



# STATE OF NORTH CAROLINA

**APPALACHIAN STATE UNIVERSITY**

**BOONE, NORTH CAROLINA**

**FINANCIAL STATEMENT AUDIT REPORT**

**FOR THE YEAR ENDED JUNE 30, 2013**

**OFFICE OF THE STATE AUDITOR**

**BETH A. WOOD, CPA**

**STATE AUDITOR**

**APPALACHIAN STATE UNIVERSITY**

**BOONE, NORTH CAROLINA**

**FINANCIAL STATEMENT AUDIT REPORT**

**FOR THE YEAR ENDED JUNE 30, 2013**

**BOARD OF GOVERNORS**

**THE UNIVERSITY OF NORTH CAROLINA**

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Beth A. Wood, CPA  
State Auditor

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

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**AUDITOR'S TRANSMITTAL**

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The Honorable Pat McCrory, Governor  
The General Assembly of North Carolina  
Board of Trustees, Appalachian State University

We have completed a financial statement audit of Appalachian State University for the year ended June 30, 2013, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

The results of our tests disclosed no deficiencies in internal control over financial reporting that we consider to be material weaknesses in relation to our audit scope or any instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

A handwritten signature in cursive script that reads "Beth A. Wood".

Beth A. Wood, CPA  
State Auditor

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# Office of the State Auditor



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State Auditor

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## INDEPENDENT AUDITOR'S REPORT

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Board of Trustees  
Appalachian State University  
Boone, North Carolina

### Report on the Financial Statements

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, 2013, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

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 statements were audited by other auditors, whose reports have been furnished to us, and our opinions, insofar as they relate to the amounts included for those entities, are based solely 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 from 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*.

## **INDEPENDENT AUDITOR'S REPORT (CONTINUED)**

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An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the University's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### Opinions

In our opinion, based on our audit and the reports of the 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, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### Other Matters - Required Supplementary Information

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 a 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 our audit of the basic financial statements. 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.

### Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 12, 2013 on our consideration of the University's internal control over financial

## INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.



Beth A. Wood, CPA  
State Auditor

Raleigh, North Carolina

November 12, 2013

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## **APPALACHIAN STATE UNIVERSITY MANAGEMENT'S DISCUSSION AND ANALYSIS**

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### **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 2013. These statements are prepared in accordance with standards issued by the Governmental Accounting Standard's Board (GASB) and include the Statement of Net Position, the Statement of Revenues, Expenses, and Changes in Net Position, the Statement of Cash Flows, Notes to the Financial Statements, component unit Statements of Financial Position, and Statements of Activities. Comparative information for the prior fiscal year is also presented in the condensed financial statements. The following discussion and analysis provides an overview of the financial position and activities only for Appalachian State University (the "University") for the years ended June 30, 2013 and 2012 and not its component units.

### **Statement of Net Position**

The Statement of Net Position (condensed, comparative table presented within this discussion and analysis) presents the assets, liabilities, and net position 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 position from year to year is an indicator of the financial condition of the institution. Restricted nonexpendable net position consists of loan funds, research funds, and endowment gifts with specific restrictions on spending the principal. Restricted expendable net position consist of income from endowment funds, gifts and pledges with specific restrictions, unexpended debt proceeds and grants from third party agencies with expenditure restrictions.

Overall, the Statement of Net Position reflects an increase of \$19,677,453.01. 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 position.

Prominent changes in total assets are represented by an increase in current cash and cash equivalents of \$5,514,526.18 or 9.5%, and increase of \$16,458,976.13 in restricted investments a 160% change, and an increase in depreciable capital assets of 13.4% totaling \$62,592,174.24. These increases need to be taken into consideration by comparing decreases in current and non-current restricted cash and equivalents of \$2,553,835.41 or 29.5% and \$7,377,181.09 or 68.6% respectively. There was also a decrease in nondepreciable capital assets of \$53,034,849.58 a 53.3% change. In summary, total current assets increased by \$3,830,319.38 or 4.5% and noncurrent assets increased by \$19,135,808.88 or 3.2%. Overall, total assets increased over fiscal year 2012 by \$22,966,128.26 or 3.3%.

The increase in current assets is a result of a couple of factors. Most significant is the increase in cash and equivalents of \$5,514,526.18. This increase is mostly related to legislative changes made to the North Carolina Trust Fund statues that allowed Universities to budget certain student fees, primarily education, technology, and application fees, approved by the

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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Board of Governors, to trust funds beginning in the 2013 fiscal year. In prior years these funds were held in state receipts supported funds and would have been either expensed or reverted back to the State at year end. The total balance at June 30, 2013 of these new trust funds was \$4,302,718.62. Other changes that contributed to an increase in cash and cash equivalents were increases in cash for housing operations totaling \$1,695,241.02 which resulted primarily from an average \$100.00 per year increase in housing fees for all dorms combined with the opening of Summit Hall, a new residence hall adding an additional 333 beds to the housing system. This increase in beds along with an increase in the price of meal plans also produced increases in cash for food services funds totaling \$998,874.35. Students living on campus are required to purchase a meal plan. These increases were offset by decreases in restricted cash and cash equivalents of 29.5% or \$2,553,835.41 mostly related to a reduction in cash allocated from noncurrent restricted cash and cash equivalents to cover current liabilities related to capital improvement projects a difference of \$3,150,043.31 when compared to \$6,878,739.41 allocated in FY12.

The increase in noncurrent assets is primarily attributable to the receipt of funds temporarily invested for ASU's 2013 Energy Savings Project with a \$16,499,917.00 balance at June 30. A related liability was also recognized as a note payable to be discussed below. Changes to capital asset balances also contribute to the increase as noted below. These increases were offset by a reduction in noncurrent restricted cash of \$7,377,181.09 which represents the spending down of restricted funds related to the following projects: the Beasley Media Complex, an addition to the Plemmons Student Union, the Honors Residence Hall, and the Student Leadership Complex. Total decreases related to these projects amounted to \$11,587,118.85. This decrease was offset mostly by allotments for repairs and renovations totaling \$2,981,306.43 and the allocation of restricted funds to cover negative cash balances of \$2,768,581.33.

The overall increase in capital assets is primarily due to capitalization of buildings for \$70,063,376.93 moved from construction in progress. There were also additions to construction in progress of \$20,790,777.21.

Increases in depreciable assets for this year included a donation of \$5,387,932.29 for renovation of Farthing Auditorium (now the Schaefer Center) and the following amounts being moved from construction in progress (nondepreciable) to capital assets-buildings: \$30,572,154.09 for Summit Hall, \$21,235,134.96 for Plemmons Student Union, \$8,575,089.92 for Summit Hall Annex, \$4,962,239.22 for the Beasley Media Complex, and \$3,730,657.65 for the Regional Utilities Building (RUB). These increases along with other smaller building and infrastructure projects are offset by total depreciation of \$17,939,872.13.

The decrease in capital assets nondepreciable is primarily due to a decrease in construction in progress of \$73,986,176.79, offset by additions to construction in progress of \$20,790,777.21. Current year additions to construction in progress include continuing construction of the College of Education and Plemmons Student Union, renovations of Trivette Hall and Belk Residence Hall, design and planning costs for Winkler Hall renovation, continuing steam distribution projects, and sprinkler system projects for various residence halls.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Total liabilities increased \$3,288,675.25 or 1.1% from the previous year. This increase was due to a decrease in current liabilities of \$3,377,233.19 offset by an increase in noncurrent long-term liabilities of \$6,598,238.25. The decrease in current liabilities primarily resulted from a decrease in accounts payable of \$3,602,335.02 attributable to decreased activity related to capital improvement projects.

The increase in noncurrent long-term liabilities of \$6,598,238.25 can be mostly attributed to an increase in notes payable of \$15,909,298.82 related to recognizing the liability associated with the 2013 Energy Savings Project. This increase in notes payable was offset by a reduction in bonds payable of \$10,030,000.00 for current year principal payments. No new bonds were issued for 2013.

