



Appalachian

STATE UNIVERSITY.

BOONE, NORTH CAROLINA



Financial Statements

Fiscal Year 2012

FINANCIAL STATEMENT OF



BOONE, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2012

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THE UNIVERSITY OF NORTH CAROLINA

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Business Affairs

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December 10, 2012

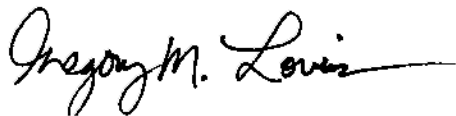
Board of Trustees and Chancellor Peacock
Appalachian State University
Boone, North Carolina 28608

Dear Members of the Board of Trustees and Chancellor Peacock:

I am pleased to present the Appalachian State University Financial Report for the year ended June 30, 2012. The financial statements in this report were prepared in accordance with generally accepted accounting principles as promulgated by the American Institute of Certified Public Accountants and the National Association of College and University Business Officers. The report includes the opinion letter of the North Carolina Office of the State Auditor.

All detailed records of the financial activity of Appalachian State University are maintained in the Office of the University Controller in accordance with state statute.

Respectfully submitted,



Gregory M. Lovins
Interim Vice Chancellor for Business Affairs

GML/dp

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TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITOR'S REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	3
BASIC FINANCIAL STATEMENTS	
University Exhibits	
A-1 Statement of Net Assets	11
A-2 Statement of Revenues, Expenses, and Changes in Net Assets	13
A-3 Statement of Cash Flows	14
Component Unit Exhibits	
B-1 Appalachian State University Foundation, Inc., Statement of Financial Position	16
B-2 Appalachian State University Foundation, Inc., Statement of Activities	17
B-3 Appalachian Student Housing Corporation, Statement of Financial Position	18
B-4 Appalachian Student Housing Corporation, Statement of Activities	19
Notes to the Financial Statements	21
INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT</i> <i>AUDITING STANDARDS</i>	51
ORDERING INFORMATION	53



Beth A. Wood, CPA
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 multi-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, 2012, which collectively comprise the 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, Inc. or the Appalachian Student Housing Corporation, 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 opinions, insofar as they relate to the amounts included for those entities, are 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, Inc. and the 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. An audit also includes assessing the accounting principles used and the 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, 2012, 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)

In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 2012 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, 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.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during the audit of the basic financial statements. However, we do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



Beth A. Wood, CPA
State Auditor

November 21, 2012

APPALACHIAN STATE UNIVERSITY MANAGEMENT'S DISCUSSION AND ANALYSIS

Overview of the Financial Statement Information

Appalachian State University, a constituent institution of the multi-campus University of North Carolina System (UNC System), is pleased to present its financial statements for fiscal year 2012. These statements are prepared in accordance with standards issued by the Governmental Accounting Standard's Board (GASB).

Statement of Net Assets

The Statement of Net Assets (condensed, comparative table presented within this discussion and analysis) 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. Restricted nonexpendable net assets consist of loan funds, research 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, unexpended bond proceeds and grants from third party agencies with expenditure restrictions.

Overall the Statement of Net Assets reflects an increase of \$18,844,768.43. This represents a 4.9% increase over the prior year and will be discussed in an analysis of each component of the statement beginning with Total Assets followed by Total Liabilities and lastly, Net Assets.

Prominent changes in total assets are represented by an increase in capital assets combined with a decrease in current assets and noncurrent restricted cash and cash equivalents. Capital assets net of depreciation increased by \$56,917,248.99, an 11.2% change. On the other hand current assets decreased by \$3,777,712.10 or 4.3% and noncurrent restricted cash and cash equivalents decreased by \$38,810,973.58 or 78.3%. Overall total assets increased by 2.5% over fiscal year 2011 by \$16,677,977.83.

The overall increase in capital assets is primarily due to additions to construction in progress of \$51,690,566.00 and the acquisition of a student housing facility, Mountaineer Hall, acquired through a capital lease. The majority of acquisitions include the addition of \$16,595,625.97 for Mountaineer Hall and the following amounts being moved from construction in progress (non-depreciable) to capital assets-buildings and infrastructure (depreciable) this year: \$5,874,052.17 for the College of Education Building, \$1,305,276.07 for the Steam Distribution/Return System and \$952,426.82 for the Boone Creek Restoration Project. These increases along with other small projects and a slight increase in machinery and equipment are offset by total depreciation of \$17,108,445.86. The increase in capital assets-nondepreciable is due to the aforementioned increase in construction in progress of \$51,690,566.00 reduced by the capitalization of assets moved from construction in progress \$10,413,764.61. The current year additions to construction in progress included the Student Union/Center for Student Leadership and Development/Annex project, construction costs for

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

the College of Education, and the renovation of the Beasley Media Center. Beginning balances for land and general infrastructure were restated by \$10,993,016.89 to properly classify these accounts from the prior period. There was no net asset impact resulting from this reclassification.

Current assets decreased by \$3,777,712.10 during fiscal year 2012. This decrease is a result of several factors. Most significant is the decrease in pooled cash related to University Housing operations, totaling \$7,323,082.99. The decrease is primarily related to lease payments for the Mountaineer Hall capital lease offset by overall increases of cash in the Housing funds. Additionally there was a decrease in inventory of \$2,592,620.87 primarily from reductions in inventory at the University Bookstore. In addition to the decommissioning of rental inventory related to the book adoption cycle, during the year the Bookstore also took measures to increase inventory turn and to better manage purchases across all departments as well as purchase textbook returns and markdowns resulting in reduced inventory. These decreases were offset by increases in pooled cash equivalents in Food Services, Student Health Services, and multiple other areas totaling \$2,610,244.48. The University did have fee increases for each of the five meal plan options. The Health Services increase is due to three factors. There was an enrollment increase which generated more revenue, even though there was not a fee increase for this fee. Purchases of medications were less than anticipated and there was also a general decrease in spending. Cash carried forward also increased by \$1,496,944.00. Lastly, there was an increase of \$1,940,908.58 in cash and cash equivalents for New River Power and Light that offsets the decreases noted above.

The reduction in noncurrent restricted cash of \$38,810,973.58 represents the spending down of proceeds from bond funds. Primarily these funds were utilized for the following projects: \$1,628,996.02 for the Beasley Media Center, \$11,221,955.82 for additions to the Student Union, \$19,513,118.28 for the Honors Residence Hall, and \$4,748,672.81 for the Student Leadership Annex.

Total liabilities decreased \$2,166,790.60 or 0.7% from the previous year. This decrease was due to an increase in current liabilities of \$2,707,392.92 offset by a decrease in long-term liabilities of \$4,920,680.34. The increase in current liabilities primarily resulted from an increase in the current portion due for capital leases in the amount of \$1,222,804.88, an increase in the current portion due for bonds payable for \$810,000.00, an increase in notes payable for \$241,206.68, and a \$1,733,175.34 increase in contract retainage for capital improvement projects. This was offset by a \$1,380,117.02 reduction in accounts payable also related to capital improvement projects.

The decrease in long term liabilities of \$4,920,680.34 can be mostly attributed to debt service payments totaling \$8,953,966.33 and reductions in Accrued Vacation leave of \$866,545.41. These decreases in the long-term liabilities balances were offset by the addition of capital leases on Mountaineer Hall and the Singing News Administration building, which had a remaining balance of \$5,362,622.97 after capital lease payments totaling \$10,518,311.31 for 2012 had been made.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Overall, Appalachian had an increase of \$18,844,768.43 in total net assets. The change was primarily due to the increase in capital assets, net of related debt of \$22,210,440.55, a decrease in unrestricted net assets of \$7,016,530.38, and an increase of \$3,490,463.87 in restricted nonexpendable related to additions to endowments to be discussed in the analysis of other revenues.

Condensed Statement of Net Assets

	Fiscal Year 2012	Fiscal Year 2011 (as restated)	\$ Change	% Change
Assets				
Current Assets	\$ 84,906,096.81	\$ 88,683,808.91	\$ (3,777,712.10)	(4.3)
Noncurrent Assets				
Restricted Cash and Cash Equivalents	10,761,610.43	49,572,584.01	(38,810,973.58)	(78.3)
Capital Assets - Nondepreciable	99,474,746.09	56,340,401.27	43,134,344.82	76.6
Capital Assets - Depreciable	467,806,455.22	454,023,551.05	13,782,904.17	3.0
Other	<u>26,580,016.05</u>	<u>24,230,601.53</u>	<u>2,349,414.52</u>	9.7
Total Assets	689,528,924.60	672,850,946.77	16,677,977.83	2.5
Liabilities				
Current Liabilities	36,759,577.72	34,052,184.80	2,707,392.92	8.0
Funds Held Others	119,804.27	95,088.05	24,716.22	26.0
Long-Term Liabilities	248,783,766.38	253,704,446.72	(4,920,680.34)	(1.9)
Other Noncurrent Liabilities	<u>3,972,453.15</u>	<u>3,950,672.55</u>	<u>21,780.60</u>	0.6
Total Liabilities	289,635,601.52	291,802,392.12	(2,166,790.60)	(0.7)
Net Assets				
Invested in Capital Assets - Net of Related Debt	332,223,741.53	310,013,300.98	22,210,440.55	7.2
Restricted				
Nonexpendable	14,410,105.60	10,919,641.73	3,490,463.87	32.0
Expendable	9,544,079.86	9,383,685.47	160,394.39	1.7
Unrestricted	<u>43,715,396.09</u>	<u>50,731,926.47</u>	<u>(7,016,530.38)</u>	(13.8)
Total Net Assets	<u>\$ 399,893,323.08</u>	<u>\$ 381,048,554.65</u>	<u>\$ 18,844,768.43</u>	4.9

Statement of Revenues, Expenses, and Changes in Net Assets

The Statement of Revenues, Expenses, and Changes in Net Assets (condensed, comparative table presented within this discussion and analysis) depicts operating and nonoperating revenues and expenses. Note that state appropriations are considered nonoperating revenues.

