



STATE OF NORTH CAROLINA

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

ASHEVILLE, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2003

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR

FINANCIAL STATEMENT AUDIT REPORT OF
THE UNIVERSITY OF NORTH CAROLINA AT ASHEVILLE
ASHEVILLE, NORTH CAROLINA
FOR THE YEAR ENDED JUNE 30, 2003

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Ralph Campbell, Jr.
State Auditor

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AUDITOR'S TRANSMITTAL

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

This report presents the results of our financial statement audit of The University of North Carolina at Asheville, a constituent institution of the sixteen-campus University of North Carolina System, which is a component unit of the State of North Carolina, for the year ended June 30, 2003. Our audit was made by authority of Article 5A of Chapter 147 of the *North Carolina General Statutes*.

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

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

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

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

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

AUDITOR'S TRANSMITTAL (CONCLUDED)

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

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

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



Ralph Campbell, Jr.
State Auditor

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying basic financial statements of The University of North Carolina at Asheville, a constituent institution of the sixteen-campus University of North Carolina System, which is a component unit of the State of North Carolina, as of and for the year ended June 30, 2003, as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The University of North Carolina at Asheville as of June 30, 2003, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 23, 2004, on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis (MD&A), as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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

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



Ralph Campbell, Jr.
State Auditor

March 23, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

Overview of the Financial Statement Information

The University of North Carolina at Asheville provides this overview and management discussion and analysis to assist in understanding the statements and notes presented herewith. These statements are prepared in accordance with the Governmental Accounting Standards Board (GASB) Statement No. 34, released in June 1999, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, which established a new reporting format for annual financial statements. In November 1999, GASB released Statement No. 35, *Basic Financial Statements – and Management's Discussions 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. Comparative information for the prior fiscal year is also presented in the condensed financial statements.

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

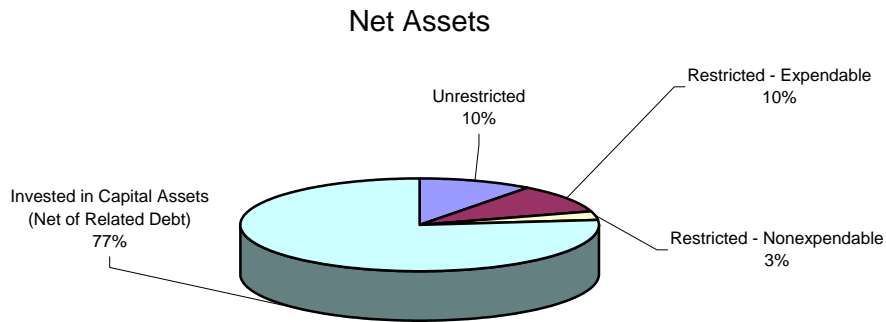
Condensed Statement of Net Assets

	2003 Fiscal Year	2002 Fiscal Year
Current Assets	\$ 16,588,805.21	\$ 12,442,715.69
Capital Assets	86,743,688.51	74,343,279.58
Other Noncurrent Assets	7,416,640.35	7,406,703.24
	110,749,134.07	94,192,698.51
Total Assets		
Current Liabilities	5,575,797.67	4,176,527.39
Noncurrent Liabilities	32,453,739.11	21,232,023.11
	38,029,536.78	25,408,550.50
Total Liabilities		
Invested in Capital Assets, Net of Related Debt	55,851,509.65	54,613,279.58
Restricted - Nonexpendable	2,214,014.83	2,035,920.00
Restricted - Expendable	7,273,192.07	5,719,325.76
Unrestricted	7,380,880.74	6,415,622.67
	\$ 72,719,597.29	\$ 68,784,148.01
Total Net Assets		

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Restricted nonexpendable net assets are loans and principal portions of endowed gifts that cannot be spent. Restricted expendable net assets are income from endowed funds, grants from others, and gifts with specific restrictions on spending.

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



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

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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

	2003 Fiscal Year	2002 Fiscal Year
Tuition and Fees	\$ 10,758,511.30	\$ 6,289,732.91
Grants and Contracts	3,588,267.96	3,454,570.93
Sales and Services	6,966,410.31	9,170,299.34
Other Operating Revenues	324,716.21	328,319.98
Total Operating Revenues	21,637,905.78	19,242,923.16
Total Operating Expenses	50,210,635.23	48,846,223.81
Operating Loss	(28,572,729.45)	(29,603,300.65)
State Appropriations	22,870,179.85	24,213,142.45
Noncapital Gifts	1,503,988.51	1,196,622.83
Interest and Fees on Capital Asset-Related Debt	(1,850,397.35)	(998,228.77)
Other Nonoperating Revenues (Expenses)	764,478.45	(291,598.11)
Total Nonoperating Revenues	23,288,249.46	24,119,938.40
Capital Grants	6,370,761.15	2,592,237.70
Capital Gifts	2,848,928.12	783,106.78
Additions to Permanent Endowments	240.00	290.00
Increase (Decrease) in Net Assets	3,935,449.28	(2,107,727.77)
Net Assets, Beginning of Year, as Restated	68,784,148.01	70,891,875.78
Net Assets, End of Year	\$ 72,719,597.29	\$ 68,784,148.01

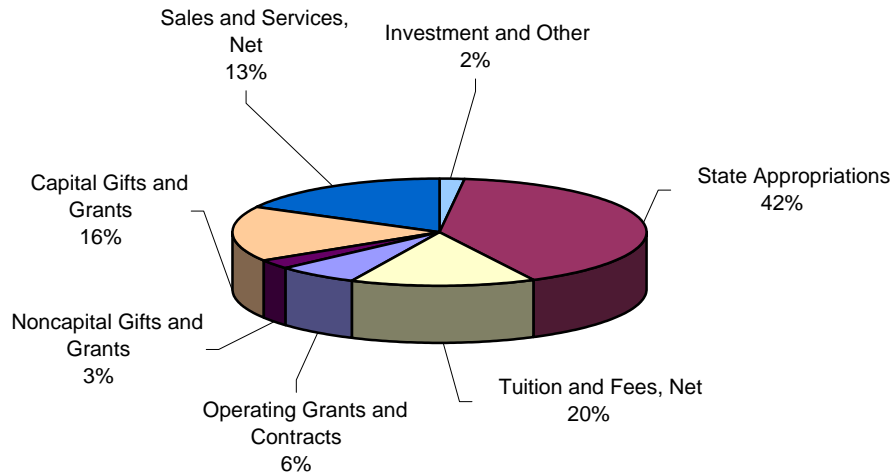
The increase in net assets is partially due to bond funds of \$2,606,767.81 reimbursing amounts spent for construction of the new residence hall in the prior fiscal year.