Overall, Appalachian had an increase of \$19,677,453.01 in total net position. The change was primarily due to the increase in unrestricted net position of \$16,946,337.68, a decrease in debt service net position of \$5,443,916.17, and an increase of \$7,416,219.55 in net investment in capital assets. The reasons for these changes are the result of the overall effect of changes in assets and liabilities discussed above.

<b>Condensed Statement of Net Position</b>				
	<b>Fiscal Year 2013</b>	<b>Fiscal Year 2012</b>	<b>\$ Change</b>	<b>% Change</b>
<b>Assets</b>				
Current Assets	\$ 88,736,416.19	\$ 84,906,096.81	\$ 3,830,319.38	4.5
Noncurrent Assets:				
Restricted Cash and Cash Equivalents	3,384,429.34	10,761,610.43	(7,377,181.09)	(68.6)
Capital Assets - Nondepreciable	46,439,896.51	99,474,746.09	(53,034,849.58)	(53.3)
Capital Assets - Depreciable	530,398,629.46	467,806,455.22	62,592,174.24	13.4
Other	43,535,681.36	26,580,016.05	16,955,665.31	63.8
<b>Total Assets</b>	712,495,052.86	689,528,924.60	22,966,128.26	3.3
<b>Liabilities</b>				
Current Liabilities	33,382,344.53	36,759,577.72	(3,377,233.19)	(9.2)
Funds Held Others	167,211.22	119,804.27	47,406.95	39.6
Long-Term Liabilities	255,382,004.63	248,783,766.38	6,598,238.25	2.7
Other Noncurrent Liabilities	3,992,716.39	3,972,453.15	20,263.24	0.5
<b>Total Liabilities</b>	292,924,276.77	289,635,601.52	3,288,675.25	1.1
<b>Net Position</b>				
Net Investment in Capital Assets	339,639,961.08	332,223,741.53	7,416,219.55	2.2
Restricted				
Nonexpendable	13,916,752.95	14,410,105.60	(493,352.65)	(3.4)
Expendable	5,352,328.29	9,544,079.86	(4,191,751.57)	(43.9)
Unrestricted	60,661,733.77	43,715,396.09	16,946,337.68	38.8
<b>Total Net Position</b>	\$ 419,570,776.09	\$ 399,893,323.08	\$ 19,677,453.01	4.9

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

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

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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Total operating revenues increased from \$173,066,387.93 in 2012 to \$183,555,346.10 in 2013 representing a 6.1% overall increase. This is primarily due to two factors: a 7.2% increase in tuition and fees revenue for a total increase of \$6,789,922.43, and a 3.7% increase for a total of \$2,808,455.95 in sales and services, net of allowances. The increase in tuition and fees can be mostly attributed to an overall increase in tuition and fees of \$506.26 for all full time undergraduate and graduate students. Sales and services net of allowances and internal sales activities increased primarily due to changes in net revenues for housing operations, camp programs, and New River Light and Power totaling \$2,643,925.75. The housing operations increased due to an increase in housing fees and the opening of an additional 333 beds in Summit Residence Hall. Camp programs increases relate to the inclusion of programs which run year round for youth and adults through conferences and camp services previously categorized as "Other." New River Light and Power had increases due to a rate increase in calendar year 2012 combined with increases in kilowatt hours sold during the months of January through June.

Operating expenses increased by \$6,486,330.25 in fiscal year 2013 representing an overall increase of 1.9%. These operating expenses increases resulted primarily from increases in salaries and benefits.

Salaries and benefits increased by 3.9% from \$207,066,914.53 in 2012 to \$215,199,979.93. This increase is primarily related to a legislative increase for state employees of 1.2% and increases in the number of positions in certain areas. Instruction and academic support represents \$4,010,372.01 of the increase. Most significant were increases in the number of positions in the information technology area. Other notable increases were seen in auxiliary operations totaling \$2,060,231.96 consisting primarily increases in athletics related to additional coaching staff and support staff added totaling \$921,050.21, student union and university recreation for \$508,348.71 mostly due increased employment of student employees, and a \$498,754.09 increase in salaries and wages in housing as positions were added for the operation and maintenance of Summit Residence Hall opened in fiscal year 2013. Institutional support accounted for \$1,220,882.54 in increases in salaries and wages, the largest of which was for new positions in University advancement totaling \$620,674.83.

Overall the purchase of supplies and materials decreased 6.6%. Decreases in purchases primarily came from auxiliary operations for \$2,214,734.98 primarily related to the decreases in inventory purchases related to textbooks purchased for resale. Also, instruction and academic support departments had decreases in supplies purchased totaling \$2,257,328.40 which resulted from a reduction in spending budgets. These decreases were offset by increases in supplies and materials purchases in the physical plant as the focus for the University shifts to materials needed for various repair and renovation projects and in institutional support that includes purchases of desktop computer equipment and servers to replace aging equipment in the amounts of \$1,134,921.73 and \$727,078.44 respectively. The total decrease in supplies and materials purchases was \$2,933,190.32.

In total, nonoperating revenues fell by 1.2% representing a \$2,041,666.33 decrease. During the year the University experienced a decrease in noncapital grants of \$4,998,741.09. The largest decrease is due to the difference in the amounts received in FY2012 from Federal

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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ARRA stimulus funds that were not available in FY2013. This accounts for \$2,066,938.99 of the decrease. Other decreases were related to programs that had ended in FY2013. Most notable were decreases for the Gear Up program, the Boone Creek restoration project, and various other academic related programs. Other nonoperating revenues decreased \$2,400,514.75. This is primarily the result of the amortization of deferred charges on refunded bonds recognized in FY2012 for the Series 2012 refunding bonds totaling \$2,792,897.15. The University did not issue any bonds in FY2013.

The decreases in nonoperating revenues were primarily offset by increases in state appropriations of \$2,670,513.69, noncapital gifts of \$1,299,068.36, and investment income of \$1,571,992.80. The increase in noncapital gifts is mostly attributable to gifts received for ASU Athletics totaling \$1,402,303.33. Investment income increased during FY2013 and is primarily related to unrealized gains in funds for endowed professorships, the University bookstore, and New River Light and Power invested with UNC Management, which totaled \$1,932,663.84. This increase was offset by a decrease of \$410,407.31 for funds invested in North Carolina State Treasurer's STIF account that is attributable to a decrease in funds held in trust funds related to capital improvement projects that were spent down in FY2013.

Other revenues consist of capital appropriations, capital gifts, and additions to endowments. Other revenues decreased by a total of \$1,128,277.01. This decrease was primarily due to the reduction of capital appropriations and decreases in additions to endowments. The decrease in capital appropriations was related to funding reductions related to the new College of Education building and the Beasley Media Complex for \$3,458,391.88 and \$887,835.17 respectively.

Additions to endowments decreased from \$2,521,787.76 in FY2012 to \$513,638.74 received in FY2013. Last fiscal year, 2012, addition to endowments increased by \$1,521,787.76 and primarily reflected the establishment of the Aeschleman Endowment Fund, IANC Endowment Fund, and the Levine Endowment fund. In fiscal year 2013 the University received funds to establish the Bivens Endowed Professorship totaling \$504,418.51.

