

STATE OF NORTH CAROLINA

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

ASHEVILLE, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2004

OFFICE OF THE STATE AUDITOR

LESLIE W. MERRITT, JR., CPA, CFP

STATE AUDITOR

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

ASHEVILLE, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2004

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Leslie W. Merritt, Jr., CPA, CFP
State Auditor

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Office of the State Auditor

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AUDITOR'S TRANSMITTAL

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

This report presents the results of our financial statement audit of The University of North Carolina at Asheville, a constituent institution of the sixteen-campus University of North Carolina System, which is a component unit of the State of North Carolina, for the year ended June 30, 2004. Our audit was made by authority of Article 5A of Chapter 147 of the *North Carolina General Statutes*.

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

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

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

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

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

AUDITOR'S TRANSMITTAL (CONCLUDED)

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

Results - Our tests disclosed no significant deficiencies 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 Internal Control over Financial Reporting and on Compliance and Other Matters.

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.



Leslie W. Merritt, Jr., CPA, CFP
State Auditor

TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITOR’S REPORT	1
MANAGEMENT’S DISCUSSION AND ANALYSIS	3
BASIC FINANCIAL STATEMENTS	
Exhibits	
A-1 Statement of Net Assets	9
A-2 Statement of Revenues, Expenses, and Changes in Net Assets	11
A-3 Statement of Cash Flows	12
B-1 Statement of Financial Position	14
B-2 Statement of Activities	15
Notes to the Financial Statement.....	17
SUPPLEMENTARY INFORMATION	
Schedules	
1 Schedule of General Obligation Bond Project Authorizations, Budgets, and Expenditures.....	39
2 Statement of Revenues and Expenses – Intercollegiate Athletics Program	40
INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	43
DISTRIBUTION OF AUDIT REPORT	45



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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of The University of North Carolina at Asheville, a constituent institution of the sixteen-campus University of North Carolina System, which is a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 2004, which collectively comprise The University of North Carolina at Asheville's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of The University of North Carolina at Asheville Foundation, Inc., which represents 100% of the University's discretely presented component unit. These financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for this entity, is based on the report of the other auditors.

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. The financial statements of The University of North Carolina at Asheville Foundation, Inc., were not audited in accordance with *Government Auditing Standards*. 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 and the report of other auditors, provides a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of The University of North Carolina at Asheville and its discretely presented component unit, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

As discussed in Note 16 to the financial statements, the University implemented Governmental Accounting Standards Board Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, during the year ended June 30, 2004.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 14, 2005, 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 grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis, 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 certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise The University of North Carolina at Asheville's basic financial statements. 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 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.



Leslie W. Merritt, Jr., CPA, CFP
State Auditor

February 14, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

Overview of the Financial Statement Information

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

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

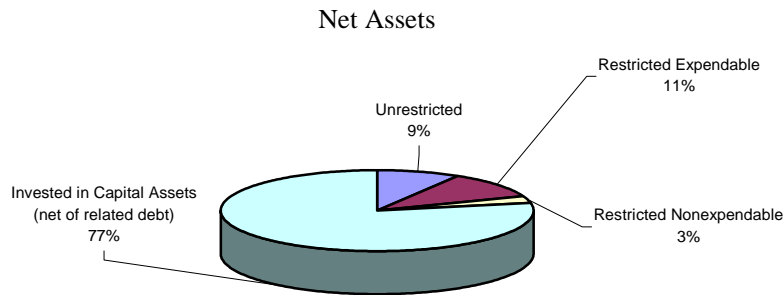
Condensed Statement of Net Assets

	<u>2004 Fiscal Year</u>	<u>2003 Fiscal Year</u>
Current Assets	\$ 14,477,213.80	\$ 16,588,805.21
Capital Assets	95,505,882.35	86,743,688.51
Other Noncurrent Assets	11,056,311.53	7,416,640.35
 Total Assets	 <u>121,039,407.68</u>	 <u>110,749,134.07</u>
 Current Liabilities	 5,114,471.01	 5,575,797.67
Noncurrent Liabilities	31,401,551.34	32,453,739.11
 Total Liabilities	 <u>36,516,022.35</u>	 <u>38,029,536.78</u>
 Invested in Capital Assets, Net of Related Debt	 66,067,544.28	 55,851,509.65
Restricted - Nonexpendable	2,245,716.74	2,214,014.83
Restricted - Expendable	9,017,244.94	7,273,192.07
Unrestricted	7,192,879.37	7,380,880.74
 Total Net Assets	 <u>\$ 84,523,385.33</u>	 <u>\$ 72,719,597.29</u>

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Net assets are shown in the graph below.



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

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

	<u>2004 Fiscal Year</u>	<u>2003 Fiscal Year</u>
Tuition and Fees	\$ 12,690,774.50	\$ 10,758,511.30
Grants and Contracts	4,618,012.26	3,588,267.96
Sales and Services	8,355,537.15	6,966,410.31
Other Operating Revenues	<u>248,041.06</u>	<u>324,716.21</u>
Total Operating Revenues	<u>25,912,364.97</u>	<u>21,637,905.78</u>
Total Operating Expenses	<u>55,910,766.37</u>	<u>50,210,635.23</u>
Operating Loss	<u>(29,998,401.40)</u>	<u>(28,572,729.45)</u>
State Appropriations	25,495,221.37	22,870,179.85
Noncapital Gifts	1,012,966.62	1,503,988.51
Interest and fees on capital asset-related debt	(1,068,914.07)	(1,850,397.35)
Other Nonoperating Revenues	<u>1,333,994.64</u>	<u>764,478.45</u>
Total Nonoperating Revenues	<u>26,773,268.56</u>	<u>23,288,249.46</u>
Capital Grants	14,376,537.92	6,370,761.15
Capital Gifts	627,142.96	2,848,928.12
Additions to Permanent Endowments	<u>25,240.00</u>	<u>240.00</u>
Increase in Net Assets	11,803,788.04	3,935,449.28
Net Assets, Beginning of Year	<u>72,719,597.29</u>	<u>68,784,148.01</u>
Net Assets, End of Year	<u>\$ 84,523,385.33</u>	<u>\$ 72,719,597.29</u>

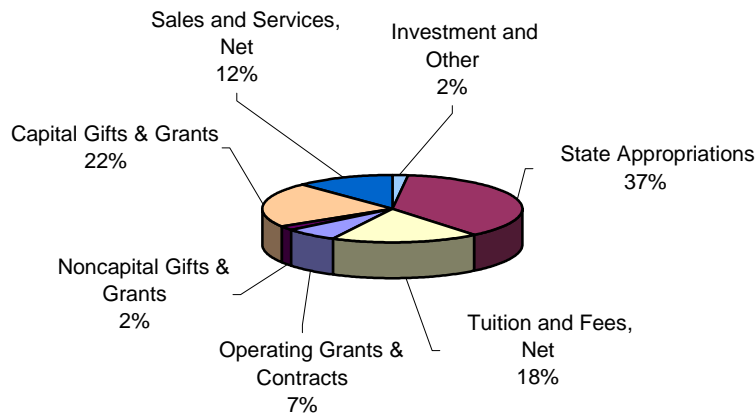
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

The increase in net assets is primarily due to the \$8.0 million or 125% increase in capital grants. Capital grants represent the portion of the statewide bond proceeds used by UNCA in the 2004 fiscal year. The 1999-2000 Session of the General Assembly of North Carolina authorized these bonds and UNCA will continue to receive grants for capital projects for several more years. For additional information on these statewide bonds, see Note 14C.

