

STATE OF NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT OF

APPALACHIAN STATE UNIVERSITY

BOONE, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2003

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, 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, 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, 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 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)

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.

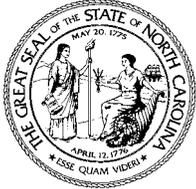
North Carolina General Statutes require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.



Ralph Campbell, Jr.
State Auditor

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Ralph Campbell, Jr.
State Auditor

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INDEPENDENT AUDITOR'S REPORT

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, 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 Appalachian State University 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 October 31, 2003 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis (MD&A), as listed in the table of contents, 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

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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 31, 2003

MANAGEMENT'S DISCUSSION AND ANALYSIS

Overview of the Financial Statement Information

Appalachian State University is pleased to present its financial statements for fiscal year 2003. These statements are prepared in accordance with the Governmental Accounting Standard's 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. Comparative information for fiscal year 2002 is also presented in the condensed financial statements.

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. Restatements to fiscal year 2002 include Other Long-Term Investments that were reduced by \$6,818,452.22 for capital credits that were written off, and Arbitrage Rebates Payable of \$62,277.36 that were moved from Accounts Payable and Accrued Liabilities to Noncurrent Long-Term Liabilities.

Condensed Statement of Net Assets

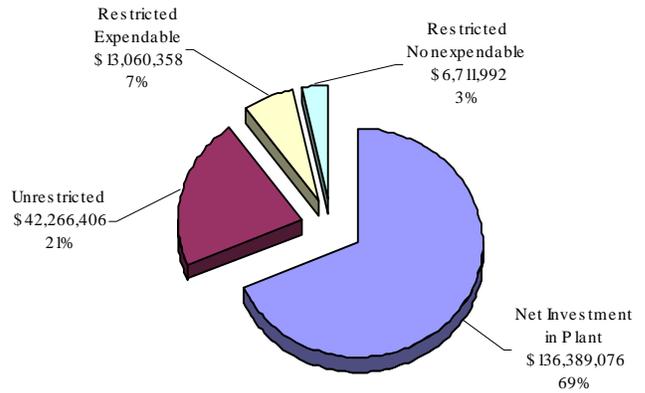
Assets	Fiscal Year 2003	Fiscal Year 2002	\$ Change	% Change
Current Assets	\$ 60,110,968.31	\$ 54,958,997.88	\$5,151,970.43	9.4%
Noncurrent Assets				
Capital Assets - Nondepreciable	33,479,606.09	43,367,224.71	(9,887,618.62)	-22.8%
Capital Assets - Depreciable	184,350,852.23	161,420,510.45	22,930,341.78	14.2%
Other	<u>60,345,799.02</u>	<u>39,081,052.40</u>	<u>21,264,746.62</u>	<u>54.4%</u>
Total Assets	338,287,225.65	298,827,785.44	39,459,440.21	13.2%
Liabilities				
Current Liabilities	20,977,663.92	17,723,269.03	3,254,394.89	18.4%
Noncurrent Liabilities	<u>118,881,731.30</u>	<u>91,635,522.02</u>	<u>27,246,209.28</u>	<u>29.7%</u>
Total Liabilities	139,859,395.22	109,358,791.05	30,500,604.17	27.9%
Net Assets				
Invested in Capital Assets Net of Related Debt Restricted	136,389,075.79	130,412,982.77	5,976,093.02	4.6%
Nonexpendable	6,711,991.58	5,443,904.63	1,268,086.95	23.3%
Expendable	13,060,357.52	14,844,915.66	(1,784,558.14)	-12.0%
Unrestricted	<u>42,266,405.54</u>	<u>38,767,191.33</u>	<u>3,499,214.21</u>	<u>9.0%</u>
Total Net Assets	\$ 198,427,830.43	\$ 189,468,994.39	\$8,958,836.04	4.7%

Analysis of Net Assets

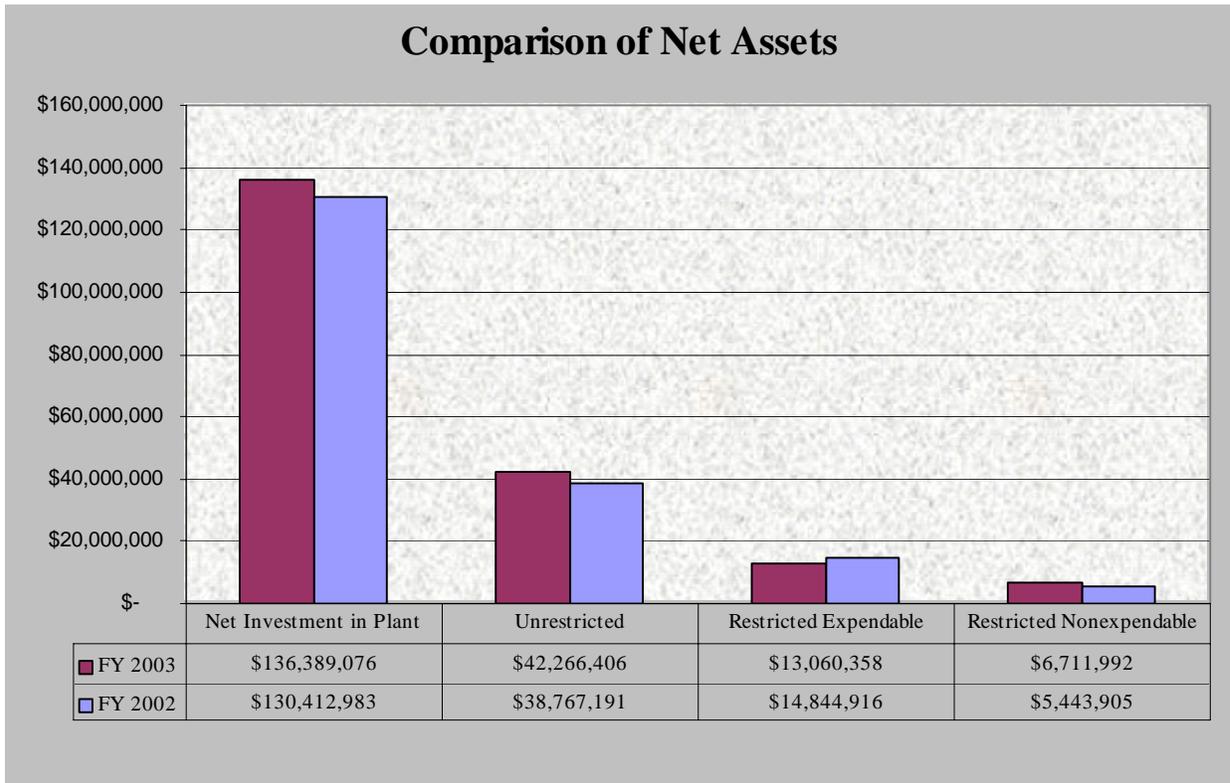
Restricted **nonexpendable** net assets consist of loan funds and endowment gifts with specific restrictions on spending the principal.

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.