The decreases in other revenues were offset by a \$3,266,599.06 increase in capital gifts. This increase is primarily due to donated funds used for the renovation of the Schaeffer Center for the Performing Arts. The total capitalized in FY2013 for this facility was \$5,387,932.29.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

### Condensed Statement of Revenues, Expenses, and Changes in Net Position

	<u>Fiscal Year 2013</u>	<u>Fiscal Year 2012</u>	<u>\$ Change</u>	<u>% Change</u>
<b>Operating Revenues</b>				
Tuition and Fees, Net	\$ 100,533,731.55	\$ 93,743,809.12	\$ 6,789,922.43	7.2
State and Local Grants and Contracts	836,100.00	565,250.00	270,850.00	47.9
Nongovernmental Grants and Contracts	1,271,314.06	1,025,938.50	245,375.56	23.9
Sales and Services, Net	79,528,742.36	76,720,286.41	2,808,455.95	3.7
Interest Earnings on Loans	22,684.84	22,089.56	595.28	2.7
Other Operating Revenues	1,362,773.29	989,014.34	373,758.95	37.8
<b>Total Operating Revenues</b>	183,555,346.10	173,066,387.93	10,488,958.17	6.1
Salaries and Benefits	215,199,979.93	207,066,914.53	8,133,065.40	3.9
Supplies and Materials	41,816,273.53	44,749,463.85	(2,933,190.32)	(6.6)
Services	32,564,262.08	33,758,708.54	(1,194,446.46)	(3.5)
Scholarships and Fellowships	23,051,204.01	22,337,758.71	713,445.30	3.2
Utilities	14,498,543.23	13,562,513.17	936,030.06	6.9
Depreciation / Amortization	17,939,872.13	17,108,445.86	831,426.27	4.9
<b>Operating Expenses</b>	345,070,134.91	338,583,804.66	6,486,330.25	1.9
<b>Operating Loss</b>	(161,514,788.81)	(165,517,416.73)	4,002,627.92	2.4
<b>Nonoperating Revenues</b>				
State Appropriations	128,597,133.77	125,926,620.08	2,670,513.69	2.1
Other Nonoperating Revenues	41,689,406.26	46,401,586.28	(4,712,180.02)	(10.2)
<b>Net Nonoperating Revenues</b>	170,286,540.03	172,328,206.36	(2,041,666.33)	(1.2)
<b>Income Before Other Revenues</b>	8,771,751.22	6,810,789.63	1,960,961.59	28.8
Capital Appropriations	4,487,235.72	6,873,962.77	(2,386,727.05)	(34.7)
Capital Gifts	5,904,827.33	2,638,228.27	3,266,599.06	123.8
Additions to Endowments	513,638.74	2,521,787.76	(2,008,149.02)	(79.6)
<b>Total Other Revenues</b>	10,905,701.79	12,033,978.80	(1,128,277.01)	(9.4)
<b>Total Increase in Net Assets</b>	19,677,453.01	18,844,768.43	832,684.58	4.4
<b>Net Position</b>				
Net Position at Beginning of Year	399,893,323.08	381,048,554.65	18,844,768.43	4.9
<b>Net Position at End of Year</b>	<u>\$ 419,570,776.09</u>	<u>\$ 399,893,323.08</u>	<u>\$ 19,677,453.01</u>	4.9

### Capital Asset and Debt Administration

Capitalized assets placed into service from construction in process primarily consisted of the following: \$235,711.37 for the Steam Distribution and Return System, \$4,962,239.22 for the Beasley Media Complex, \$21,235,134.86 for the Plemmons Student Union Addition, \$30,572,154.09 for Summit Hall (Honors Residence Hall), \$8,575,089.92 for the Student Leadership Annex, \$3,730,657.65 for the RUB Utilities building, \$413,926.90 for the College of Education building, and \$1,022,106.79 for the work completed in Cone Residence Hall in addition to sprinkler systems installed in Bowie and Eggers residence halls.

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

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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- The renovation and expansion of Trivette Dining Hall project is expected to begin in December 2013. 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 \$6,000,000.00 and will be funded with dining receipts.
- The \$9,765,000.00 renovation of Belk residence hall project is currently in the design phase for both sprinkler system installation and renovation. This project has a projected construction start date to start in the summer 2014, with a projected completion date of August 2015.
- Construction for the renovation of Anne Belk Hall is scheduled to begin in the spring or summer of 2014 with the goal of being completed by the fall semester. The renovation will primarily involve the upper most floor of the building and will include work on fire protection and fire alarms. Total costs are anticipated to be \$6,200,000.00.
- Conversion of an existing soccer complex to a field hockey complex is in the planning stage. This project will be for the conversion of the playing surface from traditional grass turf to a surface that is specifically designed for field hockey. The project is estimated to cost \$1,500,000.00.
- The University is also focusing on various repair and renovation needs. For the year ended June 30, 2013 funds for repairs and renovations were allotted to the university by the state for \$1,887,276.27, and additional \$1,111,607.89 in carry forward funds was made available for repairs and renovations.

In June of 2013 ASU entered into an Energy Services Agreement (ESA) with Pepco Energy Services. The University recognized a liability related to the agreement as a note payable for \$16,499,917.00 with 13 installment payments to begin on July 1<sup>st</sup> fiscal year 2015. Proceeds from the note were invested in a money market mutual fund with TD Bank. The purpose of the ESA is to provide the University with various energy conservation measures in order to reduce consumption and costs in university owned facilities. Projects included in the ESA include upgrading and replacing existing systems within multiple buildings on campus, retrofitting existing systems or equipment with energy reducing modifications, improving energy regulating and monitoring systems, improved automation of systems, in addition to other energy consumption improvement measures and equipment replacement within existing facilities.

Total annual debt service payments were \$21,241,079.39 in 2013 compared to \$55,001,339.88 in 2012. The difference is primarily related to the refunding resulting of the Series 2012 bonds in FY2012 for \$26,365,000.00. For fiscal year 2013 debt service payments included bonds and notes payable for \$19,946,077.34 and \$1,295,002.05 for capital leases.

### **Economic Outlook**

Over the past three prior years Appalachian has endured significant reductions in state appropriations and was able to remain in stable financial condition by efficiently managing

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

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resources primarily through cost reduction measures and some tuition increases. For the fiscal year ended June 30, 2013 the University experienced a modest increase in state appropriations. Appalachian's goal has been to protect the quality academic experience for our students while maintaining value. In 2013 Appalachian was named in two lists of "best values" in both Forbes and Kiplinger's Personal Finance magazines.

Looking forward, a reduction in budgeted state appropriations of approximately \$4,700,000.00 for 2014 is planned and will be managed through the elimination of vacant teaching, administrative, and staff positions. However, \$4,500,000.00 in state appropriated support will be budgeted back to the University for enrollment growth resulting in the addition of teaching positions to meet program needs. Additionally, the University has projected new receipts from approved campus initiated tuition increases of approximately \$4,300,000.00.

Enrollment remains stable on an upward trend and is expected to see modest increases in the future. Appalachian remains a popular institution within the University of North Carolina system and maintains a high retention rate relative to its peers in the UNC system.

In October of 2011, Appalachian announced its largest fundraising campaign in history. The total goal of the campaign is \$200,000,000.00 and will continue through 2014. By June of 2013, the University had raised \$158,600,000.00 toward its goal. The funds raised will primarily support academic and scholarship needs in addition to essential program support, endowed professorships, athletic scholarships, athletic facilities, and performing, cultural and visual arts programs.