Even though State appropriations are now considered nonoperating, they are still a significant part of the total university revenues as shown in the graph below. State appropriations increased \$2.6 million or 11% this fiscal year.

Total operating revenues increased \$4.3 million and total operating expenses increased \$5.7 million. The change in operating revenues is primarily the result of an increase in student tuition and fees and sales and services. The increase in operating expense is the result of increase salaries and benefits, supplies and materials, and services expenses.

Total Revenues by Source

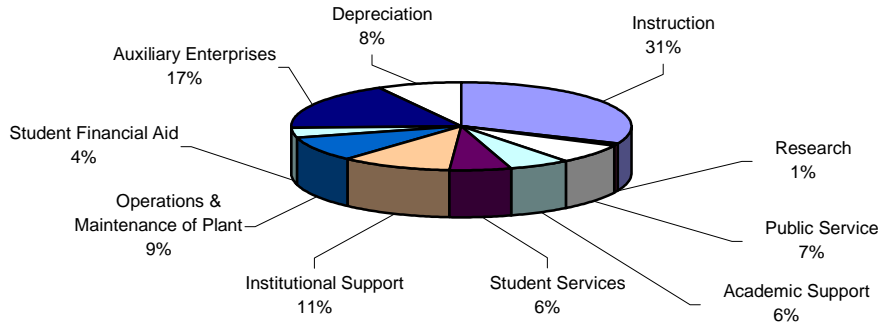


State appropriations continue to decrease as a percentage of total revenues. As an example, the 2003-04 appropriation is comparable to the 2000-01 appropriation, when UNCA had about 300 fewer students. Although UNCA was able to maintain the high quality educational standards expected, this downward trend has an adverse impact on the University's student and institutional support services.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

The expenses by function are shown in the graph below.

Expenses by Function



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

Condensed Statement of Cash Flows

	<u>2004 Fiscal Year</u>	<u>2003 Fiscal Year</u>
Cash Provided (Used) by:		
Operating Activities	\$ (24,954,807.30)	\$ (24,397,218.14)
Noncapital Financing Activities	26,662,443.30	24,593,622.27
Capital Financing Activities	(3,658,494.78)	1,178,429.75
Investing Activities	<u>580,157.64</u>	<u>826,822.98</u>
Net Increase (Decrease) in Cash	(1,370,701.14)	2,201,656.86
Cash - Beginning of the Year	<u>15,004,389.62</u>	<u>12,802,732.76</u>
Cash - End of the Year	<u><u>\$ 13,633,688.48</u></u>	<u><u>\$ 15,004,389.62</u></u>

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Debt Administration and Capital Assets

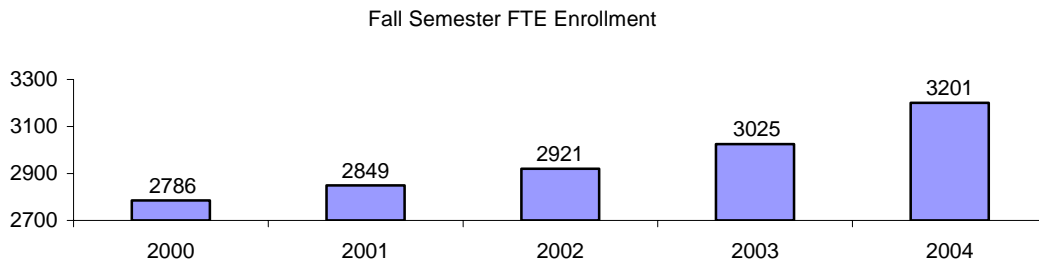
UNCA has several capital projects in various stages of planning and construction. Current projects are funded through capital appropriations and statewide bond issues (considered capital grants for statement presentation). The final aspects of the Highsmith University Union (the campus student center) renovation concluded shortly after year-end and the facility was ready for occupancy in August of 2004. Other projects include new and renovated classroom space as well as a new facilities management building.

The University had \$31,469,130.07 in outstanding debt at June 30, 2004, and continues to make all of its debt payments in a timely manner. More detailed information about UNCA's debt obligations is provided in Note 7 of the Notes to the Financial Statements.

The capital assets, net of accumulated depreciation, at June 30, 2004, were \$95,505,882.35. For more detailed information about asset holdings, see Note 5 of the Notes to the Financial Statements.

Economic Outlook

The financial condition of the University is expected to remain sound for the foreseeable future. North Carolina's economic picture continues to slowly improve while demand for the University's educational product continues to increase. The following table compares fall semester enrollment of full-time equivalent (FTE) students for recent years, illustrating a pattern of measured growth, consistent with university goals:



It is common for public institutions of higher learning to experience an increase in demand for enrollment during periods of general economic downturn. As the above comparison shows, the UNCA experienced such an increase through the period of recessionary conditions prevailing at the outset of the fall semesters in 2002 and 2003. It is noteworthy that this increase in demand continued in 2004 even though the state's overall economy improved slightly. We believe this is one of the first indications that UNCA is becoming a school of first choice among today's higher education students and has caused the University to switch to a fixed deadline admissions practice for the upcoming year.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

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

Another reason for confidence regarding the University's financial future is that, in the midst of the difficult fiscal year that ended June 30, 2004, the North Carolina General Assembly continued a \$500,000 in special funding for the campus. This amount is now incorporated into the University's budget as a recurring item.