The capital grants represent the portion of the Statewide bond proceeds used by UNCA in the 2003 fiscal year. The 1999-2000 Session of the General Assembly of North Carolina authorized these bonds and UNCA will continue to receive grants for capital projects for several more years. For additional information on these Statewide bonds, see Note 14 C.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

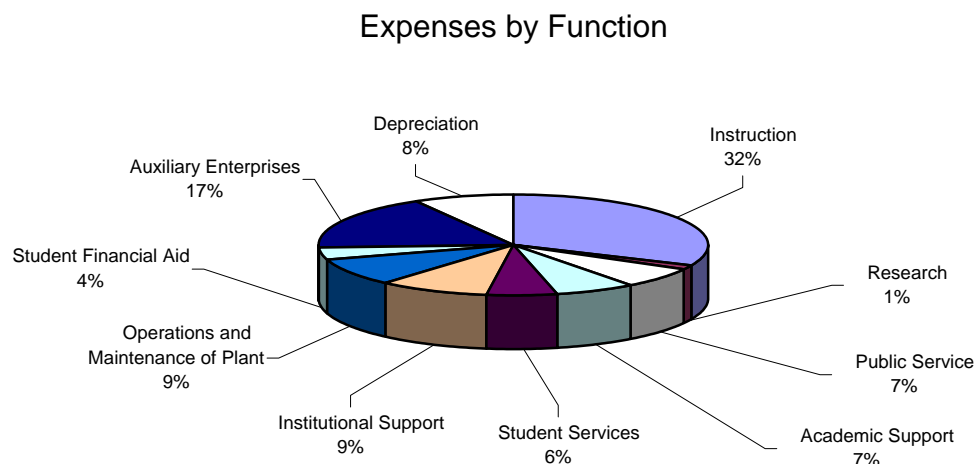
Total Revenues by Source



State appropriations continue to decrease as a percentage of revenues. As an example, the 2002-03 appropriation is comparable to the 1997-98 appropriation, when UNCA had about 300 fewer students. In addition to the decrease in regular appropriations, no repair and renovation funds were received from the State during this fiscal year. Although UNCA was able to maintain the high quality educational standards expected, many maintenance and equipment replacement purchases have been deferred. This will strain future years funding as well. UNCA limited travel, held vacated positions open for 90 days (to generate savings in salary expense), and limited other expenses to manage the reduction in funding. Fortunately, no positions have been cut due to lack of funding.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

The expenses by function are shown in the graph below.



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

Condensed Statement of Cash Flows

	2003 Fiscal Year	2002 Fiscal Year
Cash Provided (Used) by:		
Operating Activities	\$ (24,397,218.14)	\$ (24,898,852.85)
Noncapital Financing Activities	24,593,622.27	25,680,736.27
Capital Financing Activities	1,178,429.75	(6,162,630.80)
Investing Activities	826,822.98	981,261.31
Net Increase (Decrease) in Cash	2,201,656.86	(4,399,486.07)
Cash - Beginning of the Year	12,802,732.76	17,202,218.83
Cash - End of the Year	<u>\$ 15,004,389.62</u>	<u>\$ 12,802,732.76</u>

Cash flows from operating activities include receipts from sales and services, tuition and fees, and other operating revenues and disbursements such as salaries, payments for supplies and services and other operating expenses. State appropriations received are shown in the noncapital financing activities as a source of cash, and remain the largest inflow of cash on the Statement. Other noncapital financing activities include noncapital gifts, nonoperating grants, and receipts and disbursements in funds held for others. Capital financing activities include receipts and disbursements related to building projects and related financing. The

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

large outflow in this category for 2002 was replaced by an inflow of cash for 2003 because of the bonds issued in September 2002 to fund the new residence hall construction.

Debt Administration and Capital Assets

UNCA has several capital projects underway. Projects are funded through State appropriations, Statewide bonds issued (considered capital grants for Statement presentation), donor gifts and self-funded by UNCA. The renovation of the former Highsmith Center (the campus student center) continues and plans call for completion next year. The new 185-bed residence hall (Governor's Hall) is complete and was occupied for the 2004 fall semester. The Reuter Center was completed in 2003 and has proven a very useful facility. Other projects include upgrades to residence hall sprinkler systems, upgrades to electrical distribution systems, replacing or improving campus roads and parking areas, and expanding the technology infrastructure. Also in the planning stages are renovations and new buildings for additional classroom space, a new facilities management building, new facilities at the North Carolina Arboretum, and an update for the campus master plan.

The University had \$32,517,368.86 in outstanding debt at June 30, 2003, after issuing \$18,900,000 in debt in September of 2002 with a premium of \$721,019.65. These funds were used to build a new residence hall, the first phase of replacing the Governor's Village Dorms, and to refund in advance of their maturity the portion of the 1993 Bonds maturing on or after June 1, 2004. The net economic gain resulting from this defeasance was \$455,180.98 and the University reduced its debt service requirements by \$581,108.40 over 16 years.

UNCA's general obligation bond rating was established at Aaa by Moody's Investor Service (Ambac Insured) for the bonds issued above. This increase in the troubled economic times, evidences the financial strength of this Institution. More detailed information about UNCA's debt obligations is provided in Note 7 of the Notes to the Financial Statements.

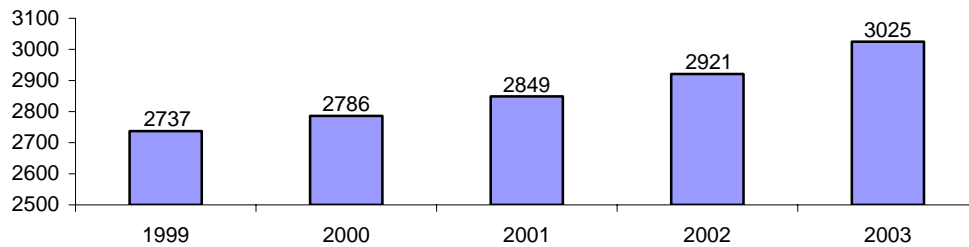
The capital assets, net of accumulated depreciation, at June 30, 2003 were \$86,743,688.51. For more detailed information about asset holdings, see Note 5 of the Notes to the Financial Statements.

Economic Outlook

The financial condition of the University is expected to remain sound in the foreseeable future, even if the sluggishness of the North Carolina economy persists. This expectation is based in part on the fact that demand for the University's educational product has remained strong and steady during the economic fluctuations of recent years. The following table compares fall semester enrollment of full-time equivalent (FTE) students for recent years, illustrating through this period a stable pattern of moderate growth, consistent with University goals:

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

Fall Semester FTE Enrollment



It is common for public institutions of higher learning to experience an increase in demand for enrollment during periods of general economic downturn. As the above comparison shows, the University has experienced such an increase through the period of recessionary conditions prevailing at the outset of the fall semesters in 2002 and 2003.

The expectation that the University's financial condition will remain sound is also grounded in North Carolina's history of support for higher education. The State has historically placed a high priority on funding the University system, even through periods of serious economic adversity.