Net Assets by Type



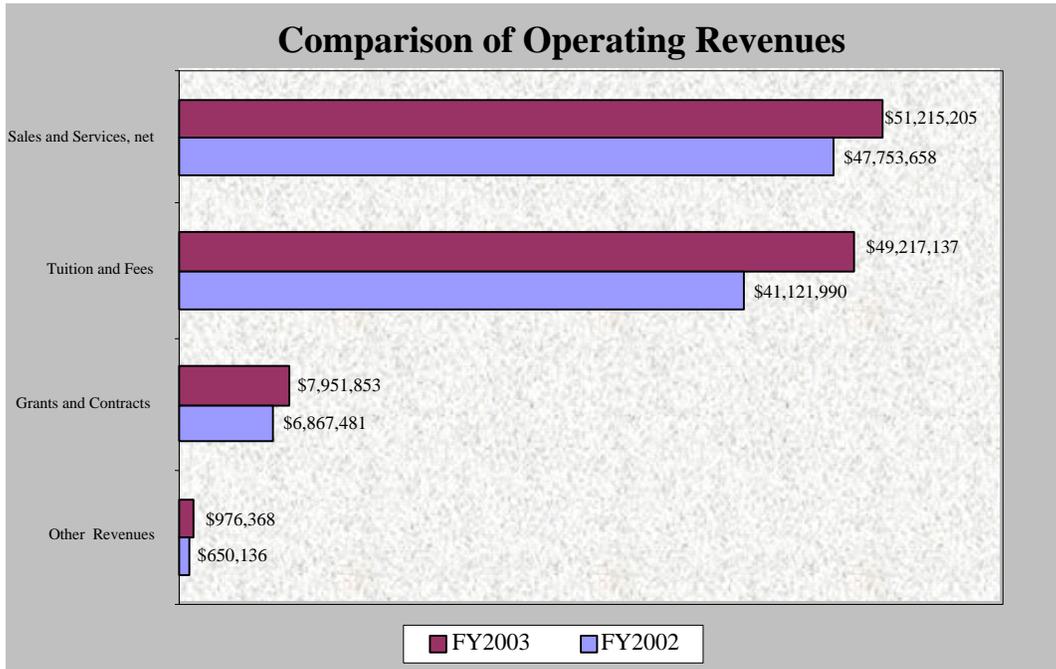
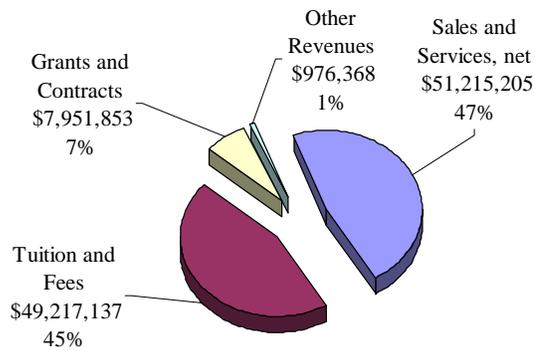
Comparison of Net Assets



Operating Revenues and Expenses

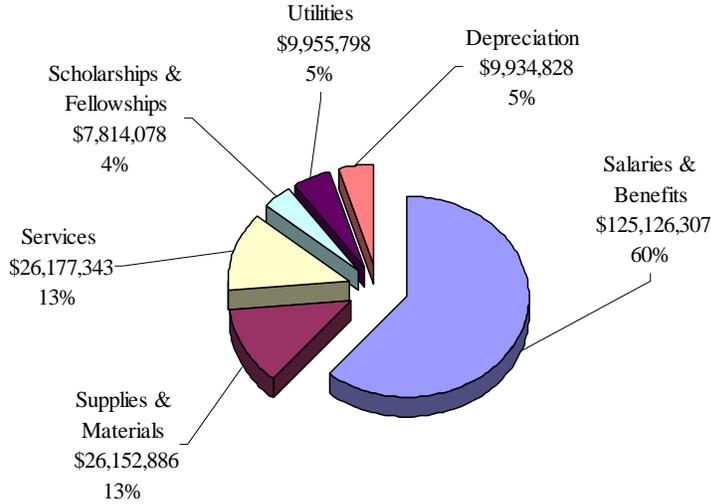
The Statement of Revenues, Expenses, and Changes in Net Assets depicts operating and nonoperating revenue and expense. State appropriations are considered nonoperating revenues. Operating expenses totaling \$205.2 million include salaries and benefits of \$125.1 million, supplies and materials of \$26.2 million, services of \$26.2 million, scholarships and fellowships of \$7.8 million, utilities of \$10.0 million, and depreciation of \$9.9 million. Interest expense was \$3.8 million.

Operating Revenues

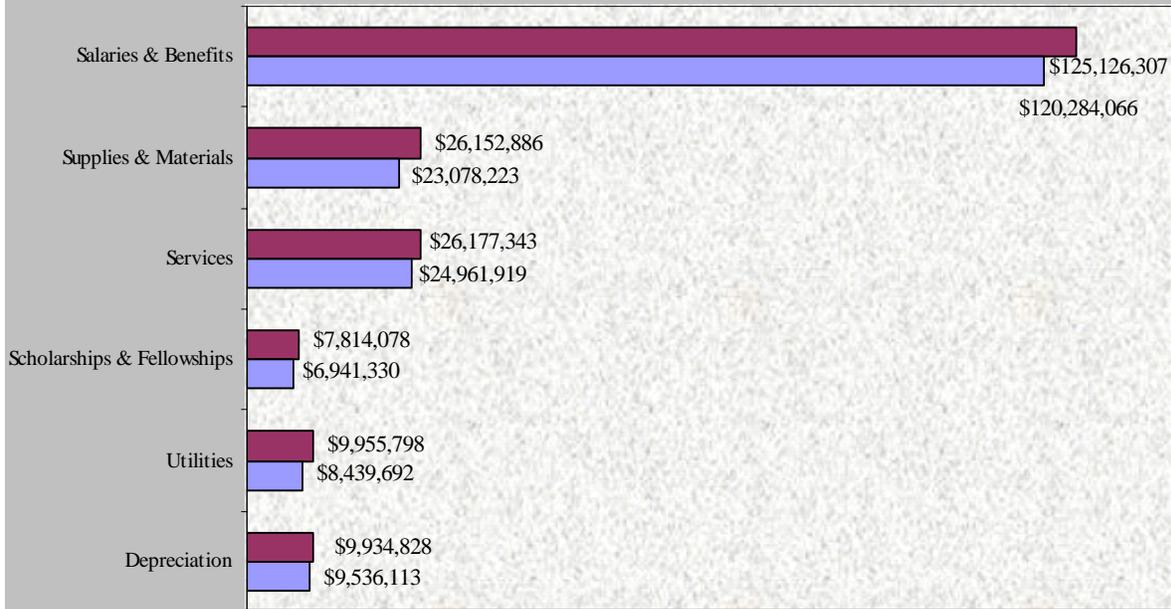


Operating Revenues and Expenses

Operating Expenses



Comparison of Operating Expenses



MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Statement of Revenues, Expenses, and Changes in Net Assets

