

STATE OF NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT OF

APPALACHIAN STATE UNIVERSITY

BOONE, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2004

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR

FINANCIAL STATEMENT AUDIT REPORT OF

APPALACHIAN STATE UNIVERSITY

BOONE, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2004

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Ralph Campbell, Jr.
State Auditor

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AUDITOR'S TRANSMITTAL

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

This report presents the results of our financial statement audit of Appalachian State University, a constituent institution of the sixteen-campus University of North Carolina System, which is a component unit of the State of North Carolina, for the year ended June 30, 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 Appalachian State University. The audit procedures were conducted in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States.

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

- 1. Objective** – To express an opinion on the accompanying financial statements that relate solely to Appalachian State University.

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

AUDITOR'S TRANSMITTAL (CONCLUDED)

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

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



Ralph Campbell, Jr.
State Auditor

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Ralph Campbell, Jr.
State Auditor

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Appalachian State University
Boone, North Carolina

We have audited the accompanying financial statements of Appalachian State University, a constituent institution of the sixteen-campus University of North Carolina System, which is a component unit of the State of North Carolina, and its discretely presented component units, as of and for the year ended June 30, 2004, which collectively comprise the Appalachian State University'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 Appalachian State University Foundation and Appalachian Student Housing Corporation, which represent 100% of the University's discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for those entities, is based on the reports 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 Appalachian State University Foundation and Appalachian Student Housing Corporation 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, 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 reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of Appalachian State University and its discretely presented component units, 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 15 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 October 22, 2004 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and 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 (MD&A), as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied 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 Appalachian State University'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.



Ralph Campbell, Jr.
State Auditor

October 22, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

Overview of the Financial Statement Information

Appalachian State University is pleased to present its financial statements for fiscal year 2004. These statements are prepared in accordance with the Governmental Accounting Standard's Board (GASB) Statement Numbers 34, 35, and 39. GASB 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, established a new reporting format for annual financial statements. GASB 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities*, applied the new reporting standards to public colleges and universities. Also, with the implementation this year of GASB 39, *Determining Whether Certain Organizations are Component Units*, Exhibits B-1 and B-2 in the statements discretely present the component units, Appalachian State University Foundation and the Appalachian Student Housing Corporation.

The Statement of Net Assets presents the assets, liabilities, and net assets of the University as of the end of the fiscal year. It provides readers with information on the assets available to continue operations, and the amounts owed to vendors, investors, and lending institutions. The change in net assets (assets minus liabilities) from year to year is an indicator of the financial condition of the institution. Restatements to fiscal year 2003 include \$1,221,675.59, which was previously expensed and should have been recorded in Construction in Progress. Depreciable Capital Assets (Buildings) were also restated upward for \$637,484.05 and the related Accumulated Depreciation was restated for \$21,249.47. This was for the construction of a retro-style movie theatre funded by donor contributions. There is also a restatement of \$9,026,592.75 for Accumulated Depreciation for The Holmes Convocation Center where depreciation was overstated in the GASB 34-35 conversion year (fiscal year 2002.) The final restatement was a decrease in Accounts Payable for \$26,641.42, due to an error in recording sales tax payable.

Notable changes in the Statement of Net Assets include a decrease in Restricted Cash and Cash Equivalents due primarily to a reclassification to Current Unrestricted Cash for maintenance reserves that were not dictated by bond covenants. The increase in Capital Assets – Nondepreciable is due to increased construction spending included in Construction in Progress. Finally, the decrease in Restricted Expendable Net Assets is also mainly due to the increase in construction spending.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

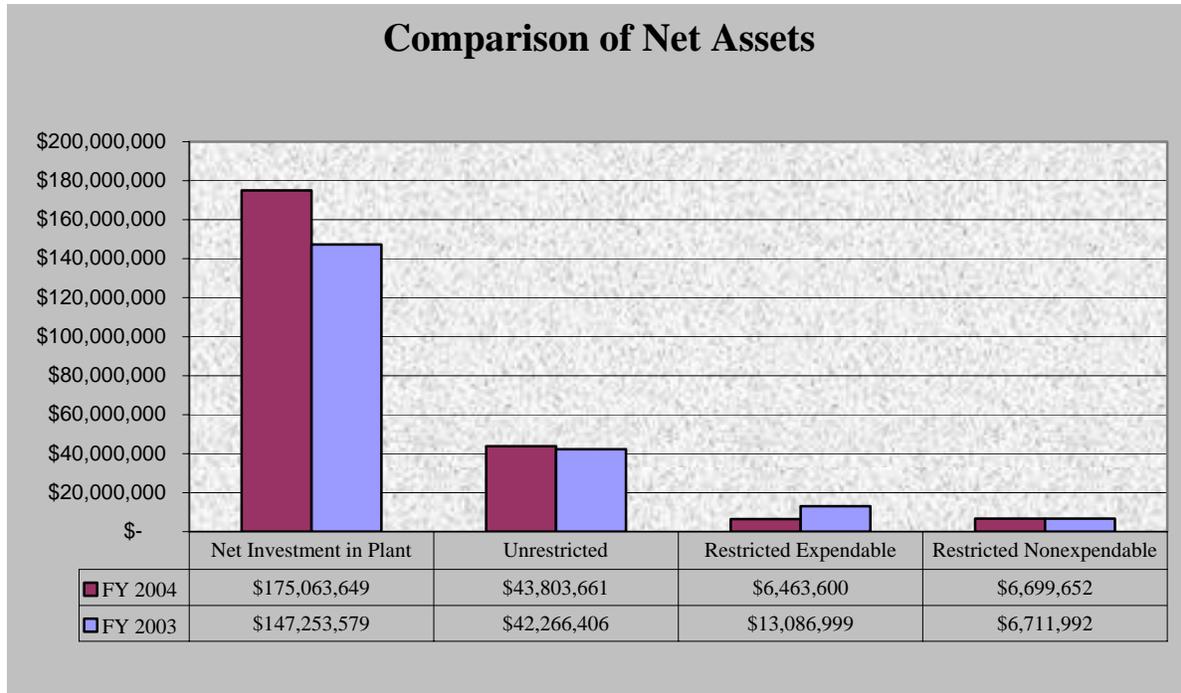
Condensed Statement of Net Assets				
Assets	Fiscal Year 2004	Fiscal Year 2003	\$ Change	% Change
Current Assets	\$ 75,857,585.35	\$ 60,876,425.90	\$14,981,159.45	24.6%
Noncurrent Assets				
Restricted Cash and Cash Equivalents	18,820,468.82	36,722,898.58	(17,902,429.76)	(48.8%)
Capital Assets - Nondepreciable	49,869,400.40	34,701,281.68	15,168,118.72	43.7%
Capital Assets - Depreciable	207,613,996.34	193,993,679.56	13,620,316.78	7.0%
Other	<u>20,387,906.52</u>	<u>22,857,442.85</u>	<u>(2,469,536.33)</u>	<u>(10.8%)</u>
Total Assets	372,549,357.43	349,151,728.57	23,397,628.86	6.7%
Liabilities				
Current Liabilities	25,346,737.12	20,951,022.50	4,395,714.62	21.0%
Noncurrent Liabilities	<u>115,172,058.92</u>	<u>118,881,731.30</u>	<u>(3,709,672.38)</u>	<u>(3.1%)</u>
Total Liabilities	140,518,796.04	139,832,753.80	686,042.24	0.5%
Net Assets				
Invested in Capital Assets Net of Related Debt	175,063,649.18	147,253,578.71	27,810,070.47	18.9%
Restricted				
Nonexpendable	6,699,651.56	6,711,991.58	(12,340.02)	(0.2%)
Expendable	6,463,599.84	13,086,998.94	(6,623,399.10)	(50.6%)
Unrestricted	<u>43,803,660.81</u>	<u>42,266,405.54</u>	<u>1,537,255.27</u>	<u>3.6%</u>
Total Net Assets	\$ 232,030,561.39	\$ 209,318,974.77	\$22,711,586.62	10.9%

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Analysis of Net Assets

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

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



Revenues and Expenses

The Statement of Revenues, Expenses, and Changes in Net Assets depict operating and nonoperating revenue and expense. State appropriations are considered nonoperating revenues. Operating expenses totaling \$212 million include salaries and benefits of \$133.2 million, supplies and materials of \$25.8 million, services of \$23.6 million, scholarships and fellowships of \$8.9 million, utilities of \$10.3 million, and depreciation of \$10.2 million. Interest expense was \$4.4 million.