Total operating revenues increased from \$160,341,551.46 in 2011 to \$173,066,387.93 in 2012 representing a 7.9% overall increase. This is primarily due to two factors: a 10.1% increase in tuition and fees revenue for a total of \$8,620,942.47, and a 5.5% increase for a total of \$4,014,432.99 in sales and services, net. The increase in tuition and fees can be mostly attributed to a slight increase in enrollment and an increase in tuition and fees of \$287.00 per Undergraduate Resident full time student. Sales and services increased primarily due to increases in University Housing fees. This resulted in an increase of \$2,437,992.01. Also notable was an increase in revenues for Dining operations, Athletics, and other auxiliary operations totaling \$1,372,476.82. Additionally, revenue from New River Light and Power grew by \$689,995.98 due to a rate increase. These increases were primarily offset by

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

reductions in revenues in Camp Programs of \$578,795.26 due to the re-organizing of Camp Broadstone and a decrease in sales at the University Bookstore of \$126,300.43.

Operating expenses decreased by \$8,947,745.83 in fiscal year 2012 representing an overall decrease of 2.6%. These operating decreases resulted primarily from reductions in salaries and benefits, payments for services, and decreases in scholarships and fellowships.

Salaries and benefits decreased by 1.8% from \$210,860,975.13 in 2011 to \$207,066,914.53. For fiscal year 2012, the University was required to make Management Flexibility Budget Reductions. As a part of meeting this requirement salaries and benefits decreased primarily due to the elimination of vacant positions and reductions in force. Supplies and materials increased slightly by 1.5% or \$682,372.55, which is primarily due to an increase in purchases of goods for resale. Services totaled \$33,758,708.54 in 2012 compared to \$38,883,829.58 in 2011, a decrease of 13.2% or \$5,125,121.04. This decrease was primarily due to decreases in maintenance agreements, building and general repairs, and travel. Scholarships and fellowships decreased \$3,338,077.64 or 13.0% mainly due to decreases in Federal Pell awards, Institutional Scholarship funding, and the elimination of the National Smart Grant and Academic Competitiveness Grant. Utilities increased by \$1,543,351.80 or 12.8% due primarily to increases in the cost of electricity and cost of steam provided to academic buildings and residence halls. Finally, depreciation increased from \$16,024,656.76 to \$17,108,445.86 or 6.8% as additional construction in progress projects were completed and assets placed in service in addition to the acquisition of Mountaineer Hall.

In nonoperating revenues, Appalachian State experienced a slight increase in state appropriations of \$184,008.01 or 0.1%. This fiscal year the University did not receive funding in state aid from the Federal American Recovery Act, representing a decrease of \$9,197,529.00 from the prior year. Finally, other nonoperating revenues decreased by 18.0% or 10,192,196.96. This decrease is primarily the result of decreases in investment income, other noncapital grants and student financial aid.

The decrease in realized gain on investments is mostly related to the sale of investments when the University switched from the Vanguard funds to UNC management in FY 2011. The realized gain in FY11 was \$2,357,203.08 compared to \$4,890.82 in FY12. Also contributing was that we received less in STIF interest and had less unrealized gains in FY12 compared to FY11 due to decreases in the STIF interest rate and decreases in the market value of investments in the UNC Management Pool. Together these decreases account for an additional \$478,003.27 of the difference between 2011 and 2012 balances.

Other noncapital grants decreased by \$2,067,102.04 primarily due to decreases in funding from private grants and state and local grants. Due to the current economic downturn private grant funding decreased overall by \$1,112,692.58. In addition to the effect of the economic downturn state and local grants decreased due to the dissolution of the Appalachian Family Innovations program. This decrease along with overall decreases from state and local granting agencies accounted for a \$2,258,161.49 reduction in balances. These decreases were offset by an increase in receipts of Federal AARA stimulus funds that mostly account for a \$1,007,151.09 increase in several federal grants.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

The decrease of \$5,508,943.93 in student financial aid is related State and Federal spending cuts. For 2012 there was a decrease of \$4,153,929.00 in grants awarded by the state. Most notable was a \$3,199,469.00 decrease in UNC Need Based Grants, a \$589,250.00 decrease due to the elimination of the Teaching Fellows program, and reductions in awards for NC Lottery, NC Student Initiative, and PTSL totaling \$411,947.00.

Grant funds received from Federal agencies fell by \$1,355,014.93 due to primarily to decreases in Pell awards for \$580,969.00, elimination of the National SMART grant totaling \$381,338.00, and the elimination of the Academic Competitiveness Grant totaling \$413,520.00.

The other revenues section consists of capital grants, capital gifts, and additions to endowments. Other revenues decreased by a total of \$345,574.48. This decrease was primarily due to the reduction of capital grants, which resulted in a decrease of \$4,902,176.06 related to the new College of Education building offset by an increase of \$682,093.79 for the Beasley Broadcasting Complex. Capital gifts increased \$2,352,720.03. The largest portion of the increase was for the Blackburn Vannoy Farm. Addition to endowments increased by \$1,521,787.76 and primarily reflects the establishment of the Aeschleman Endowment Fund, IIANC Endowment Fund, and the Levine Endowment fund.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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

	Fiscal Year 2012	Fiscal Year 2011	\$ Change	% Change
Operating Revenues				
Tuition and Fees, Net	\$ 93,743,809.12	\$ 85,122,866.65	\$ 8,620,942.47	10.1
State and Local Grants and Contracts	565,250.00		565,250.00	100.0
Nongovernmental Grants and Contracts	1,025,938.50	1,227,720.10	(201,781.60)	(16.4)
Sales and Services, Net	76,720,286.41	72,705,853.42	4,014,432.99	5.5
Interest Earnings on Loans	22,089.56	22,508.45	(418.89)	(1.9)
Other Operating Revenues	989,014.34	1,262,602.84	(273,588.50)	(21.7)
Total Operating Revenues	<u>173,066,387.93</u>	<u>160,341,551.46</u>	<u>12,724,836.47</u>	<u>7.9</u>
Salaries and Benefits	207,066,914.53	210,860,975.13	(3,794,060.60)	(1.8)
Supplies and Materials	44,749,463.85	44,067,091.30	682,372.55	1.5
Services	33,758,708.54	38,883,829.58	(5,125,121.04)	(13.2)
Scholarships and Fellowships	22,337,758.71	25,675,836.35	(3,338,077.64)	(13.0)
Utilities	13,562,513.17	12,019,161.37	1,543,351.80	12.8
Depreciation/Amortization	17,108,445.86	16,024,656.76	1,083,789.10	6.8
Operating Expenses	<u>338,583,804.66</u>	<u>347,531,550.49</u>	<u>(8,947,745.83)</u>	<u>(2.6)</u>
Operating Loss	(165,517,416.73)	(187,189,999.03)	21,672,582.30	11.6
Nonoperating Revenues				
State Appropriations	125,926,620.08	125,742,612.07	184,008.01	0.1
State Aid- Federal Recovery Funds		9,197,529.00	(9,197,529.00)	(100.0)
Other Nonoperating Revenues	46,401,586.28	56,593,783.24	(10,192,196.96)	(18.0)
Net Nonoperating Revenues	<u>172,328,206.36</u>	<u>191,533,924.31</u>	<u>(19,205,717.95)</u>	<u>(10.0)</u>
Income Before Other Revenues	6,810,789.63	4,343,925.28	2,466,864.35	56.8
Capital Grants	6,873,962.77	11,094,045.04	(4,220,082.27)	(38.0)
Capital Gifts	2,638,228.27	285,508.24	2,352,720.03	824.0
Additions to Endowments	2,521,787.76	1,000,000.00	1,521,787.76	152.2
Total Other Revenues	<u>12,033,978.80</u>	<u>12,379,553.28</u>	<u>(345,574.48)</u>	<u>(2.8)</u>
Total Increase in Net Assets	18,844,768.43	16,723,478.56	2,121,289.87	12.7
Net Assets				
Net Assets at Beginning of Year	381,048,554.65	364,325,076.09	16,723,478.56	4.6
Net Assets at End of Year	<u>\$ 399,893,323.08</u>	<u>\$ 381,048,554.65</u>	<u>\$ 18,844,768.43</u>	<u>4.9</u>

Economic Outlook

The University saw a \$22,800,000.00 Management Flexibility Budget Reduction for fiscal year 2011-2012. Although this reduction was significant, our financial condition remains stable. The Chancellor and Cabinet have implemented and will continue to implement efficiencies to allocate limited resources that will preserve the quality academic experience for our students and support our faculty and staff. The economy is expected to continue a pattern of slow growth for the remainder of 2012. The Fiscal Research Division of the North Carolina General Assembly notes that most economic forecasts expect the economy to improve albeit at a below average rate for 2013. This slow growth continues to be restricted by the problems in the housing and financial sector that were first experienced in 2008 compounded by problems in Europe, emerging markets, and fiscal policies set to expire in early 2013 that would raise tax rates and reduce spending. The Fiscal Research Division also notes that while the probability of another recession currently remains low, risk remains due to the economy's lack of ability to absorb any new problems regardless of source.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Capital Asset and Debt Administration

Capitalized assets placed into service consisted of the following: \$5,874,052.17 for the new College of Education building, \$281,320.24 for the renovation of residence facilities, \$1,305,276.07 for the Steam Distribution and Return System, \$287,947.50 for Central Dining Facility improvements, \$501,792.00 for the Women's Softball Field, \$952,426.82 for the Boone Creek restoration, and \$180,155.96 for the Compost Facility.