***Appalachian State University***  
***Statement of Net Position***  
***June 30, 2013***

***Exhibit A-1***  
***Page 1 of 2***

**ASSETS**

Current Assets:	
Cash and Cash Equivalents	\$ 63,769,958.14
Restricted Cash and Cash Equivalents	6,099,258.19
Receivables, Net (Note 4)	8,424,667.28
Due from State of North Carolina Component Units	65,000.00
Inventories	9,831,041.36
Notes Receivable, Net (Note 4)	546,491.22
	<hr/>
Total Current Assets	88,736,416.19
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	3,384,429.34
Endowment Investments	13,505,994.07
Restricted Investments	21,313,669.70
Other Investments	5,430,846.25
Notes Receivable, Net (Note 4)	3,285,171.34
Capital Assets - Nondepreciable (Note 5)	46,439,896.51
Capital Assets - Depreciable, Net (Note 5)	530,398,629.46
	<hr/>
Total Noncurrent Assets	623,758,636.67
	<hr/>
Total Assets	712,495,052.86

**LIABILITIES**

Current Liabilities:	
Accounts Payable and Accrued Liabilities (Note 6)	9,634,898.74
Due to Primary Government	136,532.82
Unearned Revenue	7,689,895.26
Interest Payable	2,794,549.56
Long-Term Liabilities - Current Portion (Note 7)	13,126,468.15
	<hr/>
Total Current Liabilities	33,382,344.53
Noncurrent Liabilities:	
Deposits Payable	208,706.70
Funds Held for Others	167,211.22
U. S. Government Grants Refundable	3,784,009.69
Long-Term Liabilities (Note 7)	255,382,004.63
	<hr/>
Total Noncurrent Liabilities	259,541,932.24
	<hr/>
Total Liabilities	292,924,276.77

***Appalachian State University***  
***Statement of Net Position***  
***June 30, 2013***

***Exhibit A-1***  
***Page 2 of 2***

**NET POSITION**

Net Investment in Capital Assets	339,639,961.08
Restricted for:	
Nonexpendable:	
Research	20,000.00
Endowed Professorships	13,468,293.19
Loans	428,459.76
Expendable:	
Scholarships and Fellowships	333,410.28
Research	26,126.88
Endowed Professorships	4,896,039.35
Restricted for Specific Programs	96,751.78
Unrestricted	<u>60,661,733.77</u>
Total Net Position	<u><u>\$ 419,570,776.09</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 Position***  
***For the Fiscal Year Ended June 30, 2013***

***Exhibit A-2***

**REVENUES**

Operating Revenues:

Student Tuition and Fees, Net (Note 9)	\$ 100,533,731.55
State and Local Grants and Contracts	836,100.00
Nongovernmental Grants and Contracts	1,271,314.06
Sales and Services, Net (Note 9)	79,528,742.36
Interest Earnings on Loans	22,684.84
Other Operating Revenues	1,362,773.29

Total Operating Revenues	183,555,346.10
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**EXPENSES**

Operating Expenses:

Salaries and Benefits	215,199,979.93
Supplies and Materials	41,816,273.53
Services	32,564,262.08
Scholarships and Fellowships	23,051,204.01
Utilities	14,498,543.23
Depreciation/ Amortization	17,939,872.13

Total Operating Expenses	345,070,134.91
--------------------------	----------------

Operating Loss	(161,514,788.81)
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**NONOPERATING REVENUES (EXPENSES)**

State Appropriations	128,597,133.77
Noncapital Grants - Student Financial Aid	30,870,022.22
Noncapital Grants	8,103,597.98
Noncapital Gifts	9,908,857.47
Investment Income (Net of Investment Expense of \$112,750.26)	2,900,229.22
Interest and Fees on Debt	(10,138,660.86)
Other Nonoperating Revenues	45,360.23

Net Nonoperating Revenues	170,286,540.03
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Income Before Other Revenues	8,771,751.22
------------------------------	--------------

Capital Appropriations	4,487,235.72
Capital Gifts	5,904,827.33
Additions to Endowments	513,638.74

Increase in Net Position	19,677,453.01
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**NET POSITION**

Net Position - July 1, 2012	399,893,323.08
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Net Position - June 30, 2013	\$ 419,570,776.09
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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, 2013***

***Exhibit A-3***

***Page 1 of 2***

**CASH FLOWS FROM OPERATING ACTIVITIES**

Received from Customers	\$ 184,925,390.49
Payments to Employees and Fringe Benefits	(214,487,204.51)
Payments to Vendors and Suppliers	(91,013,249.99)
Payments for Scholarships and Fellowships	(23,051,204.01)
Loans Issued	(556,951.00)
Collection of Loans	536,634.69
Other Receipts	1,417,942.48
	<hr/>

Net Cash Used by Operating Activities (142,228,641.85)

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

State Appropriations	128,597,133.77
Noncapital Grants - Student Financial Aid	30,870,022.22
Noncapital Grants	8,047,858.66
Noncapital Gifts	9,016,661.08
Additions to Endowments	513,638.74
William D. Ford Direct Lending Receipts	80,238,081.00
William D. Ford Direct Lending Disbursements	(80,857,221.00)
Related Activity Agency Receipts	235,022.65
Related Activity Agency Disbursements	(187,615.70)
Other Payments	(15,826.33)
	<hr/>

Net Cash Provided by Noncapital Financing Activities 176,457,755.09

**CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES**

Capital Appropriations	4,487,235.72
Capital Gifts	175,416.04
Proceeds from Sale of Capital Assets	48,890.98
Acquisition and Construction of Capital Assets	(24,259,677.56)
Principal Paid on Capital Debt and Leases	(10,622,804.88)
Interest and Fees Paid on Capital Debt and Leases	(11,264,222.55)
Other Receipts	2,326,950.21
	<hr/>

Net Cash Used by Capital Financing and Related Financing Activities (39,108,212.04)

**CASH FLOWS FROM INVESTING ACTIVITIES**

Proceeds from Sales and Maturities of Investments	658,013.32
Investment Income	370,298.77
Purchase of Investments and Related Fees	(565,703.61)
	<hr/>

Net Cash Provided by Investing Activities 462,608.48

Net Decrease in Cash and Cash Equivalents (4,416,490.32)  
Cash and Cash Equivalents - July 1, 2012 77,670,135.99

Cash and Cash Equivalents - June 30, 2013 \$ 73,253,645.67



***Appalachian State University Foundation, Inc.***  
***Statement of Financial Position***  
***June 30, 2013***

***Exhibit B-1***

**ASSETS**

Cash	\$ 1,284,639
Contributions Receivable, Net	16,337,085
Other Receivables	125,603
Prepaid Expenses	7,167
Investments	80,133,192
Real Estate Held for Investment	5,570,225
Notes Receivable	8,894
Beneficial Interests in Perpetual Trusts	1,416,412
Contributions Receivable from Trusts	1,736,967
Contributions Receivable from Irrevocable Bequests	948,406
Cash Surrender Value of Life Insurance	185,086
In-Kind Gifts	7,787
Property and Equipment, Net	<u>1,896,500</u>
Total Assets	<u><u>\$ 109,657,963</u></u>

**LIABILITIES**

Accounts Payable and Accrued Expenses	\$ 538,467
Deferred Revenue - Advance Royalties	842,143
Deposits Payable	100
Long-Term Debt	4,157,650
Split Interest Agreement Obligations	<u>2,180,613</u>
Total Liabilities	<u>7,718,973</u>

**NET ASSETS**

Unrestricted	5,621,441
Temporarily Restricted	38,895,346
Permanently Restricted	<u>57,422,203</u>
Total Net Assets	<u>101,938,990</u>
Total Liabilities and Net Assets	<u><u>\$ 109,657,963</u></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, 2013**

**Exhibit B-2**

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
<b>REVENUES, GAINS, LOSSES AND OTHER SUPPORT</b>				
Contributions	\$ 801,573	\$ 9,974,028	\$ 1,907,290	\$ 12,682,891
Investment Income	879,102	119,063	36,182	1,034,347
Auxiliary Income	109,702	123,333		233,035
Net Realized and Unrealized Gains on Investments	218,163	3,416,986	61,704	3,696,853
Net Change in Beneficial Interests in Perpetual Trusts, Contributions Receivable from Trusts and Split Interest Agreement Obligations	9,401	8,520	154,682	172,603
Other Income	4,035	5,002		9,037
Net Assets Released from Restrictions	15,109,335	(15,109,335)		
<b>Total Revenues, Gains, Losses, and Other Support</b>	<b>17,131,311</b>	<b>(1,462,403)</b>	<b>2,159,858</b>	<b>17,828,766</b>
<b>EXPENSES</b>				
Program Services:				
General University Support	11,562,032			11,562,032
Student Financial Aid	4,312,940			4,312,940
Alumni Affairs	121,739			121,739
Other	384,225			384,225
<b>Total Program Services</b>	<b>16,380,936</b>			<b>16,380,936</b>
Supporting Services:				
General and Administrative	92,581			92,581
Fundraising	1,107,128			1,107,128
<b>Total Supporting Services</b>	<b>1,199,709</b>			<b>1,199,709</b>
<b>Total Expenses</b>	<b>17,580,645</b>			<b>17,580,645</b>
Net Increase in Allowance for Doubtful Contributions Receivable		(356,011)	(26,003)	(382,014)
Increase (Decrease) in Net Assets	(449,334)	(1,818,414)	2,133,855	(133,893)
<b>NET ASSETS</b>				
Net Assets, Beginning	6,070,775	40,713,760	55,288,348	102,072,883
Net Assets, Ending	<u>\$ 5,621,441</u>	<u>\$ 38,895,346</u>	<u>\$ 57,422,203</u>	<u>\$ 101,938,990</u>