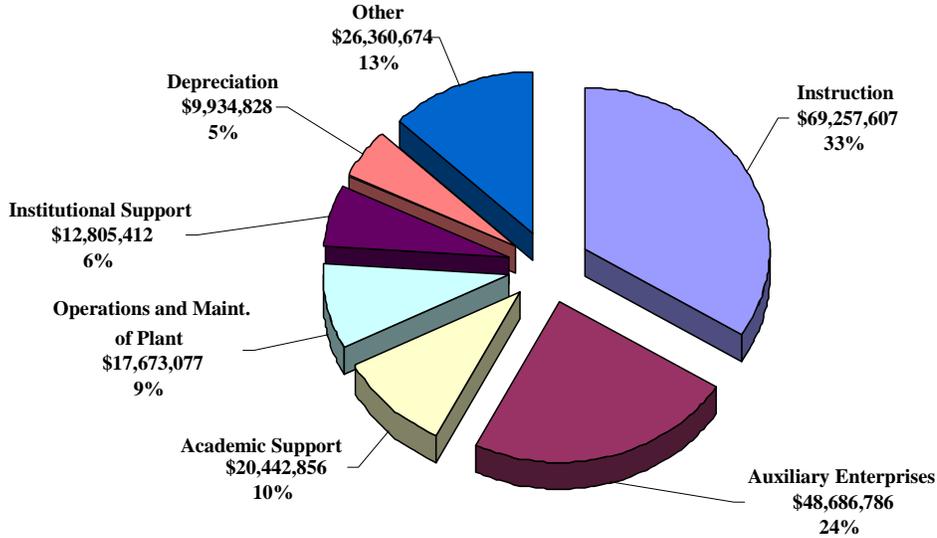
Fiscal year 2002 restatements include \$11,268,178.38 of fee revenue that was moved from Sales and Services to Student Tuition and Fees, and \$3,526,335.66 that was moved from State and Local Grants and Contracts to Noncapital Grants for activity that was deemed to be nonoperating. Tuition and fee revenue increased mainly due to enrollment and State-mandated tuition increases of 8% for residents and 12% for non-resident students. The \$8.9 million increase in capital grants was an increase in utilization of the University's share of the North Carolina General Obligation Bonds for the UNC system capital projects (see Schedule 1). One of the largest expenditure percent increases was in utilities. This was mainly due to increased steam rates, increased fuel costs, and the addition of new buildings.

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

	Fiscal Year 2003	Fiscal Year 2002	\$ Change	% Change
Operating Revenues				
Tuition and Fees	\$ 49,217,137.36	\$ 41,121,989.91	\$ 8,095,147.45	19.7%
Grants and Contracts	7,951,853.35	6,867,481.14	1,084,372.21	15.8%
Sales and Services, net	51,215,205.00	47,753,658.22	3,461,546.78	7.2%
Interest Earnings on Loans	20,985.10	47,122.08	(26,136.98)	-55.5%
Other Operating Revenues	955,383.13	603,013.96	352,369.17	58.4%
Total Operating Revenues	<u>109,360,563.94</u>	<u>96,393,265.31</u>	<u>12,967,298.63</u>	<u>13.5%</u>
Operating Expenses	<u>205,161,239.89</u>	<u>193,241,343.90</u>	<u>11,919,895.99</u>	<u>6.2%</u>
Operating Income (Loss)	(95,800,675.95)	(96,848,078.59)	1,047,402.64	-1.1%
Nonoperating Revenues				
State Appropriations	79,503,047.00	81,877,819.00	(2,374,772.00)	-2.9%
Other Nonoperating Revenues	13,286,480.84	11,681,685.30	1,604,795.54	13.7%
Net Nonoperating Revenues	<u>92,789,527.84</u>	<u>93,559,504.30</u>	<u>(769,976.46)</u>	<u>-0.8%</u>
Income (Loss) Before Other Revenues	(3,011,148.11)	(3,288,574.29)	277,426.18	-8.4%
Capital grants	11,316,665.00	2,369,351.00	8,947,314.00	377.6%
Capital Gifts, net	486,319.15	4,087,120.26	(3,600,801.11)	-88.1%
Additions to Endowments	167,000.00	0.00	167,000.00	
Total Other Revenues	<u>11,969,984.15</u>	<u>6,456,471.26</u>	<u>5,513,512.89</u>	<u>85.4%</u>
Total Increase in Net Assets	8,958,836.04	3,167,896.97	5,790,939.07	182.8%
Net Assets				
Net Assets at Beginning of Year, as restated	189,468,994.39	186,301,097.42	3,167,896.97	1.7%
Net Assets at End of Year	<u>\$ 198,427,830.43</u>	<u>\$ 189,468,994.39</u>	<u>\$ 8,958,836.04</u>	<u>4.7%</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

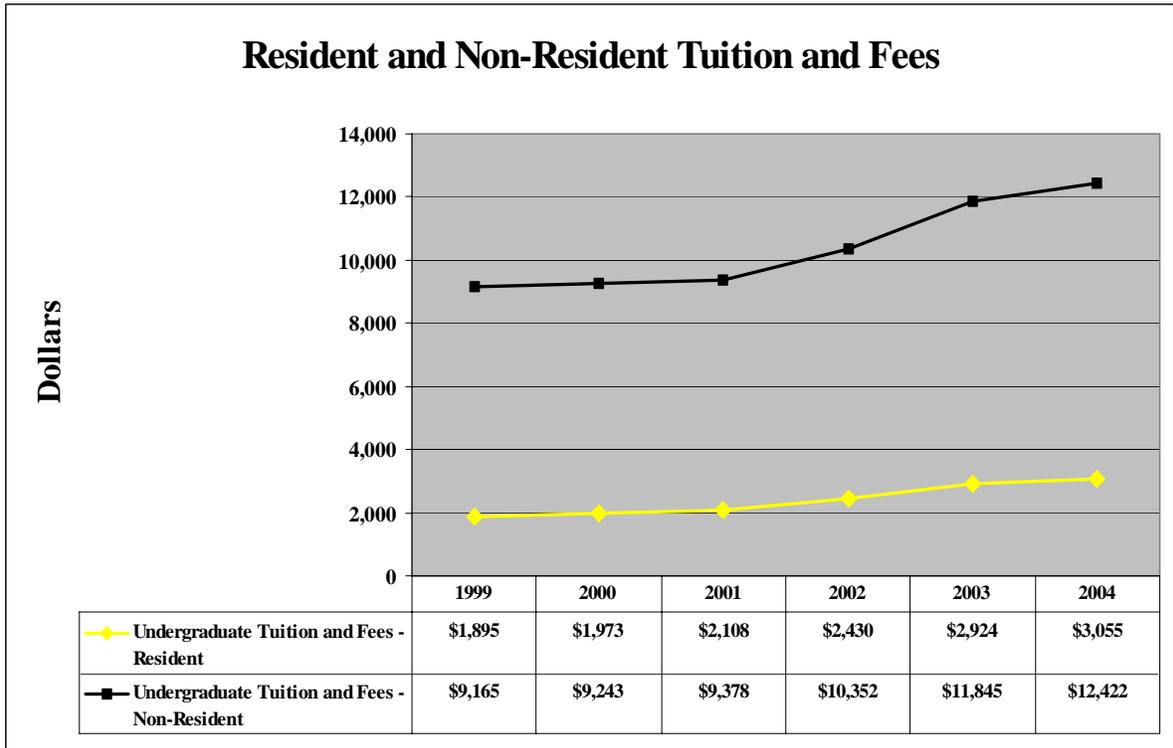
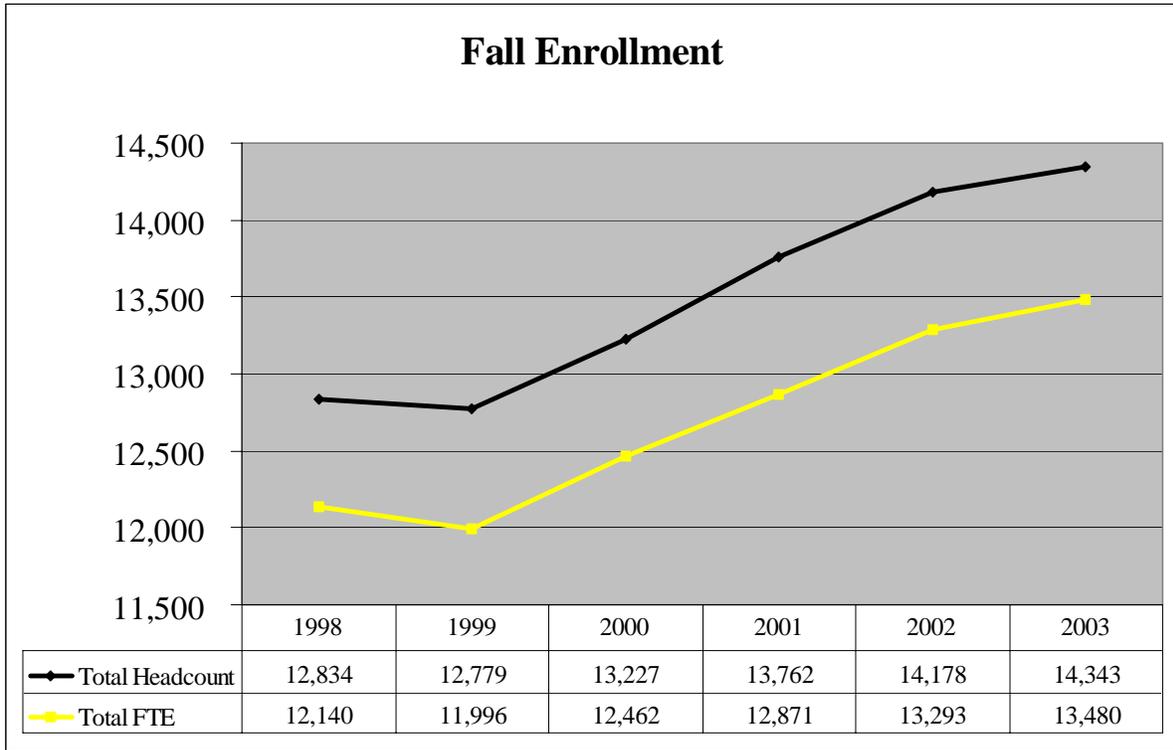
Operating Expenses by Function