Other major capital projects currently in the planning phase or to be completed in the near future:

- The new Honors and Engagement Village project is currently under construction. This project will construct two new buildings - a 105,000 square foot 333 bed residence hall with a 20,000 square foot annex wing - and will expand the adjacent Student Union by adding a 51,000 square-foot addition. The new residence hall and new annex wing together will provide a living-learning environment that enhances the student learning experience by linking classrooms and faculty offices with the traditional residence hall setting. The Student Union addition will provide additional student activity and meeting space to support the new complex and the campus. This project is estimated to cost \$56,258,000.00. The anticipated completion date is fall of 2012.
- The expansion of the Beasley Broadcasting Center is currently in the construction stage. This project will provide the Communication Department an additional 18,000 square feet. The final project will provide office space, classrooms, teaching labs, and studios for television and radio. This project is estimated to cost \$4,225,391.00. Projected end date is fall 2012.
- The renovation and expansion of Trivette Dining Hall project is currently being designed. This project will include adding an estimated 1,000 square feet that expands the kitchen area as well as site work, site utilities, interior finish modifications, replacement of kitchen equipment and hoods, replacement furniture, and upgrades to building systems. The project will comply with the requirements for Sustainable, Energy Efficient Buildings. This project, to be completed by April 2014, is estimated to cost \$5,000,000.00 and will be funded with dining receipts.
- The \$14,805,000.00 renovation of Winkler residence hall is in the early design stage. This renovation will convert on campus apartment type housing back to conventional suite style rooms, increasing the number of available beds in this hall by 50%. This renovation also includes renovation of HVAC systems and the addition of sprinkler systems. This project has anticipated start date of May 2013 and will be completed July 2014.
- The \$6,655,000.00 renovation of Belk residence hall project has begun with solicitation of interest from architects. Design is scheduled to be completed in the fall of 2013. This project has a projected construction start date of January 2014, with a projected completion date of April 2015.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

- Construction has begun on the College of Education Annex as part of the Lucy Brock Day Care renovations. The annex is to be located on the lower level of the Presbyterian Church Property.
- Renovations to the Schaefer Center for the Performing Arts, formally Farthing Auditorium, will begin soon after the conclusion of the 2012 Appalachian Summer Festival. Completion for the project is set for June 2013. The renovations are made possible through a gift from Bonnie and Jamie Schaefer.

As a result of the University entering into a lease agreement with the Mountaineer Hall, LLC, a division of the ASU Student Housing Corporation, the University entered into a capital lease agreement in July of 2011 with minimum lease payments totaling in the amount of \$16,647,886. The lease was capitalized and booked as a liability at the present value of the minimum lease payments in accordance with FASB 13. This capital lease increases on-campus student housing by 460 beds.

Total annual debt service payments were \$55,001,339.88 in 2012 compared to \$18,224,462.34 in 2011. These payments include bond and note principal payments of \$8,953,966.33, \$26,365,000.00 of refunding resulting from the issuance of Series 2012 bonds, \$10,518,311.31 in capital lease payments, and interest and fees on debt totaling \$9,164,062.24.

For several years, Appalachian's bond sales have been made through the negotiated sales method. At the advice of Appalachian's Financial Advisors, Davenport & Company, LLC, the competitive bid process was used for the issuance of the ASU General Revenue Refunding Bonds, Series 2012. Robert W. Baird & Co., Inc. won the bid with a true interest cost of 2.78% with a 16 year amortization. The 2012 bonds in the amount of \$26,495,000.00 were issued to refund Series 2002, and 2005 Housing bonds, Series 2003 Student Recreation Center bonds, and the Series 2005 Athletic Facility bonds with an average coupon rate of 4.75% resulting in a net present value savings of \$2,070,917.01 over the life of the bonds.

Appalachian State University
Statement of Net Assets
June 30, 2012

Exhibit A-1
Page 1 of 2

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 58,255,431.96
Restricted Cash and Cash Equivalents	8,653,093.60
Receivables, Net (Note 4)	9,644,285.12
Due from State of North Carolina Component Units	473,640.74
Inventories	7,317,345.03
Notes Receivable, Net (Note 4)	562,300.36
Total Current Assets	<u>84,906,096.81</u>

Noncurrent Assets:

Restricted Cash and Cash Equivalents	10,761,610.43
Receivables, Net (Note 4)	2,700.00
Endowment Investments	12,984,839.79
Other Investments	10,285,539.82
Notes Receivable, Net (Note 4)	3,306,936.44
Capital Assets - Nondepreciable (Note 5)	99,474,746.09
Capital Assets - Depreciable, Net (Note 5)	467,806,455.22
Total Noncurrent Assets	<u>604,622,827.79</u>
Total Assets	<u>689,528,924.60</u>

LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 6)	13,237,253.76
Due to Primary Government	82,425.71
Unearned Revenue	7,246,145.83
Interest Payable	2,831,363.20
Long-Term Liabilities - Current Portion (Note 7)	13,362,389.22
Total Current Liabilities	<u>36,759,577.72</u>

Noncurrent Liabilities:

Deposits Payable	218,665.06
Funds Held for Others	119,804.27
U. S. Government Grants Refundable	3,753,788.09
Long-Term Liabilities (Note 7)	248,783,766.38
Total Noncurrent Liabilities	<u>252,876,023.80</u>
Total Liabilities	<u>289,635,601.52</u>

Appalachian State University
Statement of Net Assets
June 30, 2012

Exhibit A-1
Page 2 of 2

NET ASSETS

Invested in Capital Assets, Net of Related Debt	332,223,741.53
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	20,000.00
Endowed Professorships	12,955,533.22
Loans	1,434,572.38
Expendable:	
Scholarships and Fellowships	459,265.07
Research	21,866.81
Endowed Professorships	3,619,031.81
Debt Service	5,443,916.17
Unrestricted	43,715,396.09
Total Net Assets	<u><u>\$ 399,893,323.08</u></u>

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, 2012

Exhibit A-2

REVENUES

Operating Revenues:

Student Tuition and Fees, Net (Note 9)	\$ 93,743,809.12
State and Local Grants and Contracts	565,250.00
Nongovernmental Grants and Contracts	1,025,938.50
Sales and Services, Net (Note 9)	76,720,286.41
Interest Earnings on Loans	22,089.56
Other Operating Revenues	989,014.34
	<hr/>
Total Operating Revenues	173,066,387.93

EXPENSES

Operating Expenses:

Salaries and Benefits	207,066,914.53
Supplies and Materials	44,749,463.85
Services	33,758,708.54
Scholarships and Fellowships	22,337,758.71
Utilities	13,562,513.17
Depreciation / Amortization	17,108,445.86
	<hr/>
Total Operating Expenses	338,583,804.66

Operating Loss	<hr/> (165,517,416.73)
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NONOPERATING REVENUES (EXPENSES)

State Appropriations	125,926,620.08
Noncapital Grants - Student Financial Aid	30,079,408.94
Other Noncapital Grants	13,102,339.07
Noncapital Gifts	8,609,789.11
Investment Income	1,328,236.42
Interest and Fees on Debt	(9,200,059.47)
Other Nonoperating Revenues	2,481,872.21
	<hr/>
Net Nonoperating Revenues	172,328,206.36

Income Before Other Revenues	6,810,789.63
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Capital Grants	6,873,962.77
Capital Gifts	2,638,228.27
Additions to Endowments	2,521,787.76
	<hr/>
Increase in Net Assets	18,844,768.43

NET ASSETS

Net Assets - July 1, 2011	<hr/> 381,048,554.65
Net Assets - June 30, 2012	<hr/> \$ 399,893,323.08

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, 2012

Exhibit A-3

Page 1 of 2

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 171,360,391.75
Payments to Employees and Fringe Benefits	(207,576,663.42)
Payments to Vendors and Suppliers	(88,229,828.88)
Payments for Scholarships and Fellowships	(22,337,758.71)
Loans Issued	(615,334.00)
Collection of Loans	549,833.25
Interest Earned on Loans	3,509.58
Other Receipts	902,128.30
Net Cash Used by Operating Activities	<u>(145,943,722.13)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Appropriations	125,926,620.08
Noncapital Grants - Student Financial Aid	30,079,408.94
Noncapital Grants	13,220,508.06
Noncapital Gifts	7,546,118.34
Additions to Endowments	2,521,787.76
William D. Ford Direct Lending Receipts	77,837,258.00
William D. Ford Direct Lending Disbursements	(78,573,406.00)
Related Activity Agency Receipts	70,251.47
Related Activity Agency Disbursements	(45,535.25)
Other Payments	(74,318.33)
Net Cash Provided by Noncapital Financing Activities	<u>178,508,693.07</u>

CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES

Proceeds from Capital Debt	3,229,900.00
Capital Grants	6,873,962.77
Capital Gifts	271,866.25
Proceeds from Sale of Capital Assets	18,006.39
Acquisition and Construction of Capital Assets	(52,027,266.47)
Principal Paid on Capital Debt and Leases	(19,342,277.64)
Interest and Fees Paid on Capital Debt and Leases	(11,557,137.54)
Other Receipts	696,211.66
Net Cash Used by Capital Financing and Related Financing Activities	<u>(71,836,734.58)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from Sales and Maturities of Investments	27,294.09
Investment Income	869,704.17
Purchase of Investments and Related Fees	(2,561,234.17)
Net Cash Used by Investing Activities	<u>(1,664,235.91)</u>
Net Decrease in Cash and Cash Equivalents	(40,935,999.55)
Cash and Cash Equivalents - July 1, 2011	<u>118,606,135.54</u>
Cash and Cash Equivalents - June 30, 2012	<u><u>\$ 77,670,135.99</u></u>

Appalachian State University
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2012

Exhibit A-3

Page 2 of 2

RECONCILIATION OF NET OPERATING REVENUES (EXPENSES)