The University of North Carolina at Asheville
Statement of Net Assets
June 30, 2004

Exhibit A-1

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 10,044,360.85
Restricted Cash and Cash Equivalents	2,578,793.27
Restricted Short-Term Investments	70,648.36
Receivables, Net (Note 4)	1,115,902.70
Inventories	341,877.18
Notes Receivable, Net (Note 4)	325,631.44
Total Current Assets	14,477,213.80

Noncurrent Assets:

Restricted Cash and Cash Equivalents	1,010,534.36
Restricted Due from Primary Government	4,138,924.13
Endowment Investments	5,100,129.58
Notes Receivable, Net (Note 4)	806,723.46
Capital Assets - Nondepreciable (Note 5)	24,478,800.75
Capital Assets - Depreciable, Net (Note 5)	71,027,081.60
Total Noncurrent Assets	106,562,193.88

Total Assets	121,039,407.68
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LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 6)	2,313,511.07
Due to Primary Government	28,663.72
Deferred Revenue	1,025,010.45
Interest Payable	111,243.96
Long-Term Liabilities - Current Portion (Note 7)	1,636,041.81
Total Current Liabilities	5,114,471.01

Noncurrent Liabilities:

Deposits Payable	207,399.61
Funds Held for Others	229,276.39
U. S. Government Grants Refundable	1,131,787.08
Long-Term Liabilities (Note 7)	29,833,088.26
Total Noncurrent Liabilities	31,401,551.34

Total Liabilities	36,516,022.35
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The University of North Carolina at Asheville

Statement of Net Assets

June 30, 2004

Exhibit A-1

Page 2

NET ASSETS

Invested in Capital Assets, Net of Related Debt	66,067,544.28
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	533,900.00
Endowed Professorships	1,502,500.00
Departmental Uses	25,000.00
Loans	184,316.74
Expendable:	
Scholarships and Fellowships	1,438,839.21
Research	160,630.91
Endowed Professorships	1,297,468.20
Departmental Uses	337,203.68
Capital Projects	4,656,124.74
Debt Service	1,093,006.38
Other	33,971.82
Unrestricted	7,192,879.37
Total Net Assets	<u>\$ 84,523,385.33</u>

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

The University of North Carolina at Asheville
Statement of Revenues, Expenses, and
Changes in Net Assets
For the Fiscal Year Ended June 30, 2004

Exhibit A-2

REVENUES

Operating Revenues:

Student Tuition and Fees, Net (Note 9)	\$ 12,690,774.50
Federal Grants and Contracts	2,592,043.09
State and Local Grants and Contracts	757,526.05
Nongovernmental Grants and Contracts	1,268,443.12
Sales and Services, Net (Note 9)	8,355,537.15
Interest Earnings on Loans	2,835.84
Other Operating Revenues	245,205.22

Total Operating Revenues 25,912,364.97

EXPENSES

Operating Expenses:

Salaries and Benefits	33,090,939.41
Supplies and Materials	7,138,280.68
Services	7,428,251.19
Scholarships and Fellowships	1,959,892.49
Utilities	1,781,044.13
Depreciation	4,512,358.47

Total Operating Expenses 55,910,766.37

Operating Loss (29,998,401.40)

NONOPERATING REVENUES (EXPENSES)

State Appropriations	25,495,221.37
Noncapital Grants	195,275.76
Noncapital Gifts	1,012,966.62
Investment Income (Net of Investment Expense of \$6,466)	1,134,081.91
Interest and Fees on Capital Asset-Related Debt	(1,068,914.07)
Other Nonoperating Revenues	4,636.97

Net Nonoperating Revenues 26,773,268.56

Loss Before Other Revenues, Expenses, Gains, or Losses (3,225,132.84)

Capital Appropriations	139,200.00
Capital Grants	14,237,337.92
Capital Gifts	627,142.96
Additions to Endowments	25,240.00

Increase in Net Assets 11,803,788.04

NET ASSETS

Net Assets - July 1, 2003 72,719,597.29

Net Assets - June 30, 2004 \$ 84,523,385.33

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

The University of North Carolina At Asheville
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2004

Exhibit A-3

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 25,854,792.16
Payments to Employees and Fringe Benefits	(32,649,724.10)
Payments to Vendors and Suppliers	(16,241,639.41)
Payments for Scholarships and Fellowships	(1,959,892.49)
Loans Issued	(232,364.75)
Collection of Loans	247,982.73
Interest Earned on Loans	2,619.84
Student Deposits Received	124,493.72
Student Deposits Returned	(101,075.00)
Net Cash Used by Operating Activities	(24,954,807.30)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Appropriations	25,495,221.37
Noncapital Grants	195,275.76
Noncapital Gifts	1,014,663.84
Additions to Permanent and Term Endowments	25,240.00
William D. Ford Direct Lending Receipts	7,323,450.00
William D. Ford Direct Lending Disbursements	(7,323,450.00)
Related Activity Agency Disbursements	(67,957.67)
Net Cash Provided by Noncapital Financing Activities	26,662,443.30

CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES

State Capital Appropriations	139,200.00
Capital Grants	11,703,868.61
Capital Gifts	491,768.88
Proceeds from Sale of Capital Assets	4,636.97
Acquisition and Construction of Capital Assets	(13,225,331.60)
Principal Paid on Capital Debt and Leases	(1,425,000.00)
Interest and Fees Paid on Capital Debt and Leases	(1,347,637.64)
Net Cash Used by Capital Financing and Related Financing Activities	(3,658,494.78)

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from Sales and Maturities of Investments	132,885.35
Investment Income	482,797.29
Purchase of Investments and Related Fees	(35,525.00)
Net Cash Provided by Investing Activities	580,157.64

Net Decrease in Cash and Cash Equivalents	(1,370,701.14)
Cash and Cash Equivalents - July 1, 2003	15,004,389.62
Cash and Cash Equivalents - June 30, 2004	\$ 13,633,688.48

The University of North Carolina at Asheville
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2004

Exhibit A-3

Page 2

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

Operating Loss	\$ (29,998,401.40)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	4,512,358.47
Allowances, Write-Offs, and Amortizations	5,759.38
Changes in Assets and Liabilities:	
Receivables (Net)	(13,549.20)
Inventories	5,985.79
Accounts Payable and Accrued Liabilities	43,445.09
Due to Primary Government	178.26
Deferred Revenue	44,777.61
Compensated Absences	405,602.00
Deposits Payable	23,418.72
Note Principle Repayments	247,982.73
Notes Issued	(232,364.75)
Net Cash Used by Operating Activities	\$ (24,954,807.30)

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	\$ 10,044,360.85
Restricted Cash and Cash Equivalents	2,578,793.27
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	1,010,534.36
Total Cash and Cash Equivalents - June 30, 2004	\$ 13,633,688.48

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through a Gift	\$ 293,600.00
Change in Fair Value of Investments	735,296.57

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

The University of North Carolina at Asheville Foundation, Inc.**Statement of Financial Position****June 30, 2004****Exhibit B-1****ASSETS**