Comparison of Operating Expenses by Function



MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)



MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Economic Outlook

Even though the economic environment continues to be difficult, the University attained a modest growth in net assets of \$8.9 million for the year. State appropriations were \$79.5 million during fiscal year 2003, compared to \$81.9 million in fiscal year 2002.

Capital Asset and Debt Administration

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 costs on the University of North Carolina campuses as specified in the legislation. 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 2006,
- Turchin Visual Arts Center/Education Outreach acquisition and renovation, total cost \$9.0 million. Acquisition cost was \$2.7 million. Renovation cost of \$4.2 million is authorized from the bond issue and \$2.1 million funded from other sources, expected completion in 2004, and
- Living & Learning Center academic building portion, cost \$3.5 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 \$26.0 million, expected completion in 2005,
- Living & Learning Center residence hall portion, cost \$14.4 million, was completed in 2003,
- Bookstore Renovation and Addition, cost \$5.8 million, expected completion in 2005, and
- Student Union Solarium, cost \$4.1 million, expected completion in 2004.

Appalachian issued \$25.6 million in General Revenue Bonds for the Student Recreation Facility this year. The University also issued \$4.9 million in General Revenue Bonds for dormitory renovations. Total annual debt service payments were \$7.5 million, compared to \$7.8 million last year.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

Library and Information Commons



Rankin Science



Turchin Center



Turchin Center



Living and Learning Center



Student Recreation Center



Living and Learning Center



University Bookstore



Student Union Solarium



Appalachian State University
Statement of Net Assets
June 30, 2003

Exhibit A

ASSETS

Current Assets:

Cash and Cash Equivalents	\$	38,655,439.49
Restricted Cash and Cash Equivalents		11,905,789.35
Receivables, Net (Note 4)		5,136,926.13
Inventories		3,739,129.85
Notes Receivable, Net (Note 4)		673,683.49
Total Current Assets		60,110,968.31

Noncurrent Assets:

Restricted Cash and Cash Equivalents		36,722,898.58
Receivables, Net (Note 4)		765,457.59
Restricted Due from Primary Government		5,091,757.67
Endowment Investments		5,946,452.33
Other Long-Term Investments		8,384,636.84
Notes Receivable, Net (Note 4)		3,434,596.01
Capital Assets - Nondepreciable (Note 5)		33,479,606.09
Capital Assets - Depreciable, Net (Note 5)		184,350,852.23
Total Noncurrent Assets		278,176,257.34

Total Assets		338,287,225.65
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LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 6)		8,636,006.52
Deferred Revenue		5,329,368.69
Interest Payable		1,564,412.42
Long-Term Liabilities - Current Portion (Note 7)		5,447,876.29
Total Current Liabilities		20,977,663.92

Noncurrent Liabilities:

Deposits Payable		255,437.17
Funds Held for Others		514,673.49
U. S. Government Grants Refundable		3,833,899.07
Long-Term Liabilities (Note 7)		114,277,721.57
Total Noncurrent Liabilities		118,881,731.30

Total Liabilities		139,859,395.22
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Appalachian State University
Statement of Net Assets
June 30, 2003

Exhibit A

Page 2

NET ASSETS

Invested in Capital Assets, Net of Related Debt	136,389,075.79
Restricted for:	
Nonexpendable:	
Research	20,000.00
Endowed Professorships	6,126,452.33
Loans	565,539.25
Expendable:	
Scholarships and Fellowships	77,864.97
Research	3,017.74
Departmental Uses	1,311,459.90
Capital Projects	2,102,413.40
Debt Service	9,496,271.12
Other	69,330.39
Unrestricted	42,266,405.54
Total Net Assets	\$ 198,427,830.43

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, 2003***

Exhibit B

REVENUES

Operating Revenues:

Student Tuition and Fees, Net (Note 9)	\$ 49,217,137.36
Federal Grants and Contracts	6,166,363.41
State and Local Grants and Contracts	1,426,650.00
Nongovernmental Grants and Contracts	358,839.94
Sales and Services, Net (Note 9)	51,215,205.00
Interest Earnings on Loans	20,985.10
Other Operating Revenues	955,383.13
Total Operating Revenues	109,360,563.94

EXPENSES

Operating Expenses:

Salaries and Benefits	125,126,306.73
Supplies and Materials	26,152,886.39
Services	26,177,343.28
Scholarships and Fellowships	7,814,077.74
Utilities	9,955,798.09
Depreciation	9,934,827.66
Total Operating Expenses	205,161,239.89

Operating Loss (95,800,675.95)

NONOPERATING REVENUES (EXPENSES)

State Appropriations	79,503,047.00
Noncapital Grants	8,564,321.91
Noncapital Gifts (Note 9)	4,363,909.01
Investment Income	3,559,227.45
Interest and Fees on Capital Asset-Related Debt	(3,749,962.74)
Other Nonoperating Revenues	548,985.21

Net Nonoperating Revenues 92,789,527.84

Loss Before Other Revenues, Expenses, Gains, or Losses (3,011,148.11)

Capital Grants	11,316,665.00
Capital Gifts (Note 9)	486,319.15
Additions to Endowments	167,000.00

Increase in Net Assets 8,958,836.04

NET ASSETS

Net Assets - July 1, 2002, as Restated (Note 16)	189,468,994.39
Net Assets - June 30, 2003	\$ 198,427,830.43