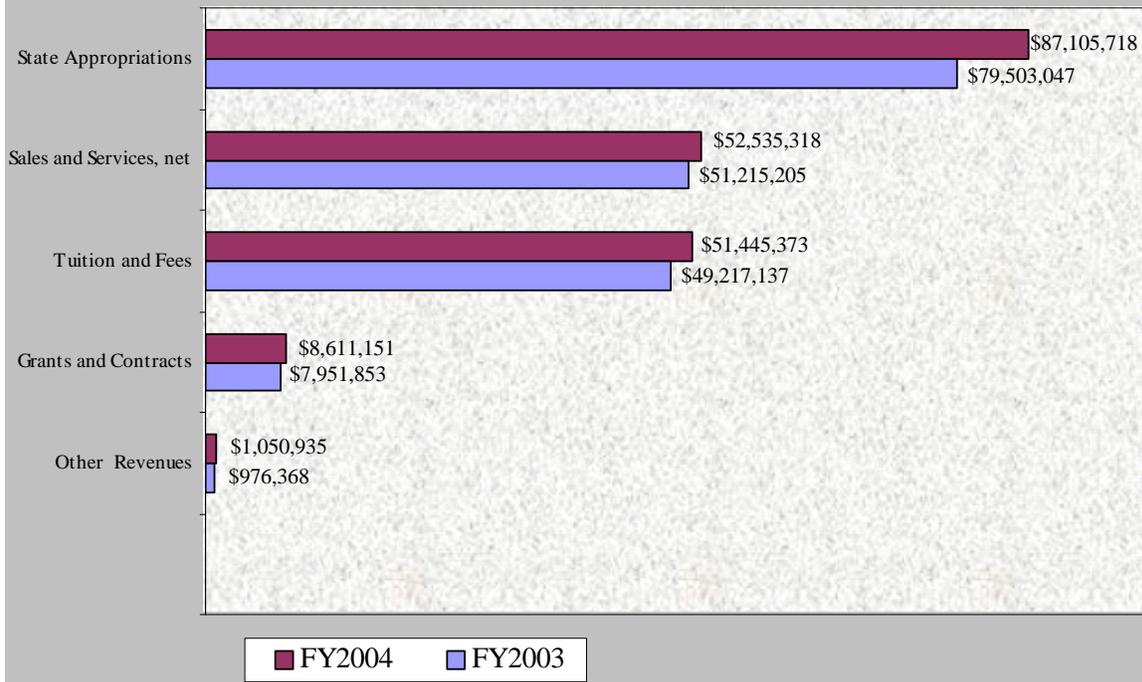
Fiscal year 2003 restatements to Operating Expenses include \$1,221,675.59 expensed in Supplies and Materials that should have been Construction in Progress and Depreciation Expense of \$21,249.47, which was restated for a building that should have been capitalized last year. A noteworthy change was Appalachian's State Appropriation increase of 9.6%. Appalachian's \$399,283 share of hurricane reversion was netted against the Appropriation amount of \$87.1 million. The \$8.5 million increase in capital grants was an increase in utilization of the University's share of the North Carolina General Obligation Bonds for the UNC system capital projects (see Schedule 1).

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

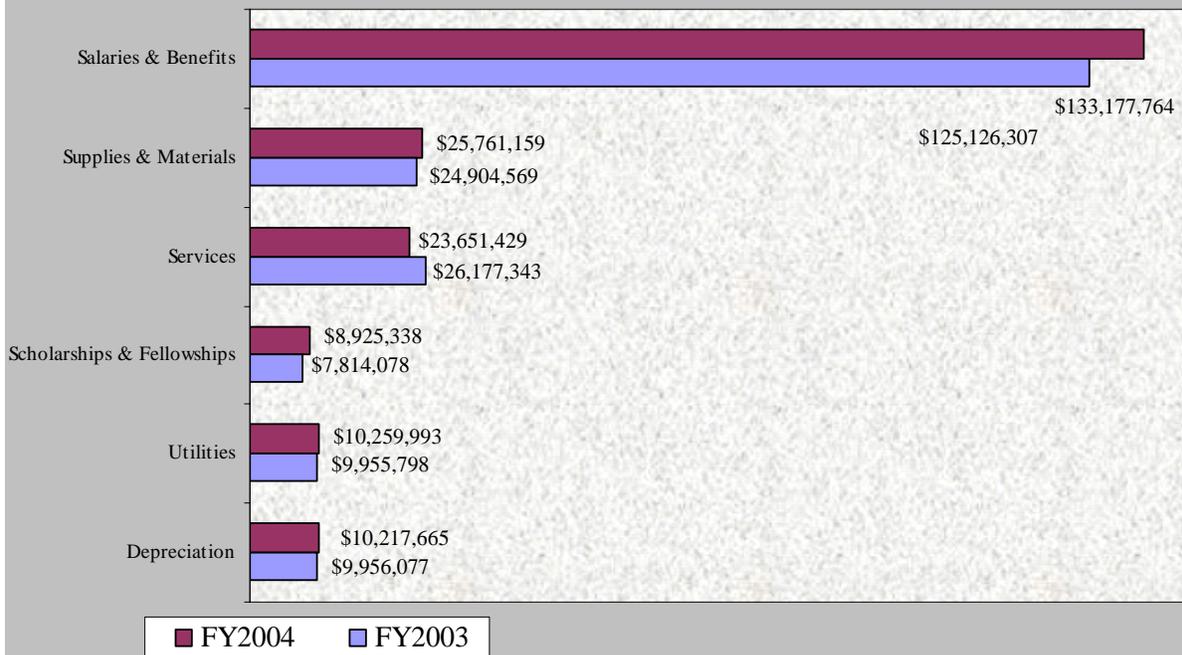
Condensed Statement of Revenues, Expenses, and Changes in Net Assets				
	Fiscal Year 2004	Fiscal Year 2003	\$ Change	% Change
Operating Revenues				
Tuition and Fees	\$ 51,445,372.92	\$ 49,217,137.36	\$ 2,228,235.56	4.5%
Grants and Contracts	8,611,151.39	7,951,853.35	659,298.04	8.3%
Sales and Services, net	52,535,318.40	51,215,205.00	1,320,113.40	2.6%
Interest Earnings on Loans	27,973.16	20,985.10	6,988.06	33.3%
Other Operating Revenues	1,022,961.40	955,383.13	67,578.27	7.1%
Total Operating Revenues	<u>113,642,777.27</u>	<u>109,360,563.94</u>	<u>4,282,213.33</u>	<u>3.9%</u>
Operating Expenses	<u>211,993,347.55</u>	<u>203,934,172.35</u>	<u>8,059,175.20</u>	<u>4.0%</u>
Operating Income (Loss)	(98,350,570.28)	(94,573,608.41)	(3,776,961.87)	(4.0%)
Nonoperating Revenues				
State Appropriations	87,105,718.00	79,503,047.00	7,602,671.00	9.6%
Other Nonoperating Revenues	13,154,664.89	13,286,480.84	(131,815.95)	(1.0%)
Net Nonoperating Revenues	<u>100,260,382.89</u>	<u>92,789,527.84</u>	<u>7,470,855.05</u>	<u>8.1%</u>
Income (Loss) Before Other Revenues	1,909,812.61	(1,784,080.57)	3,693,893.18	207.0%
Capital grants	19,856,465.00	11,316,665.00	8,539,800.00	75.5%
Capital Appropriations	246,200.00	0.00	246,200.00	NA
Capital Gifts, net	697,403.27	1,123,803.20	(426,399.93)	(37.9%)
Additions to Endowments	1,705.74	167,000.00	(165,294.26)	(99.0%)
Total Other Revenues	<u>20,801,774.01</u>	<u>12,607,468.20</u>	<u>8,194,305.81</u>	<u>65.0%</u>
Total Increase in Net Assets	22,711,586.62	10,823,387.63	11,888,198.99	109.8%
Net Assets				
Net Assets at Beginning of Year, as restated	209,318,974.77	189,468,994.39	19,849,980.38	10.5%
Net Assets at End of Year	<u>\$ 232,030,561.39</u>	<u>\$ 200,292,382.02</u>	<u>\$ 31,738,179.37</u>	<u>15.8%</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Comparison of Revenues

