

# **STATE OF NORTH CAROLINA**

**FINANCIAL STATEMENT AUDIT REPORT OF**

**WESTERN CAROLINA UNIVERSITY**

**CULLOWHEE, NORTH CAROLINA**

**FOR THE YEAR ENDED JUNE 30, 2004**

**OFFICE OF THE STATE AUDITOR**

**RALPH CAMPBELL, JR.**

**STATE AUDITOR**

**FINANCIAL STATEMENT AUDIT REPORT OF**

**WESTERN CAROLINA UNIVERSITY**

**CULLOWHEE, NORTH CAROLINA**

**FOR THE YEAR ENDED JUNE 30, 2004**

**BOARD OF GOVERNORS**

**THE UNIVERSITY OF NORTH CAROLINA**

**MOLLY CORBETT BROAD, PRESIDENT**

**BOARD OF TRUSTEES**

**PHILLIP D. WALKER, CHAIRMAN**

**JEANETTE HYDE, VICE CHAIRMAN**

**GENEVIEVE W. BURDA  
ROBERT F. BURGIN  
RICK CARLISLE  
GERALD KISER  
JOAN MACNEILL**

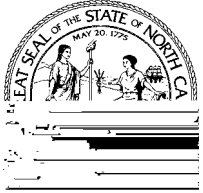
**WILLIAM TED PHILLIPS, JR.  
J. CLARK PLEXICO  
STEVE WARREN  
CHARLES R. WORLEY  
ROSEMARY WYCHE**

**ADMINISTRATIVE OFFICERS**

**DR. JOHN W. BARDO, CHANCELLOR**

**GEORGE W. WOOTEN, VICE CHANCELLOR FOR ADMINISTRATION AND FINANCE**

STATE OF NORTH CAROLINA



**Ralph Campbell, Jr.**  
State Auditor

## AUDITOR'S TRANSMITTAL (CONCLUDED)

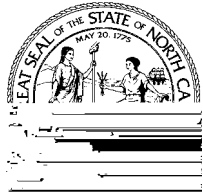
---

- 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,

# TABLE OF CONTENTS

---

|   | PAGE |
|---|------|
| INDEPENDENT AUDITOR’S REPORT .....  | 1    |
| MANAGEMENT’S DISCUSSION AND ANALYSIS .....  | 3    |
| BASIC FINANCIAL STATEMENTS  |      |
| Exhibits  |      |
| A-1 Statement of Net Assets .....   | 14   |
| A-2 Statement of Revenues, Expenses, and Changes in Net Assets .....  | 16   |
| A-3 Statement of Cash Flows .....   | 17   |
| B-1 Statement of Financial Position .....   | 19   |
| B-2 Statement of Activities .....   | 20   |
| Notes to the Financial Statement.....   | 21   |
| SUPPLEMENTARY INFORMATION   |      |
| Schedules   |      |
| 1 Schedule of General Obligation Bond Project Authorizations, Budgets, and Expenditures .....   | 45   |
| INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i> ..... | 47   |
| DISTRIBUTION OF AUDIT REPORT .....  | 49   |



Ralph Campbell, Jr.  
State Auditor

STATE OF NORTH CAROLINA  
**Office of the State Auditor**

2 S. Salisbury Street  
20601 Mail Service Center  
Raleigh, NC 27699-0601  
Telephone: (919) 807-7500  
Fax: (919) 807-7647  
Internet <http://www.ncauditor.net>

---

**INDEPENDENT AUDITOR'S REPORT**

---

Board of Trustees  
Western Carolina University  
Cullowhee, North Carolina

We have audited the accompanying financial statements of Western Carolina 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 Western Carolina 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 Western Carolina University Foundation, which represents 5 percent, 6 percent, and 2 percent, respectively, of the assets, net assets, and revenues of the University; nor the financial statements of Western Carolina University Research and Development 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 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. An audit includes examining, on a test basis, evidence supporting

enttl

I2itsOr2sseFeseFeseFen.7des 7uw16nts tn25,cp1ei supple

## INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

---

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 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 Western Carolina University's basic financial statements. Schedule 1 is presented for purposes of additional analysis and is 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 26, 2004

## MANAGEMENT'S DISCUSSION AND ANALYSIS

---

### **Introduction**

The University's financial report includes three financial statements: the Statement of Net Assets, which presents the assets, liabilities, and net assets of the institution as of the end of the fiscal year; the Statement of Revenues, Expenses, and Changes in Net Assets, which reflects revenues and expenses recognized during the fiscal year; and the Statement of Cash Flows, which provides information on all of the institution's cash inflows and outflows during the fiscal year by major category. These financial statements are prepared in accordance with Governmental Accounting Standards Board (GASB) pronouncements.

The following discussion and analysis provides an overview of the financial position and activities of Western Carolina University (the "University") for the years ended June 30, 2004



## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

---

A review of the University's Statement of Net Assets at June 30, 2004, and 2003 indicates that the University improved its already strong financial position, with Total Net Assets increasing by \$35.9 million (19.6%) over the previous year.

Total assets of the University increased by \$52.5 million. Net capital assets contributed \$39.8 million of this amount, mostly due to a \$32.8 million net increase in Construction in Progress, and a \$7.6 million increase in Buildings and General Infrastructure.

The \$6.6 million increase in Current Assets is mainly attributable to a \$1.7 million increase in unrestricted current cash and a \$2.6 million increase in restricted current cash related to contract and grant, student loan, and capital improvement activities. In addition, net receivables increased by \$1.8 million largely due to an accounts receivable of \$1.4 million from National Fire Insurance Company of Hartford as partial satisfaction of their responsibility as surety in accordance with the terms of a Performance and Labor and Material Payment Bond they issued to the University for construction of the Central Drive Residence Hall. The \$6.1 million increase in Other Noncurrent Assets resulted primarily from a \$4.8 million increase in endowment investments, \$2.9 million of which was due to favorable market fluctuations.

An increase of \$2 million in amounts payable to vendors for major construction projects contributed to the increase of \$3.5 million in current liabilities. The primary factor in the \$13 million increase in noncurrent liabilities was the issuance of The University of North Carolina System Pool Revenue Bonds, Series 2003A, for construction of a new Student Recreation Center and a softball facility (see Notes 7A and B to the financial statements).