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, 2003

Exhibit C

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 108,924,415.05
Payments to Employees and Fringe Benefits	(122,227,253.23)
Payments to Vendors and Suppliers	(61,924,160.79)
Payments for Scholarships and Fellowships	(7,814,077.74)
Loans Issued	(1,049,175.00)
Collection of Loans	757,423.53
Interest Earned on Loans	48,537.16
Other Receipts	955,383.13
Net Cash Used by Operating Activities	(82,328,907.89)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Appropriations	79,503,047.00
Grants for Other than Capital Purposes	8,215,050.09
Noncapital Gifts	4,092,300.91
Additions to Permanent and Term Endowments	167,000.00
Related Activity Agency Disbursements	(334,287.06)
Other Receipts	854,959.10
Net Cash Provided by Noncapital Financing Activities	92,498,070.04

CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES

Proceeds from Capital Debt	31,575,000.00
Capital Grants	10,747,901.81
Capital Gifts	153,275.78
Proceeds from Sale of Capital Assets	28,269.76
Acquisition and Construction of Capital Assets	(23,578,968.97)
Principal Paid on Capital Debt and Leases	(3,744,418.47)
Interest and Fees Paid on Capital Debt and Leases	(3,465,488.28)
Net Cash Provided by Capital Financing and Related Financing Activities	11,715,571.63

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from Sales and Maturities of Investments	9,668,096.47
Investment Income	3,525,905.71
Purchase of Investments and Related Fees	(11,267,353.61)
Net Cash Provided by Investing Activities	1,926,648.57

Net Increase in Cash and Cash Equivalents	23,811,382.35
Cash and Cash Equivalents - July 1, 2002	63,472,745.07
Cash and Cash Equivalents - June 30, 2003	\$ 87,284,127.42

Appalachian State University
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 USED BY OPERATING ACTIVITIES**

Operating Loss	\$ (95,800,675.95)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	9,934,827.66
Allowances, Write-Offs, and Amortizations	95,630.56
Changes in Assets and Liabilities:	
Receivables (Net)	291,342.78
Due from Primary Government	35,994.30
Inventories	(243,304.94)
Accounts Payable and Accrued Liabilities	2,033,185.90
Deferred Revenue	444,940.63
Compensated Absences	1,471,039.51
Deposits Payable	(231,834.00)
Note Principal Repayments	689,120.66
Notes Issued	(1,049,175.00)
Net Cash Used by Operating Activities	\$ (82,328,907.89)

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	\$ 38,655,439.49
Restricted Cash and Cash Equivalents	11,905,789.35
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	36,722,898.58
Total Cash and Cash Equivalents - June 30, 2003	\$ 87,284,127.42

NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES

Assets Acquired through a Gift	\$ 486,319.15
Change in Fair Value of Investments	1,412,493.67
Reinvested Distributions	273,433.90
Gain on Disposal of Capital Assets	50,131.40

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

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. 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 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.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, 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 undeposited receipts, petty cash, cash on deposit with private bank accounts, savings accounts, cash on deposit with fiscal agents, and deposits held by the State Treasurer in the short-term investment portfolio. 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, certificates of deposit, real estate investment trusts, and other asset holdings by the University. Except for certificates of deposit, real estate investment trusts, 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.

Certificates of deposit, real estate investment trusts, 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

available for expenditures for which the resource provider's conditions have been satisfied. Receivables are recorded net of estimated uncollectible amounts.

- G. Inventories** - Inventories, consisting of expendable supplies, are valued at lower of cost or market using the first-in, first-out method. Merchandise for resale is valued using the retail inventory 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 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 more than one year. 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 15 to 75 years for general infrastructure, 10 to 50 years for buildings, and 3 to 15 years for equipment.

The scientific, art, and historical 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** - 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.
- J. Noncurrent Long-Term Liabilities** - Noncurrent long-term liabilities include principal amounts of bonds payable and notes payable, arbitrage rebate 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- 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 steam plant, electric utility company, 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 - 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 \$87,384,127.42. At year-end, cash on hand was \$59,409.81. The University's portion of the State Treasurer's Investment Pool was \$84,382,673.99. It is the State Treasurer's policy and practice for deposits not covered by federal depository insurance to be covered by collateral held by the State of North Carolina's agent in the name of the State and for investments to be held by the State's agent in the State's name. The carrying amount of the University's deposits not with the State Treasurer was \$2,942,043.62 and the bank balance was \$3,183,724.87. Of the bank balance, \$506,260.15 was covered by federal depository insurance and \$2,677,464.72 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 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 pools to manage investments and distribute investment income. The University utilizes the following investment pools:

Long-Term Investment Pool - This is an internal investment pool that is utilized for the investment of the endowment funds. 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 Board of Trustees of the Endowment Fund.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 2003 is presented below:

Long-Term Investment Pool

	Fair Value Total
Investments Not Categorized:	
Mutual Funds	\$ 11,057,982.31

Non-Pooled Investments

	Fair Value			
	Risk Category			
	1	2	3	
Categorized Investments:				
Corporate Stocks	\$ 0.00	\$ 0.00	\$ 386,057.80	\$ 386,057.80
Investments Not Categorized:				
Mutual Funds				2,783,258.42
Certificates of Deposit				100,000.00
Real Estate Investment Trusts				2,788.64
Other Investments				1,002.00
Total Investments Not Categorized				2,887,049.06
Total Non-Pooled Investments				\$ 3,273,106.86

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Total Investments

	Fair Value			Total
	Risk Category			
	1	2	3	
Total Categorized Investments	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 386,057.80</u>	\$ 386,057.80
Total Investments Not Categorized				<u>13,945,031.37</u>
Total Investments				<u>\$ 14,331,089.17</u>

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

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 limits spending to 5% of an individual endowment account's net asset value at the end of the previous fiscal year. An earnings reserve must be held in each endowment account in an amount equal to 5% of the original contribution. Earnings in excess of the reserve amount as calculated at the end of each fiscal year are eligible for pay out. Realized and unrealized net capital losses that invade the original corpus amounts are recovered from accumulated income before any spending budgets are calculated. Subject to these limitations, the budgeted spending amount will be based on the net asset value of each individual endowment fund. At June 30, 2003, these investments had a net realized loss of \$888,596.54 and a net unrealized gain of \$448,071.04.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 4 - RECEIVABLES

Receivables at June 30, 2003 were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	\$ 1,120,070.25	\$ 220,414.74	\$ 899,655.51
Accounts	2,587,339.68	53,207.69	2,534,131.99
Intergovernmental	1,219,557.89		1,219,557.89
Pledges	152,724.53		152,724.53
Investment Earnings	272,433.47		272,433.47
Interest on Loans	53,957.80		53,957.80
Other	4,464.94		4,464.94
Total Current Receivables	\$ 5,410,548.56	\$ 273,622.43	\$ 5,136,926.13
Noncurrent Receivables:			
Pledges	\$ 765,457.59	\$ 0.00	\$ 765,457.59
Notes Receivable:			
Notes Receivable - Current:			
Federal Loan Programs	\$ 672,520.15	\$ 0.00	\$ 672,520.15
Institutional Student Loan Programs	1,913.04	749.70	1,163.34
Total Notes Receivable - Current	\$ 674,433.19	\$ 749.70	\$ 673,683.49
Notes Receivable - Noncurrent:			
Federal Loan Programs	\$ 3,590,989.42	\$ 156,393.41	\$ 3,434,596.01