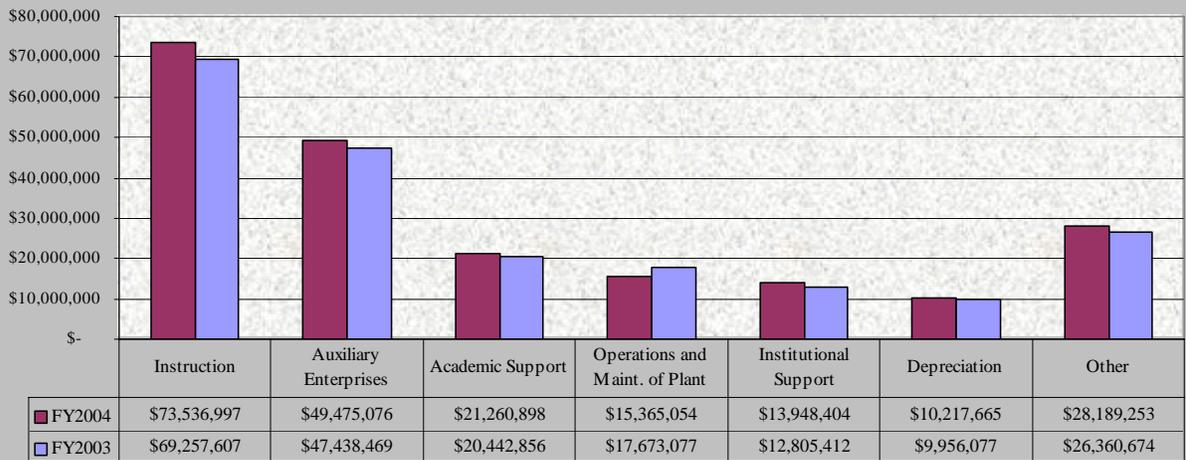


Comparison of Operating Expenses

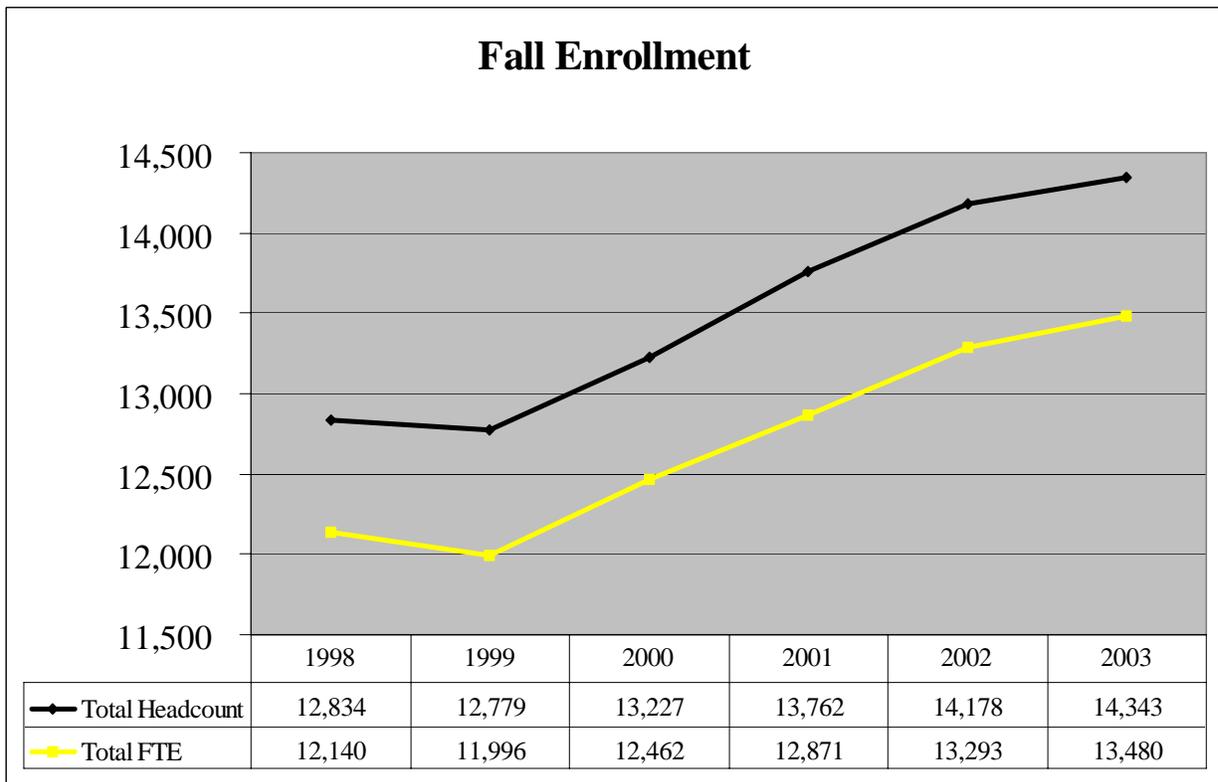


MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

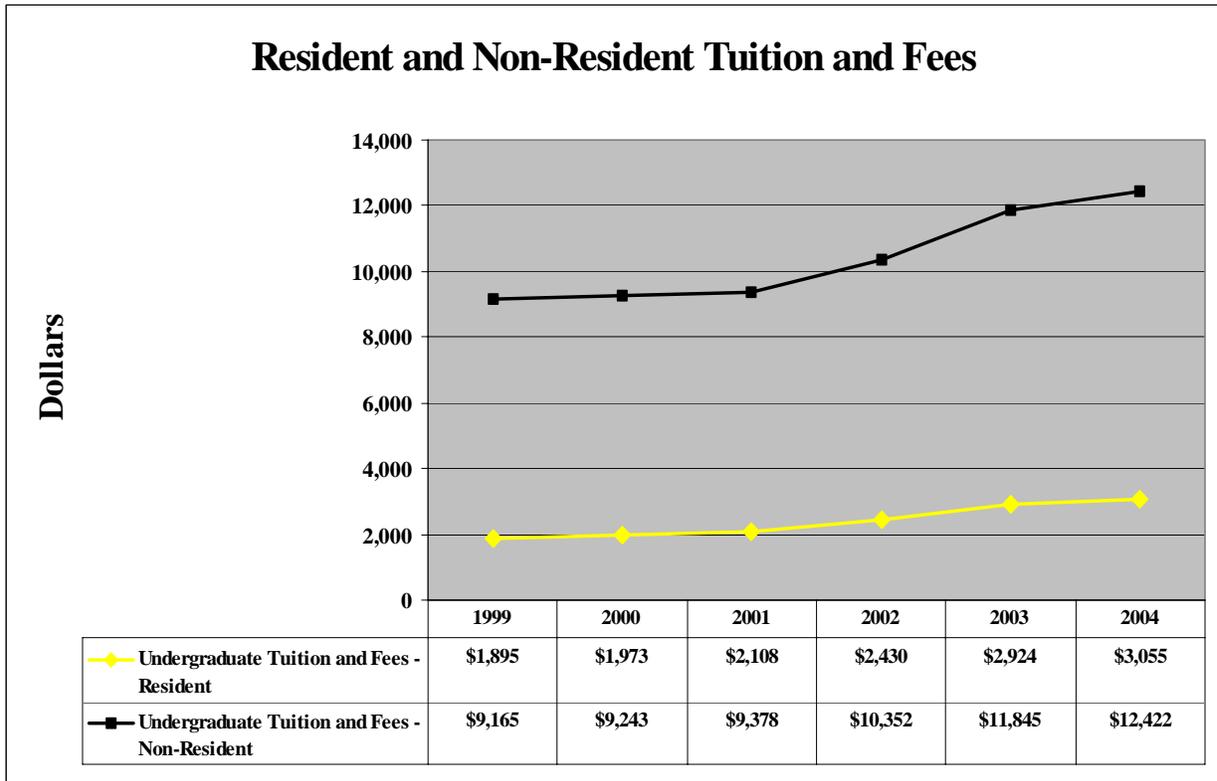
Comparison of Operating Expenses by Function



Fall Enrollment



MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)



Economic Outlook

The economic environment has shown signs of improvement. The University attained a growth in net assets of \$22.7 million for the year compared to an \$8.9 million increase last year. State appropriations were \$87.1 million during fiscal year 2004, compared to \$79.5 million in fiscal year 2003.

Capital Asset and Debt Administration

The University is involved in several construction, renovation, and property acquisition projects. The 1999-2000 Session of the General Assembly of North Carolina authorized the issuance of \$2.5 billion of general obligation bonds of the State, as subsequently approved by a vote of qualified voters of the State, to provide funds for capital improvements for the University of North Carolina System. The funds authorized are to be used solely for capital facilities costs on the University of North Carolina campuses as specified in the legislation. Appalachian State University will receive \$87.4 million of this bond issue of which \$42.9 million has been expended to date, for construction of new facilities, renovation of existing structures, and the purchase of additional buildings and land. Major projects related to the bond issue include the following:

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

- Library and Information Commons with a 300 space parking deck, cost \$47.6 million, expected completion in the year 2007
- Rankin Science Building comprehensive renovation and construction of new annex, cost \$16.2 million, expected completion in 2006
- Turchin Visual Arts Center/Education Outreach acquisition and renovation, total cost \$9.0 million. Acquisition cost was \$2.7 million (which was not funded through the Bond issue.) Renovation cost of \$4.2 million is authorized from the bond issue and \$2.1 million funded from other sources, expected completion in 2005

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

- Student Recreation Center, cost \$26 million, expected completion in 2005
- Student Union Solarium, cost \$4 million, expected completion in September, 2004

Appalachian did not issue any new debt this fiscal year. Total annual debt service payments were \$9.0 million, compared to \$7.5 million last year.