Another reason for confidence regarding the University's financial future is that, in the midst of the difficult fiscal year that ended June 30, 2003, the North Carolina General Assembly appropriated \$500,000 in new, special funding for the campus. This amount is now incorporated into the University's budget as a recurring item.

The University of North Carolina at Asheville
Statement of Net Assets
June 30, 2003

Exhibit A

ASSETS

Current Assets:

Cash and Cash Equivalents	\$	9,645,611.64
Restricted Cash and Cash Equivalents		4,951,664.25
Restricted Short-Term Investments		71,016.00
Receivables, Net (Note 4)		1,273,259.60
Inventories		347,862.97
Notes Receivable, Net (Note 4)		299,390.75

Total Current Assets 16,588,805.21

Noncurrent Assets:

Restricted Cash and Cash Equivalents		407,113.73
Restricted Due from Primary Government		1,605,454.82
Endowment Investments		4,531,116.38
Notes Receivable, Net (Note 4)		872,955.42
Capital Assets - Nondepreciable (Note 5)		23,136,257.70
Capital Assets - Depreciable, Net (Note 5)		63,607,430.81

Total Noncurrent Assets 94,160,328.86

Total Assets 110,749,134.07

LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 6)		2,824,074.17
Due to Primary Government		28,485.46
Deferred Revenue		980,232.84
Interest Payable		114,856.46
Long-Term Liabilities - Current Portion (Note 7)		1,628,148.74

Total Current Liabilities 5,575,797.67

Noncurrent Liabilities:

Deposits Payable		183,980.89
Funds Held for Others		288,002.58
U. S. Government Grants Refundable		1,092,535.52
Long-Term Liabilities (Note 7)		30,889,220.12

Total Noncurrent Liabilities 32,453,739.11

Total Liabilities 38,029,536.78

The University of North Carolina at Asheville
Statement of Net Assets
June 30, 2003

Exhibit A

Page 2

NET ASSETS

Invested in Capital Assets, Net of Related Debt	55,851,509.65
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	533,660.00
Endowed Professorships	1,502,500.00
Loans	177,854.83
Expendable:	
Scholarships and Fellowships	1,225,755.83
Research	107,871.95
Departmental Uses	1,119,264.70
Capital Projects	3,443,458.34
Debt Service	1,359,873.52
Other	16,967.73
Unrestricted	7,380,880.74
Total Net Assets	\$ 72,719,597.29

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

***The University of North Carolina at Asheville
Statement of Revenues, Expenses, and
Changes in Net Assets
For the Fiscal Year Ended June 30, 2003***

Exhibit B

REVENUES

Operating Revenues:

Student Tuition and Fees, Net (Note 9)	\$	10,758,511.30
Federal Grants and Contracts		2,533,259.56
State and Local Grants and Contracts		605,806.38
Nongovernmental Grants and Contracts		449,202.02
Sales and Services, Net (Note 9)		6,966,410.31
Interest Earnings on Loans		5,108.23
Other Operating Revenues		319,607.98
Total Operating Revenues		21,637,905.78

EXPENSES

Operating Expenses:

Salaries and Benefits		31,232,272.89
Supplies and Materials		4,967,627.68
Services		6,379,079.66
Scholarships and Fellowships		1,981,118.97
Utilities		1,457,974.20
Depreciation		4,192,561.83
Total Operating Expenses		50,210,635.23

Operating Loss **(28,572,729.45)**

NONOPERATING REVENUES (EXPENSES)

State Appropriations		22,870,179.85
Noncapital Grants		154,383.95
Noncapital Gifts, Net (Note 9)		1,503,988.51
Investment Income (Net of Investment Expense of \$11,216)		708,898.27
Interest and Fees on Capital Asset-Related Debt		(1,850,397.35)
Other Nonoperating Expenses		(98,803.77)

Net Nonoperating Revenues **23,288,249.46**

Loss Before Other Revenues, Expenses, Gains, or Losses **(5,284,479.99)**

Capital Grants		6,370,761.15
Capital Gifts, Net (Note 9)		2,848,928.12
Additions to Endowments		240.00

Increase in Net Assets **3,935,449.28**

NET ASSETS

Net Assets - July 1, 2002		68,784,148.01
Net Assets - June 30, 2003	\$	72,719,597.29

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

The University of North Carolina at Asheville
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2003

Exhibit C

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 21,660,310.03
Payments to Employees and Fringe Benefits	(30,821,455.52)
Payments to Vendors and Suppliers	(12,969,301.09)
Payments for Scholarships and Fellowships	(1,981,118.97)
Loans Issued	(640,022.00)
Collection of Loans	290,667.31
Interest Earned on Loans	5,571.21
Student Deposits Received	125,525.89
Student Deposits Returned	(67,395.00)
Net Cash Used by Operating Activities	(24,397,218.14)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Appropriations	22,870,179.85
Grants for Other than Capital Purposes	154,383.95
Noncapital Gifts	1,502,553.37
Additions to Permanent and Term Endowments	240.00
William D. Ford Direct Lending Receipts	6,575,504.00
William D. Ford Direct Lending Disbursements	(6,575,504.00)
Related Activity Agency Receipts	66,265.10
Net Cash Provided by Noncapital Financing Activities	24,593,622.27

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Proceeds from Capital Debt	19,621,019.65
Capital Grants	5,037,320.18
Capital Gifts	2,648,202.20
Proceeds from Sale of Capital Assets	5,293.75
Acquisition and Construction of Capital Assets	(15,914,888.43)
Principal Paid on Capital Debt and Leases	(8,430,000.00)
Interest and Fees Paid on Capital Debt and Leases	(1,788,517.60)
Net Cash Provided by Capital Financing and Related Financing Activities	1,178,429.75

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from Sales and Maturities of Investments	143,590.76
Interest on Investments	786,559.07
Purchase of Investments and Related Fees	(103,326.85)
Net Cash Provided by Investing Activities	826,822.98

Net Increase in Cash and Cash Equivalents	2,201,656.86
Cash and Cash Equivalents - July 1, 2002	12,802,732.76
Cash and Cash Equivalents - June 30, 2003	\$ 15,004,389.62

The University of North Carolina at Asheville
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2003

Exhibit C

Page 2

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

Operating Loss	\$ (28,572,729.45)
Adjustments to Reconcile Operating Loss to Net Cash Provided (Used) by Operating Activities:	
Depreciation Expense	4,192,561.83
Allowances, Write-Offs, and Amortizations	(1,774.76)
Changes in Assets and Liabilities:	
Receivables (Net)	(281,111.36)
Inventories	(25,039.59)
Accounts Payable and Accrued Liabilities	(140,537.13)
Due to Primary Government	(7,706.61)
US Government Grants refundable	45,763.42
Deferred Revenue	278,086.32
Compensated Absences	406,493.00
Deposits Payable	58,130.89
Note Principal Repayments	290,667.31
Notes Issued	(640,022.00)
Net Cash Used by Operating Activities	<u>\$ (24,397,218.13)</u>

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	\$ 9,645,611.64
Restricted Cash and Cash Equivalents	4,951,664.25
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	407,113.73
Total Cash and Cash Equivalents - June 30, 2003	<u>\$ 15,004,389.62</u>

NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES

Assets Acquired through a Gift	\$ 42,500.00
Change in Fair Value of Investments	(156,549.77)
Loss on Disposal of Capital Assets	(102,734.40)

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

THE UNIVERSITY OF NORTH CAROLINA AT ASHEVILLE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

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

The accompanying financial statements present all funds belonging to the University. While the Board of Governors of the University of North Carolina System has ultimate responsibility, the Chancellor, the Board of Trustees, and the Board of Trustees of the Endowment Fund have delegated responsibilities for financial accountability of the University's funds. Related foundations and similar nonprofit 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*, 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)

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.