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	\$ 7,098,791.70	\$ 0.00	\$ 225,732.13	\$ 700.00	\$ 7,323,823.83
Construction in Progress	36,268,433.01	(30,021,488.11)	20,165,776.63	256,939.27	26,155,782.26
Total Capital Assets, Nondepreciable	43,367,224.71	(30,021,488.11)	20,391,508.76	257,639.27	33,479,606.09
Capital Assets, Depreciable:					
Buildings	225,192,880.97	18,893,819.85	9,920.00		244,096,620.82
Machinery and Equipment	33,074,026.97		1,504,754.11	1,027,233.87	33,551,547.21
Art, Literature, and Artifacts	1,259,477.38		296,000.00		1,555,477.38
General Infrastructure	26,265,440.81	11,127,668.26	1,068,331.26	31,784.78	38,429,655.55
Total Capital Assets, Depreciable	285,791,826.13	30,021,488.11	2,879,005.37	1,059,018.65	317,633,300.96
Less Accumulated Depreciation for:					
Buildings	95,660,112.60		6,744,356.23		102,404,468.83
Machinery and Equipment	22,266,751.18		2,333,120.51	984,037.19	23,615,834.50
Art, Literature, and Artifacts	272,027.93		132,122.74		404,150.67
General Infrastructure	6,172,423.97		725,228.18	39,657.42	6,857,994.73
Total Accumulated Depreciation	124,371,315.68		9,934,827.66	1,023,694.61	133,282,448.73
Total Capital Assets, Depreciable, Net	161,420,510.45	30,021,488.11	(7,055,822.29)	35,324.04	184,350,852.23
Capital Assets, Net	\$ 204,787,735.16	\$ 0.00	\$ 13,335,686.47	\$ 292,963.31	\$ 217,830,458.32

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	Amount
Accounts Payable	\$ 4,010,203.01
Accrued Payroll	1,984,115.21
Contract Retainage	2,588,760.83
Intergovernmental Payables	52,927.47
Total Accounts Payable and Accrued Liabilities	\$ 8,636,006.52

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
Notes Payable	\$ 2,479,994.62	\$ 1,000,000.00	\$ 384,418.47	\$ 3,095,576.15	\$ 474,897.46
Bonds Payable	83,144,000.00	30,575,000.00	3,360,000.00	110,359,000.00	4,145,000.00
Arbitrage Rebate Payable	62,277.36		16,660.36	45,617.00	
Compensated Absences	4,754,365.20	5,881,254.05	4,410,214.54	6,225,404.71	827,978.83
Total Long-Term Liabilities	\$ 90,440,637.18	\$ 37,456,254.05	\$ 8,171,293.37	\$ 119,725,597.86	\$ 5,447,876.29

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 06/30/2003	Principal Outstanding 06/30/2003
Electric Utility	BB & T	5.16%	05/31/2006	\$ 1,000,000.00	\$ 700,000.00	\$ 300,000.00
Visual Arts Center	Bank One	4.91%	08/01/2008	2,700,000.00	927,872.90	1,772,127.10
HLES Dell Computers	BB & T	6.31%	01/19/2005	52,407.42	28,958.37	23,449.05
Electric Utility	RBC Centura	4.30%	03/15/2013	1,000,000.00		1,000,000.00
Computer Equipment	IBM	5.97%	01/01/2003	108,204.80	108,204.80	
Total Notes Payable				\$ 4,860,612.22	\$ 1,765,036.07	\$ 3,095,576.15

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 06/30/2003	Principal Outstanding 06/30/2003
<u>Housing and Student Center System</u>						
ASU Housing and Student Center System Revenue Bonds	D	3-3.625%	07/01/2004	\$ 3,654,000.00	\$ 3,350,000.00	\$ 304,000.00
	I	5.5-5.8%	07/01/2007	1,760,000.00	1,210,000.00	550,000.00
	J	5.5-5.8%	07/01/2007	1,722,000.00	1,172,000.00	550,000.00
ASU Housing and Student Center System Revenue and Refunding Revenue Bonds	1993	5.533914%	07/15/2003	17,760,000.00	17,045,000.00	715,000.00
ASU Housing and Student Center System Revenue Bonds	2000	5.606974%	07/15/2025	13,225,000.00	280,000.00	12,945,000.00
ASU Housing and Student Center System Revenue Bonds	2001	5.228044%	07/15/2027	6,680,000.00	145,000.00	6,535,000.00
ASU Housing and Student Center System Revenue Refunding Bonds	2002	4.304976%	07/15/2015	13,240,000.00	225,000.00	13,015,000.00
Total Housing and Student Center System				<u>58,041,000.00</u>	<u>23,427,000.00</u>	<u>34,614,000.00</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	2,270,000.00	5,780,000.00
<u>Utility System</u>						
ASU Utility System Revenue Bonds	1994	5.339066%	05/15/2004	28,940,000.00	28,295,000.00	645,000.00
ASU Utility System Revenue Refunding Bonds	1998	5.2885%	05/15/2024	27,535,000.00	590,000.00	26,945,000.00
Total Utility System				<u>56,475,000.00</u>	<u>28,885,000.00</u>	<u>27,590,000.00</u>
<u>University of North Carolina System Pool Revenue Bonds</u>						
Stadium Debt Fee Loan	(A)	4.338475%	10/01/2005	875,000.00	465,000.00	410,000.00
Broyhill Inn	(B)	5.514747%	10/01/2015	1,590,000.00	145,000.00	1,445,000.00
Doughton Renovation	(C)	5.015619%	04/01/2027	4,940,000.00	45,000.00	4,895,000.00
Total University of North Carolina System Pool Revenue Bonds				<u>7,405,000.00</u>	<u>655,000.00</u>	<u>6,750,000.00</u>
<u>Parking System</u>						
ASU Parking System Revenue Bonds	2000	5.608336%	07/15/2025	10,200,000.00	210,000.00	9,990,000.00
<u>Student Recreation System</u>						
ASU General Revenue Bonds	2003A	4.483238%	05/01/2028	25,635,000.00		25,635,000.00
Total Bonds Payable (principal only)				<u>\$ 165,806,000.00</u>	<u>\$ 55,447,000.00</u>	<u>\$ 110,359,000.00</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, 2003 are as follows:

Fiscal Year	Annual Requirements			
	Bonds Payable		Notes Payable	
	Principal	Interest	Principal	Interest
2004	\$ 4,145,000.00	\$ 5,221,001.75	\$ 474,897.46	\$ 143,552.79
2005	4,269,000.00	5,048,029.50	483,621.39	120,406.73
2006	4,305,000.00	4,883,118.00	487,396.23	97,217.84
2007	4,325,000.00	4,714,348.75	401,507.38	74,888.92
2008	4,525,000.00	4,523,012.50	416,311.40	55,737.12
2009-2013	23,640,000.00	19,579,858.76	831,842.29	70,640.68
2014-2018	23,015,000.00	13,863,753.79		
2019-2023	24,270,000.00	8,101,980.73		
2024-2028	17,865,000.00	2,014,796.91		
Total Requirements	\$ 110,359,000.00	\$ 67,949,900.69	\$ 3,095,576.15	\$ 562,444.08

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: In 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 of \$17,760,000.00). 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, 2003, 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, 2003, the outstanding balance of the defeased ASU Utility System Revenue Bonds was \$25,050,000.00.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 8 - OPERATING LEASE OBLIGATIONS

The University entered into operating leases for equipment, office space, and parking facilities. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2003:

<u>Fiscal Year</u>	<u>Amount</u>
2004	\$ 516,143.94
2005	249,347.54
2006	138,887.45
2007	72,017.63
2008	26,009.86
2009-2014	<u>16,000.00</u>
Total Minimum Lease Payments	<u>\$ 1,018,406.42</u>

Rental expense for all operating leases during the year was \$1,970,174.24.