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

***Appalachian Student Housing Corporation***  
***Statement of Financial Position***  
***June 30, 2013***

***Exhibit B-3***

**ASSETS**

Current Assets:	
Cash and Cash Equivalents	\$ 3,090,808
Accounts Receivable, Net	7,555
Sales Tax Refund Receivable	13,281
Prepaid Expenses	71,982
Net Investment in Direct Financing Lease	1,226,924
	<hr/>
Total Current Assets	4,410,550
	<hr/>
Property and Equipment, Net	19,541,685
	<hr/>
Other Assets:	
Deferred Financing Cost, Net	46,724
Net Investment in Direct Financing Lease	3,632,309
Assets Limited as to Use by Bond Order	900,000
	<hr/>
Total Other Assets	4,579,033
	<hr/>
Total Assets	<u><u>\$ 28,531,268</u></u>

**LIABILITIES**

Current:	
Current Portion of Long-Term Debt	\$ 2,814,204
Accounts Payable	231,630
Accrued Expenses	60,313
Deferred Income	70,679
	<hr/>
Total Current Liabilities	3,176,826
	<hr/>
Long-Term Debt, Less Current Portion	10,404,928
	<hr/>
Total Liabilities	13,581,754
	<hr/>

**NET ASSETS**

Unrestricted	14,949,514
	<hr/>
Total Liabilities and Net Assets	<u><u>\$ 28,531,268</u></u>

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, 2013***

***Exhibit B-4***

**REVENUES AND OTHER SUPPORT**

Net Rental Income	\$ 4,338,191
Other Operating Revenue	117,987
	<hr/>
Total Revenues and Other Support	4,456,178

**EXPENSES**

Salaries and Benefits	335,424
Purchased Services	117,729
Professional Fees	19,319
Building	127,792
Utilities	577,350
Insurance	79,869
Renovation	273,929
Depreciation	504,627
Amortization	11,299
Interest	222,825
Taxes	120,625
Advertising	8,885
Other	239,697
	<hr/>
Total Expenses	2,639,370

**OTHER INCOME AND EXPENSE**

Interest	5,443
	<hr/>
Increase in Net Assets	1,816,808

**NET ASSETS**

Net Assets at Beginning of Year	13,127,263
	<hr/>
Net Assets at End of Year	\$ 14,944,071

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, 2013**

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**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 30 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)

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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 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 the Financial Accounting Standards Board (FASB) Codification. 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 Foundation's or the Corporation's financial information in the University's financial reporting entity for these differences.

During the year ended June 30, 2013, the Foundation distributed \$15,870,572.47 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 address is Dougherty Administration Building, 438 Academy Street, Boone, North Carolina 28608.

During the year ended June 30, 2013, the Corporation did not distribute any funds to the University. Complete financial statements for the Corporation can be obtained from the Vice Chancellor for Student Development at the same address listed above.

- 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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activities is considered to be a single business-type activity and accordingly, is reported within a single column in the basic financial statements.

- 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 (STIF). The STIF 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. Fair value for investments in the UNC Investment Fund was based on amounts reported to the University by UNC Management Company, Inc. University management reviews and evaluates the values provided by UNC Management Company, Inc. as well as the valuation methods and assumptions used in determining the fair value of such investments. 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.

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, and private sources in connection with reimbursement of

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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allowable expenditures made pursuant to contracts and grants. 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 specific identification (Serialized Rental Textbooks).

**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 other intangible assets which are capitalized when the value or cost is \$100,000 or greater.

Depreciation is computed using the straight-line for the University and the composite rate method for the electric utility 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, 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.

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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 Position** - The University's net position is classified as follows:

**Net Investment in Capital Assets** - 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 Net Investment in Capital Assets.

**Restricted Net Position - Nonexpendable** - Nonexpendable restricted net position includes 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 Position - Expendable** - Expendable restricted net position includes resources for which the University is legally or contractually obligated to spend in accordance with restrictions imposed by external parties.

**Unrestricted Net Position** - Unrestricted net position includes resources derived from student tuition and fees, sales and services, unrestricted gifts, royalties, and interest income.

Restricted and unrestricted resources are tracked using a fund accounting system and are spent in accordance with established fund authorities. Fund authorities provide rules for the fund activity and are separately established for restricted and unrestricted activities. When both restricted and unrestricted funds are available for expenditure, the decision for

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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 Position. 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 Position. 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 Position. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the University's principal ongoing operations. Operating revenues include activities that have characteristics of exchange transactions, such as (1) student tuition and fees, (2) sales and services of auxiliary enterprises, (3) certain federal, state, and local grants and contracts that are essentially contracts for services, and (4) interest earned on loans. Operating expenses are all expense transactions incurred other than those related to capital and noncapital financing or investing activities as defined by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*.

Nonoperating revenues include activities that have the characteristics of nonexchange transactions. Revenues from nonexchange transactions and state appropriations that represent subsidies or gifts to the University, as well as investment income, are considered nonoperating since these are either investing, capital, or noncapital financing activities. Capital contributions are presented separately after nonoperating revenues and expenses.

**O. Internal Sales Activities** - Certain institutional auxiliary operations provide goods and services to University departments, as well as to its customers. These institutional auxiliary operations include activities such as central stores, copy centers, motor pool, postal services, steam plant, electric utility, 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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, 2013, the amount shown on the Statement of Net Position as cash and cash equivalents includes \$72,154,582.45 which represents the University's equity position in the State Treasurer's STIF. The STIF (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 1.6 years as of June 30, 2013. Assets and shares of the STIF 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 STIF) are included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.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, 2013 was \$163,670.63. The carrying amount of the University's deposits not with the State Treasurer was \$935,392.59 and the bank balance was \$1,584,804.33. 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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credit risk. As of June 30, 2013, the University's bank balance was exposed to custodial credit risk as follows:

Uninsured and Uncollateralized	\$ <u>955,361.92</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 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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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, 2013, the University's investments include \$23,653,719.16 which represents the University's 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. It is not subject to any formal oversight other than that provided by the Board of Directors. 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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

**Non-Pooled Investments** - The following table presents the fair value of investments by type and investments subject to interest rate risk at June 30, 2013, 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	\$ 16,499,917.85	\$ 16,499,917.85
Other Securities		
Domestic Stocks	66,524.31	
Foreign Stocks	15,160.85	
Equity Mutual Funds	10,456.42	
International Mutual Funds	3,731.43	
Guaranty Capital - Medical Mutual Ins.	1,000.00	
<b>Total Non-Pooled Investments</b>	<b>\$ 16,596,790.86</b>	

At June 30, 2013, the University's non-pooled investments included \$16,499,917.85 in money market mutual funds with credit exposure for which Standard and Poor's credit quality distribution was AAAM.