- 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.

Nonexchange transactions, in which the University receives (or gives) value without directly giving (or receiving) equal value in exchange includes State appropriations, certain grants, and donations. Revenues are recognized, net of estimated uncollectible amounts, as soon as all eligibility requirements imposed by the provider have been met, if probable of collection.

- D. Cash and Cash Equivalents** – This classification includes petty cash, cash on deposit with private bank accounts, cash on deposit with fiscal agents, and short-term investments with the State Treasurer’s Cash and Investment Pool (a governmental external investment pool). The short-term investment portfolio maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.
- E. Investments** - This classification includes mutual funds and money market funds. Investments are accounted for at fair value, as determined by quoted market prices. The net increase (decrease) in the fair value of investments is recognized as a component of investment income. Money market funds are reported at cost.
- 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. Receivables are recorded net of estimated uncollectible amounts.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

G. Inventories – Inventories, consisting of expendable supplies and merchandise for resale, are valued using the moving weighted average cost for central stores and the last invoice cost for other inventories.

H. Capital Assets – Capital assets are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. The value of assets constructed includes all material direct and indirect construction costs. Interest costs incurred are capitalized during the period of construction.

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 generally not considered to have a useful life of more than one year unless part of a collection and are expensed in the year of acquisition.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 10 to 20 years for general infrastructure, 20 to 30 years for buildings, and 3 to 5 years for equipment.

The University does not capitalize general collections available for use in the Ramsey Library or in other campus locations. The University maintains these collections for public exhibition, education or research; protects, keeps unencumbered, cares for and preserves; and requires proceeds from their sale to be used to acquire other collection items. Accounting principles generally accepted in the United States of America permit collections maintained in this manner to be charged to operations at time of purchase rather than be capitalized. Some special items are capitalized as shown below.

The *colonial forge* artwork was capitalized at fair value at the date of donation. This piece of art is depreciated over the useful life using the straight-line method. The estimated useful life for this artwork is 10 years.

The *Bonsai* collection and the *Laiberte* tapestry were capitalized at fair value and the date of donation. These items are considered inexhaustible and therefore are not depreciated.

I. Restricted Assets – Unexpended proceeds of revenue bonds and unexpended capital contributions are classified as restricted assets because their use is limited by applicable bond covenants or donor/grantor agreements. Certain other assets are classified as restricted because their use is limited by external parties or statute.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- J. Noncurrent Long-Term Liabilities** – Noncurrent long-term liabilities include principal amounts of bonds payable and compensated absences that will not be paid within the next fiscal year.

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

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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. For projects funded by tax-exempt debt proceeds and other sources, the debt proceeds are always used first.

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting.

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

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

NOTE 2 - DEPOSITS AND INVESTMENTS

- A. Deposits** – Unless specifically exempt, the University is required by General Statute 147-77 to deposit moneys received with the State Treasurer or with a depository institution in the name of the State Treasurer. In addition, the University of North Carolina Board of Governors, pursuant to General Statute 116-36.1, requires the University to deposit its institutional trust funds with the State Treasurer. Although specifically exempted, the University may voluntarily deposit endowment funds, special funds, revenue bond proceeds, and debt service funds with the State Treasurer. 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 \$15,004,389.62. At year-end, cash on hand was \$10,460.00. The University's portion of the State Treasurer's Investment Pool was \$14,940,545.31. 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

name. The carrying amount of the University's deposits not with the State Treasurer was \$53,384.31 and the bank balance was \$109,683.15. Of the bank balance, \$105,967.75 was covered by federal depository insurance and \$3,638.29 was held by a State agent in the State's name, \$77.11 was on deposit with a bank in England with 90% of the balance covered by the United Kingdom Protection Board.

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

The financial statements and disclosures for the State Treasurer's 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 and Chapter VI of the Administrative Manual of the University of North Carolina, to invest its special funds and funds received for services rendered by health care professionals in the same manner as the State Treasurer is required to invest, as 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 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 unitized method. Under this method, each participating fund's investment balance is determined on the basis of the number of units purchased multiplied by the current unit market value. The investment strategy, including the selection of investment managers, is based on the directives of the University's Endowment Board.

Credit Risk Categories - The University's investments are categorized 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.

Money market funds and mutual funds are investments not categorized to indicate the level of custodial credit risk. A summary of the University's investments at June 30, 2003 is presented below:

Long-Term Investment Pool

	Fair Value Total
Investments Not Categorized:	
Money Market Funds	\$ 71,016.00
Mutual Funds	4,531,116.38
	<hr/>
Total Investments	\$ 4,602,132.38
	<hr/> <hr/>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 3 - ENDOWMENT INVESTMENTS

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

Investment return of the University's endowment funds is predicated on the total return concept (yield plus appreciation). Annual payouts from the University's endowment funds are based on an adopted spending policy, which currently limits spending to a percentage of the endowment principal's three-year trailing market value (5% for 2003, fiscal year changing to 4% for the 2004 fiscal year). Under this policy, the spending level is agreed upon prior to the beginning of the University's fiscal year and is maintained at that level unless altered by Board action. To the extent that the total return for the current year exceeds the payout, the excess is added to principal. If current year earnings do not meet the payout requirements, the University uses accumulated appreciation in expendable net asset endowment balances to make up the difference. At June 30, 2003, net appreciation of \$1,335,619.21 was available to be spent, of which \$1,181,171.93 was restricted to specific purposes.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2003 were as follows:

	<u>Gross Receivables</u>	<u>Less Allowance for Doubtful Accounts</u>	<u>Net Receivables</u>
Current Receivables:			
Students	\$ 307,249.55	\$ 6,144.99	\$ 301,104.56
Accounts	553,088.14		553,088.14
Intergovernmental	313,668.70		313,668.70
Investment Earnings	41,956.49		41,956.49
Interest on Loans	34,570.86		34,570.86
Other	28,870.85		28,870.85
Total Current Receivables	<u>\$ 1,279,404.59</u>	<u>\$ 6,144.99</u>	<u>\$ 1,273,259.60</u>
Notes Receivable:			
Notes Receivable - Current:			
Federal Loan Programs	<u>\$ 328,307.00</u>	<u>\$ 28,916.25</u>	<u>\$ 299,390.75</u>
Notes Receivable - Noncurrent:			
Federal Loan Programs	<u>\$ 957,182.68</u>	<u>\$ 84,227.26</u>	<u>\$ 872,955.42</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2003, is presented as follows:

	Balance July 1, 2002	Adjustments	Increases	Decreases	Balance June 30, 2003
Capital Assets, Nondepreciable:					
Land	\$ 2,515,703.97	\$ 0.00	\$ 0.00	\$ 0.00	\$ 2,515,703.97
Art, Literature, and Artifacts	45,150.00	41,752.70	121,200.00		208,102.70
Construction in Progress	8,813,680.77	(4,697,471.10)	16,296,241.36		20,412,451.03
Total Capital Assets, Nondepreciable	11,374,534.74	(4,655,718.40)	16,417,441.36		23,136,257.70
Capital Assets, Depreciable:					
Buildings	77,850,896.65	3,473,170.70	6,010.00		81,330,077.35
Machinery and Equipment	4,202,577.18		272,253.80	344,706.42	4,130,124.56
Art, Literature, and Artifacts	35,000.00				35,000.00
General Infrastructure	20,127,260.48	1,182,547.70		136,979.15	21,172,829.03
Total Capital Assets, Depreciable	102,215,734.31	4,655,718.40	278,263.80	481,685.57	106,668,030.94
Less Accumulated Depreciation/Amortization for:					
Buildings	28,646,424.54		2,696,438.76		31,342,863.30
Machinery and Equipment	3,787,318.30		264,099.02	344,706.42	3,706,710.90
Art, Literature, and Artifacts	17,500.00		3,500.00		21,000.00
General Infrastructure	6,795,746.63		1,228,524.05	34,244.75	7,990,025.93
Total Accumulated Depreciation	39,246,989.47		4,192,561.83	378,951.17	43,060,600.13
Total Capital Assets, Depreciable, Net	62,968,744.84	4,655,718.40	(3,914,298.03)	102,734.40	63,607,430.81
Capital Assets, Net	\$ 74,343,279.58	\$ 0.00	\$ 12,503,143.33	\$ 102,734.40	\$ 86,743,688.51

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2003 were as follows:

	<u>Amount</u>
Accounts Payable	\$ 1,445,953.62
Accrued Payroll	598,559.98
Contract Retainage	<u>779,560.57</u>
Total Accounts Payable and Accrued Liabilities	<u>\$ 2,824,074.17</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 7 - LONG-TERM LIABILITIES

A. Changes in Long-Term Liabilities - A summary of changes in the long-term liabilities for the year ended June 30, 2003 is presented as follows:

	Balance July 1, 2002	Additions	Reductions	Balance June 30, 2003	Current Portion
Bonds Payable	\$ 19,730,000.00	\$ 18,900,000.00	\$ 8,430,000.00	\$ 30,200,000.00	\$ 1,425,000.00
Add/Deduct Premium/Discount		721,019.65	28,840.79	692,178.86	
Total Bonds Payable	19,730,000.00	19,621,019.65	8,458,840.79	30,892,178.86	1,425,000.00
Compensated Absences	1,218,697.00	1,444,971.00	1,038,478.00	1,625,190.00	203,148.74
Total Long-Term Liabilities	\$ 20,948,697.00	\$ 21,065,990.65	\$ 9,497,318.79	\$ 32,517,368.86	\$ 1,628,148.74

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

Purpose	Series	Interest Rate/ Ranges	Final Maturity Date	Original Amount of Issue	Principal Paid Through 06/30/2003	Principal Outstanding 06/30/2003
Dormitory and Dining System						
UNCA Issued Revenue Bonds	B	5.3 - 5.6	06/01/2018	\$ 9,600,000.00	\$ 9,600,000.00	\$ 0.00
UNCA Issued Revenue Bonds	C	4.75 - 5.0	06/01/2023	7,600,000.00	880,000.00	6,720,000.00
UNCA Issued Revenue Bonds	D	4.3 - 4.9	06/01/2012	3,695,000.00	1,200,000.00	2,495,000.00
UNCA Issued Revenue Bonds	2002	2.5 - 5.0	06/01/2027	18,900,000.00	165,000.00	18,735,000.00
Total Dormitory and Dining System				39,795,000.00	11,845,000.00	27,950,000.00
The University of North Carolina System Pool Revenue Bonds						
Dormitory and Dining	(A)	Variable	10/01/2008	2,580,000.00	920,000.00	1,660,000.00
Parking	(B)	5.0 - 5.5	10/01/2010	705,000.00	115,000.00	590,000.00
Total The University of North Carolina System Pool Revenue Bonds				3,285,000.00	1,035,000.00	2,250,000.00
Total Bonds Payable (principal only)				\$ 43,080,000.00	\$ 12,880,000.00	30,200,000.00
Plus: Unamortized Premium						692,178.86
Total Bonds Payable						\$ 30,892,178.86

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The University of North Carolina System Variable Rate Demand Pool Revenue Bonds, Series 1998A: In 1998, the Board of Governors of the University of North Carolina issued variable rate demand bonds in a system-wide financing arrangement for the benefit of its constituent universities. Through this system-wide financing, the University issued debt in the amount of \$2,580,000 with a final maturity date of October 1, 2008. These bonds are subject to mandatory sinking fund redemption that began on October 1, 1999. The University's proceeds from this issuance were used construct a 200-car parking structure adjacent to the housing structures. While bearing interest at a weekly rate, these bonds are subject to purchase on demand with seven days' notice and delivery to the bond paying agent, The Bank of New York. Upon notice from the bond-paying agent, the remarketing agent, Salomon Smith Barney, Inc. has agreed to exercise its best efforts to remarket the bonds for which a notice of purchase has been received.

Under a Standby Bond Purchase Agreement (Agreement) between the Board of Governors of the University of North Carolina and NationsBank, N.A. (now part of Bank of America, N.A.), a Liquidity Facility has been established for the Trustee (The Bank of New York) to draw amounts sufficient to pay the purchase price and accrued interest on bonds delivered for purchase when remarketing proceeds or other funds are not available. This Agreement requires a standby fee equal to .13% of the available commitment, payable semiannually in advance, beginning on November 3, 1998, and on each May 1 and November 1 thereafter until the expiration date or the termination date of the Agreement.

Under the Agreement, any bonds purchased through the Liquidity Facility become Liquidity Provider Bonds and shall, from the date of such purchase and while they are Liquidity Provider Bonds, bear interest at the Liquidity Provider Rate (LIBOR plus one percent (1%).) LIBOR is the average of rates per annum for deposits to major money center banks in the London interbank market. Upon remarketing of Liquidity Provider Bonds and the receipt of the sales price by the Liquidity Provider, such bonds are no longer considered Liquidity Provider Bonds. Payment of the interest on the Liquidity Provider Bonds is due the first business day of each month in which Liquidity Provider Bonds are outstanding. At June 30, 2003, there were no Liquidity Provider Bonds held by the Liquidity Facility.