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	
Operating Revenues:						
Student Tuition and Fees	\$ 52,702,839.48	\$ 0.00	\$ 3,411,035.68	\$ 74,666.44	\$ 49,217,137.36	
Sales and Services:						
Sales and Services of Auxiliary Enterprises:						
Residential Life	\$ 13,743,777.45	\$ 0.00	\$ 1,093,571.90	\$ 1,533.18	\$ 12,648,672.37	(A)
Dining	10,994,115.72	862,666.00	691,285.59	4,784.32	9,435,379.81	
Student Union Services	149,821.82			8.23	149,813.59	(B)
Health, Physical Education, and Recreation Services	1,378,409.26		190,088.11	1,161.12	1,187,160.03	
Bookstore	5,563,198.26	264,815.26	137,615.65	28.04	5,160,739.31	(C)
Parking	1,600,370.83			(532.58)	1,600,903.41	(D)
Broyhill Inn and Conference Center	2,004,130.25	192,000.71			1,812,129.54	(E)
Camp Programs	2,585,106.16				2,585,106.16	
Steam Utility System	7,094,569.80	7,088,644.80			5,925.00	(F)
Athletic	1,633,626.85		365,806.79	91.00	1,267,729.06	
Other	7,728,640.61	2,621,172.54	517,136.72	(272.48)	4,590,603.83	
Sales and Services of Education and Related Activities	1,015,868.23	602,393.37	114,334.46		299,140.40	
Independent Operations	13,648,392.65	3,160,584.80		15,905.36	10,471,902.49	
Total Sales and Services	<u>\$ 69,140,027.89</u>	<u>\$ 14,792,277.48</u>	<u>\$ 3,109,839.22</u>	<u>\$ 22,706.19</u>	<u>\$ 51,215,205.00</u>	
Nonoperating - Noncapital Gifts	<u>\$ 4,363,909.01</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 4,363,909.01</u>	
Capital Gifts	<u>\$ 486,319.15</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 486,319.15</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

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	\$ 62,394,289.31	\$ 3,838,278.64	\$ 2,992,043.53	\$ 32,995.06	\$ 0.00	\$ 0.00	\$ 69,257,606.54
Research	529,494.71	148,371.24	194,947.43	2,880.00			875,693.38
Public Service	4,095,680.98	154,087.75	839,692.30	826,870.73	11,929.84		5,928,261.60
Academic Support	13,947,920.21	3,378,479.68	2,965,981.21	149,786.84	688.44		20,442,856.38
Student Services	4,545,317.02	155,597.68	713,047.40	141,573.00			5,555,535.10
Institutional Support	10,454,844.10	720,948.65	1,629,619.09				12,805,411.84
Operations and Maintenance of Plant	8,579,785.91	439,642.84	3,763,470.60		4,890,177.69		17,673,077.04
Student Financial Aid	33,139.93	255.42	75,953.45	5,641,290.57			5,750,639.37
Auxiliary Enterprises	19,720,957.52	10,807,119.70	12,087,025.53	1,018,681.54	5,053,002.12		48,686,786.41
Independent Operations	824,877.04	6,510,104.79	915,562.74				8,250,544.57
Depreciation						9,934,827.66	9,934,827.66
Total Operating Expenses	<u>\$ 125,126,306.73</u>	<u>\$ 26,152,886.39</u>	<u>\$ 26,177,343.28</u>	<u>\$ 7,814,077.74</u>	<u>\$ 9,955,798.09</u>	<u>\$ 9,934,827.66</u>	<u>\$ 205,161,239.89</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 \$104,824,100.59, of which \$53,273,265.39 was covered under the Teachers' and State Employees' Retirement System. Total employee

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

contributions for pension benefits for the year were \$3,196,395.92. 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, \$1,005,124.32, and \$2,657,589.88, 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 \$104,824,100.59, of which \$37,976,957.78 was covered under the Optional Retirement Program. Total employee and employer

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

contributions for pension benefits for the year were \$2,278,617.47 and \$2,597,623.91, 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 \$85,986.78 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 \$21,149.15. The voluntary contributions by employees amounted to \$607,745.00 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 contributions by employees amounted to \$1,646,960.21 for the year ended June 30, 2003.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 \$2,144,380.24. The University assumes no liability for retiree health care benefits provided by the programs other than its required contribution. Additional detailed information about these programs can be located in the State of North Carolina's *Comprehensive Annual Financial Report*.
- B. Long-Term Disability -** The University participates in the Disability Income Plan of North Carolina (DIPNC). Established by Chapter 135, Article 6, of the General Statutes, DIPNC provides short-term and long-term disability benefits to eligible members of the Teachers' and State Employees' Retirement System 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 \$474,501.16. 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

certain risks. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

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

The University is required to maintain fire and lightning coverage on all State-owned buildings and contents through the State Property Fire Insurance Fund (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 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. This coverage is with a private insurance company and is handled by the North Carolina Department of Insurance. Universities are charged a premium by the private insurance company. Coverage limit is \$5,000,000 per occurrence with a \$50,000 deductible and a 10% participation in each loss above the deductible.

The University purchased other authorized coverage 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 dependents. The maximum coverage for sickness or injury is \$100,000 for the participant and dependents with no deductible.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

University employees and retirees are provided comprehensive major medical care benefits. Coverage is funded by contributions to the State Health Plan (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 \$55,747,467.98 and on other purchases were \$1,060,034.32 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

C. University Improvement General Obligation Bonds – The 1999-2000 Session of the General Assembly of North Carolina authorized the issuance of two billion five hundred million dollars of general obligation bonds of the State, as subsequently approved by a vote of qualified voters of the State, to provide funds for capital improvements for the University of North Carolina. The funds authorized are to be used solely for capital facilities cost on the University of North Carolina campuses as specified in the legislation. The bond legislation specifies the amount of bond funding for each University campus and the level of bond funding intended for each project. The bonds are authorized to be issued over a six-year period beginning in 2001 at a level not to exceed amounts provided in the legislation. Using a cash flow financing approach, The University of North Carolina – General Administration (UNC-GA), establishes annual amounts not to exceed for each approved project. The amounts not to exceed are subject to change due to actual cash availability and needs during the year. Subsequent to the bond sales and the availability of bond proceeds, UNC-GA notifies the Office of State Budget and Management (OSBM) of the amounts not to exceed for each approved project. Within these amounts, based on an official request of cash needs from the University, OSBM authorizes allotments. The University records the allotments as revenue on the accompanying financial statements. The University's remaining authorization \$71,588,941.67 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 nonprofit 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 \$5,553,715.00 for the year ended June 30, 2003.

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

B. Nonprofit Corporation - The Appalachian Student Housing Corporation is a separately incorporated nonprofit entity associated with the University.

The Appalachian Student Housing Corporation's purpose is to develop, finance, prepare, provide, and supervise residential housing facilities for 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, 2003.