Net assets represent residual interest in the University's assets after all liabilities are deducted. For reporting purposes, they are divided into three major components:

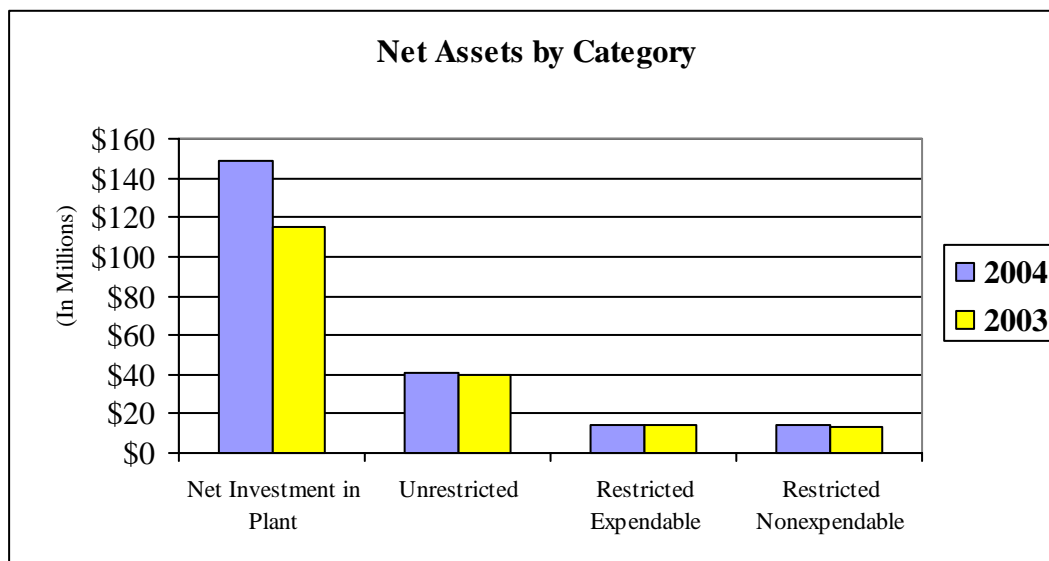
- "Invested in Capital Assets, Net of Related Debt" represents the University's investment in capital assets such as movable equipment, buildings, land, infrastructure, and improvements, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets. At June 30, 2004, \$148.9 million (68%) of the \$218.9 million in net assets was attributable to the University's investment in capital assets.
- Restricted net assets are subject to externally imposed restrictions governing their use and are further divided into two categories: nonexpendable and expendable. "Restricted – Nonexpendable" net assets primarily include the University's permanent endowment funds received from donors for the purpose of creating present and future income. These funds must be held inviolate and in perpetuity and are, therefore, not expendable. Earnings on these funds support various programs determined by donors. The nonexpendable category makes up approximately \$14.4 million of the \$218.9 million net assets total. "Restricted - Expendable" net assets are available for expenditure in accordance with externally imposed restrictions. Examples include funds for scholarships, debt service, and capital projects. At June 30, 2004,

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

expendable net assets totaled \$14.7 million (6.7% of total net assets) and included \$6.5 million of funds functioning as endowment.

- “Unrestricted” net assets are not subject to externally imposed stipulations, although management has designated these funds for various academic and research programs and initiatives, as well as capital projects. This year, unrestricted net assets totaling \$40.9 million represent 18.7 % of total net assets. Included in this category at June 30, 2004, was \$1.1 million of funds functioning as endowment.

The following chart displays the contribution of each category to the total in both 2004 and 2003:



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

The Statement of Revenues, Expenses, and Changes in Net Assets presents the revenues earned and the expenses incurred during the year. Activities are reported as either operating or nonoperating. Given a public university's dependency on revenues such as State appropriations, gifts, and investment income, which are prescribed by GASB as nonoperating revenues, operating expenses will exceed operating revenues, resulting in an operating loss. Net nonoperating revenues or expenses are an integral component in determining the increase or decrease in net assets.

Generally speaking, operating revenues are generated through the provision of goods and services, and include tuition and fees, contract and grant revenues, interest earnings on student loans, and sales and service revenue generated by student housing, the bookstore, and other enterprises. Operating expenses are the costs incurred to acquire or produce the goods and services provided and to conduct the affairs of the institution.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Nonoperating revenues are revenues received for which goods and services are not provided. For example, State appropriations, while budgeted for operations, are reported as nonoperating revenue because they are provided by the State legislature without the legislature directly receiving commensurate goods and services in return for those revenues. Nonoperating expenses include interest expense, extraordinary items, and other expenses not incurred in the normal operations of the University.

Capital grants and gifts are considered neither operating nor nonoperating revenues and are reported after "Income (Loss) before other revenues, expenses, gains or losses."

The following is a condensed Statement of Revenues, Expenses, and Changes in Net Assets for Western Carolina University as of June 30, 2004, compared with that of 2003.

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

|   | <u>2004</u>                 | <u>2003</u>                 | <u>\$ Change</u>           | <u>% Change</u>       |
|---|-----------------------------|-----------------------------|----------------------------|-----------------------|
| <b>Operating Revenues</b>                                       |                             |                             |                            |                       |
| Student Tuition and Fees, Net                                   | \$ 22,401,622               | \$ 19,794,031               | 2,607,591                  | 13.17%                |
| Grants and Contracts  | 16,404,243                  | 11,190,031                  | 5,214,212                  | 46.60%                |
| Sales and Services, Net   | 18,047,805                  | 16,310,754                  | 1,737,051                  | 10.65%                |
| Other Operating Revenues  | <u>5,725,464</u>            | <u>688,604</u>              | <u>5,036,860</u>           | <u>731.46%</u>        |
| Total Operating Revenues  | 62,579,134                  | 47,983,420                  | 14,595,714                 | 30.42%                |
| <b>Operating Expenses</b>                                       | <b><u>116,559,161</u></b>   | <b><u>102,496,717</u></b>   | <b><u>14,062,444</u></b>   | <b><u>13.72%</u></b>  |
| Operating Income/(Loss)   | <u>(53,980,027)</u>         | <u>(54,513,297)</u>         | 533,270                    | 0.98%                 |
| <b>Nonoperating Revenues (Expenses)</b>                         |                             |                             |                            |                       |
| State Appropriations  | 53,144,187                  | 51,698,881                  | 1,445,306                  | 2.80%                 |
| Gifts and Grants  | 2,767,827                   | 1,585,404                   | 1,182,423                  | 74.58%                |
| Investment Income (net of investment expense)                   | 4,857,098                   | 3,057,925                   | 1,799,173                  | 58.84%                |
| Other Nonoperating Revenues and Expenses                        | <u>(1,324,914)</u>          | <u>(657,327)</u>            | <u>(667,587)</u>           | <u>101.56%</u>        |
| <b>Net Nonoperating Revenues</b>                                | <u>59,444,198</u>           | <u>55,684,883</u>           | <u>3,759,315</u>           | <u>6.75%</u>          |
| <b>Income Before Other Revenues, Expenses, Gains, or Losses</b> | <b><u>5,464,171</u></b>     | <b><u>1,171,586</u></b>     | <b><u>4,292,585</u></b>    | <b><u>366.39%</u></b> |
| Capital Grants  | 30,180,854                  | 19,208,470                  | 10,972,384                 | 57.12%                |
| Capital Gifts   | 909                         | 110,000                     | (109,091)                  | -99.17%               |
| Additions to Permanent Endowments                               | <u>289,581</u>              | <u>203,499</u>              | <u>86,082</u>              | <u>42.30%</u>         |
| Total Other Revenue   | <u>30,471,344</u>           | <u>19,521,969</u>           | <u>10,949,375</u>          | <u>56.09%</u>         |
| <b>Change in Net Assets</b>                                     | <b>35,935,515</b>           | <b>20,693,555</b>           | <b>15,241,960</b>          | <b>73.66%</b>         |
| <b>Beginning Net Assets, as restated</b>                        | <b><u>182,959,631</u></b>   | <b><u>162,266,076</u></b>   | <b><u>20,693,555</u></b>   | <b><u>12.75%</u></b>  |
| <b>Ending Net Assets</b>  | <b><u>\$218,895,146</u></b> | <b><u>\$182,959,631</u></b> | <b><u>\$35,935,515</u></b> | <b><u>19.64%</u></b>  |