Upon expiration or termination of the Agreement, the University is required to redeem (purchase) the Liquidity Provider Bonds held by the Liquidity Facility in sixty equal monthly installments, beginning the first business day that is at least 180 days following such expiration date or

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

termination date along with accrued interest at the Liquidity Provider Rate.

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

- D. Annual Requirements** - The annual requirements to pay principal and interest on the long-term obligations at June 30, 2003 are as follows:

<u>Fiscal Year</u>	Annual Requirements Bonds Payable	
	Principal	Interest
2004	\$ 1,425,000.00	\$ 1,369,883.00
2005	1,475,000.00	1,321,392.00
2006	1,435,000.00	1,271,108.00
2007	1,485,000.00	1,221,032.00
2008	1,540,000.00	1,167,355.00
2009-2013	7,400,000.00	4,810,050.00
2014-2018	7,235,000.00	3,162,350.00
2019-2023	5,315,000.00	1,537,325.00
2024-2028	2,890,000.00	370,000.00
Total Requirements	\$ 30,200,000.00	\$ 16,230,495.00

Interest on the variable rate 1998A revenue bonds is calculated at 4.5% at June 30, 2003.

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

Dormitory and Dining System: On September 24, 2002 the University defeased \$7,245,000.00 of outstanding Dormitory and Dining Revenue Bonds, Series B (original issue amount \$9,600,000.00). As a result, the University reduced its debt service requirements by \$581,108.40 over the next 16 years and obtained an economic gain of \$455,180.98.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 8 - LEASE OBLIGATIONS

The University entered into operating leases for digital printers/copiers and mailroom equipment. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2003:

<u>Fiscal Year</u>	<u>Amount</u>
2004	\$ 145,972.94
2005	145,972.94
2006	142,944.78
2007	41,461.49
2008	<u>11,949.84</u>
Total Minimum Lease Payments	<u>\$ 488,301.99</u>

Rental expense for all operating leases during the year was \$288,277.65.

NOTE 9 - REVENUES

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

	<u>Gross Revenues</u>	<u>Internal Sales Eliminations</u>	<u>Less Scholarship Discounts</u>	<u>Less Allowance for Uncollectibles</u>	<u>Net Revenues</u>	<u>Net Revenues Pledged as Security for Debt</u>
Operating Revenues:						
Student Tuition and Fees	<u>\$ 12,379,164.64</u>	<u>\$ 0.00</u>	<u>\$ 1,620,446.40</u>	<u>\$ 206.94</u>	<u>\$ 10,758,511.30</u>	<u>\$ 661,775.99 (A)</u>
Sales and Services:						
Sales and Services of Auxiliary Enterprises:						
Residential Life	\$ 2,480,462.68	\$ 0.00	\$ 343,116.36	\$ 0.00	\$ 2,137,346.32	\$ 2,130,298.18 (A)
Dining	2,190,109.58		313,810.98		1,876,298.60	1,876,298.60 (A)
Student Union and Cultural Services	23,076.58				23,076.58	
Health Services	111,878.60				111,878.60	
Bookstore	1,790,072.55				1,790,072.55	
Recreational Services	7,841.06				7,841.06	
Parking	329,689.94		37,057.19		292,632.75	292,632.75 (B)
Athletic	309,940.38				309,940.38	
Other	551,966.85	438,835.75			113,131.10	
Sales and Services of Education and Related Activities	<u>561,800.33</u>	<u>257,607.96</u>			<u>304,192.37</u>	
Total Sales and Services	<u>\$ 8,356,838.55</u>	<u>\$ 696,443.71</u>	<u>\$ 693,984.53</u>	<u>\$ 0.00</u>	<u>\$ 6,966,410.31</u>	<u>\$ 4,299,229.53</u>
Nonoperating - Noncapital Gifts	<u>\$ 1,503,988.51</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 1,503,988.51</u>	<u>\$ 0.00</u>
Capital Gifts	<u>\$ 2,848,928.12</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 2,848,928.12</u>	<u>\$ 0.00</u>

Revenue Bonds Secured by Pledged Revenues:
 (A) Dormitory and Dining Hall System Revenue Bonds
 (B) Parking System Revenue Bonds

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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	\$ 14,311,124.25	\$ 931,905.83	\$ 723,976.28	\$ 0.00	\$ 11.55	\$ 0.00	\$ 15,967,017.91
Research	327,667.40	57,357.38	213,542.38				598,567.16
Public Service	2,212,120.15	418,144.40	614,092.93		73,270.14		3,317,627.62
Academic Support	2,288,076.14	895,093.24	197,171.17				3,380,340.55
Student Services	2,015,142.14	171,731.29	769,482.58				2,956,356.01
Institutional Support	3,831,917.92	218,703.46	515,528.04				4,566,149.42
Operations and Maintenance of Plant	3,030,805.57	331,638.89	269,466.45		880,122.72		4,512,033.63
Student Financial Aid	27,729.59		674.53	1,981,118.97			2,009,523.09
Auxiliary Enterprises	3,187,689.73	1,943,053.19	3,075,145.30		504,569.79		8,710,458.01
Depreciation						4,192,561.83	4,192,561.83
Total Operating Expenses	<u>\$ 31,232,272.89</u>	<u>\$ 4,967,627.68</u>	<u>\$ 6,379,079.66</u>	<u>\$ 1,981,118.97</u>	<u>\$ 1,457,974.20</u>	<u>\$ 4,192,561.83</u>	<u>\$ 50,210,635.23</u>

NOTE 11 - PENSION PLANS

A. Retirement Plans - Each permanent full-time employee, as a condition of employment, is a member of either the Teachers' and State Employees' Retirement System or the Optional Retirement Program. Eligible employees can elect to participate in the Optional Retirement Program at the time of employment, otherwise they are automatically enrolled in the Teachers' and State Employees' Retirement System.

The Teachers' and State Employees' Retirement System is a cost sharing multiple-employer defined benefit pension plan established by the State to provide pension benefits for employees of the State, its component units and local boards of education. The plan is administered by the North Carolina State Treasurer.

Benefit and contribution provisions for the Teachers' and State Employees' Retirement System are established by *North Carolina General Statutes* 135-5 and 135-8 and may be amended only by the North Carolina General Assembly. Employer and member contribution rates are set each year by the North Carolina General Assembly based on annual actuarial valuations. For the year ended June 30, 2003, the General Assembly required no contribution by employers and 6% of covered payroll for members.

For the year ended June 30, 2003, the University had a total payroll of \$25,789,174.83, of which \$12,923,093.06 was covered under the

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Teachers' and State Employees' Retirement System. Total employee contributions for pension benefits for the year were \$775,385.58. No employer contributions were required. The University made one hundred percent of its annual required contributions for the years ended June 30, 2003, 2002, and 2001, which were \$0.00, \$250,907.59, and \$661,767.74, respectively.