Current Assets:

Cash and Cash Equivalents \$ 1,829,465

Receivables:

Accrued Interest and Dividend Receivable 8,152

Sales Tax Receivable 4,610

Student Loans Receivable, Net 2,156

UNCA Employee Loans Receivable, Net 7,215

Other Receivables 3,831

Promises to Give 103,949

Total Current Assets 1,959,378

Property and Equipment, Net 22,682

Other Assets:

Investments 9,838,529

Promises to Give, Net 43,305

Total Other Assets 9,881,834

Total Assets 11,863,894

LIABILITIES AND NET ASSETS

Current Liabilities:

Accounts Payable and Accrued Expenses 10,704

Annuities Payable 6,740

Total Current Liabilities 17,444

Other Liabilities:

Annuities Payable 41,223

Total Liabilities 58,667

NET ASSETS

Unrestricted 1,347,084

Temporarily Restricted 4,116,687

Permanently Restricted 6,341,456

Total Net Assets \$ 11,805,227

The University of North Carolina at Asheville Foundation, Inc.**Statement of Activities****For the Fiscal Year Ended June 30, 2004****Exhibit B-2**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES				
Investment Income	\$ 29,866	\$ 148,918	\$ 0	\$ 178,784
Realized and Unrealized Gains on Sale of Investment	461,946	804,721		1,266,667
Other Income	159,528	15,723		175,251
Total Revenues	651,340	969,362		1,620,702
PUBLIC SUPPORT				
Contributions	254,272	689,639	207,818	1,151,729
Net Assets Released From Restriction	909,167	(909,167)		
Total Revenue, Gains and Other Support	1,814,779	749,834	207,818	2,772,431
EXPENSES				
Program Services:				
Contributions to the University of North Carolina at Asheville for:				
Scholarships	396,308			396,308
Support of University Programs	649,710			649,710
Educational Grants and Awards	9,365			9,365
Total Program Services	1,055,383			1,055,383
Fundraising:				
Contributed Services	62,500			62,500
Investment Fees	16,526			16,526
Accounting Fees	8,812			8,812
Printing	15,244			15,244
Supplies	22,262			22,262
Current Services	187,724			187,724
Fixed Charges	14,316			14,316
Travel	11,573			11,573
Equipment Rental	444			444
Postage	3,543			3,543
Contracted Services	67,934			67,934
Depreciation	2,125			2,125
Other	3,310			3,310
Total Fundraising Expenses	416,313			416,313
Total Expenses	1,471,696			1,471,696
Change in Net Assets	343,083	749,834	207,818	1,300,735
NET ASSETS				
Net Assets - Beginning of Year	1,004,001	3,366,853	6,133,638	10,504,492
Net Assets - End of Year	<u>\$ 1,347,084</u>	<u>\$ 4,116,687</u>	<u>\$ 6,341,456</u>	<u>\$ 11,805,227</u>

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THE UNIVERSITY OF NORTH CAROLINA AT ASHEVILLE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

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

The accompanying financial statements present all funds belonging to the University and its component units. While the Board of Governors of the University of North Carolina System has ultimate responsibility, the Chancellor, the Board of Trustees, and the Board of Trustees of the Endowment Fund have delegated responsibilities for financial accountability of the University's funds. The University's component unit is discretely presented in the University's financial statements. The discretely presented component unit's financial data is reported in a separate financial statement because of its use of different GAAP reporting models and to emphasize its legal separateness.

Discretely Presented Component Unit – The University of North Carolina at Asheville Foundation, Inc., is a legally separate not-for-profit corporation and is reported as a discretely presented component unit based on the nature and significance of its relationship to the University.

The University of North Carolina at Asheville Foundation, Inc., is a legally separate, tax-exempt component unit of the University. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the University in support of its programs. The Foundation board consists of 25 to 36 elected directors. Although the University does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, that the Foundation holds and invests are restricted to the activities of the University by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the University, the

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Foundation is considered a component unit of the University and is reported in separate financial statements because of the difference in its reporting model, as described below.

The University of North Carolina at Asheville Foundation, Inc., is a private not-for-profit organization that reports its financial results under Financial Accounting Standards Board (FASB) Statements. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information in the University's financial reporting entity for these differences.

During the year ended June 30, 2004, the Foundation distributed \$1,046,017.66 to the University for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from the University Controller's Office, 207 Phillips Hall, One University Heights, Asheville, NC 28804, or by calling 828-232-5109.

- 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 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

- D. Cash and Cash Equivalents** – This classification includes petty cash, cash on deposit with private bank accounts, cash on deposit with fiscal agents, and 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 mutual funds and money market funds. Investments are accounted for at fair value, as determined by quoted market prices. The net increase (decrease) in the fair value of investments is recognized as a component of investment income.

Money market funds are reported at cost, which approximates market value.

- F. Receivables** – Receivables consist of tuition and fees charges to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from the federal government, State and local governments, and private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants. Receivables are recorded net of estimated uncollectible amounts.
- G. Inventories** – Inventories, consisting of expendable supplies and merchandise for resale, are valued using the moving weighted average cost for central stores and the bookstore and using the last invoice cost for other inventories.
- H. Capital Assets** – Capital assets are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. The value of assets constructed includes all material direct and indirect construction costs. Interest costs incurred are capitalized during the period of construction.

The University capitalizes assets that have a value or cost in excess of \$5,000 at the date of acquisition and an expected useful life of 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

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

The *Bonsai* collection, the Laiberte tapestry, the Gifts from the Mountain collection, the Birds of America collection, the Speculation Papers, and the Kelly Harrison collection were capitalized at the fair value at the date of donation. These items are considered inexhaustible and are therefore not depreciated.

- I. **Restricted Assets** – Unexpended proceeds of revenue bonds and unexpended capital contributions are classified as restricted assets because their use is limited by applicable bond covenants or donor/grantor agreements. Certain other assets are classified as restricted because their use is limited by external parties or statute.
- J. **Noncurrent Long-Term Liabilities** – Noncurrent long-term liabilities include principal amounts of bonds payable and compensated absences that will not be paid within the next fiscal year.

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 bonuses awarded by the North Carolina General Assembly to all full-time permanent employees as of September 30, 2002, and as of July 1, 2003. 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. 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

NOTE 2 - DEPOSITS AND INVESTMENTS

- A. Deposits** – Unless specifically exempt, the University is required by General Statute 147-77 to deposit moneys received with the State Treasurer or with a depository institution in the name of the State Treasurer. In addition, the University of North Carolina Board of Governors, pursuant to General Statute 116-36.1, requires the University to deposit its institutional trust funds with the State Treasurer. Although specifically exempted, the University may voluntarily deposit endowment funds, special funds, revenue bond proceeds, and debt service funds with the State Treasurer. Special funds consist of moneys for intercollegiate athletics and agency funds held directly by the University.