At June 30, 2013, 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	\$ 66,524.31
Foreign Stocks	15,160.85
<b>Total</b>	<b>\$ 81,685.16</b>

*Foreign Currency Risk:* At June 30, 2013, the University's exposure to foreign currency risk is as follows:

Investment	Currency	Fair Value (U.S. Dollars)
ABB Ltd.	Swiss Franc	\$ 4,332.00
Novartis	Swiss Franc	3,889.05
Diageo PLC	Pound Sterling	3,218.60
Michael Kors Hldgs	Hong Kong Dollar	3,721.20
<b>Total</b>		<b>\$ 15,160.85</b>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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**Total Investments** - The following table presents the fair value of the total investments at June 30, 2013:

<b>Investment Type</b>	<u>Fair Value</u>
<b>Debt Securities</b>	
Money Market Mutual Funds	\$ 16,499,917.85
<b>Other Securities</b>	
UNC Investment Fund	23,653,719.16
Domestic Stocks Held by Counterparty	66,524.31
Foreign Stocks Held by Counterparty	15,160.85
Equity Mutual Funds	10,456.42
International Mutual Funds	3,731.43
Guaranty Capital - Medical Mutual Insurance	<u>1,000.00</u>
<b>Total Investments</b>	<u><u>\$ 40,250,510.02</u></u>

**Component Units** - Investments of the University's discretely presented component units, 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	\$ 17,936,751
Money Market Funds	2,373,483
Equity Investments	27,966,624
Fixed Income Investments	15,902,443
Alternative Investments	15,953,891
	<u>80,133,192</u>
Real Estate Held for Resale	5,570,225
	<u>85,703,417</u>
<b>Total Investments</b>	<u><u>\$ 85,703,417</u></u>

## 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, 2013, is as follows:

Cash on Hand	\$	163,670.63
Amount of Deposits with Private Financial Institutions		935,392.59
Deposits in the Short-Term Investment Fund		72,154,582.45
Investments in the UNC Investment Fund		23,653,719.16
Non-Pooled Investments		16,596,790.86
<b>Total Deposits and Investments</b>	<b>\$</b>	<b>113,504,155.69</b>
Deposits		
Current:		
Cash and Cash Equivalents	\$	63,769,958.14
Restricted Cash and Cash Equivalents		6,099,258.19
Noncurrent:		
Restricted Cash and Cash Equivalents		3,384,429.34
<b>Total Deposits</b>	<b>\$</b>	<b>73,253,645.67</b>
Investments		
Noncurrent:		
Endowment Investments	\$	13,505,994.07
Restricted Investments		21,313,669.70
Other Investments		5,430,846.25
<b>Total Investments</b>		<b>40,250,510.02</b>
<b>Total Deposits and Investments</b>	<b>\$</b>	<b>113,504,155.69</b>

### 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 a three-year rolling average of an individual

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

endowment account's net position value at the end of the previous year. An earnings reserve must be held in each endowment account in an amount equal to 5% of the original contribution. Earnings in excess of the reserve amount as calculated at the end of 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 position value of each individual endowment fund. At June 30, 2013, net appreciation of \$4,705,189.45 of which \$1,239,206.00 was available to be spent and was classified in net position as restricted expendable for endowed professorships as it is restricted for specific purposes.

### NOTE 4 - RECEIVABLES

Receivables at June 30, 2013, were as follows:

	<u>Gross Receivables</u>	<u>Less Allowance for Doubtful Accounts</u>	<u>Net Receivables</u>
<b>Current Receivables:</b>			
Students	\$ 3,525,726.87	\$ 1,458,931.23	\$ 2,066,795.64
Student Sponsors	7,334.38		7,334.38
Accounts	3,457,029.62	186,765.17	3,270,264.45
Intergovernmental	2,911,275.22		2,911,275.22
Interest on Loans	164,485.04		164,485.04
Other	4,512.55		4,512.55
<b>Total Current Receivables</b>	<u>\$ 10,070,363.68</u>	<u>\$ 1,645,696.40</u>	<u>\$ 8,424,667.28</u>
<b>Notes Receivable:</b>			
<b>Notes Receivable - Current:</b>			
Federal Loan Programs	\$ 544,725.22	\$ 0.00	\$ 544,725.22
Institutional Student Loan Programs	3,122.00	1,356.00	1,766.00
<b>Total Notes Receivable - Current</b>	<u>\$ 547,847.22</u>	<u>\$ 1,356.00</u>	<u>\$ 546,491.22</u>
<b>Notes Receivable - Noncurrent:</b>			
Federal Loan Programs	<u>\$ 3,857,150.27</u>	<u>\$ 571,978.93</u>	<u>\$ 3,285,171.34</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, 2013, is presented as follows:

	Balance July 1, 2012	Increases	Decreases	Balance June 30, 2013
Capital Assets, Nondepreciable:				
Land	\$ 33,552,033.13	\$ 0.00	\$ 0.00	\$ 33,552,033.13
Art, Literature, and Artifacts	2,793,965.89	170,000.00	9,450.00	2,954,515.89
Construction in Progress	63,128,747.07	20,790,777.21	73,986,176.79	9,933,347.49
<b>Total Capital Assets, Nondepreciable</b>	<b>99,474,746.09</b>	<b>20,960,777.21</b>	<b>73,995,626.79</b>	<b>46,439,896.51</b>
Capital Assets, Depreciable:				
Buildings	553,728,170.38	76,674,629.54	91,438.20	630,311,361.72
Art, Literature, and Artifacts	47,699,142.34	1,636,613.74	1,756,397.05	47,579,359.03
General Infrastructure	63,148,985.42	2,631,498.56	112,224.06	65,668,259.92
Computer Software	301,242.00			301,242.00
<b>Total Capital Assets, Depreciable</b>	<b>664,877,540.14</b>	<b>80,942,741.84</b>	<b>1,960,059.31</b>	<b>743,860,222.67</b>
Less Accumulated Depreciation/Amortization for:				
Buildings	153,940,830.12	12,780,098.84	89,533.24	166,631,395.72
Machinery and Equipment	25,010,315.43	2,670,657.64	1,362,238.93	26,318,734.14
General Infrastructure	18,037,097.82	2,474,053.55	97,591.67	20,413,559.70
Computer Software	82,841.55	15,062.10		97,903.65
<b>Total Accumulated Depreciation/Amortization</b>	<b>197,071,084.92</b>	<b>17,939,872.13</b>	<b>1,549,363.84</b>	<b>213,461,593.21</b>
<b>Total Capital Assets, Depreciable, Net</b>	<b>467,806,455.22</b>	<b>63,002,869.71</b>	<b>410,695.47</b>	<b>530,398,629.46</b>
<b>Capital Assets, Net</b>	<b>\$ 567,281,201.31</b>	<b>\$ 83,963,646.92</b>	<b>\$ 74,406,322.26</b>	<b>\$ 576,838,525.97</b>

During the year ended June 30, 2013, the University incurred \$11,053,563.00 in interest costs related to the acquisition and construction of capital assets. Of this total, \$10,003,764.62 was charged in interest expense, and \$1,049,798.38 was capitalized.

### NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2013, were as follows:

	Amount
Accounts Payable	\$ 5,837,772.25
Accrued Payroll	2,819,644.24
Contract Retainage	961,839.46
Intergovernmental Payables	15,642.79
<b>Total Accounts Payable and Accrued Liabilities</b>	<b>\$ 9,634,898.74</b>

## 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, 2013, is presented as follows:

	Balance July 1, 2012	Additions	Reductions	Balance June 30, 2013	Current Portion
Revenue Bonds Payable	\$ 243,935,000.00	\$ 0.00	\$ 9,200,000.00	\$ 234,735,000.00	\$ 10,030,000.00
Deduct Unamortized Cost on Refunding	(4,589,686.72)		(351,841.66)	(4,237,845.06)	
<b>Total Revenue Bonds</b>	<b>239,345,313.28</b>		<b>8,848,158.34</b>	<b>230,497,154.94</b>	<b>10,030,000.00</b>
Notes Payable	5,773,921.85	16,499,917.00	679,613.61	21,594,225.24	590,618.19
Capital Leases Payable	6,585,427.85		1,222,804.88	5,362,622.97	1,228,304.13
Compensated Absences	10,441,492.62	7,713,682.63	7,100,705.62	11,054,469.63	1,277,545.83
<b>Total Long-Term Liabilities</b>	<b>\$ 262,146,155.60</b>	<b>\$ 24,213,599.63</b>	<b>\$ 17,851,282.45</b>	<b>\$ 268,508,472.78</b>	<b>\$ 13,126,468.15</b>