TO NET CASH USED BY OPERATING ACTIVITIES

Operating Loss	\$ (165,517,416.73)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation / Amortization Expense	17,108,445.86
Allowances, Write-Offs, and Amortizations	212,145.69
Nonoperating Other Income	1,063,670.77
Changes in Assets and Liabilities:	
Receivables (Net)	(515,669.84)
Due from State of North Carolina Component Units	(14,710.44)
Inventories	2,592,620.87
Notes Receivable (Net)	(65,500.75)
Accounts Payable and Accrued Liabilities	(384,521.16)
Due to Primary Government	(35,225.76)
Unearned Revenue	(354,033.10)
Compensated Absences	(42,927.82)
Deposits Payable	9,400.28
Net Cash Used by Operating Activities	<u>\$ (145,943,722.13)</u>

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	\$ 58,255,431.96
Restricted Cash and Cash Equivalents	8,653,093.60
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	<u>10,761,610.43</u>
Total Cash and Cash Equivalents - June 30, 2012	<u>\$ 77,670,135.99</u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through the Assumption of a Liability	\$ 23,981,378.07
Assets Acquired through a Gift	2,366,362.02
Change in Fair Value of Investments	547,602.05
Reinvested Distributions	1,955.33
Loss on Disposal of Capital Assets	191,889.61
Bond Issuance Cost Withheld	303,362.13
Funds Escrowed to Defeasement Debt	26,495,000.00

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

Appalachian State University Foundation, Inc.
Statement of Financial Position
June 30, 2012

Exhibit B-1

ASSETS

Cash	\$ 1,255,524
Contributions Receivable, Net	15,917,155
Other Receivables	502,807
Prepaid Expenses	49,108
Investments	76,734,990
Real Estate Held for Investment	5,570,225
Notes Receivable	1,013,953
Beneficial Interests in Perpetual Trusts	1,309,477
Contributions Receivable from Trusts	1,442,668
Contributions Receivable from Irrevocable Bequests	124,432
Cash Surrender Value of Life Insurance	178,583
In-Kind Gifts	8,370
Property and Equipment, Net	2,252,148
Total Assets	<u>\$ 106,359,440</u>

LIABILITIES

Accounts Payable and Accrued Expenses	\$ 28,810
Deferred Revenue - Advance Royalties	1,090,403
Deposits Payable	600
Notes Payable	416,135
Grants Payable - Appalachian State University	426,432
Split Interest Agreement Obligations	2,324,177
Total Liabilities	<u>4,286,557</u>

NET ASSETS

Unrestricted	6,070,775
Temporarily Restricted	40,713,760
Permanently Restricted	55,288,348
Total Net Assets	<u>102,072,883</u>
Total Liabilities and Net Assets	<u>\$ 106,359,440</u>

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

Appalachian State University Foundation, Inc.
Statement of Activities
For the Fiscal Year Ended June 30, 2012

Exhibit B-2

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, GAINS, LOSSES AND OTHER SUPPORT				
Contributions	\$ 830,603	\$ 18,148,556	\$ 1,331,090	\$ 20,310,249
Investment Income	730,471	357,234	39,248	1,126,953
Auxiliary Income	246,591	94,079		340,670
Net Realized and Unrealized Losses on Investments	(26,846)	(421,607)	(4,277,638)	(4,726,091)
Net Change in Beneficial Interests in Perpetual Trusts, Contributions Receivable from Trusts and Split Interest Agreement Obligations	(157,689)	(54,995)	(31,408)	(244,092)
Other Income	1,087,785	5,484		1,093,269
Net Assets Released from Restrictions	9,798,472	(9,798,472)		
Total Revenues, Gains, Losses, and Other Support	12,509,387	8,330,279	(2,938,708)	17,900,958
EXPENSES				
Program Services:				
General University Support	7,835,576			7,835,576
Student Financial Aid	2,737,446			2,737,446
Alumni Affairs	100,619			100,619
Other	437,473			437,473
Total Program Services	11,111,114			11,111,114
Supporting Services:				
General and Administrative	109,332			109,332
Fundraising	1,207,550			1,207,550
Total Supporting Services	1,316,882			1,316,882
Total Expenses	12,427,996			12,427,996
Net Increase in Allowance for Doubtful Contributions Receivable		(357,937)	(4,766)	(362,703)
Increase (Decrease) in Net Assets	81,391	7,972,342	(2,943,474)	5,110,259
NET ASSETS				
Net Assets, Beginning	5,989,384	32,741,418	58,231,822	96,962,624
Net Assets, Ending	\$ 6,070,775	\$ 40,713,760	\$ 55,288,348	\$ 102,072,883

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

Appalachian Student Housing Corporation
Statement of Financial Position
June 30, 2012

Exhibit B-3

ASSETS

Current Assets:

Cash and Cash Equivalents	\$	2,277,059
Accounts Receivable, Net		8,118
Sales Tax Refund Receivable		71,371
Prepaid Expenses		73,603
Net Investment in Direct Financing Lease		1,235,002

Total Current Assets		3,665,153
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Property and Equipment, Net		20,046,312
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Other Assets:

Deferred Financing Cost, Net		58,023
Net Investment in Direct Financing Lease		4,859,234
Assets Limited as to Use by Bond Order		934,325

Total Other Assets		5,851,582
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Total Assets	\$	29,563,047
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LIABILITIES

Current:

Current Portion of Long-Term Debt	\$	2,780,868
Accounts Payable		317,200
Accrued Expenses		60,314
Deferred Income		58,270

Total Current Liabilities		3,216,652
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Long-Term Debt, Less Current Portion		13,219,132
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Total Liabilities		16,435,784
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NET ASSETS

Unrestricted		13,127,263
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Total Liabilities and Net Assets	\$	29,563,047
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The accompanying notes to the financial statements are an integral part of this statement.

Appalachian Student Housing Corporation
Statement of Activities
For the Fiscal Year Ended June 30, 2012

Exhibit B-4

REVENUES AND OTHER SUPPORT

Net Rental Income	\$ 4,259,548
Other Operating Revenue	86,314
Total Revenues and Other Support	<u>4,345,862</u>

EXPENSES

Salaries and Benefits	338,113
Purchased Services	116,292
Professional Fees	31,727
Building	109,274
Utilities	539,734
Letter of Credit	171,013
Licenses and Fees	9,390
Insurance	93,176
Renovation	358,219
Depreciation	492,926
Amortization	13,270
Interest	576,479
Bond Remarketing Fees	11,298
Taxes	121,303
Advertising	10,708
Other	216,191
Total Expenses	<u>3,209,113</u>

OTHER INCOME AND EXPENSE

Interest	3,419
Loss on Capital Lease	(99,821)
Total Other Income and Expense	<u>(96,402)</u>

Increase in Net Assets	<u>1,040,347</u>
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NET ASSETS

Net Assets at Beginning of Year	<u>12,086,916</u>
Net Assets at End of Year	<u><u>\$ 13,127,263</u></u>

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

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APPALACHIAN STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

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 (GAAP), 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 multi-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, Inc. (Foundation) and the Appalachian Student Housing Corporation (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, Inc. is a legally separate, tax-exempt component unit of the University. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the University in support of its programs. The Foundation board consists of 24 self-perpetuating members, four ex officio voting members, and four ex officio non-voting members which 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Because these restricted resources held by the Foundation can only be used by, or for the benefit of the University, the Foundation is considered a component unit of the University and is reported in separate financial statements because of the difference in its reporting model, as described below.

The Appalachian Student Housing Corporation is a legally separate tax-exempt component unit of the University. The Corporation's primary function is to develop, finance, prepare, provide, and supervise residential housing facilities for college and University students and employees of Appalachian State University. The Corporation's board consists of seven members of which three members are administrative officers of the University. Because the Corporation's sole purpose is to benefit the University, it is considered a component unit of the University and is reported in separate financial statements due to the difference in its reporting model, as described below.

The Appalachian State University Foundation, Inc. and the Appalachian Student Housing Corporation are private not-for-profit organizations that report their financial results under Financial Accounting Standards Board (FASB) Statements. As such, certain revenue recognition criteria and presentation features are different from the Governmental Accounting Standards Board (GASB) revenue recognition criteria and presentation features. No modifications have been made to the component units' financial information in the University's financial reporting entity for these differences.

During the year ended June 30, 2012, the Foundation distributed \$10,573,022 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 or the ASU Foundation President. The financial statements of the Student Housing Corporation may be obtained from the Vice Chancellor for Student Development. The address is Dougherty Administration Building, 438 Academy Street, Boone, North Carolina 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 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 and

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 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, regardless of the timing of the cash flows.

Nonexchange transactions, in which the University receives (or gives) value without directly giving (or receiving) equal value in exchange, include 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, cash on deposit with fiscal agents, and deposits held by the State Treasurer in the Short-Term Investment Fund. The Short-Term Investment Fund 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** - Investments generally are reported at fair value, as determined by quoted market prices or estimated amounts determined by management if quoted market prices are not available. Because of the inherent uncertainty in the use of estimates, values that are based on estimates may differ from the values that would have been used had a ready market existed for the investments. 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.

Endowment investments include the principal amount of gifts and bequests that, according to donor restrictions, must be held in perpetuity or for a specified period of time.

- F. Receivables** - Receivables consist of tuition and fees charged 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 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 cost using first-in, first-out method. Merchandise for resale is valued using the retail inventory method. Rental textbooks are recorded at cost using first-in, first-out 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 of \$5,000 or greater at the date of acquisition and an estimated useful life of more than one year except for internally generated software which is capitalized when the value or cost is \$1,000,000 or greater.

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 100 years for buildings, 2 to 30 years for equipment, and 2 to 30 years for computer software.