Deposits include cash and cash equivalents and certificates of deposit totaling \$13,622,968.48. At year end, cash on hand was \$10,720.00. The University's portion of the State Treasurer's Investment Pool was \$13,608,820.48. 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 \$14,148.00 and the bank balance was \$46,259.76. Of the bank balance, \$46,175.15 was covered by federal depository insurance and \$84.61 was on deposit with a bank in England with 100% of the balance covered by the Financial Services Compensation Scheme.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 Section 600.2.4 of the Policy Manual of the University of North Carolina, to invest its special funds and funds received for services rendered by health care professionals in the same manner as the State Treasurer is required to invest, as previously discussed.

In accordance with the bond resolutions, bond proceeds and debt service funds are invested in obligations that will by their terms mature on or before the date funds are expected to be required for expenditure or withdrawal.

General Statute 116-36(e) provides that the trustees of the Endowment Fund shall be responsible for the prudent investment of the Fund in the exercise of their sound discretion, without regard to any statute or rule of law relating to the investment of funds by fiduciaries but in compliance with any lawful condition placed by the donor upon that part of the Endowment Fund to be invested.

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

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

Long-Term Investment Pool - This is an internal investment pool that is utilized for the investment of the endowment funds. Fund ownership is measured using the unitized method. Under this method, each

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

Money market funds and mutual funds are investments not categorized to indicate the level of custodial credit risk. A summary of the University's investments at June 30, 2004, is presented below:

Long-Term Investment Pool

	Fair Value Total
Investments Not Categorized:	
Money Market Funds	\$ 70,648.36
Mutual Funds	5,100,129.58
Total Investments	<u>\$ 5,170,777.94</u>

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

University's endowment funds are based on an adopted spending policy which currently limits spending to 4% of the endowment principal's three-year trailing market value. Under this policy, the spending level is agreed upon prior to the beginning of the University's fiscal year and maintained at that level unless altered by Board action. To the extent that the total return for the current year exceeds the payout, the excess is added to the appreciation of principal. If current year earnings do not meet the payout requirements, the University uses accumulated appreciation in expendable net asset endowment balances to make up the difference. At June 30, 2004, net appreciation of \$1,878,329.41 was available to be spent, of which \$1,671,268.27 was restricted to specific purposes.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2004, were as follows:

	<u>Gross Receivables</u>	<u>Less Allowance for Doubtful Accounts</u>	<u>Net Receivables</u>
Current Receivables:			
Students	\$ 364,390.10	\$ 7,287.80	\$ 357,102.30
Accounts	382,385.83		382,385.83
Intergovernmental	213,027.39		213,027.39
Pledges			0.00
Investment Earnings	27,365.08		27,365.08
Interest on Loans	36,010.89		36,010.89
Other	100,011.21		100,011.21
Total Current Receivables	<u>\$ 1,123,190.50</u>	<u>\$ 7,287.80</u>	<u>\$ 1,115,902.70</u>
Notes Receivable:			
Notes Receivable - Current:			
Federal Loan Programs	<u>\$ 363,726.56</u>	<u>\$ 38,095.12</u>	<u>\$ 325,631.44</u>
Notes Receivable - Noncurrent:			
Federal Loan Programs	<u>\$ 901,100.76</u>	<u>\$ 94,377.30</u>	<u>\$ 806,723.46</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2004, is presented as follows:

	Balance July 1, 2003	Adjustments	Increases	Decreases	Balance June 30, 2004
Capital Assets, Nondepreciable:					
Land	\$ 2,515,703.97	\$ 0.00	\$ 0.00	\$ 0.00	\$ 2,515,703.97
Art, Literature, and Artifacts	208,102.70		293,600.00		501,702.70
Construction in Progress	20,412,451.03	(11,364,918.19)	12,413,861.24		21,461,394.08
Total Capital Assets, Nondepreciable	23,136,257.70	(11,364,918.19)	12,707,461.24		24,478,800.75
Capital Assets, Depreciable:					
Buildings	81,330,077.35	11,325,617.02	246,270.28		92,901,964.65
Machinery and Equipment	4,130,124.56		320,820.79	300,509.80	4,150,435.55
Art, Literature, and Artifacts	35,000.00				35,000.00
General Infrastructure	21,172,829.03	39,301.17			21,212,130.20
Total Capital Assets, Depreciable	106,668,030.94	11,364,918.19	567,091.07	300,509.80	118,299,530.40
Less Accumulated Depreciation/Amortization for:					
Buildings	31,342,863.30		3,061,984.68		34,404,847.98
Machinery and Equipment	3,706,710.90		251,876.17	300,509.80	3,658,077.27
Art, Literature, and Artifacts	21,000.00		3,500.00		24,500.00
General Infrastructure	7,990,025.93		1,194,997.62		9,185,023.55
Total Accumulated Depreciation	43,060,600.13		4,512,358.47	300,509.80	47,272,448.80
Total Capital Assets, Depreciable, Net	63,607,430.81	11,364,918.19	(3,945,267.40)		71,027,081.60
Capital Assets, Net	\$ 86,743,688.51	\$ 0.00	\$ 8,762,193.84	\$ 0.00	\$ 95,505,882.35

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2004, were as follows:

	Amount
Accounts Payable	\$ 1,202,152.68
Accrued Payroll	634,173.29
Contract Retainage	477,185.10
Total Accounts Payable and Accrued Liabilities	\$ 2,313,511.07

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, 2004, is presented as follows:

	Balance July 1, 2003	Additions	Reductions	Balance June 30, 2004	Current Portion
Bonds Payable	\$ 30,200,000.00	\$ 0.00	\$ 1,425,000.00	\$ 28,775,000.00	\$ 1,475,000.00
Add/Deduct Premium/Discount	692,178.86		28,840.79	663,338.07	
Total Bonds Payable	30,892,178.86		1,453,840.79	29,438,338.07	1,475,000.00
Compensated Absences	1,625,190.00	2,383,419.00	1,977,817.00	2,030,792.00	161,041.81
Total Long-Term Liabilities	\$ 32,517,368.86	\$ 2,383,419.00	\$ 3,431,657.79	\$ 31,469,130.07	\$ 1,636,041.81