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, 2013	Principal Outstanding June 30, 2013	See Table Below
Revenue Bonds Payable							
Utility System							
ASU Utility System Revenue Bonds	2011	3.14%	12/20/2021	\$ 2,700,000.00	\$ 405,000.00	\$ 2,295,000.00	1
The University of North Carolina System Pool Revenue Bonds							
Broyhill Inn	(A)	3.82%	10/01/2015	990,000.00	620,000.00	370,000.00	
Doughton Renovation	(A)	4.27%	10/01/2026	3,755,000.00	205,000.00	3,550,000.00	
Dining Hall	(A)	4.38%	05/01/2031	23,330,000.00	343,000.00	19,900,000.00	
Hoey Hall Renovation	(A)	4.25%	10/01/2026	6,980,000.00	1,475,000.00	5,505,000.00	
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	1,305,000.00	17,925,000.00	
Cannon Hall	(B)	4.69%	10/01/2033	8,520,000.00	815,000.00	7,705,000.00	
Parking - Stadium	(B)	4.69%	10/01/2033	3,350,000.00	320,000.00	3,030,000.00	
New Field House Complex	(B)	4.69%	10/01/2033	20,600,000.00	1,950,000.00	18,650,000.00	
Stadium East Stands	(C)	4.65%	10/01/2034	8,370,000.00	600,000.00	7,770,000.00	
Frank Hall	(C)	4.65%	10/01/2034	7,060,000.00	505,000.00	6,555,000.00	
Cone Hall	(D)	4.35%	10/01/2035	8,880,000.00	415,000.00	8,465,000.00	
University Bookstore	(D)	3.76%	10/01/2027	5,000,000.00	600,000.00	4,400,000.00	
Stadium East Stands and Field House Complex	(D)	4.35%	10/01/2035	7,875,000.00	370,000.00	7,505,000.00	
<b>Total The University of North Carolina System Pool Revenue Bonds</b>				<b>131,620,000.00</b>	<b>12,610,000.00</b>	<b>119,010,000.00</b>	
ASU General Revenue Bonds							
ASU General Revenue Bonds - Housing, Athletics, Parking	2005	4.54%	07/15/2030	50,915,000.00	23,430,000.00	27,485,000.00	
ASU General Revenue Bonds - Housing, Stud. Un, Steam Tunnels	2011	4.07%	10/01/2036	60,435,000.00	860,000.00	59,575,000.00	
ASU General Revenue Bonds - Housing, Athletics, Stud Rec Ctr	2012	2.84%	05/01/2028	26,495,000.00	125,000.00	26,370,000.00	
<b>Total General Revenue Bonds</b>				<b>137,845,000.00</b>	<b>24,415,000.00</b>	<b>113,430,000.00</b>	
<b>Total Revenue Bonds Payable (principal only)</b>				<b>\$ 272,165,000.00</b>	<b>\$ 37,430,000.00</b>	<b>\$ 234,735,000.00</b>	
Less: Unamortized Cost on Refunding						4,237,845.06	
<b>Total Revenue Bonds Payable</b>						<b>\$ 230,497,154.94</b>	

(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 2010B-1

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The University has pledged future revenues, net of specific operating expenses, to repay a revenue bond and a note payable 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)	Electric Utility	\$ 3,000,195.82	\$ 2,322,569.20	\$ 310,000.00	\$ 97,554.88	14%

**C. Annual Requirements** - The annual requirements to pay principal and interest on the long-term obligations at June 30, 2013, are as follows:

Fiscal Year	Annual Requirements			
	Revenue Bonds Payable		Notes Payable	
	Principal	Interest	Principal	Interest
2014	\$ 10,030,000.00	\$ 10,387,599.54	\$ 590,618.19	\$ 117,466.33
2015	10,350,000.00	10,052,798.54	1,303,496.44	789,043.71
2016	10,815,000.00	9,622,547.54	1,703,361.92	400,604.41
2017	9,805,000.00	9,149,621.54	1,703,032.88	362,518.33
2018	10,255,000.00	8,682,273.66	1,703,915.52	326,835.75
2019-2023	58,320,000.00	35,916,194.67	8,626,439.06	1,086,981.12
2024-2028	58,730,000.00	21,873,156.40	5,963,361.23	301,975.63
2029-2033	44,330,000.00	10,070,975.07		
2034-2037	22,100,000.00	1,749,306.25		
<b>Total Requirements</b>	<b>\$ 234,735,000.00</b>	<b>\$ 117,504,473.21</b>	<b>\$ 21,594,225.24</b>	<b>\$ 3,385,425.28</b>

**D. 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, 2013, the outstanding balance of prior year defeased bonds was \$11,835,000.00.

**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, 2013	Principal Outstanding June 30, 2013	See Table Above
Electric Utility	BB & T	4.56%	10/12/2016	\$ 1,000,000.00	\$ 650,000.00	\$ 350,000.00	1
Energy Savings Project	Sun Trust Bank	2.27%	04/29/2022	5,263,400.69	519,092.45	4,744,308.24	
Energy Savings Project	T D Bank	1.99%	07/01/2027	16,499,917.00		16,499,917.00	
<b>Total Notes Payable</b>				<b>\$ 22,763,317.69</b>	<b>\$ 1,169,092.45</b>	<b>\$ 21,594,225.24</b>	

## 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, due January 5, 2015. 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 amount 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, 2013 was \$25,000. The line of credit is collateralized by outstanding pledge commitments and the amount borrowed may not exceed 85% of the total unpaid pledges. The interest rate is equal to the 30-day LIBOR plus .63% (.82% at June 30, 2013).

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 note was payable in annual payments including principal and interest at an interest rate of 5.83%. The final loan payment was made to PNC Bank on July 3, 2012.

The foundation entered into a future advance loan agreement with First Citizens Bank on March 5, 2012 to finance the renovation of The Schaefer Center for the Performing Arts. The Foundation assigned donor pledges made for the purposes of the renovation to First Citizens Bank as collateral for the loan. The outstanding balance as of June 30, 2013 was \$4,132,650. The note is payable in annual installments of \$487,585 including principal and interest due January 15 of each year with all remaining principal and interest due January 15, 2027. The loan carries an interest rate of 4.10%.

Aggregate maturities required on notes payable as of June 30, 2013 are due in future years as follows:

Years	Amount
2014	\$ 395,032
2015	356,430
2016	345,277
2017	359,702
2018	374,730
Thereafter	2,326,479
	\$ 4,157,650

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### B. Appalachian Student Housing Corporation

Long term debt at June 30, 2013 consists of the following:

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	\$ 8,419,132
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	4,800,000
Total Long-Term Debt	13,219,132
Less Current Portions	<u>2,814,204</u>
Long-Term Debt, Less Current Portions	<u>\$ 10,404,928</u>

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

2014	\$ 2,814,204
2015	2,848,248
2016	2,882,760
2017	2,918,484
2018	<u>1,755,436</u>
	<u>\$ 13,219,132</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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

State University and a security agreement. Under the terms of the Bond 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, 2013:

Total Minimum Lease Payments to be Received	\$ 4,859,233
Less: Estimated Executory Costs Included in Minimum Lease Payments	
Minimum Lease Payments Receivable	4,859,233
Less: Allowance for Uncollectibles	
Net Minimum Lease Payments Receivable	4,859,233
Estimated Residual Value of the Property (Unguaranteed)	
Net Investment in Direct Financing Lease	<u>\$ 4,859,233</u>

Minimum lease payments do not include contingent rentals (differences in monthly interest payments due to change in variable rate) that may be received under the lease. Contingent rentals amounted to \$1,594 in 2013. At June 30, 2013 minimum lease payments for each of the five

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

succeeding years are as follows: \$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, 2013:

<u>Fiscal Year</u>	<u>Amount</u>
2014	\$ 1,286,924.00
2015	1,278,847.00
2016	1,730,770.00
2017	<u>1,202,692.00</u>
Total Minimum Lease Payments	5,499,233.00
Amount Representing Interest (1.04 - 3.00% Rate of Interest)	<u>136,610.03</u>
<b>Present Value of Future Lease Payments</b>	<b><u>\$ 5,362,622.97</u></b>

Buildings and land acquired under capital lease amounted to \$17,103,739.16 at June 30, 2013. Depreciation for the capital assets associated with capital leases is included in depreciation expense, and accumulated depreciation for assets acquired under capital lease totaled \$862,568.20 at June 30, 2013.