The University's artworks and literary 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** - Certain resources are reported as restricted assets because restrictions on asset use change the nature or normal understanding of the availability of the asset. Resources that are not available for current operations and are reported as restricted include resources restricted for the acquisition or construction of capital assets, resources legally segregated for the payment of principal and interest as required by debt covenants, unspent debt proceeds, and endowment and other restricted investments.
- J. Noncurrent Long-Term Liabilities** - Noncurrent long-term liabilities include principal amounts of revenue bonds payable, notes payable, capital lease obligations, and compensated absences that will not be paid within the next fiscal year.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Revenue bonds payable are reported net of deferred losses on refundings. The deferred losses on refundings are amortized over the life of the new debt using the straight-line method. Issuance costs are expensed.

- K. Compensated Absences** - The University's policy is to record the cost of vacation leave when earned. The policy provides for a maximum accumulation of unused vacation leave of 30 days which can be carried forward each January 1 or for which an employee can be paid upon termination of employment. When classifying compensated absences into current and noncurrent, leave is considered taken using a last-in, first-out (LIFO) method. 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 30 equals the leave carried forward at the previous December 31 plus the leave earned, less the leave taken between January 1 and June 30.

In addition to the vacation leave described above, compensated absences include the accumulated unused portion of the special annual leave bonuses awarded by the North Carolina General Assembly. The bonus leave balance on December 31 is retained by employees and transferred into the next calendar year. It is not subject to the limitation on annual leave carried forward described above and is not subject to conversion to sick leave.

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.

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 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

NOTE 2 - DEPOSITS AND INVESTMENTS

- A. Deposits** - Unless specifically exempt, the University is required by *North Carolina General Statute* 147-77 to deposit moneys received with the State Treasurer or with a depository institution in the name of the State Treasurer. However, the University of North Carolina Board of Governors, pursuant to G.S. 116-36.1, may authorize the University to deposit its institutional trust funds in interest-bearing accounts and other investments authorized by the Board of Governors, without regard to any statute or rule of law relating to the investment of funds by fiduciaries. Although specifically exempted, the University may voluntarily deposit institutional trust funds, endowment funds, special funds, revenue bond proceeds, debt service funds, and funds received for services rendered by health care professionals with the State Treasurer. Special funds consist of moneys for intercollegiate athletics and agency funds held directly by the University.

At June 30, 2012, the amount shown on the Statement of Net Assets as cash and cash equivalents includes \$74,656,647.72 which represents the University's equity position in the State Treasurer's Short-Term Investment Fund. The Short-Term Investment Fund (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission and does not have a credit rating) had a weighted average maturity of 1.5 years as of June 30, 2012. Assets and shares of the Short-Term Investment Fund are valued at amortized cost, which approximates fair value. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's Short-Term Investment Fund) are

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.nc.gov/> and clicking on "Reports" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

Cash on hand at June 30, 2012 was \$59,295.68. The carrying amount of the University's deposits not with the State Treasurer was \$2,954,192.59 and the bank balance was \$3,664,888.91. Custodial credit risk is the risk that in the event of a bank failure, the University's deposits may not be returned to it. The University does not have a deposit policy for custodial credit risk. As of June 30, 2012, the University's bank balance was exposed to custodial credit risk as follows:

Uninsured and Uncollateralized	<u>\$ 1,366,235.19</u>
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B. Investments

University - The University is authorized by The University of North Carolina Board of Governors pursuant to G.S. 116-36.2 and Section 600.2.4 of the Policy Manual of the University of North Carolina to invest its special funds and funds received for services rendered by health care professionals in the same manner as the State Treasurer is required to invest, as discussed below.

G.S. 147-69.1(c), applicable to the State's General Fund, and G.S. 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, G.S. 147-69.1(c) authorizes the following: specified bills of exchange or time drafts and corporate bonds and notes with specified ratings. G.S. 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.

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.

G.S. 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 G.S. 36E "Uniform Prudent Management of Institutional Funds Act" (UPMIFA) 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.

Investments are subject to the following risks.

Interest Rate Risk: Interest rate risk is the risk the University may face should interest rate variances affect the fair value of investments. The University does not have a formal policy that addresses interest rate risk.

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The University does not have a formal policy that addresses credit risk.

Custodial Credit Risk: Custodial credit risk is the risk that, in the event of the failure of the counterparty, the University will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The University does not have a formal policy for custodial credit risk.

Foreign Currency Risk: Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. The University does not have a formal policy for foreign currency risk.

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 percentage of original investment. The investment strategy, including the selection of investment managers, is based on the directives of the University's Endowment Board. At year-end, the pooled investments were all with the UNC Investment Fund, LLC.

UNC Investment Fund, LLC - At June 30, 2012, the University's investments include \$21,213,856.22 which represents the University's

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

equity position in the UNC Investment Fund, LLC (UNC Investment Fund). The UNC Investment Fund is an external investment pool that is not registered with the Securities and Exchange Commission and does not have a credit rating. Asset and ownership interests of the UNC Investment Fund are determined on a market unit valuation basis each month. Investment risks associated with the UNC Investment Fund are included in audited financial statements of the UNC Investment Fund, LLC which may be obtained from UNC Management Company, Inc., 1400 Environ Way, Chapel Hill, NC 27517.

Non-Pooled Investments - The following table presents the fair value of investments by type and investments subject to interest rate risk at June 30, 2012, for the University's non-pooled investments.

Non-Pooled Investments

Investment Type	Fair Value	Investment Maturities (in Years)
		Less Than 1
Debt Securities		
Money Market Mutual Funds	\$ 1,975,109.40	\$ 1,975,109.40
Other Securities		
Equity Mutual Funds	7,674.99	
Domestic Stocks	66,400.50	
Foreign Stocks	6,338.50	
Guaranty Capital - Medical Mutual Ins.	1,000.00	
Total Non-Pooled Investments	\$ 2,056,523.39	

At June 30, 2012, the University's non-pooled investments included \$1,975,109.40 in money market mutual funds with credit exposure for which Standard and Poors' credit quality distribution was AAAm.

At June 30, 2012, the University's non-pooled investments were exposed to custodial credit risk as follows:

Investment Type	Held by Counterparty's Trust Dept or Agent not in University's Name
Domestic Stocks	\$ 66,400.50
Foreign Stocks	6,338.50
Total	\$ 72,739.00

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Foreign Currency Risk: At June 30, 2012, the University's exposure to foreign currency risk is as follows:

Investment	Currency	Fair Value (U.S. Dollars)
ABB Ltd.	Swiss Franc	\$ 3,264.00
Novartis	Swiss Franc	3,074.50
Total		\$ 6,338.50

Total Investments - The following table presents the fair value of the total investments at June 30, 2012:

Investment Type	Fair Value
Debt Securities	
Money Market Mutual Funds	\$ 1,975,109.40
Other Securities	
UNC Investment Fund	21,213,856.22
Equity Mutual Funds	7,674.99
Domestic Stocks Held by Counterparty	66,400.50
Foreign Stocks Held by Counterparty	6,338.50
Guaranty Capital - Medical Mutual Insurance	1,000.00
Total Investments	\$ 23,270,379.61

Component Unit - Investments of the University's discretely presented component unit, the Appalachian State University Foundation, Inc., are subject to and restricted by G.S. 36E "Uniform Prudent Management of Institutional Funds Act" (UPMIFA) and any requirements placed on them by contract or donor agreements. Because the Foundation reports under the FASB reporting model, disclosures of the various investment risks are not required. The following is an analysis of investments by type:

Short-Term Investment Fund	\$ 19,270,381
Money Market Funds	3,168,598
Equity Investments	23,762,648
Fixed Income Investments	15,492,798
Alternative Investments	15,040,565
	<u>76,734,990</u>
Real Estate Held for Resale	<u>5,570,225</u>
Total Investments	\$ 82,305,215

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

C. Reconciliation of Deposits and Investments - A reconciliation of deposits and investments for the University as of June 30, 2012, is as follows:

Cash on Hand	\$ 59,295.68
Amount of Deposits with Private Financial Institutions	2,954,192.59
Deposits in the Short-Term Investment Fund	74,656,647.72
Investments in the UNC Investment Fund	21,213,856.22
Non-Pooled Investments	<u>2,056,523.39</u>
Total Deposits and Investments	<u>\$ 100,940,515.60</u>
Deposits	
Current:	
Cash and Cash Equivalents	\$ 58,255,431.96
Restricted Cash and Cash Equivalents	8,653,093.60
Noncurrent:	
Restricted Cash and Cash Equivalents	<u>10,761,610.43</u>
Total Deposits	<u>\$ 77,670,135.99</u>
Investments	
Noncurrent:	
Endowment Investments	\$ 12,984,839.79
Other Investments	<u>10,285,539.82</u>
Total Investments	<u>\$ 23,270,379.61</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. Under the "Uniform Prudent Management of Institutional Funds Act" (UPMIFA), authorized by the North Carolina General Assembly on March 19, 2009, the Board may also appropriate expenditures from eligible nonexpendable balances if deemed prudent and necessary to meet program outcomes and for which such spending is not specifically prohibited by the donor agreements. However, a majority of the University's endowment donor agreements prohibit spending of nonexpendable balances and therefore the related nonexpendable balances are not eligible for expenditure. During the year, the Board did not appropriate expenditures from eligible nonexpendable 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 year. An earnings reserve must be held in each

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 the 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, 2012, net appreciation of \$3,364,514.33 of which \$723,071.02 was available to be spent and was classified in net assets as restricted: expendable: endowed professorships as it is restricted for specific purposes.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2012, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	\$ 4,683,937.81	\$ 1,375,535.78	\$ 3,308,402.03
Student Sponsors	135,559.73		135,559.73
Accounts	3,919,339.06	105,835.64	3,813,503.42
Intergovernmental	2,241,883.70		2,241,883.70
Interest on Loans	139,078.84		139,078.84
Federal Interest Subsidy on Debt	5,857.40		5,857.40
Total Current Receivables	<u>\$ 11,125,656.54</u>	<u>\$ 1,481,371.42</u>	<u>\$ 9,644,285.12</u>
Noncurrent Receivables:			
Accounts	<u>\$ 2,700.00</u>	<u>\$</u>	<u>\$ 2,700.00</u>
Notes Receivable:			
Notes Receivable - Current:			
Federal Loan Programs	\$ 556,742.36	\$	\$ 556,742.36
Institutional Student Loan Programs	7,439.00	1,881.00	5,558.00
Total Notes Receivable - Current	<u>\$ 564,181.36</u>	<u>\$ 1,881.00</u>	<u>\$ 562,300.36</u>
Notes Receivable - Noncurrent:			
Federal Loan Programs	<u>\$ 3,853,182.28</u>	<u>\$ 546,245.84</u>	<u>\$ 3,306,936.44</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, 2012, is presented as follows:

	Balance July 1, 2011 (as restated)	Increases	Decreases	Balance June 30, 2012
Capital Assets, Nondepreciable:				
Land	\$ 31,937,737.93	\$ 1,614,295.20	\$ 0.00	\$ 33,552,033.13
Art, Literature, and Artifacts	2,550,717.66	243,248.23		2,793,965.89
Construction in Progress	21,851,945.68	51,690,566.00	10,413,764.61	63,128,747.07
Total Capital Assets, Nondepreciable	56,340,401.27	53,548,109.43	10,413,764.61	99,474,746.09
Capital Assets, Depreciable:				
Buildings	529,941,889.06	23,786,281.32		553,728,170.38
Machinery and Equipment	45,764,900.38	3,433,092.10	1,498,850.14	47,699,142.34
General Infrastructure	59,330,230.22	3,889,866.59	71,111.39	63,148,985.42
Computer Software	301,242.00			301,242.00
Total Capital Assets, Depreciable	635,338,261.66	31,109,240.01	1,569,961.53	664,877,540.14
Less Accumulated Depreciation/Amortization for:				
Buildings	142,045,592.50	11,895,237.62		153,940,830.12
Machinery and Equipment	23,505,162.66	2,811,440.49	1,306,287.72	25,010,315.43
General Infrastructure	15,696,176.00	2,386,705.65	45,783.83	18,037,097.82
Computer Software	67,779.45	15,062.10		82,841.55
Total Accumulated Depreciation	181,314,710.61	17,108,445.86	1,352,071.55	197,071,084.92
Total Capital Assets, Depreciable, Net	454,023,551.05	14,000,794.15	217,889.98	467,806,455.22
Capital Assets, Net	\$ 510,363,952.32	\$ 67,548,903.58	\$ 10,631,654.59	\$ 567,281,201.31

Some depreciable assets were reclassified to the appropriate nondepreciable asset classification based on the nature of the asset. As a result, capital assets are more accurately reported in the classifications shown above. The changes are reported in the July 1, 2011 (as restated) column above and have no impact on the total net capital assets.

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2012, were as follows:

	Amount
Accounts Payable	\$ 7,650,148.70
Accrued Payroll	2,719,845.83
Contract Retainage	2,846,128.64
Intergovernmental Payables	21,130.59
Total Accounts Payable and Accrued Liabilities	\$ 13,237,253.76

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 7 - LONG-TERM LIABILITIES

UNIVERSITY

A. Changes in Long-Term Liabilities - A summary of changes in the long-term liabilities for the year ended June 30, 2012, is presented as follows:

	Balance July 1, 2011	Additions	Reductions	Balance June 30, 2012	Current Portion
Revenue Bonds Payable	\$ 249,630,000.00	\$ 29,195,000.00	\$ 34,890,000.00	\$ 243,935,000.00	\$ 9,200,000.00
Deduct Deferred Charge on Refunding	(2,325,809.65)	(2,470,557.11)	(206,680.04)	(4,589,686.72)	
Total Revenue Bonds	247,304,190.35	26,724,442.89	34,683,319.96	239,345,313.28	9,200,000.00
Notes Payable	6,180,596.00	22,292.18	428,966.33	5,773,921.85	679,613.62
Capital Leases Payable		17,103,739.16	10,518,311.31	6,585,427.85	1,222,804.88
Compensated Absences	10,484,420.44	7,163,101.30	7,206,029.12	10,441,492.62	2,259,970.72
Total Long-Term Liabilities	\$ 263,969,206.79	\$ 51,013,575.53	\$ 52,836,626.72	\$ 262,146,155.60	\$ 13,362,389.22

Additional information regarding capital lease obligations is included in Note 8.

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

Purpose	Series	Interest Rate	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2012	Principal Outstanding June 30, 2012	See Table Below
Revenue Bonds Payable							
Housing and Student Center System							
ASU Housing and Student Center System Revenue Refunding Bond	2002	4.30%	07/15/2015	\$ 13,240,000.00	\$ 12,070,000.00	\$ 1,170,000.00	1
Utility System							
ASU Utility System Revenue Bonds	2011	3.14%	12/20/2021	2,700,000.00	135,000.00	2,565,000.00	2
The University of North Carolina System Pool Revenue Bonds							
Broyhill Inn	(A)	3.82%	10/01/2015	990,000.00	510,000.00	480,000.00	
Doughton Renovation	(A)	4.27%	10/01/2026	3,755,000.00	25,000.00	3,730,000.00	
Dining Hall	(A)	4.38%	05/01/2031	23,330,000.00	2,800,000.00	20,530,000.00	
Hoey Hall Renovation	(A)	4.25%	10/01/2026	6,980,000.00	1,200,000.00	5,780,000.00	
Student Recreation Center	(A)	4.13%	10/01/2021	7,680,000.00		7,680,000.00	
Utility System	(B)	4.28%	10/01/2023	19,230,000.00	65,000.00	19,165,000.00	
Canon Hall	(B)	4.69%	10/01/2033	8,520,000.00	600,000.00	7,920,000.00	
Parking - Stadium	(B)	4.69%	10/01/2033	3,350,000.00	235,000.00	3,115,000.00	
New Field House Complex	(B)	4.69%	10/01/2033	20,600,000.00	1,440,000.00	19,160,000.00	
Stadium East Stands	(C)	4.65%	10/01/2034	8,370,000.00	395,000.00	7,975,000.00	
Frank Hall	(C)	4.65%	10/01/2034	7,060,000.00	330,000.00	6,730,000.00	
Cone Hall	(D)	4.35%	10/01/2035	8,880,000.00	205,000.00	8,675,000.00	
University Bookstore	(D)	3.76%	10/01/2027	5,000,000.00	390,000.00	4,610,000.00	
Stadium East Stands and Field House Complex	(D)	4.35%	10/01/2035	7,875,000.00	180,000.00	7,695,000.00	
Total The University of North Carolina System Pool Revenue Bonds				131,620,000.00	8,375,000.00	123,245,000.00	
ASU General Revenue Bonds							
ASU General Revenue Bonds - Student Recreation Center	2003A	4.48%	05/01/2028	25,635,000.00	24,800,000.00	835,000.00	
ASU General Revenue Bonds - Housing, Athletics, Parking	2005	4.54%	07/15/2030	50,915,000.00	21,725,000.00	29,190,000.00	
ASU General Revenue Bonds - Housing, Stud. Un, Steam Tunnels	2011	4.07%	10/01/2036	60,435,000.00		60,435,000.00	
ASU General Revenue Bonds - Housing, Athletics, Stud Rec Ctr	2012	2.84%	05/01/2028	26,495,000.00		26,495,000.00	
Total General Revenue Bonds				163,480,000.00	46,525,000.00	116,955,000.00	
Total Revenue Bonds Payable (principal only)				\$ 311,040,000.00	\$ 67,105,000.00	\$ 243,935,000.00	
Less: Unamortized Loss on Refunding						4,589,686.72	
Total Revenue Bonds Payable						\$ 239,345,313.28	

(A) The University of North Carolina System Pool Revenue Bonds, Series 2006A

(B) The University of North Carolina System Pool Revenue Bonds, Series 2008A

(C) The University of North Carolina System Pool Revenue Bonds, Series 2009B

(D) The University of North Carolina System Pool Revenue Bonds, Series 2010B1

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The University has pledged future revenues, net of specific operating expenses, to repay revenue bonds as shown in the table below:

Ref	Revenue Source	Total Future Revenues Pledged	Current Year			Estimate of % of Revenues Pledged
			Revenues Net of Expenses	Principal	Interest	
(1)	Housing Revenues	\$ 1,194,862.50	\$ 1,267,357.17	\$ 1,120,000.00	\$ 266,185.00	21%
(2)	Electric Utility	2,966,422.60	1,278,771.17	270,000.00	78,171.76	15%

C. Annual Requirements - The annual requirements to pay principal and interest on the long-term obligations at June 30, 2012, are as follows:

Fiscal Year	Annual Requirements			
	Revenue Bonds Payable		Notes Payable	
	Principal	Interest	Principal	Interest
2013	\$ 9,200,000.00	\$ 10,665,217.49	\$ 679,613.62	\$ 135,204.78
2014	10,030,000.00	10,387,599.54	590,618.19	117,466.33
2015	10,350,000.00	10,052,798.54	601,875.26	101,649.26
2016	10,815,000.00	9,622,547.54	613,390.63	85,586.39
2017	9,805,000.00	9,149,621.54	575,170.18	69,234.34
2018-2022	56,035,000.00	38,493,071.42	2,713,253.97	154,176.11
2023-2027	60,715,000.00	24,605,028.29		
2028-2032	47,625,000.00	12,258,875.08		
2033-2037	29,360,000.00	2,934,931.26		
Total Requirements	\$ 243,935,000.00	\$ 128,169,690.70	\$ 5,773,921.85	\$ 663,317.21

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

Current Refunding

On May 17, 2012 the University issued \$3,820,000 in Appalachian State University General Revenue Refunding Bonds, Series 2012 with an average interest rate of 2.78%. The bonds were issued for a current refunding of \$3,870,000 of outstanding Appalachian State University Housing & Student Center System Revenue Bonds, Series 2002 with an average interest rate of 5.00%. The refunding was undertaken to reduce total debt service payments by \$226,428.89 over the next four years and resulted in an economic gain of \$293,008.78.