Appalachian State University
Statement of Net Assets
June 30, 2004

Exhibit A-1

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 52,884,446.45
Restricted Cash and Cash Equivalents	12,542,586.21
Receivables, Net (Note 4)	5,579,940.50
Inventories	4,133,782.59
Notes Receivable, Net (Note 4)	716,829.60
Total Current Assets	75,857,585.35

Noncurrent Assets:

Restricted Cash and Cash Equivalents	18,820,468.82
Restricted Due from Primary Government	3,271,898.81
Endowment Investments	5,948,158.07
Other Long-Term Investments	7,719,729.40
Notes Receivable, Net (Note 4)	3,448,120.24
Capital Assets - Nondepreciable (Note 5)	49,869,400.40
Capital Assets - Depreciable, Net (Note 5)	207,613,996.34
Total Noncurrent Assets	296,691,772.08

Total Assets **372,549,357.43**

LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 6)	12,340,103.50
Due to Primary Government	77,012.00
Deferred Revenue	5,785,336.44
Interest Payable	1,177,298.55
Long-Term Liabilities - Current Portion (Note 7)	5,966,986.63
Total Current Liabilities	25,346,737.12

Noncurrent Liabilities:

Deposits Payable	269,206.44
Funds Held for Others	513,083.31
U. S. Government Grants Refundable	3,882,718.39
Long-Term Liabilities (Note 7)	110,507,050.78
Total Noncurrent Liabilities	115,172,058.92

Total Liabilities **140,518,796.04**

Appalachian State University
Statement of Net Assets
June 30, 2004

Exhibit A-1
Page 2

NET ASSETS

Invested in Capital Assets, Net of Related Debt	175,063,649.18
Restricted for:	
Nonexpendable:	
Research	20,000.00
Endowed Professorships	6,128,158.07
Loans	551,493.49
Expendable:	
Scholarships and Fellowships	126,843.52
Research	6,194.66
Departmental Uses	810,991.50
Capital Projects	(3,719,476.43)
Debt Service	8,319,473.99
Other	919,572.60
Unrestricted	43,803,660.81
Total Net Assets	\$ 232,030,561.39

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

Appalachian State University
Statement of Revenues, Expenses, and
Changes in Net Assets
For the Fiscal Year Ended June 30, 2004

Exhibit A-2

REVENUES

Operating Revenues:

Student Tuition and Fees, Net (Note 9)	\$ 51,445,372.92
Federal Grants and Contracts	6,904,916.21
State and Local Grants and Contracts	1,489,180.56
Nongovernmental Grants and Contracts	217,054.62
Sales and Services, Net (Note 9)	52,535,318.40
Interest Earnings on Loans	27,973.16
Other Operating Revenues	1,022,961.40

Total Operating Revenues 113,642,777.27

EXPENSES

Operating Expenses:

Salaries and Benefits	133,177,764.06
Supplies and Materials	25,761,158.83
Services	23,651,429.07
Scholarships and Fellowships	8,925,337.51
Utilities	10,259,992.82
Depreciation	10,217,665.26

Total Operating Expenses 211,993,347.55

Operating Loss (98,350,570.28)

NONOPERATING REVENUES (EXPENSES)

State Appropriations	87,105,718.00
Noncapital Grants	9,193,595.88
Noncapital Gifts, Net (Note 9)	3,705,431.69
Investment Income	4,714,676.09
Interest and Fees on Debt	(4,369,916.72)
Other Nonoperating Expenses	(89,122.05)

Net Nonoperating Revenues 100,260,382.89

Income Before Other Revenues, Expenses, Gains, or Losses 1,909,812.61

Capital Appropriations	246,200.00
Capital Grants	19,856,465.00
Capital Gifts, Net (Note 9)	697,403.27
Additions to Endowments	1,705.74

Increase in Net Assets 22,711,586.62

NET ASSETS

Net Assets - July 1, 2003, as Restated (Note 16) 209,318,974.77

Net Assets - June 30, 2004 \$ 232,030,561.39

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

Appalachian State University
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2004

Exhibit A-3

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 112,731,467.78
Payments to Employees and Fringe Benefits	(131,745,009.40)
Payments to Vendors and Suppliers	(58,238,176.24)
Payments for Scholarships and Fellowships	(8,925,337.51)
Loans Issued	(814,457.04)
Collection of Loans	757,786.70
Interest Earned on Loans	29,608.32
Other Receipts	1,022,961.40
Net Cash Used by Operating Activities	(85,181,155.99)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Appropriations	87,105,718.00
Noncapital Grants	9,593,606.16
Noncapital Gifts	3,397,002.83
Additions to Endowments	1,705.74
Related Activity Agency Disbursements	(1,590.18)
Other Payments	(57,616.22)
Net Cash Provided by Noncapital Financing Activities	100,038,826.33

CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES

State Capital Appropriations	246,200.00
Capital Grants	21,676,323.86
Capital Gifts	152,724.53
Proceeds from Sale of Capital Assets	17,313.49
Acquisition and Construction of Capital Assets	(36,060,245.53)
Principal Paid on Capital Debt and Leases	(4,619,897.43)
Interest and Fees Paid on Capital Debt and Leases	(4,757,030.59)
Net Cash Used by Capital Financing and Related Financing Activities	(23,344,611.67)

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from Sales and Maturities of Investments	2,571,062.12
Investment Income	2,887,843.15
Purchase of Investments and Related Fees	(8,589.88)
Net Cash Provided by Investing Activities	5,450,315.39
Net Decrease in Cash and Cash Equivalents	(3,036,625.94)
Cash and Cash Equivalents - July 1, 2003	87,284,127.42
Cash and Cash Equivalents - June 30, 2004	\$ 84,247,501.48

Appalachian State University
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2004

Exhibit A-3

Page 2

**RECONCILIATION OF NET OPERATING EXPENSES
TO NET CASH USED BY OPERATING ACTIVITIES**

Operating Loss	\$ (98,350,570.28)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	10,217,665.26
Allowances, Write-Offs, and Amortizations	249,713.58
Nonoperating Other Income (Expenses)	308,428.86
Changes in Assets and Liabilities:	
Receivables (Net)	(492,258.48)
Inventories	(394,652.74)
Accounts Payable and Accrued Liabilities	1,488,200.55
Due to Primary Government	77,012.00
Deferred Revenue	455,967.75
Compensated Absences	1,388,170.47
Deposits Payable	13,769.27
Note Principal Repayments	671,854.81
Notes Issued	(814,457.04)
Net Cash Used by Operating Activities	<u>\$ (85,181,155.99)</u>

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	\$ 52,884,446.45
Restricted Cash and Cash Equivalents	12,542,586.21
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	18,820,468.82
Total Cash and Cash Equivalents - June 30, 2004	<u>\$ 84,247,501.48</u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through a Gift	\$ 697,403.27
Change in Fair Value of Investments	1,200,566.91
Reinvested Distributions	391,446.30
Loss on Disposal of Capital Assets	106,435.54

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

<i>Appalachian State University Foundations</i>				
<i>Statement of Financial Position</i>				
<i>June 30, 2004</i>				<i>Exhibit B-1</i>
			Appalachian State University Foundation	Appalachian Student Housing Corporation
ASSETS				
Cash and Cash Equivalents		\$	342,095.00	\$ 948,187.00
Investments			46,273,117.00	
Cash Surrender Value of Life Insurance			254,502.00	
Assets Held in Charitable Trusts and Annuities			1,706,878.00	
Assets Held by Trustees			1,227,912.00	4,961,498.00
Real Estate Held for Resale			138,021.00	
Receivables, Net			292,735.00	22,874.00
Pledges Receivable/Promises			10,596,158.00	
Prepaid Expenses			92,878.00	95,256.00
Notes/Loans Receivable, Net			798.00	
Deferred Charges				433,019.00
In-Kind Gifts			27,484.00	
Property and Equipment, Net			32,125.00	21,718,259.00
Total Assets			60,984,703.00	28,179,093.00
LIABILITIES				
Accounts Payable and Accrued Expenses			4,139.00	466,017.00
Grants Payable to University			765,458.00	
Deferred Revenue			235,790.00	103,909.00
Interest Payable				41,155.00
Deposits Payable			7,575.00	
Split Interest Agreement Obligations			1,136,635.00	
Bonds Payable				26,485,000.00
Total Liabilities			2,149,597.00	27,096,081.00
NET ASSETS				
Unrestricted			6,527,580.00	1,083,012.00
Temporarily Restricted			17,073,775.00	
Permanently Restricted			35,233,751.00	
Total Net Assets		\$	58,835,106.00	\$ 1,083,012.00
See Note 1 in the Notes to the Financial Statements				