**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, 2013:

<u>Fiscal Year</u>	<u>Amount</u>
2014	\$ 568,993.46
2015	427,131.34
2016	388,962.38
2017	313,068.90
2018	312,283.08
2019-2023	1,561,415.40
2024-2028	1,561,415.40
2029-2033	<u>78,070.77</u>
<b>Total Minimum Lease Payments</b>	<b><u>\$ 5,211,340.73</u></b>

Rental expense for all operating leases during the year was \$1,867,954.65.

## 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
<b>Operating Revenues:</b>					
<b>Student Tuition and Fees</b>	\$ 120,880,863.60	\$ 0.00	\$ 20,074,560.30	\$ 272,571.75	\$ 100,533,731.55
<b>Sales and Services:</b>					
Sales and Services of Auxiliary Enterprises:					
Residential Life	\$ 25,468,553.75	\$ 734,425.24	\$ 4,114,146.29	\$ 31,682.16	\$ 20,588,300.06
Dining	18,935,221.97	1,202,541.46	2,265,165.06	3,622.69	15,463,892.76
Student Union Services	305,313.21	52,011.20		8,333.10	244,968.91
Health, Physical Education, and Recreation Services	1,057,650.65	80,738.09		20,180.67	956,731.89
Bookstore	10,721,790.75	983,086.70	645,791.23	7,262.98	9,085,649.84
Parking	3,434,141.53	59,715.38		1,973.90	3,372,452.25
Camp Programs	3,538,629.41	467,230.59			3,071,398.82
Steam Utility System	7,573,100.57	7,573,100.57			0.00
Athletic	6,047,547.18	55,048.30		18,138.38	5,974,360.50
Other	5,534,193.21	1,828,193.89	497,988.24		3,208,011.08
Sales and Services of Education and Related Activities	4,355,380.76	1,134,602.22	445,348.55	1,894.59	2,773,535.40
New River Light and Power	20,218,986.05	5,388,471.54		41,073.66	14,789,440.85
<b>Total Sales and Services</b>	<b>\$ 107,190,509.04</b>	<b>\$ 19,559,165.18</b>	<b>\$ 7,968,439.37</b>	<b>\$ 134,162.13</b>	<b>\$ 79,528,742.36</b>

### 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	\$ 108,386,549.79	\$ 3,033,867.96	\$ 4,345,264.12	\$ 538,634.36	\$ 0.00	\$ 0.00	\$ 116,304,316.23
Research	1,446,943.11	394,212.15	979,338.33	1,561.30	130.50		2,822,185.39
Public Service	3,386,577.66	307,763.17	1,197,279.78	426,268.30	2,760.21		5,320,649.12
Academic Support	26,456,083.12	5,711,399.26	4,056,510.89	91,281.40	5,929.93		36,321,204.60
Student Services	7,059,452.24	211,146.56	747,973.97				8,018,572.77
Institutional Support	16,666,323.33	1,904,281.83	2,986,770.46		14,236.95		21,571,612.57
Operations and Maintenance of Plant	12,833,432.18	1,339,601.12	2,786,290.46		7,928,061.55		24,887,385.31
Student Financial Aid	86,961.92	3,121.88	79,844.02	19,683,776.82			19,853,704.64
Auxiliary Enterprises	37,572,602.56	19,435,178.23	14,091,548.09	2,309,681.83	6,547,424.09		79,956,434.80
New River Light and Power	1,305,054.02	9,475,701.37	1,293,441.96				12,074,197.35
Depreciation						17,939,872.13	17,939,872.13
<b>Total Operating Expenses</b>	<b>\$ 215,199,979.93</b>	<b>\$ 41,816,273.53</b>	<b>\$ 32,564,262.08</b>	<b>\$ 23,051,204.01</b>	<b>\$ 14,498,543.23</b>	<b>\$ 17,939,872.13</b>	<b>\$ 345,070,134.91</b>

### 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'

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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Retirement System or the Optional Retirement Program. Eligible employees can elect to participate in the Optional Retirement Program at the time of employment; otherwise they are automatically enrolled in the Teachers' and State Employees' Retirement System.

The Teachers' and State Employees' Retirement System (TSERS) 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. TSERS is administered by a 14-member Board of Trustees, with the State Treasurer serving as Chairman of the Board.

Benefit and contribution provisions for the TSERS 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, 2013, these rates were set at 8.33% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the University had a total payroll of \$172,561,891.83, of which \$79,073,247.29 was covered under the TSERS. Total employer and employee contributions for pension benefits for the year were \$6,586,801.50 and \$4,744,394.84, respectively.

Required employer contribution rates for the years ended June 30, 2012, and 2011, were 7.44% and 4.93%, respectively, while employee contributions were 6% each year. The University made 100% of its annual required contributions for the years ended June 30, 2013, 2012, and 2011, which were \$6,586,801.50, \$5,756,471.63, and \$3,982,951.86, 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 TSERS. 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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, 2013, 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 \$172,561,891.83, of which \$70,645,954.57 was covered under the Optional Retirement Program. Total employer and employee contributions for pension benefits for the year were \$4,832,183.29 and \$4,238,757.27, 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 \$295,242.47 for the year ended June 30, 2013.

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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, 2013, were \$62,703.51. The voluntary contributions by employees amounted to \$841,497.79 for the year ended June 30, 2013.

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 \$1,782,441.11 for the year ended June 30, 2013.

### **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 Chapter 135, Article 3B, 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.

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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Fund, which are intended to finance benefits and administrative expenses on a pay-as-you-go basis, are established by the General Assembly.

For the current fiscal year the University contributed 5.30% 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, 2012, and 2011, were 5.0% and 4.9%, respectively. The University made 100% of its annual required contributions to the Plan for the years ended June 30, 2013, 2012, and 2011, which were \$7,935,117.70, \$7,280,233.69, and \$7,307,380.96, 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, 2013, the University made a statutory contribution of .44% of covered payroll under the Teachers' and State Employees' Retirement System and the Optional Retirement Program to the DIPNC. Required contribution rates for the years ended June 30, 2012, and 2011, was .52% for both years. The University made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2013, 2012, and 2011, which were \$658,764.49, \$757,144.29, and \$775,477.17, 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*.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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### 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 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

## NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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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 purchases. Outstanding commitments on construction contracts were \$20,834,189.02 and on other purchases were \$3,728,846.52 at June 30, 2013.

**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

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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**

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Board of Trustees  
Appalachian State University  
Boone, North Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of 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, 2013, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated November 12, 2013. Our report includes a reference to other auditors who audited the financial statements of the Appalachian State University Foundation, Inc. and the Appalachian Student Housing Corporation, as described in our report on the University's financial statements. 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*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with the Appalachian State University Foundation, Inc. and the Appalachian Student Housing Corporation.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the University's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we do not express an opinion on the effectiveness of the University's internal control.

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,

**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)**

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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. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the University's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Beth A. Wood, CPA  
State Auditor

Raleigh, North Carolina

November 12, 2013

## ORDERING INFORMATION

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Copies of this report may be obtained by contacting the:

Office of the State Auditor  
State of North Carolina  
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20601 Mail Service Center  
Raleigh, North Carolina 27699-0601

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For additional information contact:

Bill Holmes

Director of External Affairs