Advance Refunding

On May 17, 2012 the University issued \$10,320,000 in Appalachian State University General Revenue Refunding Bonds, Series 2012 with an average interest rate of 3.80%. The bonds were issued to advance refund \$10,660,000 of outstanding Appalachian State University General Revenue Bonds, Series 2003A with an average interest rate of 4.46%.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The net proceeds of the refunding bonds were used to purchase U.S. government securities. These securities were deposited into an irrevocable trust to provide for all future debt service payments on the refunded bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the University's Statement of Net Assets. This advance refunding was undertaken to reduce total debt service payments by \$1,339,033.58 over the next 16 years and resulted in an economic gain of \$1,084,949.26. At June 30, 2012, the outstanding balance was \$10,660,000 for the defeased Appalachian State University General Revenue Bonds, Series 2003A.

On May 17, 2012 the University issued \$12,355,000 in Appalachian State University General Revenue Refunding Bonds, Series 2012 with an average interest rate of 3.98%. The bonds were issued to advance refund \$11,835,000 of outstanding Appalachian State University General Revenue & Refunding Revenue Bonds, Series 2005 with an average interest rate of 5.01%. The net proceeds of the refunding bonds were used to purchase U.S. government securities. These securities were deposited into an irrevocable trust to provide for all future debt service payments on the refunded bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the University's Statement of Net Assets. This advance refunding was undertaken to reduce total debt service payments by \$571,076.94 over the next 16 years and resulted in an economic gain of \$692,958.97. At June 30, 2012, the outstanding balance was \$11,835,000 for the defeased Appalachian State University General Revenue & Refunding Revenue Bonds, Series 2005.

Prior Year Defeasances - During prior years, the University defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the University's financial statements. At June 30, 2012, the outstanding balance of prior year defeased bonds was \$11,325,000.

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

Purpose	Financial Institution	Interest Rate	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2012	Principal Outstanding June 30, 2012
Electric Utility	RBC Centura	4.30%	03/15/2013	\$ 1,000,000.00	\$ 900,000.00	\$ 100,000.00
Electric Utility	BB & T	4.56%	10/12/2016	1,000,000.00	550,000.00	450,000.00
Energy Savings Project	Sun Trust Bank	5.10%	08/29/2022	5,430,596.00	5,430,596.00	
Energy Savings Project	Sun Trust Bank	2.27%	04/29/2022	5,263,400.69	39,478.84	5,223,921.85
Total Notes Payable				\$ 12,693,996.69	\$ 6,920,074.84	\$ 5,773,921.85

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

COMPONENT UNITS

A. Appalachian State University Foundation, Inc.

On January 5, 2007, the Foundation entered into a revolving line of credit agreement with PNC Bank for up to \$3.5 million. The agreement was amended on August 8, 2007 to increase the line of credit to \$5.0 million. The agreement was amended on October 11, 2011 and the loan was reduced to \$2.0 million. The purpose of the agreement is to assist with costs related to the athletics facilities enhancement project. The outstanding balance as of June 30, 2012 was \$291,000. The line of credit is collateralized by outstanding pledge commitments and the amount borrowed may not exceed 85% of the total unpaid pledges. The line of credit is due on January 5, 2015. The interest rate is equal to the 30-day LIBOR plus .63% (.87% at June 30, 2012).

The Foundation entered into a loan agreement with PNC Bank on November 15, 2008 for \$470,500 to finance the purchase of a new scoreboard at Kidd Brewer Stadium and scorers' tables for the Holmes Convocation Center. The Foundation assigned the rights to marketing revenues to PNC Bank as security for the loan. The outstanding balance as of June 30, 2012 was \$125,135. The note is payable in annual payments including principal and interest at an interest rate of 5.83%.

Aggregate maturities required on notes payable as of June 30, 2012 are due in future years as follows:

<u>Fiscal Years Ending June 30,</u>	<u>Amount</u>
2013	\$ 125,135
2014	-
2015	291,000
	<u>\$ 416,135</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

B. Appalachian Student Housing Corporation

Long-term debt at June 30, 2012 consists of the following:

Note Payable - Branch Bank and Trust Company; dated June 26, 2012; original amount of \$10,000,000; variable interest at One-Month LIBOR plus 1% recomputed monthly. due in 72 monthly payments of Principal and interest starting July 26, 2012, secured by assignment of rents from the Corporation's University Highlands Apartments		\$ 10,000,000
Certificates of Participation/Build America Bonds: Dated May 17, 2010; original amount of \$16,500,000; interest at one month BBA LIBOR +.85% due serially from October 1, 2012 to October 1, 2016		<u>6,000,000</u>
Total Long-Term Debt		16,000,000
Less Current Portions		<u>2,780,868</u>
Long-Term Debt, Less Current Portions		<u><u>\$ 13,219,132</u></u>

Principal Maturities over the term of the debt are as follows:

2013	\$ 2,780,868
2014	2,814,204
2015	2,848,248
2016	2,882,760
2017	2,918,484
Thereafter	<u>1,755,436</u>
	<u><u>\$ 16,000,000</u></u>

On June 26, 2012 the Corporation entered into an interest rate swap contract with BB&T that effectively converts the interest rate on the note to a fixed rate of 1.98%. Under the swap contract, the Corporation pays interest at 1.98% and receives interest at the variable One Month LIBOR plus 1% each month. The swap is designed to hedge the risk of changes in the variable interest payments on the note. The Swap, which terminates on June 26, 2017, was issued at market terms so that it had no fair value at its inception.

The Certificates of Participation/Build America Bonds Series 2010 are secured by a leasehold deed of trust, the assignment of rents and leases due the Corporation under a lease and use agreement with Appalachian State University and a security agreement. Under the terms of the Bond

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Indenture, the Corporation is required to make monthly principal and interest payments to a trustee. The trustee will then make principal and interest payments to bondholders when due. Such payments to the trustee are included in assets whose use is limited in the financial statements.

The Corporation organized Mountaineer Hall, LLC (the “Company”) on April 21, 2010 as a wholly owned limited liability company under the laws of the State of North Carolina for the purpose of developing and constructing an on campus student housing facility at Appalachian State University (“ASU”), a related party. In order to finance the construction of the facility, on May 17, 2010 the Company issued \$16,500,000 of Certificates of Participation (Appalachian State University Student Housing Project), Series 2010 (Build America Bonds) (the “Bonds”). Coincident with the bond issuance, the Company entered into a thirty year ground lease with ASU providing the Company with the use of the site to construct the housing facility for \$1, and a building lease whereby ASU will lease the housing facility for a period of thirty years. The base rents due to the Company under the building lease will be used to repay the principal and interest on the Bonds. The lease provides ASU with an option to purchase the facility for \$1 once the Bonds have been repaid in full.

The Company’s only leasing operation is the leasing of the on campus student housing facility at ASU. This lease is classified as a direct financing lease. Lease inception was in July 2011 when ASU first occupied the facility. The lease terminates May 16, 2040. The following lists the components of the net investment in the direct financing lease as of June 30, 2012:

Total Minimum Lease Payments to be Received	\$ 6,094,236
Less: Estimated Executory Costs Included in Minimum Lease Payments	-
Minimum Lease Payments Receivable	6,094,236
Less: Allowance for Uncollectibles	-
Net Minimum Lease Payments Receivable	6,094,236
Estimated Residual Value of the Property (Unguaranteed)	-
Net Investment in Direct Financing Lease	<u>\$ 6,094,236</u>

Total cost of the facility was \$16,747,707 and the net investment in the direct financing lease (total minimum lease payments) at lease inception was \$16,647,886. The \$99,821 excess of the cost over the net investment in the direct financing lease has been recognized as a loss on the statement of activities.

Minimum lease payments do not include contingent rentals (differences in monthly interest payments due to change in variable rate) that may be

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

received under the lease. Contingent rentals amounted to \$6,085 in 2012. At June 30, 2012 minimum lease payments for each of the five succeeding years are as follows: \$1,235,002 in 2013, \$1,226,924 in 2014, \$1,218,847 in 2015, \$1,210,770 in 2016, and \$1,202,692 in 2017.

NOTE 8 - LEASE OBLIGATIONS

- A. Capital Lease Obligations** - Capital lease obligations relating to buildings and land 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, 2012:

<u>Fiscal Year</u>	<u>Amount</u>
2013	\$ 1,295,002.00
2014	1,286,924.00
2015	1,278,847.00
2016	1,730,770.00
2017	1,202,692.00
Total Minimum Lease Payments	6,794,235.00
Amount Representing Interest (1.04 - 3.00% Rate of Interest)	208,807.15
Present Value of Future Lease Payments	\$ 6,585,427.85

Buildings and land acquired under capital lease amounted to \$17,103,739.16 at June 30, 2012. Depreciation for the capital assets associated with capital leases is included in depreciation expense.