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

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

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

Participant eligibility and contributory requirements are established by General Statute 135-5.1. Employer and member contribution rates are set each year by the North Carolina General Assembly. For the year ended June 30, 2003, these rates were set at 6.84% of covered payroll for employers and 6% of covered payroll for members. The University assumes no liability other than its contribution.

For the year ended June 30, 2003, the University had a total payroll of \$25,789,174.83, of which \$10,070,568.43 was covered under the Optional

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Retirement Program. Total employee and employer contributions for pension benefits for the year were \$604,234.11 and \$688,826.88, respectively.

- B. Deferred Compensation and Supplemental Retirement Income Plans** - IRC Section 457 Plan - The State of North Carolina offers its permanent employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 through the North Carolina Public Employee Deferred Compensation Plan (the Plan). The Plan permits each participating employee to defer a portion of his or her salary until future years. The deferred compensation is available to employees upon separation from service, death, disability, retirement, or financial hardships if approved by the Board of Trustees of the Plan. The Board, a part of the North Carolina Department of Administration, maintains a separate fund for the exclusive benefit of the participating employees and their beneficiaries, *the North Carolina Public Employee Deferred Compensation Trust Fund*. The Board also contracts with an external third party to perform certain administrative requirements and to manage the trust fund's assets. All costs of administering and funding the Plan are the responsibility of the Plan participants. No costs are incurred by the University. The voluntary contributions by employees amounted to \$80,748.64 for the year ended June 30, 2003.

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, 2003 were \$17,960.14. The voluntary contributions by employees amounted to \$208,466.00 for the year ended June 30, 2003.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

contributions by employees amounted to \$341,924.56 for the year ended June 30, 2003.

NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS

- A. Health Care for Long-Term Disability Beneficiaries and Retirees -** The University participates in State administered programs which provide postemployment health insurance to eligible former employees. Eligible former employees include long-term disability beneficiaries of the Disability Income Plan of North Carolina and retirees of the Teachers' and State Employees' Retirement System or the Optional Retirement Program. These benefits were established by Chapter 135, Article 3, 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, 2003, the University's total contribution to the Plan was \$540,351.50. 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 and the Optional Retirement Program. Long-term disability income benefits are advance funded on an actuarially determined basis using the one-year term cost method. The University contributes .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, 2003, the University's total contribution to the DIPNC was \$119,567.13. 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*.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 13 - RISK MANAGEMENT

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

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

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. The Fund insures all State owned buildings and contents for fire and various other property losses up to \$2,500,000 per occurrence. Such coverage is provided at no cost to operations supported by the State's General Fund. Other operations not supported by the State's General Fund are charged for the coverage. Losses covered by the Fund are subject to a \$500 per occurrence deductible except theft losses carry a \$1,000 per occurrence deductible. The University also purchased through the Fund extended coverage for boiler and machinery components, fine arts for artwork, and musical instruments.

All State-owned vehicles are covered by liability insurance through a private insurance company and handled by the North Carolina Department of Insurance. The liability limits for losses occurring in-State are \$500,000 per claim and \$5,000,000 per occurrence and out-of-State are \$1,000,000 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 for employees paid in whole or in part from State funds. The blanket honesty bond 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.

University employees and retirees are provided comprehensive major medical care benefits. Coverage is funded by contributions to the State Health Plan

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Plan), a pension and other employee benefit trust fund of the State of North Carolina. The Plan has contracted with third parties to process claims.

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

Term life insurance (death benefits) of \$25,000 to \$50,000 is provided to eligible workers. This Death Benefit Plan is administered by the State Treasurer and funded via employer contributions. The employer contribution rate was .16% for the current fiscal year.

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 \$10,797,454.51 and on other purchases were \$4,697,163.72 at June 30, 2003.
- B. **Pending Litigation and Claims** – The University is a party to litigation and claims in the ordinary course of its operations. Since it is not possible to predict the ultimate outcome of these matters, no provision for any liability has been made in the financial statements. University management is of the opinion that the liability, if any, for any of these matters will not have a material adverse effect on the financial position of the University.
- C. **University Improvement General Obligation Bonds** – The 1999-2000 Session of the General Assembly of North Carolina authorized the issuance of two billion five hundred million dollars of general obligation bonds of the State, as subsequently approved by a vote of qualified voters of the State, to provide funds for capital improvements for the University of North Carolina. The funds authorized are to be used solely for capital facilities cost on the University of North Carolina campuses as specified in the legislation. The bond legislation specifies the amount of bond

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

funding for each University campus and the level of bond funding intended for each project. The bonds are authorized to be issued over a six-year period beginning in 2001 at a level not to exceed amounts provided in the legislation. Using a cash flow financing approach, The University of North Carolina – General Administration (UNC-GA), establishes annual amounts not to exceed for each approved project. The amounts not to exceed are subject to change due to actual cash availability and needs during the year. Subsequent to the bond sales and the availability of bond proceeds, UNC-GA notifies the Office of State Budget and Management (OSBM) of the amounts not to exceed for each approved project. Within these amounts, based on an official request of cash needs from the University, OSBM authorizes allotments. The University records the allotments as revenue on the accompanying financial statements. In addition, amounts not allotted but accrued as expended at year-end are recorded as revenue. The University's remaining authorization \$52,600,925.82 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

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

The Foundation serves as the primary fundraising arm of the University through which individuals, corporations, and other organizations support University programs by providing scholarships, fellowships, prizes and awards, and unrestricted funds to specific colleges and the University's overall academic environment. The University's financial statements do not include the assets, liabilities, net assets, or operational transactions of the foundations, except for support from each organization to the University. This support from the UNCA Foundation, Inc. approximated \$4,030,119.62 for the year ended June 30, 2003.

Additionally, there are entities in existence to support individual programs of the University. These include the North Carolina Arboretum Society and the Center for Craft, Creativity, and Design Foundation (both are 501 (c)(3) organizations as described above). The support provided to the University

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

from these Foundations is not considered material for the year ended June 30, 2003. Further information, including audit reports, may be obtained directly from these entities.