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

---

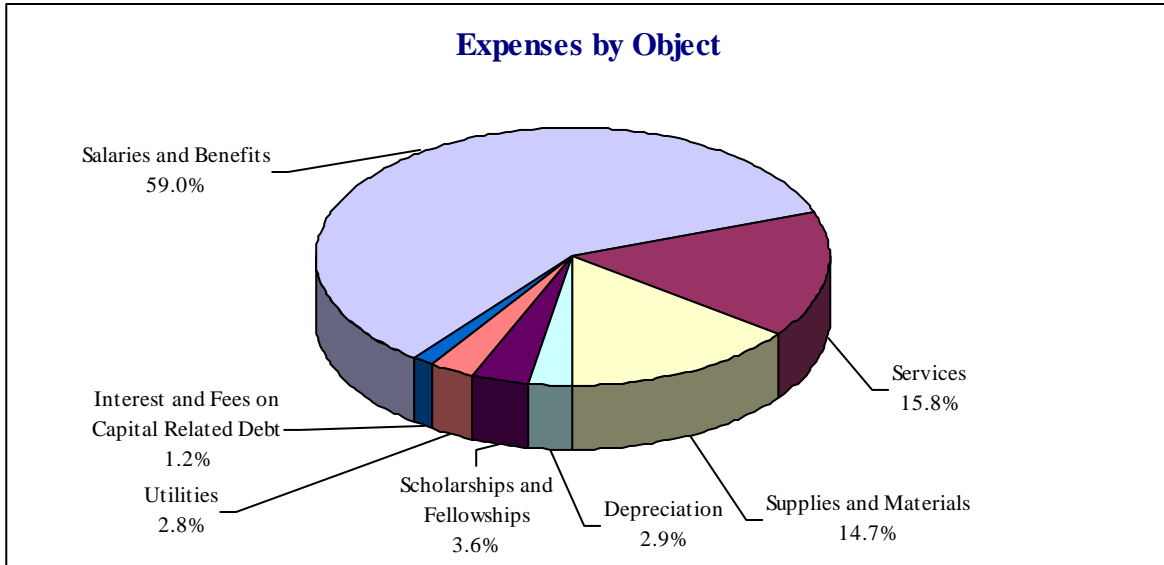
The Statement of Revenues, Expenses, and Changes in Net Assets reflects a positive year ending June 30, 2004, with an increase in net assets of \$35.9 million, a substantial rise from last year's increase of \$20.7 million.

Among the University's greatest strengths are the diverse revenue streams that supplement student tuition and fees. These include gifts from individuals, foundations, and corporations, along with State appropriations, investment income, and federal, State, and private grants and contracts. The University has sought and will continue to seek funding from available

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

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

The following is a graphic illustration of expenses (both operating and nonoperating) by their natural (object) classification:



Operating expenses increased \$14.1 million for the fiscal year ending June 30, 2004. Operating expenses are mainly attributable to salaries and benefits for the faculty and staff of the University. Of the \$116.6 million in operating expenses, \$69.6 million (60%) was used for this purpose in 2004. Other elements included in operating expenses are supplies and materials, services, scholarships and fellowships, utilities, and depreciation. All categories of expense were consistent with last year in terms of their percent of contribution to total expenses with the exception of salaries and benefits that declined by 3.3% and supplies and materials that increased by 3.3%. A \$5.5 million increase in supplies and materials in 2004 was mostly due to equipment purchases funded as part of construction or sponsored research projects that did not meet the University's capitalization criteria.

### Statement of Cash Flows

The Statement of Cash Flows provides additional information about the University's financial results by reporting the major sources and uses of cash. Cash provided or used is categorized based on the following four types of activities: operating, noncapital financing, capital financing, and investing. The statement also provides an assessment of the University's financial flexibility and liquidity, its ability to meet obligations as they come due, and its need for external financing. A comparative summary of the Statement of Cash Flows for the years ended June 30, 2004 and 2003, is as follows:

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

### Statement of Cash Flows

|  | <u>2004</u>                        | <u>2003</u>                        |
|--|------------------------------------|------------------------------------|
| <b>Cash provided (used) by:</b>          |                                    |                                    |
| Operating Activities                     | \$ (50,512,804)                    | \$ (49,715,433)                    |
| Noncapital Financing Activities          | 56,026,252                         | 53,986,570                         |
| Capital and Related Financing Activities | (2,404,120)                        | (20,803)                           |
| Investing Activities                     | <u>1,248,497</u>                   | <u>2,665,801</u>                   |
| <b>Net Change in Cash</b>                | <b>4,357,825</b>                   | <b>6,916,135</b>                   |
| <b>Cash, beginning of year</b>           | <b><u>61,999,281</u></b>           | <b><u>55,083,146</u></b>           |
| <b>Cash, end of year</b>                 | <b><u><u>\$ 66,357,106</u></u></b> | <b><u><u>\$ 61,999,281</u></u></b> |

Net cash used in operating activities should be viewed in conjunction with net cash provided by noncapital financing activities. State appropriations and gifts are significant sources of recurring revenues in support of operating expenses, but are required to be classified as noncapital financing activities under generally accepted accounting principles. Therefore, when considering cash flows related to operating activities, it is important also to consider these noncapital financing activities, which support operating expenses. Net cash flow provided by these two activities amounted to \$5.5 million in the year ended June 30, 2004.