- B. Operating Lease Obligations** - The University entered into operating leases for equipment and office space. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2012:

<u>Fiscal Year</u>	<u>Amount</u>
2013	\$ 772,936.33
2014	550,227.00
2015	387,531.63
2016	370,469.36
2017	312,283.08
2018-2022	1,561,415.40
2023-2027	1,561,415.40
2028-2032	390,353.85
Total Minimum Lease Payments	\$ 5,906,632.05

Rental expense for all operating leases during the year was \$2,219,886.17.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 9 - REVENUES

A summary of eliminations and allowances by revenue classification 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>\$ 111,950,507.22</u>	<u>\$ 0.00</u>	<u>\$ 17,896,486.55</u>	<u>\$ 310,211.55</u>	<u>\$ 93,743,809.12</u>
Sales and Services:					
Sales and Services of Auxiliary Enterprises:					
Residential Life	\$ 23,923,403.90	\$ 546,778.82	\$ 3,589,162.53	\$ 35,925.27	\$ 19,751,537.28
Dining	18,611,791.92	1,156,090.13	1,957,119.32	13,526.80	15,485,055.67
Student Union Services	161,299.01	40,006.70			121,292.31
Health, Physical Education, and Recreation Services	1,463,913.11	96,332.81		910.46	1,366,669.84
Bookstore	10,448,416.16	1,074,383.72	538,618.37	4,201.38	8,831,212.69
Parking	3,239,855.48	46,302.30		601.17	3,192,952.01
Camp Programs	2,551,162.63	376,566.63			2,174,596.00
Steam Utility System	6,905,352.02	6,905,352.02			0.00
Athletic	6,190,641.87	11,248.64			6,179,393.23
Other	8,253,860.27	2,597,133.77	945,304.41	28,174.30	4,683,247.79
Sales and Services of Education and Related Activities	2,268,062.41	1,212,813.52			1,055,248.89
New River Light and Power	<u>18,925,727.51</u>	<u>5,022,100.55</u>		<u>24,546.26</u>	<u>13,879,080.70</u>
Total Sales and Services	<u>\$ 102,943,486.29</u>	<u>\$ 19,085,109.61</u>	<u>\$ 7,030,204.63</u>	<u>\$ 107,885.64</u>	<u>\$ 76,720,286.41</u>

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	\$ 105,088,235.89	\$ 4,499,450.63	\$ 5,261,974.32	\$ 397,535.09	\$ 0.00	\$ 0.00	\$ 115,247,195.93
Research	1,783,953.48	540,848.93	795,739.44	4,121.60			3,124,663.45
Public Service	3,775,306.19	299,568.74	2,312,841.07	485,259.94	2,639.99		6,875,615.93
Academic Support	25,744,025.01	6,503,144.99	5,202,012.68	132,532.52	4,641.97		37,586,357.17
Student Services	6,441,762.88	333,535.13	681,125.91				7,456,423.92
Institutional Support	15,445,440.79	1,177,203.39	3,242,272.12		15,992.35		19,880,908.65
Operations and Maintenance of Plant	12,271,672.42	204,679.39	1,559,684.90		7,257,838.94		21,293,875.65
Student Financial Aid	85,545.28	1,898.04	74,771.04	19,129,910.59			19,292,124.95
Auxiliary Enterprises	35,512,370.60	21,649,913.21	13,345,959.45	2,188,398.97	6,281,399.92		78,978,042.15
New River Light and Power	918,601.99	9,539,221.40	1,282,327.61				11,740,151.00
Depreciation						17,108,445.86	17,108,445.86
Total Operating Expenses	<u>\$ 207,066,914.53</u>	<u>\$ 44,749,463.85</u>	<u>\$ 33,758,708.54</u>	<u>\$ 22,337,758.71</u>	<u>\$ 13,562,513.17</u>	<u>\$ 17,108,445.86</u>	<u>\$ 338,583,804.66</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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 (Plan) 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, 2012, these rates were set at 7.44% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the University had a total payroll of \$168,654,046.82, of which \$77,371,930.60 was covered under the Teachers' and State Employees' Retirement System. Total employer and employee contributions for pension benefits for the year were \$5,756,471.63 and \$4,642,315.84, respectively.

Required employer contribution rates for the years ended June 30, 2011, and 2010, were 4.93% and 3.57%, respectively, while employee contributions were 6% each year. The University made 100% of its annual required contributions for the years ended June 30, 2012, 2011, and 2010, which were \$5,756,471.63, \$3,982,951.86, and \$2,838,460.76, 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.nc.gov/> and clicking on "Reports" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

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 or the trustee responsible for the investment of contributions under the Program and approves the form and contents of the contracts and trust agreements.

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, 2012, 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 current fiscal year, the University had a total payroll of \$168,654,046.82, of which \$68,232,743.10 was covered under the Optional Retirement Program. Total employer and employee contributions for pension benefits for the year were \$4,667,119.63 and \$4,093,964.59, respectively.

B. Deferred Compensation and Supplemental Retirement Income Plans

Internal Revenue Code 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 \$271,750.00 for the year ended June 30, 2012.

Internal Revenue Code 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, 2012, were \$62,375.82. The voluntary contributions by employees amounted to \$821,535.85 for the year ended June 30, 2012.

Internal Revenue Code 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. The plan administrators are Fidelity and TIAA-CREF. No costs are incurred by the University. The voluntary contributions by employees amounted to \$1,696,824.47 for the year ended June 30, 2012.

NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS

- A. Health Benefits** - The University participates in the Comprehensive Major Medical Plan (the Plan), a cost-sharing, multiple-employer defined benefit health care plan that provides 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. Coverage eligibility varies depending on years of contributory membership service in their retirement system prior to disability or retirement.

The Plan's benefit and contribution provisions are established by the State Treasurer and the Board of Trustees of the State Health Plan for Teachers and State Employees as authorized by Chapter 135, Article 3B, of the General Statutes. The Plan does not provide for automatic post-retirement benefit increases.

By General Statute, a Retiree Health Benefit Fund (the Fund) has been established as a fund in which accumulated contributions from employers and any earnings on those contributions shall be used to provide health

benefits to retired and disabled employees and applicable beneficiaries. By statute, the Fund is administered by the Board of Trustees of the Teachers' and State Employees' Retirement System and contributions to the fund are irrevocable. Also by law, Fund assets are dedicated to providing benefits to retired and disabled employees and applicable beneficiaries and are not subject to the claims of creditors of the employers making contributions to the Fund. Contribution rates to the Fund, which are intended to finance benefits and administrative expenses on a pay-as-you-go basis, are determined by the State Treasurer and the Board of Trustees of the State Health Plan for Teachers and State Employees.

For the current fiscal year the University contributed 5.0% of the covered payroll under the Teachers' and State Employees' Retirement System and the Optional Retirement Program to the Fund. Required contribution rates for the years ended June 30, 2011, and 2010, were 4.9% and 4.5%, respectively. The University made 100% of its annual required contributions to the Plan for the years ended June 30, 2012, 2011, and 2010, which were \$7,280,233.69, \$7,307,380.96, and \$6,567,504.65, respectively. 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*. 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.nc.gov/> and clicking on "Reports" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

- B. Disability Income** - The University participates in the Disability Income Plan of North Carolina (DIPNC), a cost-sharing, multiple-employer defined benefit plan, to provide short-term and long-term disability benefits to eligible members of the Teachers' and State Employees' Retirement System and the Optional Retirement Program. Benefit and contribution provisions are established by Chapter 135, Article 6, of the General Statutes, and may be amended only by the North Carolina General Assembly. The Plan does not provide for automatic post-retirement benefit increases.

Disability income benefits are funded by actuarially determined employer contributions that are established by the General Assembly. For the fiscal year ended June 30, 2012, the University made a statutory contribution of .52% of covered payroll under the Teachers' and State Employees' Retirement System and the Optional Retirement Program to the DIPNC. The required contribution rate for the years ended June 30, 2011, and 2010, was .52% for both years. The University made 100% of its

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

annual required contributions to the DIPNC for the years ended June 30, 2012, 2011, and 2010, which were \$757,144.29, \$775,477.17, and \$757,917.06, respectively. 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. 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.

The risk of tort claims of up to \$1,000,000 per claimant is retained under the authority of the State Tort Claims Act. In addition, the State provides excess public officers' and employees' liability insurance up to \$10,000,000 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 the University for 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 \$5,000 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 are \$1,000,000 per claim and \$10,000,000 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

occurrence. The private insurance company pays 90% of each loss less a \$75,000 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 International Students participants and dependents with a \$100 medical deductible per injury or sickness.

The University also purchased health care and life insurance for participants in the University camp programs with coverage of \$5,000 for accidental death and dismemberment and \$5,000 for accident medical expense benefit. This plan is funded by individual contributions and placed with QBE Insurance Corporation through a local agent.

University employees and retirees are provided comprehensive major medical care benefits. Coverage is funded by contributions to the State Health Plan (Plan), a discretely presented component unit 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 retains the risk for workers' compensation.

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

Additional details on the state-administered risk management programs are disclosed in the State's *Comprehensive Annual Financial Report*, issued by the Office of the State Controller.

NOTE 14 - COMMITMENTS AND CONTINGENCIES

- A. Commitments** - The University has established an encumbrance system to track its outstanding commitments on construction projects and other

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

purchases. Outstanding commitments on construction contracts were \$14,628,797.40 and on other purchases were \$3,013,182.56 at June 30, 2012.

- 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. Other Contingent Receivables** - The University has received notification of other gifts and grants for which funds have not been disbursed by the resource provider and for which conditions attached to the gift or grant have not been satisfied or, in the case of permanent endowments, cannot begin to be satisfied. In accordance with accounting principles generally accepted in the United States of America, these amounts have not been recorded on the accompanying financial statements. The purpose and amount of other contingent receivables at year-end is as follows:

Purpose	Amount
The Martha and Nancy Bivens Distinguished Professorship for Children and Reading	<u>\$ 500,000.00</u>

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Beth A. Wood, CPA
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 multi-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, 2012, which collectively comprise the University's basic financial statements and have issued our report thereon dated November 21, 2012. Our report includes a reference to 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. Other auditors audited the financial statements of the discretely presented component units, as described in our report on the University's financial statements. The financial statements of the discretely presented component units were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

The University's management is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the University's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the University's financial statements will not be prevented, or detected and corrected on a timely basis.

**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)**

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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 management of the University, the Board of Governors, the Board of Trustees, the Audit Committee, others within the entity, the Governor, the General Assembly, and the State Controller, and is not intended to be and should not be used by anyone other than these specified parties.



Beth A. Wood, CPA
State Auditor

November 21, 2012

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