Appalachian State University Foundations
Statement of Activities
For the Fiscal Year Ended June 30, 2004

Exhibit B-2

	Appalachian State University Foundation	Appalachian Student Housing Corporation
CHANGES IN UNRESTRICTED NET ASSETS		
Revenues and Gains:		
Contributions	\$ 1,355,921.00	\$ 0.00
Fees	497,652.00	3,989,064.00
Income on Long-Term Investments	26,492.00	
Other Investment Income	236,685.00	73,308.00
Net Unrealized and Realized Gains on Long-Term Investments	273,669.00	
Other	91,272.00	51,530.00
Total Unrestricted Revenues and Gains	2,481,691.00	4,113,902.00
Transfers/Reclassifications to Other Funds	(174,922.00)	
Net Assets Released from Restrictions:		
Satisfaction of Program Restrictions	3,278,015.00	
Total Net Assets Released from Restrictions	3,278,015.00	
Total Unrestricted Revenues, Gains, and Other Support	5,584,784.00	4,113,902.00
Expenses and Losses:		
General University Support	3,037,164.00	
Student Financial Aid	1,298,356.00	
Alumni Affairs	113,432.00	
Other	236,132.00	2,727,970.00
Management and General	99,779.00	516,835.00
Fund Raising	390,292.00	
Total Expenses	5,175,155.00	3,244,805.00
Total Expenses and Losses	5,175,155.00	3,244,805.00
Increase in Unrestricted Net Assets	409,629.00	869,097.00
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS		
Contributions	5,107,753.00	
Other Investment Income	42,800.00	
Income on Long-Term Investments	262,248.00	
Net Unrealized and Realized Gains on Long-Term Investments	3,498,064.00	
Other	10,102.00	
Actuarial Loss on Annuity Obligations	(160,420.00)	
Increase in Allowance for Doubtful Promises to Give	(426,825.00)	
Transfer/Reclassifications to Other Funds	(183,458.00)	
Net Assets Released from Restrictions:		
Satisfaction of Program Restrictions	(3,278,015.00)	
Increase in Temporarily Restricted Net Assets	4,872,249.00	

<i>Appalachian State University Foundations</i>			
<i>Statement of Activities</i>			<i>Exhibit B-2</i>
<i>For the Fiscal Year Ended June 30, 2004</i>			<i>Page 2</i>
		Appalachian State University Foundation	Appalachian Student Housing Corporation
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS			
Contributions		1,414,947.00	
Loss on Long-Term Investments		(1,334.00)	
Net Unrealized and Realized Gains on Long-Term Investments		31,683.00	
Decrease in Allowance for Doubtful Promises to Give		300,352.00	
Transfer/Reclassifications to Other Funds		358,380.00	
	Increase in Permanently Restricted Net Assets	2,104,028.00	
	Increase in Net Assets	7,385,906.00	869,097.00
	Net Assets at Beginning of Year	51,449,200.00	213,915.00
	Net Assets at End of Year	\$ 58,835,106.00	\$ 1,083,012.00
See Note 1 in the Notes to the Financial Statements			

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

The accompanying financial statements present all funds belonging to the University 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 units are discretely presented in the University's financial statements. Discretely presented component units' financial data are reported in separate financial statements because of their use of different GAAP reporting models and to emphasize their legal separateness.

Discretely Presented Component Units – The Appalachian State University Foundation and the Appalachian Student Housing Corporation are legally separate not-for-profit corporations and are reported as discretely presented component units based on the nature and significance of their relationship to the University.

The Appalachian State University Foundation 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 26 self-perpetuating members of which 4 members are administrative officers of the University. 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 Foundation is considered

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 Appalachian Student Housing Corporation 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 Corporations's financial information in the University's financial reporting entity for these differences.

During the year ended June 30, 2004, the Foundation distributed \$4,685,084.00 to the University for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from the Vice Chancellor for University Advancement, ASU Foundation President, Dougherty Administration Building, 438 Academy Street, Boone, NC 28608.

- 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 undeposited receipts, petty cash, cash on deposit with private bank accounts, savings accounts, and deposits held by the State Treasurer in the short-term investment portfolio. The short-term investment portfolio maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.
- E. Investments** - This classification includes equity investments, mutual funds, and other asset holdings by the University. Except for other asset holdings, investments are accounted for at fair value, as determined by quoted market prices, or an amount determined by management if quoted market prices are not available. The net increase (decrease) in the fair value of investments is recognized as a component of investment income.

Other asset holdings are reported at cost, if purchased, or at fair value or appraised value at date of gift, if donated.

- F. Receivables** – Receivables consist of tuition and fees charges to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from the federal government, State and local governments, private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants, and pledges that are verifiable, measurable, and expected to be collected and available for expenditures for which the resource provider's conditions have been satisfied. Receivables are recorded net of estimated uncollectible amounts.
- G. Inventories** – Inventories, consisting of expendable supplies, are valued at lower of cost or market using the first-in, first-out method. Merchandise for resale is valued using the retail inventory method.
- H. Capital Assets** – Capital assets are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. The value of assets constructed includes all material direct and indirect construction costs. Interest costs incurred are capitalized during the period of construction.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

The scientific, art, and historical collections are capitalized at cost or fair value at the date of donation. These collections are depreciated over the life of the collection using the straight-line method. The estimated useful lives for the collections are 10 years.

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

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

- K. Compensated Absences** - The University's policy is to record the cost of vacation leave when earned. The policy provides for a maximum accumulation of unused vacation leave of 30 days which can be carried forward each January 1st or for which an employee can be paid upon termination of employment. Also, any accumulated vacation leave in excess of 30 days at year-end is converted to sick leave. Under this policy, the accumulated vacation leave for each employee at June 30th equals the leave carried forward at the previous December 31st plus the leave earned, less the leave taken between January 1st and June 30th.

In addition to the vacation leave described above, compensated absences includes the accumulated unused portion of the special annual leave 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, not withstanding the limitation on annual leave carried forward described above.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 \$84,247,501.48. At year-end, cash on hand was \$54,293.23. The University's portion of the State Treasurer's Investment Pool was \$82,350,962.41. 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 \$1,842,245.84 and the bank balance was \$1,743,909.24. Of the bank balance, \$324,942.70 was covered by federal depository insurance and \$1,418,966.54 was uninsured and uncollateralized.

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

B. Investments - The University is authorized by The University of North Carolina Board of Governors pursuant to General Statute 116-36.2 and Section 600.2.4 of the Policy Manual of the University of North Carolina, to invest its special funds in the same manner as the State Treasurer is required to invest, as previously discussed.

In accordance with the bond resolutions, bond proceeds and debt service funds are invested in obligations 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 units, the Foundation and Student Housing Corporation, 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 percentage method. Under this method, each participating fund's investment balance is determined on the basis of percentage of original investment. The investment strategy, including the selection of investment managers, is based on the directives of the University's Endowment Board.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

A summary of the University's investments at June 30, 2004 is presented below:

Long-Term Investment Pool

	Fair Value Total
Investments Not Categorized:	
Mutual Funds	\$ 10,822,721.44

Non-Pooled Investments

	Fair Value			
	Risk Category			
	1	2	3	
Categorized Investments:				
Corporate Stocks	\$ 0.00	\$ 0.00	\$ 57,430.28	\$ 57,430.28
Investments Not Categorized:				
Mutual Funds				2,786,733.75
Other Investments				1,002.00
Total Investments Not Categorized				2,787,735.75
Total Non-Pooled Investments				\$ 2,845,166.03

Total Investments

	Fair Value			
	Risk Category			
	1	2	3	
Total Categorized Investments	\$ 0.00	\$ 0.00	\$ 57,430.28	\$ 57,430.28
Total Investments Not Categorized				13,610,457.19
Total Investments				\$ 13,667,887.47