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

Purpose	Series	Interest Rate/ Ranges	Final Maturity Date	Original Amount of Issue	Principal Paid Through 6/30/2004	Principal Outstanding 6/30/2004
Dormitory and Dining System						
UNCA Issued Revenue Bonds	C	4.75 - 5.0	06/01/2023	\$ 7,600,000.00	\$ 1,080,000.00	\$ 6,520,000.00
UNCA Issued Revenue Bonds	D	4.3 - 4.9	06/01/2012	3,695,000.00	1,425,000.00	2,270,000.00
UNC System Pool Revenue Bonds	(A)	Variable	10/01/2008	2,580,000.00	1,175,000.00	1,405,000.00
UNCA Issued Revenue Bonds	2002	2.5 - 5.0	06/01/2027	18,900,000.00	850,000.00	18,050,000.00
Total Dormitory and Dining				32,775,000.00	4,530,000.00	28,245,000.00
Parking System						
UNC System Pool Revenue Bonds	(B)	5.0 - 5.5	10/01/2010	705,000.00	175,000.00	530,000.00
Total Bonds Payable (principal only)				\$ 33,480,000.00	\$ 4,705,000.00	28,775,000.00
Plus: Unamortized Premium						663,338.07
Total Bonds Payable						\$ 29,438,338.07

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

Under the Agreement, any bonds purchased through the Liquidity Facility become Liquidity Provider Bonds and shall, from the date of such purchase and while they are Liquidity Provider Bonds, bear interest at the Liquidity Provider Rate (LIBOR plus one percent (1%).) LIBOR is the average of rates per annum for deposits to major money center banks in the London interbank market. Upon remarketing of Liquidity Provider Bonds and the receipt of the sales price by the Liquidity Provider, such bonds are no longer considered Liquidity Provider Bonds. Payment of the interest on the Liquidity Provider Bonds is due the first business day of each month in which Liquidity Provider Bonds are outstanding. At June 30, 2004, there were no Liquidity Provider Bonds held by the Liquidity Facility.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

D. Annual Requirements - The annual requirements to pay principal and interest on the long-term obligations at June 30, 2004, are as follows:

<u>Fiscal Year</u>	Annual Requirements	
	Bonds Payable	
	Principal	Interest
2005	\$ 1,475,000.00	\$ 1,321,393.00
2006	1,435,000.00	1,271,108.00
2007	1,485,000.00	1,221,033.00
2008	1,540,000.00	1,167,355.00
2009	1,620,000.00	1,099,705.00
2010-2014	7,105,000.00	4,481,850.00
2015-2019	6,870,000.00	2,797,863.00
2020-2024	5,025,000.00	1,274,808.00
2025-2029	2,220,000.00	225,500.00
Total Requirements	\$ 28,775,000.00	\$ 14,860,615.00

Interest on the variable rate 1998A revenue bond is calculated at 1.6% at June 30, 2004.

NOTE 8 - LEASE OBLIGATIONS

The University entered into operating leases for digital printers/copiers and mailroom equipment. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2004:

<u>Fiscal Year</u>	<u>Amount</u>
2005	\$ 159,964.57
2006	142,843.25
2007	41,689.29
2008	12,010.73
Total Minimum Lease Payments	\$ 356,507.84

Rental expense for all operating leases during the year was \$151,222.97.

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	Revenues Pledged as Security for Debt
Operating Revenues:						
Student Tuition and Fees	\$ 14,468,694.30	\$ 0.00	\$ 1,727,390.38	\$ 50,529.42	\$ 12,690,774.50	\$ 693,234.62 (A)
Sales and Services:						
Sales and Services of Auxiliary Enterprises:						
Residential Life	\$ 3,109,805.42	\$ 0.00	\$ 390,512.06	\$ 314.77	\$ 2,718,978.59	\$ 2,713,338.59 (A)
Dining	2,708,628.50		347,252.02	239.79	2,361,136.69	(A)
Student Union and Cultural Services	14,814.04				14,814.04	
Health Services	118,476.95				118,476.95	
Bookstore	1,888,892.07				1,888,892.07	
Recreation	31,337.79				31,337.79	
Parking	368,683.73		34,358.34		334,325.39	238,391.39 (B)
Athletic	323,216.64				323,216.64	
Other	622,383.97	384,904.27			237,479.70	
Sales and Services of Education and Related Activities	728,717.85	401,838.56			0.00	
	326,879.29					
Total Sales and Services	<u>\$ 9,914,956.96</u>	<u>\$ 786,742.83</u>	<u>\$ 772,122.42</u>	<u>\$ 554.56</u>	<u>\$ 8,355,537.15</u>	<u>\$ 2,951,729.98</u>

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

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	\$ 15,116,292.97	\$ 1,544,774.96	\$ 916,889.07	\$ 0.00	\$ 0.00	\$ 0.00	\$ 17,577,957.00
Research	321,874.80	64,844.73	78,299.70				465,019.23
Public Service	2,547,726.92	682,922.05	707,344.14		78,615.66		4,016,608.77
Academic Support	2,209,840.92	819,778.95	201,281.62				3,230,901.49
Student Services	2,176,638.88	191,310.31	856,403.50				3,224,352.69
Institutional Support	4,191,277.82	748,044.43	1,080,981.40		34.20		6,020,337.85
Operations and Maintenance of Plant	3,244,156.28	632,961.62	208,486.97		1,029,242.19		5,114,847.06
Student Financial Aid	21,432.55		5,489.60	1,959,892.49			1,986,814.64
Auxiliary Enterprises	3,261,698.27	2,453,643.63	3,373,075.19		673,152.08		9,761,569.17
Depreciation						4,512,358.47	4,512,358.47
Total Operating Expenses	<u>\$ 33,090,939.41</u>	<u>\$ 7,138,280.68</u>	<u>\$ 7,428,251.19</u>	<u>\$ 1,959,892.49</u>	<u>\$ 1,781,044.13</u>	<u>\$ 4,512,358.47</u>	<u>\$ 55,910,766.37</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 11 - PENSION PLANS

- A. **Retirement Plans** - Each permanent full-time employee, as a condition of employment, is a member of either the Teachers' and State Employees' Retirement System or the Optional Retirement Program. 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, 2004, these rates were set at .22% of covered payroll for employers and 6% of covered payroll for members.

For the year ended June 30, 2004, the University had a total payroll of \$27,101,232.53, of which \$13,557,018.42 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were \$813,421.11 and \$29,825.44, respectively. The University made one hundred percent of its annual required contributions for the years ended June 30, 2004, and 2002, which were \$29,825.44, and \$250,907.59, respectively. The University was not required to make a contribution in 2003.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 2004, 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, 2004, the University had a total payroll of \$27,101,232.53, of which \$10,828,867.19 was covered under the Optional Retirement Program. Total employee and employer contributions for pension benefits for the year were \$649,732.03 and \$740,694.52, 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 \$181,533.32 for the year ended June 30, 2004.