Net cash provided by investing activities of \$1.2 million reflects receipts from sales and maturities of investments less disbursements for purchases of investments. Unrealized losses and gains from the change in fair value of investments are non-cash transactions for valuation purposes only, and do not affect cash flows from investing activities.

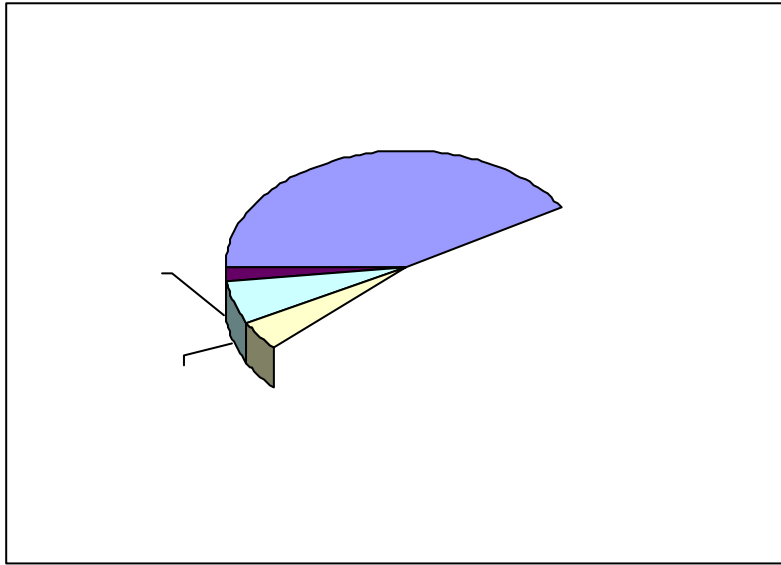
The University's cash and cash equivalents increased \$4.4 million during 2004 due to the positive flow of funds provided by noncapital financing and investing activities.

### Capital Asset and Debt Administration

At June 30, 2004, the University had approximately \$220.6 million invested in capital assets, net of accumulated depreciation of \$55.8 million. Depreciation charges for the current year

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

---





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

---

Jordan-Phillips Fieldhouse and the stadium's west side stands; and a \$6.8 million expansion of the A.K. Hinds University Center, which was completed with a grand opening in January 2004. The UC expansion features a 160-seat multipurpose room, 170-seat auditorium for movies and lectures, a new student mail center, an expanded food court, and 3,500 square feet of retail space for the new Catamount Clothing and Gift Store. Currently in design are a new Student Recreation Center and a planned Hospitality Management Studies Center with total combined budgets of \$23 million.

The University's financial statements indicate \$27,434,000 in bonds payable, \$2,080,239 in notes payable, and \$27,643 in capital leases payable at June 30, 2004. Total annual debt service payments were \$2.7 million in 2004, compared to \$2.1 million in 2003.

During the fiscal year ending June 30, 2004, the University participated in the issuance of The University of North Carolina System Pool Revenue Bonds, Series 2003A. Western Carolina University borrowed \$13,120,000 as part of this issue for the construction of a new Student Recreation Center (\$11,610,000) and for construction of a softball facility (\$1,510,000).

For additional information on Capital Assets and Debt Administration, see Notes 5, 7, and 8 to the financial statements.

### **Enrollment**

A significant factor in the University's capacity to generate resources relates to its ability to recruit and retain high quality students. First-year students applied in record numbers for the fourth straight year - over 4,911 (up from 4,600 last year) applications were processed. Just over 76.2% (up from 73.5% last year) of these students were admitted. Of those who were admitted, 1,578 (up from 1,494) freshmen enrolled to begin the Fall 2004 semester, and their average SAT scores increased to 1027 (up from 1023 last year), significantly above the State average of 1006 and above the national average of 1026.

In an effort to boost enrollment and to improve the quality of education available at Western, the University continues its emphasis on new, career-focused programs of study. Programs added during FY 2003-2004 included programs in athletic training and Cherokee studies, a joint degree program in electrical engineering with UNC Charlotte, and a new concentration in forensic anthropology - all at the undergraduate level, and a new master's degree program in fine arts.

Enrollment growth targets for the next 8 - 10 years have been established, and the University continues vigorously to pursue growth in all categories of enrollment: resident credit and distance learning enrollments at both the undergraduate and graduate levels. With the total enrollment for Fall 2004 reaching nearly 8,400 students for the first time in the institution's history, the total enrollment target of 10,000 by the year 2009 appears reachable. Increases in enrollment will generate increases in revenues such as tuition and fees, sales and services and State appropriations, as well as the corresponding operating expenses incurred in serving larger numbers of students.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)**

---

In addition to recruiting record numbers of students, the University is making a substantial effort to enhance persistence to graduation. Nearly 74% of Fall 2003 freshmen enrolled for Fall 2004, up five percentage points from the previous year. It is important to note that, while the average graduation rate for all students is 49%, the graduation rate for student-athletes who enrolled in the '97-'98 academic year was 59%. Higher retention rates and higher graduation rates are seen as key indicators of success, both for the University and for its students.

### **Economic Outlook**

Looking toward the future, management believes that the University is well positioned to





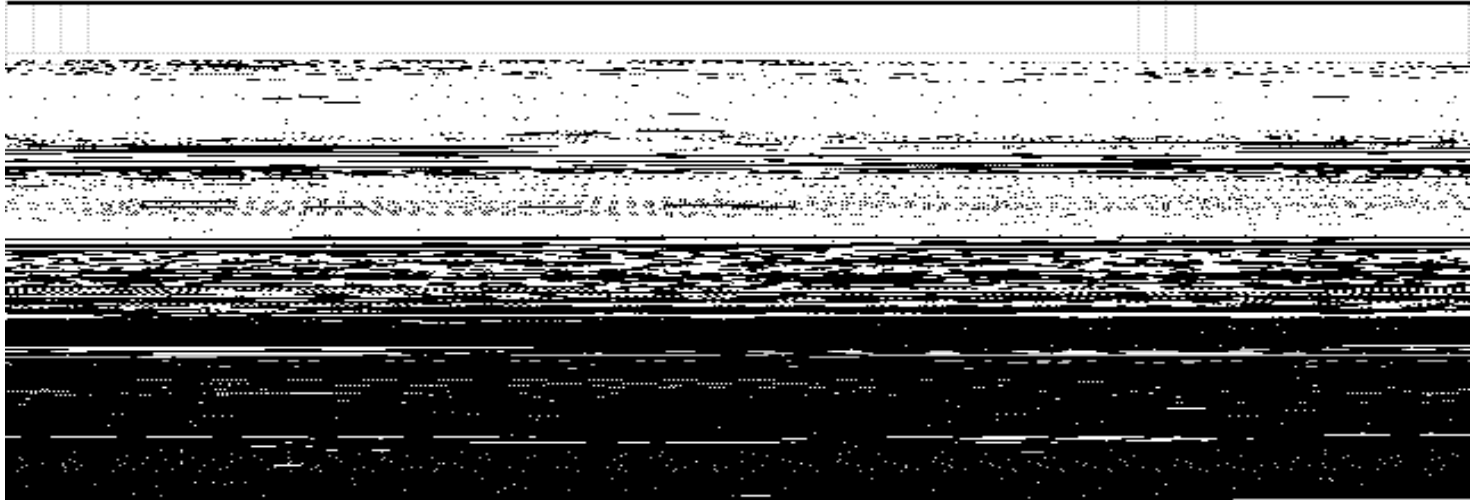
*Wactorn. Carolina. Ueissavite*

*[The text in this section is extremely faint and illegible due to heavy noise and artifacts.]*