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 3 - ENDOWMENT INVESTMENTS

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

Investment return of the University's endowment funds is predicated on the total return concept (yield plus appreciation). Annual payouts from the University's endowment funds are based on an adopted spending policy which limits spending to 5% of an individual endowment account's net asset value at the end of the previous fiscal year. An earnings reserve must be held in each endowment account in an amount equal to 5% of the original contribution. Earnings in excess of the reserve amount as calculated at the end of each fiscal year are eligible for pay out. Realized and unrealized net capital losses that invade the original corpus amounts are recovered from accumulated income before any spending budgets are calculated. Subject to these limitations, the budgeted spending amount will be based on the net asset value of each individual endowment fund. At June 30, 2004, these investments had a net realized gain of \$583,515.22 and a net unrealized gain of \$1,640,150.42.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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	\$ 1,270,819.54	\$ 364,570.88	\$ 906,248.66
Accounts	2,930,442.82	72,833.24	2,857,609.58
Intergovernmental	793,800.01		793,800.01
Pledges	765,457.59		765,457.59
Investment Earnings	199,995.87		199,995.87
Interest on Loans	52,322.64		52,322.64
Other	4,506.15		4,506.15
Total Current Receivables	<u>\$ 6,017,344.62</u>	<u>\$ 437,404.12</u>	<u>\$ 5,579,940.50</u>
Notes Receivable:			
Notes Receivable - Current:			
Federal Loan Programs	\$ 714,160.18	\$ 0.00	\$ 714,160.18
Institutional Student Loan Programs	2,959.90	290.48	2,669.42
Total Notes Receivable - Current	<u>\$ 717,120.08</u>	<u>\$ 290.48</u>	<u>\$ 716,829.60</u>
Notes Receivable - Noncurrent:			
Federal Loan Programs	<u>\$ 3,597,274.35</u>	<u>\$ 149,154.11</u>	<u>\$ 3,448,120.24</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	\$ 7,323,823.83	\$ 0.00	\$ 1,564,717.86	\$ 0.00	\$ 8,888,541.69
Construction in Progress	27,377,457.85	(20,034,522.27)	34,169,463.00	531,539.87	40,980,858.71
Total Capital Assets, Nondepreciable	34,701,281.68	(20,034,522.27)	35,734,180.86	531,539.87	49,869,400.40
Capital Assets, Depreciable:					
Buildings	244,734,104.87	19,717,832.12	929,015.09	1,441,598.54	263,939,353.54
Machinery and Equipment	33,551,547.21		2,060,334.59	907,177.03	34,704,704.77
Art, Literature, and Artifacts	1,555,477.38		30,000.00		1,585,477.38
General Infrastructure	38,429,655.55	316,690.15	1,033,634.88	84,608.89	39,695,371.69
Total Capital Assets, Depreciable	318,270,785.01	20,034,522.27	4,052,984.56	2,433,384.46	339,924,907.38
Less Accumulated Depreciation/Amortization for:					
Buildings	93,399,125.55		6,821,338.94	1,386,568.54	98,833,895.95
Machinery and Equipment	23,615,834.50		2,345,140.28	704,474.23	25,256,500.55
Art, Literature, and Artifacts	404,150.67		139,197.74		543,348.41
General Infrastructure	6,857,994.73		911,988.30	92,816.90	7,677,166.13
Total Accumulated Depreciation	124,277,105.45		10,217,665.26	2,183,859.67	132,310,911.04
Total Capital Assets, Depreciable, Net	193,993,679.56	20,034,522.27	(6,164,680.70)	249,524.79	207,613,996.34
Capital Assets, Net	\$ 228,694,961.24	\$ 0.00	\$ 29,569,500.16	\$ 781,064.66	\$ 257,483,396.74

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	Amount
Accounts Payable	\$ 8,066,718.53
Accrued Payroll	2,028,699.40
Contract Retainage	2,217,505.70
Intergovernmental Payables	27,179.87
Total Accounts Payable and Accrued Liabilities	\$ 12,340,103.50

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	\$ 110,359,000.00	\$ 0.00	\$ 4,145,000.00	\$ 106,214,000.00	\$ 4,269,000.00
Notes Payable	3,095,576.15		474,897.43	2,620,678.72	483,621.39
Arbitrage Rebate Payable	45,617.00		19,833.49	25,783.51	0.00
Compensated Absences	6,225,404.71	7,100,143.26	5,711,972.79	7,613,575.18	1,214,365.24
Total Long-Term Liabilities	\$ 119,725,597.86	\$ 7,100,143.26	\$ 10,351,703.71	\$ 116,474,037.41	\$ 5,966,986.63

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
Housing and Student Center System						
ASU Housing and Student Center System Revenue Bonds	D	3-3.625%	7/1/2004	\$ 3,654,000.00	\$ 3,515,000.00	\$ 139,000.00
	I	5.5-5.8%	7/1/2007	1,760,000.00	1,305,000.00	455,000.00
	J	5.5-5.8%	7/1/2007	1,722,000.00	1,267,000.00	455,000.00
ASU Housing and Student Center System Revenue and Refunding Revenue Bonds	1993	5.533914%	7/15/2003	17,760,000.00	17,760,000.00	
ASU Housing and Student Center System Revenue Bonds	2000	5.606974%	7/15/2025	13,225,000.00	575,000.00	12,650,000.00
ASU Housing and Student Center System Revenue Bonds	2001	5.228044%	7/15/2027	6,680,000.00	295,000.00	6,385,000.00
ASU Housing and Student Center System Revenue Refunding Bonds	2002	4.304976%	7/15/2015	13,240,000.00	345,000.00	12,895,000.00
Total Housing and Student Center System				58,041,000.00	25,062,000.00	32,979,000.00
Student Union System						
ASU Student Fee Revenue Refunding Bonds Student Union Building	1998	4.872630%	5/15/2012	8,050,000.00	2,790,000.00	5,260,000.00
Utility System						
ASU Utility System Revenue Bonds	1994	5.339066%	5/15/2004	28,940,000.00	28,940,000.00	
ASU Utility System Revenue Refunding Bonds	1998	5.2885%	5/15/2024	27,535,000.00	725,000.00	26,810,000.00
Total Utility System				56,475,000.00	29,665,000.00	26,810,000.00
The University of North Carolina System Pool Revenue Bonds						
Stadium Debt Fee Loan	(A)	4.338475%	10/1/2025	875,000.00	595,000.00	280,000.00
Broyhill Inn	(B)	5.514747%	10/1/2015	1,590,000.00	225,000.00	1,365,000.00
Doughton Renovation	(C)	5.015619%	4/1/2027	4,940,000.00	155,000.00	4,785,000.00
Total The University of North Carolina System Pool Revenue Bonds				7,405,000.00	975,000.00	6,430,000.00
Parking System						
ASU Parking System Revenue Bonds	2000	5.608336%	7/15/2025	10,200,000.00	430,000.00	9,770,000.00
Student Recreation System						
ASU General Revenue Bonds	2003A	4.483238%	5/1/2028	25,635,000.00	670,000.00	24,965,000.00
Total Bonds Payable (principal only)				\$ 165,806,000.00	\$ 59,592,000.00	\$ 106,214,000.00

(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) The University of North Carolina System Pool Revenue Bonds, Series 2002A

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

Fiscal Year	Annual Requirements			
	Bonds Payable		Notes Payable	
	Principal	Interest	Principal	Interest
2005	\$ 4,269,000.00	\$ 5,048,029.50	\$ 483,621.39	\$ 120,406.73
2006	4,305,000.00	4,883,118.00	487,396.23	97,217.84
2007	4,325,000.00	4,714,348.75	401,507.38	74,888.92
2008	4,525,000.00	4,523,012.50	416,311.40	55,737.12
2009	4,485,000.00	4,337,646.25	431,842.32	35,858.46
2010-2014	23,895,000.00	18,487,150.02	400,000.00	34,782.22
2015-2019	22,635,000.00	12,723,562.54		
2020-2024	25,560,000.00	6,833,206.36		
2025-2029	12,215,000.00	1,178,825.02		
Total Requirements	\$ 106,214,000.00	\$ 62,728,898.94	\$ 2,620,678.72	\$ 418,891.29

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

Purpose	Financial Institution	Interest Rate/Ranges	Final Maturity Date	Original Amount of Issue	Principal Paid Through 6/30/2004	Principal Outstanding 6/30/2004
Electric Utility	BB & T	5.16%	5/31/2006	\$ 1,000,000.00	\$ 800,000.00	\$ 200,000.00
Visual Arts Center	Bank One	4.91%	8/1/2008	2,700,000.00	1,188,997.17	1,511,002.83
HLES Dell Computers	BB & T	6.31%	1/19/2005	52,407.42	42,731.53	9,675.89
Electric Utility	RBC Centura	4.30%	3/15/2013	1,000,000.00	100,000.00	900,000.00
Total Notes Payable				\$ 4,752,407.42	\$ 2,131,728.70	\$ 2,620,678.72

