of this report may be obtained by contacting the:

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