***Western Carolina University  
Statement of Cash Flows  
For the Fiscal Year Ended June 30, 2004***

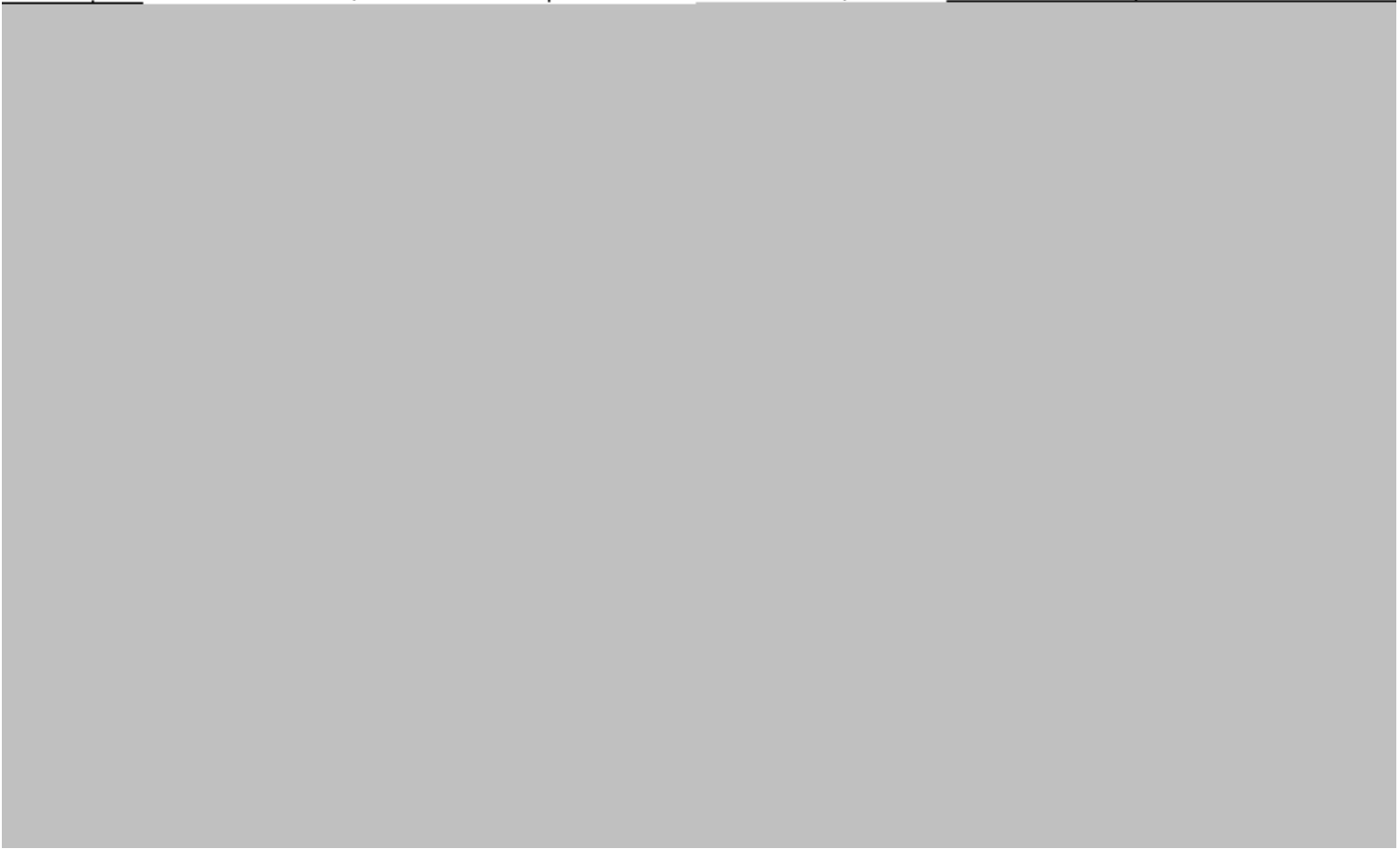
***Exhibit A-3***





|  |  |  |  |
|--|--|--|--|
| <b><i>Western Carolina University Research and</i></b> |  |  |  |
| <b><i>Development Corporation</i></b>                  |  |  |  |

|   |  |  |  |
|---|--|--|--|
| <b><i>Statement of Financial Position</i></b> |  |  |  |
|---|--|--|--|





|   |  |  |    |                    |
|---|--|--|----|--------------------|
| <b>Western Carolina University Research and<br/>Development Corporation</b> |  |  |    |                    |
| <b>Statement of Activities</b>  |  |  |    |                    |
| <b>For the Fiscal Year Ended June 30, 2004</b>                              |  |  |    | <b>Exhibit B-2</b> |
|   |  |  |    |                    |
|   |  |  |    |                    |
| <b>EXPENSES</b>   |  |  |    |                    |
| Operating Expenses:   |  |  |    |                    |
|   | Trustee Fees                               |  | \$ | 3,000.00           |
|   | Amortization of Certificate Issuance Costs |  |    | 15,103.00          |
|   |  |  |    |                    |
|   | Total Expenses                             |  |    | 18,103.00          |
|   |  |  |    |                    |
|   | Change in Net Assets                       |  |    | (18,103.00)        |
|   |  |  |    |                    |
| <b>NET ASSETS</b>   |  |  |    |                    |
|   | NET ASSETS - FISCAL YEAR                   |  | \$ | (18,103.00)        |

**WESTERN CAROLINA UNIVERSITY**

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

---

Separate financial statements for the Foundation may be obtained from the University Controller's Office, HFR 317, Cullowhee, NC 28723, or by calling 828-227-7308. Other related foundations and similar nonprofit corporations for which the University is not financially accountable are not part of the accompanying financial statements.