NOTE 8 - OPERATING LEASE OBLIGATIONS

The University entered into operating leases for equipment, office space, and parking facilities. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2004:

Fiscal Year	Amount
2005	\$ 801,502.32
2006	570,098.40
2007	434,270.21
2008	378,955.78
2009	16,000.00
Total Minimum Lease Payments	\$ 2,200,826.71

Rental expense for all operating leases during the year was \$1,932,315.44.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 9 - REVENUES

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

	Gross Revenues	Internal Sales Eliminations	Less Scholarship Discounts	Less Allowance for Uncollectibles	Net Revenues	
Operating Revenues:						
Student Tuition and Fees	<u>\$ 55,028,005.60</u>	<u>\$ 0.00</u>	<u>\$ 3,514,696.30</u>	<u>\$ 67,936.38</u>	<u>\$ 51,445,372.92</u>	
Sales and Services:						
Sales and Services of Auxiliary Enterprises:						
Residential Life	\$ 14,500,319.89	\$ 689,636.31	\$ 1,147,985.81	\$ 35,193.78	\$ 12,627,503.99	(A)
Dining	11,050,942.35	912,052.46	702,403.98	21,934.41	9,414,551.50	
Student Union Services	150,326.04	32,307.50		3,220.49	114,798.05	(B)
Health, Physical Education, and Recreation Services	1,511,865.41	45,674.27	189,911.98	10,285.41	1,265,993.75	
Bookstore	5,976,252.82	291,280.64	136,608.53	16,826.34	5,531,537.31	(C)
Parking	2,148,927.56	35,929.00		9,043.15	2,103,955.41	(D)
Broyhill Inn and Conference Center	1,919,170.26	175,547.53			1,743,622.73	(E)
Camp Programs	2,532,203.72	71,715.70			2,460,488.02	
Steam Utility System	6,903,527.20	6,903,527.20			0.00	(F)
Athletic	1,811,367.66	8,975.80	362,915.59	7,635.50	1,431,840.77	
Other	7,526,695.91	2,354,333.98	572,464.50		4,599,897.43	
Sales and Services of Education and Related Activities	1,480,111.90	813,955.26	126,178.48	2,075.63	537,902.53	
Independent Operations	<u>14,399,406.52</u>	<u>3,678,148.11</u>		<u>18,031.50</u>	<u>10,703,226.91</u>	
Total Sales and Services	<u>\$ 71,911,117.24</u>	<u>\$ 16,013,083.76</u>	<u>\$ 3,238,468.87</u>	<u>\$ 124,246.21</u>	<u>\$ 52,535,318.40</u>	
Nonoperating - Noncapital Gifts	<u>\$ 3,705,431.69</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 3,705,431.69</u>	
Capital Gifts	<u>\$ 697,403.27</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 697,403.27</u>	

Revenue Bonds Secured by Pledged Revenues:

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 10 - OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	\$ 67,628,116.94	\$ 2,688,786.89	\$ 3,188,244.63	\$ 31,848.72	\$ 0.00	\$ 0.00	\$ 73,536,997.18
Research	334,602.37	74,826.84	176,908.41	225.25			586,562.87
Public Service	4,389,752.76	159,659.18	1,052,391.82	1,219,031.36	13,487.89		6,834,323.01
Academic Support	14,528,626.33	3,620,607.49	2,936,796.86	173,751.11	1,116.51		21,260,898.30
Student Services	4,505,748.53	227,066.99	730,401.14	76,598.00			5,539,814.66
Institutional Support	11,050,125.26	688,077.19	2,205,141.14		5,060.55		13,948,404.14
Operations and Maintenance of Plant	8,960,844.32	605,795.06	667,788.45		5,130,626.07		15,365,053.90
Student Financial Aid	35,715.47	229.53	56,258.22	7,423,883.07			7,516,086.29
Auxiliary Enterprises	20,855,676.43	11,788,228.39	11,721,469.27		5,109,701.80		49,475,075.89
Independent Operations	888,555.65	5,907,881.27	916,029.13				7,712,466.05
Depreciation						10,217,665.26	10,217,665.26
Total Operating Expenses	\$ 133,177,764.06	\$ 25,761,158.83	\$ 23,651,429.07	\$ 8,925,337.51	\$ 10,259,992.82	\$ 10,217,665.26	\$ 211,993,347.55

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 \$112,000,004.69, of which \$56,089,224.17 was covered under the Teachers' and State Employees' Retirement System. Total employee and

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

employer contributions for pension benefits for the year were \$3,365,353.45 and \$123,396.29, respectively. The University made one hundred percent of its annual required contributions for the years ended June 30, 2004, 2003, and 2002, which were \$123,396.29, \$0.00, and \$1,005,124.32, respectively.

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

The Optional Retirement Program (Program) is a defined contribution retirement plan that provides retirement benefits with options for payments to beneficiaries in the event of the participant's death. Administrators and eligible faculty of the University may join the Program instead of the Teachers' and State Employees' Retirement 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 \$112,000,004.69, of which \$41,484,612.93 was covered under the Optional Retirement Program. Total employee and employer contributions for pension benefits for the year were \$2,489,076.78 and \$2,837,547.52, respectively.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

B. Deferred Compensation and Supplemental Retirement Income Plans - IRC Section 457 Plan - The State of North Carolina offers its permanent employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 through the North Carolina Public Employee Deferred Compensation Plan (the Plan). The Plan permits each participating employee to defer a portion of his or her salary until future years. The deferred compensation is available to employees upon separation from service, death, disability, retirement, or financial hardships if approved by the Board of Trustees of the Plan. The Board, a part of the North Carolina Department of Administration, maintains a separate fund for the exclusive benefit of the participating employees and their beneficiaries, the North Carolina Public Employee Deferred Compensation Trust Fund. The Board also contracts with an external third party to perform certain administrative requirements and to manage the trust fund's assets. All costs of administering and funding the Plan are the responsibility of the Plan participants. No costs are incurred by the University. The voluntary contributions by employees amounted to \$129,407.02 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 \$37,619.92. The voluntary contributions by employees amounted to \$637,375.20 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 \$1,744,395.09 for the year ended June 30, 2004.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS

A. Health Care for Long-Term Disability Beneficiaries and Retirees -

The University participates in State-administered programs 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 ended June 30, 2004, the University's total contribution to the Plan was \$3,122,362.79. 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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. The University also purchased through the Fund extended coverage for sprinkler leakage, business interruption, vandalism, theft, flood, and "all risks" for buildings and contents.

All State-owned vehicles are covered by liability insurance through a private insurance company and handled by the North Carolina Department of Insurance. The liability limits for losses occurring in-State are \$500,000 per claim and \$5,000,000 per occurrence 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.

The University purchased other authorized coverage from private insurance companies through the North Carolina Department of Insurance. Health care coverage is provided to participants in international educational programs through the Preferred Health Plan for the University of North Carolina System for participants engaged in international educational activities. All exchange students and visitors are required to have medical insurance in effect for themselves and any accompanying spouse and dependents. The maximum coverage for sickness or injury is \$150,000 for the participant and \$50,000 for dependents with a basic medical deductible of \$100 per injury or sickness.

The University also purchased health care and life insurance for participants in the University camp programs with coverages of \$5,000 for accidental death and dismemberment and \$500 for sickness medical expense benefit. These

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

plans are funded by individual contributions and the coverages were effected and placed by the North Carolina Department of Insurance through the State's agent of record.

University employees and retirees are provided comprehensive major medical care benefits. Coverage is funded by contributions to the State Health Plan (Plan), a pension and other employee benefit trust fund of the State of North Carolina. The Plan has contracted with third parties to process claims.

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

Term life insurance (death benefits) of \$25,000 to \$50,000 is provided to eligible workers. This Death Benefit Plan is administered by the State Treasurer and funded via employer contributions. 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 purchases. Outstanding commitments on construction contracts were \$66,542,826.66 and on other purchases were \$1,806,495.56 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 \$49,912,617.81 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 - 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.