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, 2004, were \$12,039.20. The voluntary contributions by employees amounted to \$226,467.00 for the year ended June 30, 2004.

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 \$320,470.92 for the year ended June 30, 2004.

NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS

- A. Health Care for Long-Term Disability Beneficiaries and Retirees -** The University participates in State-administered programs that 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 3.2% 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

ended June 30, 2004, the University's total contribution to the Plan was \$780,348.34. 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. Employer contributions are established in the Appropriations Bill by the General Assembly. The University was not required to contribute to the DIPNC for the fiscal year ended June 30, 2004. The University assumes no liability for long-term disability benefits under the Plan other than its contribution. Additional detailed information about the DIPNC is disclosed in the State of North Carolina's *Comprehensive Annual Financial Report*.

NOTE 13 - RISK MANAGEMENT

The University is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These exposures to loss are handled via a combination of methods, including participation in State-administered insurance programs, purchase of commercial insurance, and self-retention of certain risks. Except for a reduction in the public officers' and employees' liability insurance from \$11,000,000 to \$5,000,000, 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 \$5,000,000 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 except

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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. There were no employer contributions required 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

purchases. Outstanding commitments on construction contracts were \$3,675,380.81 and on other purchases were \$1,678,303.36 at June 30, 2004.

- B. Pending Litigation and Claims** - The University is a party to litigation and claims in the ordinary course of its operations. Since it is not possible to predict the ultimate outcome of these matters, no provision for any liability has been made in the financial statements. University management is of the opinion that the liability, if any, for any of these matters will not have a material adverse effect on the financial position of the University.
- C. University Improvement General Obligation Bonds** – The 1999-2000 Session of the General Assembly of North Carolina authorized the issuance of two billion five hundred million dollars of general obligation bonds of the State, as subsequently approved by a vote of qualified voters of the State, to provide funds for capital improvements for the University of North Carolina. The funds authorized are to be used solely for capital facilities cost on the University of North Carolina campuses as specified in the legislation. The bond legislation specifies the amount of bond funding for each University campus and the level of bond funding intended for each project. The bonds are authorized to be issued over a six-year period beginning in 2001 at a level not to exceed amounts provided in the legislation. Using a cash flow financing approach, The University of North Carolina – General Administration (UNC-GA), establishes annual amounts not to exceed for each approved project. The amounts not to exceed are subject to change due to actual cash availability and needs during the year. Subsequent to the bond sales and the availability of bond proceeds, UNC-GA notifies the Office of State Budget and Management (OSBM) of the amounts not to exceed for each approved project. Within these amounts, based on an official request of cash needs from the University, OSBM authorizes allotments. The University records the allotments as revenue on the accompanying financial statements. The University's remaining authorization of \$41,388,742.13 is contingent on future bond sales and OSBM allotment approval. Because of uncertainty and time restrictions the remaining authorization is not recorded as an asset or revenue on the accompanying financial statements.

NOTE 15 - RELATED PARTIES

Foundations - There are two separately incorporated nonprofit foundations associated with the University. These foundations are the Center for Craft, Creativity and Design, Inc., and the North Carolina Arboretum Society, Inc.

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

The University's financial statements do not include the assets, liabilities, net assets, or operational transactions of these foundations. These organizations provided no support to the University for the year ended June 30, 2004.

NOTE 16 - CHANGE IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2004, the University implemented Governmental Accounting Standards Board Statement No. 39, *Determining Whether Certain Organizations are Component Units*. This Statement amends GASB Statement No. 14, *The Financial Reporting Entity*, to provide additional guidance to determine whether certain organizations for which the University is not financially accountable should be reported as component units based on the nature and significance of their relationship to the University.

*The University of North Carolina at Asheville
Schedule of General Obligation Bond Project Authorizations,
Budgets, and Expenditures
For Project-to-Date as of June 30, 2004*

Schedule 1

	Original Projected Start Date	Revised/ Actual Start Date	General Obligation Bonds Authorized	Other Sources	Total Project Budget	Amount Expended	Percent Completed	Expected Completion Date	Actual Completion Date
<i>Capital Improvement Projects</i>									
<i>Projects Started</i>									
40077									
301 Math and Science Building	Aug 2001	Mar 2005	\$ 21,093,040.00	\$ 0.00	\$ 21,093,040.00	\$ 1,430,882.38	6.78%	Jan 2007	Jan 2007
302 Highsmith Center I	Jan 2002	Jan 2002	11,202,900.00		11,202,900.00	10,532,265.48	94.01%	Sep 2004	Sep 2004
303 Carmichael Hall Classroom Building	Sept 2001	Aug 2004	5,424,304.00		5,424,304.00	409,764.12	7.55%	Mar 2006	Aug 2005
304 Zagier Hall Classroom Building	Sept 2001	Sept 2005	2,440,645.00		2,440,645.00	119,930.69	4.91%	Mar 2006	Sep 2006
305 Campus Primary Electrical Distribution System	Sept 2001	Jun 2002	972,610.00		972,610.00	968,497.12	99.58%	Jun 2003	Jun 2003
306 Relocate Physical Plant Facilities	Oct 2001	Mar 2005	6,002,955.00		6,002,955.00	501,659.09	8.36%	Sep 2005	Jun 2006
307 Technology Infrastructure Expansion	Sept 2001	Sept 2001	713,640.00		713,640.00	708,748.01	99.31%	Feb 2003	Nov 2004
309 Justice Gym-Renovations	Jan 2002	Oct 2003	195,000.00		195,000.00	195,000.00	100.00%	Mar 2003	May 2004
350 Project Management	Aug 2001	Aug 2001	2,062,306.00		2,062,306.00	730,253.38	35.41%	Jan 2007	Jan 2007
40090									
302 UNCA-Arboretum Operation Support Facility	Nov 2001	Nov 2001	2,129,190.00		2,129,190.00	1,612,385.25	75.73%	Dec 2004	Dec 2004
303 UNCA-Arboretum Main Entrance Road Utility	Jul 2001	Jul 2001	3,133,689.00		3,133,689.00	686,412.94	21.90%	Dec 2004	Dec 2004
306 UNCA-Arboretum Greenhouse Exhibition Center	Jun 2002	Jun 2002	3,602,236.00		3,602,236.00	247,833.48	6.88%	Jan 2006	Jan 2006
350 UNCA-Arboretum Project Management	Jul 2001	Jul 2001	466,585.00		466,585.00	263,525.93	56.48%	Jan 2006	Jan 2006
<i>Projects Not Started - To Be Funded in Future Years</i>									
40077									
308 Highsmith Center II	Jun 2004		356,800.00		356,800.00			Jan 2007	
Total All Projects			\$ 59,795,900.00	\$ 0.00	\$ 59,795,900.00	\$ 18,407,157.87			

Note: The 1999-2000 Session of the General Assembly of North Carolina authorized the issuance of \$2,500,000,000 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.