**Discretely Presented Component Unit** – The Western Carolina University Research and Development Corporation is a legally separate not-for-profit corporation and is reported as a discretely presented component unit based on the nature and significance of its relationship to the University.

The Corporation is a private not-for-profit organization that reports its financial results under Financial Accounting Standards Board (FASB)

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

---

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

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

---

- G. Inventories** – Inventories, consisting of expendable supplies and merchandise for resale, are valued at cost using the last invoice cost.
- H. Capital Assets** – Capital assets are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. The value of assets constructed includes all material direct and indirect construction costs. Interest costs incurred are capitalized during the period of construction.

The University capitalizes assets that have a value or cost in excess of \$5,000 at the date of acquisition and an expected useful life of more than one year. Library books are generally not considered to have a useful life of more than one year unless part of a collection and are expensed in the year of acquisition.

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

Certain book and art collections are capitalized at cost or fair value at the date of donation. These collections are depreciated over the life of the collection using the straight-line method. The estimated useful lives for the collections are 25 years.

Artifact collections are capitalized at cost or fair value at the date of donation. These collections are considered inexhaustible and are therefore not depreciated.

- I. Restricted Assets** – Unexpended proceeds of revenue bonds and unexpended capital contributions are classified as restricted assets because their use is limited by applicable bond covenants or donor/grantor agreements. Certain other assets are classified as restricted because their use is limited by external parties or statute.
- J. Noncurrent Long-Term Liabilities** – Noncurrent long-term liabilities include principal amounts of bonds payable, notes payable, annuities payable, capital lease obligations, 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. The University amortizes bond premiums/discounts over the life of the bonds using the straight-line method. The deferred losses on refundings are amortized over the life of the old debt or new debt (whichever is shorter).

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

---

**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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

---

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

Restricted and unrestricted resources are tracked using a fund accounting system and are spent in accordance with established fund authorities. Fund authorities provide rules for the fund activity and are separately established for restricted and unrestricted activities. When both restricted and unrestricted funds are available for expenditure, the decision for funding is transactional based within the departmental management system in place at the University. For projects funded by tax-exempt debt proceeds and other sources, the debt proceeds are always used first.

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

---

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

### NOTE 2 - DEPOSITS AND INVESTMENTS

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

Deposits include cash and cash equivalents totaling \$66,326,951.87. At year-end, cash on hand was \$30,154.00. The University's portion of the State Treasurer's Investment Pool was \$64,720,826.16. 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 \$1,606,125.71 and the bank balance was \$2,039,578.43. Of the bank balance, \$109,225.00 was covered by federal depository insurance and \$1,930,353.43 was collateralized under the pooling method.



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

---

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

---

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 unit value method. Under this method, each participating fund's investment balance is determined on a market value basis. The investment strategy, including the selection of investment managers, is based on the directives of the University's Endowment Board and the Board of Directors of the Western Carolina University Foundation.

**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

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

***Non-Pooled Investments***

|  | Fair Value           |                |                | Total                  |
|--|----------------------|----------------|----------------|------------------------|
|  | Risk Category        |                |                |                        |
|  | 1                    | 2              | 3              |                        |
| <b>Categorized Investments:</b>          |                      |                |                |                        |
| U.S. Government Securities               | \$ 530,616.69        | \$ 0.00        | \$ 0.00        | \$ 530,616.69          |
| Corporate Bonds                          | 14,233.13            |                |                | 14,233.13              |
| Corporate Stocks                         | 30,417.00            |                |                | 30,417.00              |
| <b>Total Categorized Investments</b>     | <u>\$ 575,266.82</u> | <u>\$ 0.00</u> | <u>\$ 0.00</u> | 575,266.82             |
| <b>Investments Not Categorized:</b>      |                      |                |                |                        |
| Real Estate                              |                      |                |                | 32,500.00              |
| Limited Partnerships                     |                      |                |                | 393,441.58             |
| Collections                              |                      |                |                | 16,631.29              |
| <b>Total Investments Not Categorized</b> |                      |                |                | <u>442,572.87</u>      |
| <b>Total Non-Pooled Investments</b>      |                      |                |                | <u>\$ 1,017,839.69</u> |

***Total Investments***

|  | Fair Value           |                |                | Total                   |
|--|----------------------|----------------|----------------|-------------------------|
|  | Risk Category        |                |                |                         |
|  | 1                    | 2              | 3              |                         |
| <b>Total Categorized Investments</b>     | <u>\$ 575,266.82</u> | <u>\$ 0.00</u> | <u>\$ 0.00</u> | \$ 575,266.82           |
| <b>Total Investments Not Categorized</b> |                      |                |                |                         |
| Pooled Investments                       |                      |                |                | 22,051,013.86           |
| Non Pooled Investments                   |                      |                |                | 442,572.87              |
| <b>Total Investments Not Categorized</b> |                      |                |                | <u>22,493,586.73</u>    |
| <b>Total Investments</b>                 |                      |                |                | <u>\$ 23,068,853.55</u> |

**NOTE 3 - ENDOWMENT INVESTMENTS**

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

Investment return of the University's endowment funds is predicated on the total return concept (yield plus appreciation). The current spending policy for

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

---

the University's pooled endowment funds provides 4.5% of a three-year average of market values as of December 31. The Board of Trustees annually reviews the spending policy and makes adjustments accordingly. At June 30, 2004, net appreciation of \$9,745,706.16 was available to be spent, of which \$6,527,554.06 was restricted to specific purposes.

### NOTE 4 - RECEIVABLES

Receivables at June 30, 2004 were as follows:

|                                  | Gross<br>Receivables | Less<br>Allowance<br>for Doubtful<br>Accounts | Net<br>Receivables |
|----------------------------------|----------------------|---|--------------------|
| <b>Current Receivables:</b>      |                      |   |                    |
| Students                         | \$ 1,191,645.71      | \$ 833,337.63                                 | \$ 358,308.08      |
| Accounts                         | 2,429,432.48         |   | 2,429,432.48       |
| Intergovernmental                | 1,230,990.00         |   | 1,230,990.00       |
| Pledges                          | 138,984.06           | 11,242.84                                     | 127,741.22         |
| Investment Earnings              | 58.69                |   | 58.69              |
| Interest on Loans                | 120,109.40           |   | 120,109.40         |
| Other                            | 332,055.67           |   | 332,055.67         |
| <b>Total Current Receivables</b> |                      |   |                    |

## 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<br>July 1, 2003 | Adjustments | Increases | Decreases | Balance<br>June 30, 2004 |
|---------------------------------|-------------------------|-------------|-----------|-----------|--------------------------|
| Capital Assets, Nondepreciable: |                         |             |           |           |                          |
| Land                            | \$ 2,988,060.30         | \$ 0.00     | \$ 0.00   | \$ 0.00   | \$ 2,988,060.30          |
| Art, Literature, and Artifacts  | 105,433.00              |             |           |           | 105,433.00               |