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

NOTE 16 - NET ASSET RESTATEMENTS

As of July 1, 2003, net assets as previously reported were restated as follows:

	<u>Amount</u>
July 1, 2003 Net Assets as Previously Reported	\$ 198,427,830.43
Restatements:	
Correction to Sales Tax Payable	26,641.42
Addition to Construction in Progress-Dorm Renovation	1,221,675.59
Correction to Capital Assets-Greenbriar Theatre	637,484.05
Correction to Accumulated Depreciation-Greenbriar	(21,249.47)
Correction to Accumulated Depreciation-Holmes	<u>9,026,592.75</u>
July 1, 2003 Net Assets as Restated	<u><u>\$ 209,318,974.77</u></u>

**Appalachian State University
Schedule of General Obligation Bond Project Authorizations,
Budgets, and Expenditures
For Project-to-Date as of June 30, 2004**

Schedule I

	Original Projected Start Date	Revised/ Actual Start Date	General Obligation Bonds Authorized	Other Sources	Total Project Budget	Amount Expended	Percent Completed	Original Expected Completion Date	Revised/ Actual Completion Date
Capital Improvement Projects									
<i>Projects Started</i>									
Central Library Complex	Jun 2003	Jul 2003	\$ 47,586,800.00	\$ 0.00	\$ 47,586,800.00	\$ 20,585,527.19	43.26%	Dec 2007	Jul 2007
Science Bldg. Complete Interior Labs/Academic	May 2002	Jul 2002	1,260,000.00		1,260,000.00	410,565.85	100.00%	Nov 2002	Nov 2002
Rankin Science Building-Comprehensive Renovation	Jun 2003	Jun 2003	11,157,000.00		11,157,000.00	2,613,265.81	23.42%	Jul 2006	Jul 2006
Living Learning Center-Academic Portion	Oct 2001	May 2002	3,499,560.00		3,499,560.00	3,494,571.54	99.86%	Aug 2004	Oct 2003
Visual Arts Center/Education Outreach Renovation	Jan 2002	Jan 2002	4,155,965.00	2,160,000.00	6,315,965.00	3,522,539.88	55.77%	Mar 2005	Mar 2005
Walker Hall Classroom Bldg.-Comprehensive Renovation	Jul 2003	Jul 2003	1,474,437.00		1,474,437.00	1,441,008.37	97.73%	Jul 2004	May 2004
B. B. Dougherty Hall-Comprehensive Renovation	Oct 2002	Sep 2002	1,332,100.00		1,332,100.00	1,319,657.93	100.00%	Sep 2003	Sep 2003
Water System Improvements	Nov 2003	Oct 2004	3,047,890.00		3,047,890.00	201,520.16	6.61%	Aug 2005	Oct 2005
Land Acquisition	Nov 2001	Nov 2001	829,300.00		829,300.00	829,300.00	100.00%	Dec 2002	Nov 2003
Technology Infrastructure Expansion	Sep 2001	Sep 2001	4,596,955.00		4,596,955.00	2,227,866.31	48.46%	Apr 2006	Apr 2006
Rankin Science Building-Addition	Sep 2001	Sep 2001	5,056,500.00		5,056,500.00	5,056,500.00	100.00%	Jun 2003	Jun 2003
Founders Hall Comprehensive Renovation	Feb 2003	Feb 2003	1,044,100.00		1,044,100.00	1,001,683.81	100.00%	Aug 2004	Jun 2004
Reserve for Effective Project Management	Aug 2001	Aug 2001	811,298.00		811,298.00	242,927.49	29.94%	Jan 2007	Mar 2006
<i>Projects Not Started - To Be Funded in Future Years</i>									
Smith Wright Hall Classroom Building	Dec 2004	Dec 2004	1,554,295.00		1,554,295.00	21,000.00	1.35%	Dec 2005	Dec 2005
Total All Projects			\$ 87,406,200.00	\$ 2,160,000.00	\$ 89,566,200.00	\$ 42,967,934.34			

Note: The 1999-2000 Session of the General Assembly of North Carolina authorized the issuance of two billion five hundred million dollars of general obligation bonds of the State, as subsequently approved by a vote of qualified voters of the State, to provide funds for capital improvements for the University of North Carolina. The projects listed on this schedule are those funded or to be funded by bond proceeds from the general obligation bonds authorized by Senate Bill 912.

Appalachian State University
Intercollegiate Athletics Program
Statement of Revenues and Expenses
Year Ended June 30, 2004

Schedule 2

	Football	Men's Basketball	Women's Basketball	Other Sports	Nonprogram Specific	Total
Revenues:						
Operating Revenues:						
Student Fees, Net (Note 2)	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 4,013,613.73	\$ 4,013,613.73
Ticket Sales	411,780.38	56,242.00	1,776.60			469,798.98
Radio and TV Rights				5,669.84	315,031.44	320,701.28
Contest Guarantees		135,000.00	19,500.00	5,669.84	53,671.00	213,840.84
Other Sales and Services	20,523.96	5,233.67	7,005.48	138,666.33	554,101.71	725,531.15
Advertising Income					14,175.00	14,175.00
Concessions	4,607.00				64,233.25	68,840.25
Other Sources			417.00	25,766.11	231,091.41	257,274.52
Total Operating Revenues	436,911.34	196,475.67	28,699.08	175,772.12	5,245,917.54	6,083,775.75
Expenses						
Operating Expenses:						
Coaches' Salaries	435,450.12	188,946.18	162,649.92	594,204.12	535,573.03	1,916,823.37
Other Salaries	39,935.01	1,836.96	19,339.85	36,177.68	494,630.24	591,919.74
Fringe Benefits	68,639.89	28,779.88	27,171.13	125,628.35	200,310.55	450,529.80
Travel:						
Team	82,051.50	93,281.58	48,013.08	311,014.94	13,476.63	547,837.73
Recruiting	109,410.70	44,571.46	48,530.80	46,210.25	59,992.24	308,715.45
Financial Aid, Net	758,772.54	165,838.55	190,487.01	810,088.58		1,925,186.68
Supplies and Uniforms	133,795.52	23,826.08	26,111.51	151,948.02	183,769.91	519,451.04
Insurance					109,987.76	109,987.76
Telephone	9,234.84	7,861.26	5,804.41	7,508.98	26,501.36	56,910.85
Entertainment				1,278.79	6,781.99	8,060.78
Printing and Binding	18,657.22	447.46	2,745.03	722.27	60,939.68	83,511.66
Repairs and Maintenance	6,232.87	1,052.02	810.31	3,311.75	7,511.91	18,918.86
Equipment Rentals				350.00	20,341.34	20,691.34
Other Fixed Charges	1,495.30	4,834.95	675.00	11,206.55	8,141.21	26,353.01
Other Contractual Services	161,166.23	47,719.48	26,520.49	96,349.56	344,873.31	676,629.07
Depreciation Expense					227,467.49	227,467.49
Miscellaneous	16,106.18	6,666.19	6,262.32	802.18	9,436.16	39,273.03
Total Operating Expenses	1,840,947.92	615,662.05	565,120.86	2,196,802.02	2,309,734.81	7,528,267.66
Operating Income (Loss)	(1,404,036.58)	(419,186.38)	(536,421.78)	(2,021,029.90)	2,936,182.73	(1,444,491.91)
Nonoperating Revenues (Expenses)						
Gifts:						
Noncapital	35,747.21	25,437.21	12,534.09	63,003.53	735,054.21	871,776.25
Investment Income					40,280.16	40,280.16
Net Nonoperating Revenues	35,747.21	25,437.21	12,534.09	63,003.53	775,334.37	912,056.41
Excess (Deficiency) of Revenues over Expenses	\$ (1,368,289.37)	\$ (393,749.17)	\$ (523,887.69)	\$ (1,958,026.37)	\$ 3,711,517.10	\$ (532,435.50)

The accompanying notes are an integral part of this statement.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

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

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

NOTE 2 - SCHOLARSHIP DISCOUNTS

Student tuition and fees revenues and certain other revenues from University charges are reported net of scholarship discounts in the accompanying statement of revenues and expenses. The scholarship discount is the difference between the actual charge for goods and services provided by the University and the amount that is paid by students or by third parties on the students' behalf. Student financial assistance grants, such as Pell grants, and other federal, state or nongovernmental programs, are recorded as either operating or non-operating 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 \$93,156.12.

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Ralph Campbell, Jr.
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
Appalachian State University
Boone, North Carolina

We have audited the financial statements of Appalachian State University, a constituent institution of the sixteen-campus University of North Carolina System, which is a component unit of the State of North Carolina, and its discretely presented component units, 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 October 22, 2004. We did not audit the financial statements of Appalachian State University Foundation and Appalachian Student Housing Corporation which represents 100% of the University's discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for Appalachian State University Foundation and Appalachian Student Housing Corporation, is based on the reports of the other auditors.

As discussed in Note 15 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 units were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not extend to the discretely presented component units.

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
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
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.

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*.

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



Ralph Campbell, Jr.
State Auditor

October 22, 2004

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January 12, 2005

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