NOTE 16 - NET ASSET RESTATEMENT

As of July 1, 2002, net assets as previously reported were restated for capital credits that had been recorded as investments in prior years. Capital credits are excess earnings of Blue Ridge Electric Membership Corporation that are allocated to the University based on electricity purchases by New River Light and Power Company, Camp Broadstone, and Dark Sky Observatory. These credits are nonnegotiable and the fair value cannot be reasonably determined. Capital credits do not meet the criteria for reporting as investments and should not have been reported in the financial statements in prior years.

	<u>Amount</u>
July 1, 2002 Net Assets as Previously Reported	\$ 196,287,446.61
Removal of Capital Credits as Investments	<u>(6,818,452.22)</u>
July 1, 2002 Net Assets as Restated	<u><u>\$ 189,468,994.39</u></u>

***Appalachian State University
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>							
Central Library Complex	Jun 2003	\$ 45,207,460.00	\$ 0.00	\$ 45,207,460.00	\$ 3,155,002.58	6.98%	Jun 2007
Science Bldg. Complete Interior Labs/Academic	May 2002	1,197,000.00		1,197,000.00	411,165.85	34.35%	Nov 2002
Rankin Science Building-Comprehensive Renovation	Jun 2003	10,599,150.00		10,599,150.00	1,015,336.54	9.58%	Oct 2006
Living Learning Center-Academic Portion	Oct 2001	3,489,560.00		3,489,560.00	3,038,620.66	87.08%	Sep 2003
Visual Arts Center/Education Outreach Renovation	Jan 2002	4,155,965.00	2,160,000.00	6,315,965.00	2,499,412.72	39.57%	Nov 2004
Walker Hall Classroom Bldg.-Comprehensive Renovation	Jul 2003	1,647,110.00		1,647,110.00	177,358.24	10.77%	Nov 2004
B. B. Dougherty Hall-Comprehensive Renovation	Oct 2002	1,282,100.00		1,282,100.00	1,230,517.71	95.98%	Sep 2003
Water System Improvements	Nov 2003	2,722,890.00		2,722,890.00	110,429.50	4.06%	Dec 2004
Land Acquisition	Nov 2001	829,300.00		829,300.00	729,396.31	87.95%	Dec 2002
Technology Infrastructure Expansion	Sep 2001	4,596,955.00		4,596,955.00	976,814.77	21.25%	Jan 2007
Rankin Science Building-Addition	Sep 2001	5,056,500.00		5,056,500.00	5,056,500.00	100.00%	Jun 2003
Founders Hall Comprehensive Renovation	Feb 2003	991,895.00		991,895.00	380,926.90	38.40%	Dec 2003
Reserve for Effective Project Management	Aug 2001	4,076,020.00		4,076,020.00	119,587.23	2.93%	Dec 2007
<i>Projects Not Started - To Be Funded in Future Years</i>							
Smith-Wright Hall Classroom Building	Dec 2004	1,554,295.00		1,554,295.00			Dec 2005
Total All Projects		\$ 87,406,200.00	\$ 2,160,000.00	\$ 89,566,200.00	\$ 18,901,069.01		

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 Revenues and Expenses
Year Ended June 30, 2003**

Schedule 2

	Football	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	\$ 0.00	\$ 3,984,568.33	\$ 3,984,568.33
Ticket Sales	375,104.05	66,116.19	2,417.81	607.00		444,245.05
Radio and TV Rights	10,000.00			12,327.77	302,795.33	325,123.10
Contest Guarantees	100,000.00	80,000.00	15,000.00	7,850.00		202,850.00
Other Sales and Services	3,597.87	2,787.75	3,639.33	46,595.84	489,781.08	546,401.87
Advertising Income					36,971.50	36,971.50
Concessions	6,662.00			1,911.83	69,356.50	77,930.33
Other Sources	105.00		2,669.00	44,218.04	27,307.11	74,299.15
Total Operating Revenues	495,468.92	148,903.94	23,726.14	113,510.48	4,910,779.85	5,692,389.33
Expenses:						
Operating Expenses:						
Coaches' Salaries	430,046.15	207,781.30	181,386.72	554,092.02	515,271.30	1,888,577.49
Other Salaries	24,383.55	8,351.59	16,173.44	13,603.78	514,760.45	577,272.81
Fringe Benefits	62,932.16	29,920.11	27,235.36	113,319.93	186,612.40	420,019.96
Travel:						
Team	67,538.10	42,816.59	37,964.91	324,125.12	16,614.04	489,058.76
Recruiting	103,975.27	51,427.84	55,993.31	39,709.79	36,471.14	287,577.35
Financial Aid, Net	678,916.55	157,156.28	140,521.80	755,065.33		1,731,659.96
Supplies and Uniforms	156,806.28	19,079.63	27,471.96	197,001.33	143,651.86	544,011.06
Insurance					93,676.00	93,676.00
Telephone	7,392.10	6,173.29	4,098.11	7,758.64	22,621.59	48,043.73
Entertainment				3,471.09	9,648.85	13,119.94
Printing and Binding	10,017.82	3,259.30	2,646.54	378.09	78,897.92	95,199.67
Repairs and Maintenance	3,175.17	42.81	2,246.81	3,151.10	7,473.12	16,089.01
Equipment Rentals				350.00	20,170.93	20,520.93
Other Fixed Charges	3,613.00	4,209.74	2,230.00	9,813.95	10,577.50	30,444.19
Other Contractual Services	136,870.81	42,256.62	15,707.25	64,630.96	295,297.36	554,763.00
Depreciation Expense					222,176.73	222,176.73
Miscellaneous	13,869.26	9,336.32	5,338.43	9,750.58	8,355.94	46,650.53
Total Operating Expenses	1,699,536.22	581,811.42	519,014.64	2,096,221.71	2,182,277.13	7,078,861.12
Operating Income (Loss)	(1,204,067.30)	(432,907.48)	(495,288.50)	(1,982,711.23)	2,728,502.72	(1,386,471.79)
Nonoperating Revenues						
State Appropriations					47,146.72	47,146.72
Gifts:						
Noncapital	35,599.93	7,641.04	10,844.88	91,553.90	800,684.54	946,324.29
Investment Income					48,949.99	48,949.99
Nonoperating Revenues	35,599.93	7,641.04	10,844.88	91,553.90	896,781.25	1,042,421.00
Excess (Deficiency) of Revenues over Expenses	\$ (1,168,467.37)	\$ (425,266.44)	\$ (484,443.62)	\$ (1,891,157.33)	\$ 3,625,283.97	\$ (344,050.79)
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 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.

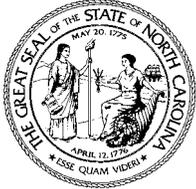
During the year, leased vehicles were provided at no charge to the University. The leased vehicles were provided in exchange for free tickets and recognition as sponsors and/or advertising. The value of these leased vehicles has been recorded as gifts in the preceding Statement of Revenues and Expenses.

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 \$102,919.93.

NOTE 3 - 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*. 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. The amount of depreciation on capital assets applicable to athletics was \$222,176.73.



Ralph Campbell, Jr.
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
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, 2003, and have issued our report thereon dated October 31, 2003.

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 over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or

**INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF
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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 31, 2003

DISTRIBUTION OF AUDIT REPORT

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

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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. Harvey R. Durham	Interim Chancellor, Appalachian State University
Ms. Jane P. Helm	Vice Chancellor for Business Affairs Appalachian State University
Mr. Robert G. Fox, Jr.	Chairman, Board of Trustees Appalachian State University

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Other Legislative Officials

Mr. James D. Johnson	Director, Fiscal Research Division
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December 11, 2003

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