**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<br>July 1, 2003 | Additions        | Reductions    | Balance<br>June 30, 2004 | Current<br>Portion |
|---------------|-------------------------|------------------|---------------|--------------------------|--------------------|
| Bonds Payable | \$ 15,299,000.00        | \$ 13,120,000.00 | \$ 985,000.00 | \$ 27,434,000.00         | \$ 920,000.00      |

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

---

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

| Purpose             | Financial Institution | Interest Rate/<br>Ranges | Final Maturity Date | Original Amount of Issue | Principal Paid Through 6/30/2004 | Principal Outstanding 6/30/2004 |
|---------------------|-----------------------|--------------------------|---------------------|--------------------------|----------------------------------|---------------------------------|
| UC Renovation       | First Union National  | 6.18                     | 12/1/2010           | \$ 3,800,000.00          | \$ 1,719,760.86                  | \$ 2,080,239.14                 |
| Purchase Automobile | Ford Motor Credit     | 3.9                      | 8/6/2003            | <u>25,551.66</u>         | <u>25,551.66</u>                 | <u>                    </u>     |
| Total Notes Payable |                       |                          |                     | <u>\$ 3,825,551.66</u>   | <u>\$ 1,745,312.52</u>           | <u>\$ 2,080,239.14</u>          |

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

Fiscal Year

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

---

|  | <u>Amount</u>        |
|--|----------------------|
| Value of annuity liability at date of contribution | \$ 597,400.00        |
| Interest earned on investment                      | 23,533.65            |
| Quarterly payments                                 | (64,294.62)          |
| Present value adjustment at year end               | <u>99,049.89</u>     |
| Value of annuity liability at June 30, 2004        | <u>\$ 655,688.92</u> |

### NOTE 8 - LEASE OBLIGATIONS

**A. Capital Lease Obligations** - Capital lease obligations relating to machinery and equipment are recorded at the present value of the minimum lease payments. Future minimum lease payments under capital lease obligations consist of the following at June 30, 2004:

| <u>Fiscal Year</u>           | Amount       |
|------------------------------|--------------|
| 2005                         | \$ 14,346.09 |
| 2006                         | 7,967.40     |
| 2007                         | 5,841.09     |
| Total Minimum Lease Payments | 28,154.58    |
| Amount Representing Interest |              |



**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

---

| <u>Fiscal Year</u>           | <u>Amount</u>           |
|------------------------------|-------------------------|
| 2005                         | \$ 1,001,654.67         |
| 2006                         | 1,024,429.15            |
| 2007                         | 1,007,654.57            |
| 2008                         | 991,419.12              |
| 2009                         | 969,627.82              |
| 2010-2014                    | 4,687,200.00            |
| 2015-2019                    | 4,687,200.00            |
| 2020-2024                    | 4,687,200.00            |
| 2025-2029                    | 4,687,200.00            |
| Total Minimum Lease Payments | <u>\$ 23,743,585.33</u> |

Rental expense for all operating leases during the year was \$174,566,74.

**NOTE 9 - REVENUES**

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

|          |      |      |          |
|----------|------|------|----------|
| Internal | Less | Less | Revenues |
|----------|------|------|----------|

## 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<br>and<br>Benefits | Supplies<br>and<br>Materials | Services                | Scholarships<br>and<br>Fellowships | Utilities              | Depreciation           | Total                    |
|-------------------------------------|-----------------------------|------------------------------|-------------------------|------------------------------------|------------------------|------------------------|--------------------------|
| Instruction                         | \$ 33,820,274.90            | \$ 1,336,478.31              | \$ 2,595,916.96         | \$ 11,431.18                       | \$ 2,210.19            | \$ 0.00                | \$ 37,766,311.54         |
| Research                            | 873,956.28                  | 1,721,683.57                 | 869,914.11              | 2,476.05                           | 18,402.32              |                        | 3,486,432.33             |
| Public Service                      | 6,563,970.55                | 722,341.84                   | 2,285,665.12            | 129,662.47                         | 56,698.82              |                        | 9,758,338.80             |
| Academic Support                    | 5,274,824.83                | 1,391,257.13                 | 607,678.18              |                                    | 992.25                 |                        | 7,274,752.39             |
| Student Services                    | 2,782,027.39                | 136,259.75                   | 922,974.97              |                                    |                        |                        | 3,841,262.11             |
| Institutional Support               | 8,206,565.52                | 1,154,042.57                 | 2,359,075.07            | 192,464.97                         | 560.94                 |                        | 11,912,709.07            |
| Operations and Maintenance of Plant | 4,826,117.80                | 5,374,866.65                 | 325,548.53              |                                    | 2,132,410.59           |                        | 12,658,943.57            |
| Student Financial Aid               |                             | 1,599.65                     | 11,854.97               | 3,002,202.35                       |                        |                        | 3,015,656.97             |
| Auxiliary Operations                | 7,037,834.73                | 4,229,367.40                 | 8,555,351.85            | 873,655.57                         | 1,118,553.51           |                        | 21,814,763.06            |
| Independent Operations              | 172,233.27                  | 1,311,672.39                 | 149,049.99              |                                    |                        |                        | 1,632,955.65             |
| Depreciation                        |                             |                              |                         |                                    |                        | 3,397,035.79           | 3,397,035.79             |
| Total Operating Expenses            | <u>\$ 69,557,805.27</u>     | <u>\$ 17,379,569.26</u>      | <u>\$ 18,683,029.75</u> | <u>\$ 4,211,892.59</u>             | <u>\$ 3,329,828.62</u> | <u>\$ 3,397,035.79</u> | <u>\$ 116,559,161.28</u> |

### NOTE 11 - PENSION PLANS

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

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

Benefit and contribution provisions for the Teachers' and State Employees' Retirement System are established by *North Carolina General Statutes* 135-5 and 135-8 and may be amended only by the North Carolina General Assembly. Employer and member contribution rates are set each year by the North Carolina General Assembly based on annual actuarial valuations. For the year ended June 30, 2004, these rates were set at .22% of covered payroll for employers and 6% of covered payroll for members.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

---

For the year ended June 30, 2004, the University had a total payroll of \$57,533,707.46, of which \$29,924,315.57 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were \$1,795,458.93 and \$65,833.49, respectively. The University made one hundred percent of its annual required contributions for the years ended June 30, 2004, 2003, and 2002, which were \$65,833.49, \$0.00, and \$555,006.36, respectively.