The University of North Carolina at Asheville
Schedule of General Obligation Bond Project Authorizations,
Budgets, and Expenditures
For Project-to-Date as of June 30, 2003

Schedule 1

Capital Improvement Projects	Projected Start Date	General Obligation Bonds Authorized	Other Sources	Total Project Budget	Amount Expended	Percent Completed	Expected Completion Date
<i>Projects Started</i>							
40077							
301 Math and Science Building	Aug 2001	\$ 22,203,200.00	\$ 0.00	\$ 22,203,200.00	\$ 537,499.42	2.42%	Jan 2007
302 Highsmith Center 1	Jan 2002	11,522,000.00		11,522,000.00	2,936,897.80	25.49%	Jun 2004
303 Carmichael Hall Classroom Building	Sep 2001	5,524,200.00		5,524,200.00	288,297.56	5.22%	Mar 2006
304 Zagler Hall Classroom Building	Sep 2001	2,569,100.00		2,569,100.00	74,033.00	2.88%	Mar 2006
305 Campus Primary Electrical Distribution System	Sep 2001	1,023,800.00		1,023,800.00	929,195.95	90.76%	Jun 2003
306 Relocate Physical Plant Facilities	Oct 2001	6,318,900.00		6,318,900.00	522,907.40	8.28%	Sep 2005
307 Technology Infrastructure Expansion	Sep 2001	751,200.00		751,200.00	740,822.52	98.62%	Feb 2003
309 Justice Gym-Renovations	Jan 2002	195,000.00		195,000.00	39,513.50	20.26%	Mar 2004
40040							
302 UNCA-Arboretum Operation Support Facility	Nov 2001	1,640,200.00		1,640,200.00	344,518.63	21.00%	May 2004
303 UNCA-Arboretum Main Entrance Road Utility	Jul 2001	3,899,673.00		3,899,673.00	678,280.07	17.39%	Oct 2004
306 UNCA-Arboretum Greenhouse Exhibition Center	Jun 2002	3,791,827.00		3,791,827.00	73,008.33	1.93%	Jan 2006
<i>Projects Not Started - To Be Funded in Future Years</i>							
40077							
308 Highsmith Center II	Jun 2004	356,800.00		356,800.00			Jan 2007
Total All Projects		\$ 59,795,900.00	\$ 0.00	\$ 59,795,900.00	\$ 7,164,974.18		

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 System. The projects listed on this schedule are those funded or to be funded by bond proceeds from the general obligation bonds authorized by Senate Bill 912.

***The University of North Carolina at Asheville
Intercollegiate Athletics Program
Statement of Revenues and Expenses
Year Ended June 30, 2003***

Schedule 2

	Men's Basketball	Women's Basketball	Other Sports	Nonprogram Specific	Total
Revenues					
Operating Revenues:					
Student Fees, Net (Note 2)	\$ 0.00	\$ 0.00	\$ 0.00	\$ 1,144,950.29	\$ 1,144,950.29
Ticket Sales				24,882.00	24,882.00
Advertising				8,428.00	8,428.00
Contest Guarantees				256,500.00	256,500.00
Other Revenue				19,785.11	19,785.11
Concessions				18,974.65	18,974.65
Other Fund Contributions				353,459.13	353,459.13
Total Operating Revenues				1,826,979.18	1,826,979.18
Expenses					
Operating Expenses:					
Salaries and Related	59,791.06	47,109.77	248,885.38	656,562.48	1,012,348.69
Travel - Team	83,839.83	38,661.12	179,403.03	22,146.18	324,050.16
Travel - Recruiting	15,599.31	14,841.52	8,412.16		38,852.99
Financial Aid, Net	97,230.88	102,201.52	426,521.54		625,953.94
Supplies and Uniforms	8,099.92	11,687.16	59,397.81	27,005.03	106,189.92
Insurance				35,080.00	35,080.00
Telephone	4,271.21	3,283.45	4,335.80	10,017.23	21,907.69
Publicity	3,750.00	3,750.00	3,750.00	4,124.75	15,374.75
Maintenance and General Administration	30,214.40	23,812.89	29,604.21	166,531.24	250,162.74
Equipment Purchases	440.54	1,549.76	8,906.50	22,394.59	33,291.39
Total Operating Expenses	303,237.15	246,897.19	969,216.43	943,861.50	2,463,212.27
Operating Income (Loss)	(303,237.15)	(246,897.19)	(969,216.43)	883,117.68	(636,233.09)
Nonoperating Revenues					
State Appropriations				189,095.27	189,095.27
Gifts and Grants				561,214.13	561,214.13
Net Nonoperating Revenues				750,309.40	750,309.40
Excess (Deficiency) of Revenues over Expenses	\$ (303,237.15)	\$ (246,897.19)	\$ (969,216.43)	\$ 1,633,427.08	\$ 114,076.31

The accompanying notes are an integral part of this statement.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

- A. Organization and Purpose** - The University of North Carolina at Asheville is a constituent institution of The University of North Carolina System, which is a component unit of the State of North Carolina and an integral part of the State's *Comprehensive Annual Financial Report*. The University of North Carolina at Asheville is classified as a Division I institution by the National Collegiate Athletic Association (NCAA).
- B. Basis of Presentation** - The preceding Statement of Revenues and Expenses presents the University's Intercollegiate Athletic 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 expenses by major program. This Statement has 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 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 net assets and cash flows.
- C. Basis of Accounting** - The preceding Statement of Revenues and Expenses was 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.
- D. 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 2002-2003 donated items included sports supplies, items for prizes in tournaments and auctions, hotel rooms for visiting teams, use of vehicles, advertising, hospitality items, and donated services to assist with fundraising and ticket sales.

NOTE 2 - 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 and Expenses. 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 and Expenses. To the extent that revenues from these programs are used to satisfy tuition, fees, and other charges, the University has recorded a scholarship discount. The amount of tuition discounting applicable to Athletics was \$192,461.

NOTE 3 - THE ATHLETIC FOUNDATION, INC.

The Athletic Foundation, Inc. (Foundation) is a separate and legal entity established to promote and support the University. During the fiscal year, the University's Intercollegiate Athletics Program received \$192,853 in direct support from the Foundation, as well as \$49,606 in indirect support through payments made on behalf of the University by the Foundation. These amounts are reported as contributions and expenses in the preceding Statement of Revenues and Expenses.

NOTE 4 - CONTRIBUTIONS

Individual contributions of moneys, goods, or services received directly by the University's Intercollegiate Athletics Program from organizations other than the Foundation or from groups of individuals that constitute more than 10% of all contributions received for the Intercollegiate Athletics Program during the year follows:

<u>Funding Source Type</u>	<u>Amount</u>
Big South Conference	\$ 120,657



Ralph Campbell, Jr.
State Auditor

STATE OF NORTH CAROLINA
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**

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

We have audited the financial statements of The University of North Carolina at Asheville, a constituent institution of the sixteen-campus University of North Carolina System, which is a component unit of the State of North Carolina, as of and for the year ended June 30, 2003, and have issued our report thereon dated March 23, 2004. 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*.

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 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

**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)**

and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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



Ralph Campbell, Jr.
State Auditor

March 23, 2004

DISTRIBUTION OF AUDIT REPORT

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

EXECUTIVE BRANCH

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

LEGISLATIVE BRANCH

Appointees to the Joint Legislative Commission on Governmental Operations

President Pro Tempore	Speaker of the House
Senator Marc Basnight, Co-Chair	Representative James B. Black, Co-Chair
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Senator Daniel G. Clodfelter	Representative Rex L. Baker
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Senator Robert A. Rucho	Representative William C. Owens, Jr.
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Other Legislative Officials

Mr. James D. Johnson	Director, Fiscal Research Division
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June 3, 2004

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