The University of North Carolina at Asheville
Intercollegiate Athletics Program
Statement of Revenues and Expenses
Year Ended June 30, 2004

Schedule 2

	Men's Basketball	Women's Basketball	Other Sports	Nonprogram Specific	Total
Revenues:					
Operating Revenues:					
Student Fees, Net (Note 2)	\$ 0.00	\$ 0.00	\$ 0.00	\$ 1,316,177.41	\$ 1,316,177.41
Ticket Sales				26,846.04	26,846.04
Program/Novelty Sales				3,589.02	3,589.02
Contest Guarantees				226,350.00	226,350.00
Advertising Income				53,165.55	53,165.55
Other Fund Contributions				291,891.00	291,891.00
NCAA/Big South Conference				131,352.74	131,352.74
Other Sources				16,851.69	16,851.69
Total Operating Revenues				2,066,223.45	2,066,223.45
Expenses					
Operating Expenses:					
Coaches' Salaries	118,525.53	114,870.90	180,955.93	189,952.79	604,305.15
Accrued Salaries				30,714.00	30,714.00
Other Salaries	18,610.53	17,557.85	23,447.85	40,385.05	100,001.28
Fringe Benefits	23,598.89	25,322.24	41,346.78	23,533.30	113,801.21
Travel:					
Team	82,253.77	46,921.39	177,592.39	21,519.61	328,287.16
Recruiting	13,354.33	18,614.61	14,820.54		46,789.48
Financial Aid, Net	101,282.60	158,677.51	503,772.71		763,732.82
Supplies and Uniforms	13,095.58	14,472.79	73,124.39	36,300.19	136,992.95
Insurance				45,358.57	45,358.57
Telephone	451.89	617.65	992.81	15,881.22	17,943.57
Contest Guarantees	6,000.00	2,000.00			8,000.00
Printing and Binding	640.33	2,443.62	262.50	52,819.70	56,166.15
Repairs and Maintenance		206.41	1,838.24	4,682.60	6,727.25
Advertising	3,792.00	3,792.00	3,792.00	7,163.42	18,539.42
Equipment Rentals	580.80	1,353.49	26,393.49	13,338.90	41,666.68
Other Fixed Charges	620.00	830.00	2,653.33	18,037.36	22,140.69
Miscellaneous	30,072.94	25,959.85	32,998.30	9,796.10	98,827.19
Total Operating Expenses	412,879.19	433,640.31	1,083,991.26	509,482.81	2,439,993.57
Operating Income (Loss)	(412,879.19)	(433,640.31)	(1,083,991.26)	1,556,740.64	(373,770.12)
Nonoperating Revenues					
State Appropriations				89,294.19	89,294.19
Gifts:					
Noncapital				194,123.41	194,123.41
Capital				8,310.25	8,310.25
Investment Income				2,321.66	2,321.66
Net Nonoperating Revenues				294,049.51	294,049.51
Excess (Deficiency) of Revenues over Expenses	\$ (412,879.19)	\$ (433,640.31)	\$ (1,083,991.26)	\$ 1,850,790.15	\$ (79,720.61)

The accompanying notes are an integral part of this statement.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

- A. Organization and Purpose** - The University of North Carolina at Asheville is a constituent institution of The University of North Carolina System which is a component unit of the State of North Carolina and an integral part of the State's *Comprehensive Annual Financial Report*. The University of North Carolina at Asheville is classified as a Division I institution by the National Collegiate Athletic Association (NCAA).
- B. Basis of Presentation** - The preceding statement of revenues and expenses presents the University's intercollegiate athletic program's activity in accordance with the National Collegiate Athletic Association Financial Audit Guidelines. Those guidelines issued on May 2, 1996 require only a presentation of the current funds revenues and expenses by major program. This statement has been updated for Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as amended by GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – For Public Colleges and Universities* and Statement No. 38, *Certain Financial Statement Note Disclosures*. This presentation is not intended to provide a complete presentation of the program's financial position or its changes in net assets and cash flows.
- C. Basis of Accounting** - The preceding statement of revenues and expenses was prepared using the economic resource measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred.
- D. Nonmonetary Transactions** - The University reports goods and services received either by donation or in an exchange transaction at their fair value at the date of receipt. During the year, items for prizes in tournaments and auctions, hotel rooms for visiting teams, use of vehicles, advertising, hospitality items, and donated services to assist with fundraising and ticket sales were provided at no charge to the University. The values of these donations have 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 \$193,550.37.

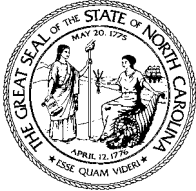
NOTE 3 - RELATED PARTIES

The University of North Carolina at Asheville Foundation, Inc. is a separate and legal entity established to promote and support the University, including the intercollegiate athletic program. During the fiscal year, the University received \$63,548.30 in direct support from the Foundation, as well as \$69,852.36 in indirect support through payments made on behalf of the University by the Foundation. These amounts are reported as contributions and expenses in the preceding statement of revenues and expenses.

NOTE 4 - CONTRIBUTIONS

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

<u>Funding Source Type</u>	<u>Amount</u>
Big South Conference	\$ 131,352.74



Leslie W. Merritt, Jr., CPA, CFP
State Auditor

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

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

We have audited the financial statements of The University of North Carolina at Asheville, a constituent institution of the sixteen-campus University of North Carolina System, which is a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 2004, which collectively comprise the University's basic financial statements and have issued our report thereon dated February 14, 2005. We did not audit the financial statement of The University of North Carolina at Asheville Foundation Inc., which represents 100% of the University's discretely presented component unit. These financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Foundation, is based on the report of the other auditors.

As discussed in Note 16 to the financial statements, the University implemented Governmental Accounting Standards Board Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, during the year ended June 30, 2004.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. The financial statements of the discretely presented component unit were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not extend to the discretely presented component unit.

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 opinions on the financial statements and not to provide an opinion 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

**INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
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GOVERNMENT AUDITING STANDARDS (CONCLUDED)**

might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud 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. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the University, in a separate letter dated March 8, 2005.

Compliance and Other Matters

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 grant agreements, 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 or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain matters that we have reported to management of the University, in a separate letter dated March 8, 2005.

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.



Leslie W. Merritt, Jr., CPA, CFP
State Auditor

February 14, 2005

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

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April 28, 2005

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