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

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

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

Participant eligibility and contributory requirements are established by General Statute 135-5.1. Employer and member contribution rates are set each year by the North Carolina General Assembly. For the year ended June 30, 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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

---

For the year ended June 30, 2004, the University had a total payroll of \$57,533,707.46, of which \$20,702,241.74 was covered under the Optional Retirement Program. Total employee and employer contributions for pension benefits for the year were \$1,242,134.50 and \$1,416,033.34, respectively.

### **B. Deferred Compensation and Supplemental Retirement Income Plans -**

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

---

Plan participants. No costs are incurred by the University. The voluntary contributions by employees amounted to \$905,398.50 for the year ended June 30, 2004.

### NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS

- A. Health Care for Long-Term Disability Beneficiaries and Retirees -** The University participates in State-administered programs that provide postemployment health insurance to eligible former employees. Eligible former employees include long-term disability beneficiaries of the Disability Income Plan of North Carolina and retirees of the Teachers' and State Employees' Retirement System or the Optional Retirement Program. These benefits were established by Chapter 135, Article 3, Part 3, of the General Statutes and may be amended only by the North Carolina General Assembly. Funding for the health care benefit for long-term disability beneficiaries and retirees is financed on a pay-as-you-go basis. The University contributed 3.2% of the covered payroll under the Teachers' and State Employees' Retirement System and the Optional Retirement Program for these health care benefits. For the fiscal year ended June 30, 2004, the University's total contribution to the Plan was \$1,620,049.83. 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*.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

---

### NOTE 13 - RISK MANAGEMENT

The University is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These exposures to loss are handled via a combination of methods, including participation in State-administered insurance programs, purchase of commercial insurance, and self-retention of certain risks. Except for a reduction in the public officers' and employees' liability insurance from \$11,000,000 to \$5,000,000, there have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

Tort claims of up to \$500,000 are self-insured under the authority of the State Tort Claims Act. In addition, the State provides excess public officers' and employees' liability insurance up to \$5,000,000 via contract with a private insurance company. The University pays the premium, based on a composite rate, directly to the private insurer.

The University is required to maintain fire and lightning coverage on all State-owned buildings and contents through the State Property Fire Insurance Fund (Fund), an internal service fund of the State. Such coverage is provided at no cost to operations supported by the State's General Fund. Other operations not supported by the State's General Fund are charged for the coverage. Losses covered by the Fund are subject to a \$500 per occurrence deductible. The University also purchased through the Fund extended coverage for buildings that covers windstorm or hail and "all risk" for selected contents such as high value equipment, computers, and fine art.

All State-owned vehicles are covered

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

---

students participating in University athletic events, boiler and machinery coverage, general liability, and various other commercial applications. These coverages were affected 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

---

- C. University Improvement General Obligation Bonds** – The 1999-2000 Session of the General Assembly of North Carolina authorized the issuance of two billion five hundred million dollars of general obligation bonds of the State, as subsequently approved by a vote of qualified voters of the State, to provide funds for capital improvements for the University of North Carolina. The funds authorized are to be used solely for capital facilities cost on the University of North Carolina campuses as specified in the legislation. The bond legislation specifies the amount of bond funding for each University campus



## NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

---

The Highlands Biological Foundation, Inc., was incorporated in North Carolina on January July 21, 1930, for the purpose of supporting through grants and scholarships the activities of the Highlands Biological Station. This support approximated \$61,662.90 for the year ended June 30, 2004.

### **NOTE 16 - CHANGE IN FINANCIAL ACCOUNTING AND REPORTING**

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

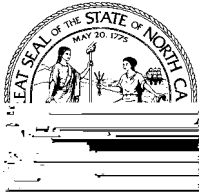
### **NOTE 17 - SUBSEQUENT EVENTS**

On August 20, 2004, the Foundation purchased land identified as the "Killian Tract" at a contract price of \$900,000. This property is located in Cullowhee, North Carolina. It is the intent of the Foundation to sell this property to the

*Western Carolina University  
Schedule of General Obligation Bond Project Authorizations,  
Repeals and Exemptions*



[ This Page Left Blank Intentionally ]



**Ralph Campbell, Jr.**  
State Auditor

**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)***

---

design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements

## DISTRIBUTION OF AUDIT REPORT

---

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

### EXECUTIVE BRANCH

|                                  |  |
|----------------------------------|--|
| The Honorable Michael F. Easley  | Governor of North Carolina   |
| The Honorable Beverly M. Perdue  | Lieutenant Governor of North Carolina  |
| The Honorable Richard H. Moore   | State Treasurer  |
| The Honorable Roy A. Cooper, III | Attorney General   |
| Mr. David T. McCoy               | State Budget Officer   |
| Mr. Robert L. Powell             | State Controller   |
| Ms. Molly Corbett Broad          | President, The University of North Carolina                                    |
| Dr. John W. Bardo                | Chancellor, Western Carolina University  |
| Mr. George W. Wooten             | Vice Chancellor for Administration and Finance,<br>Western Carolina University |
| Mr. Phillip D. Walker            | Chairman, Board of Trustees,<br>Western Carolina University                    |

### LEGISLATIVE BRANCH

Appointees to the Joint Legislative Commission on Governmental Operations

|                                   |  |
|-----------------------------------|--|
| President Pro Tempore             | Speaker of the House                       |
| Senator Marc Basnight, Co-Chair   | Representative James B. Black, Co-Chair    |
| Senator Charles W. Albertson      | Representative Richard T. Morgan, Co-Chair |
| Senator Daniel G. Clodfelter      | Representative Martha B. Alexander         |
| Senator Walter H. Dalton          | Representative Rex L. Baker                |
| Senator Charlie S. Dannelly       | Representative Bobby H. Barbee, Sr.        |
| Senator James Forrester           | Representative Harold J. Brubaker          |
| Senator Linda Garrou              | Representative Debbie A. Clary             |
| Senator Fletcher L. Hartsell, Jr. | Representative E. Nelson Cole              |
| Senator David W. Hoyle            | Representative James W. Crawford, Jr.      |
| Senator Ellie Kinnaird            | Representative William T. Culpepper, III   |
| Senator Jeanne H. Lucas           | Representative W. Pete Cunningham          |
| Senator Anthony E. Rand           | Representative W. Robert Grady             |
| Senator Eric M. Reeves            | Representative Joe Hackney                 |
| Senator Robert A. Rucho           | Representative Julia C. Howard             |
| Senator R. C. Soles, Jr.          | Representative Joe L. Kiser                |
| Senator Scott Thomas              | Representative Edd Nye                     |
|                                   | Representative William C. Owens, Jr.       |
|                                   | Representative Wilma M. Sherrill           |
|                                   | Representative Thomas E. Wright            |

### Other Legislative Officials

