STATE OF NORTH CAROLINA

APPALACHIAN STATE UNIVERSITY

BOONE, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2014

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR

A Constituent Institution of the University of North Carolina System and a Component Unit of the State of North Carolina

STATE OF NORTH CAROLINA
Office of the State Auditor

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AUDITOR'S TRANSMITTAL

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, 2014, 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.

Beth A. Wood, CPA
State Auditor

TABLE OF CONTENTS

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INDEPENDENT AUDITOR'S REPORT

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, 2014, 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, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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.

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 positions of Appalachian State University and its discretely presented component units, as of June 30, 2014, 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.

Emphasis of Matter

As discussed in Note 15 of the Notes to the Financial Statements, during the year ended June 30, 2014 Appalachian State University adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 65 – *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

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 13, 2014 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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

Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

November 13, 2014

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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 2014. 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, 2014 and 2013, excluding component units.

Statement of Net Position

The Statement of Net Position (condensed, comparative table presented within this discussion and analysis) presents the assets, deferred outflows, liabilities, deferred inflows, 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 consists of income from endowment funds, gifts and pledges with specific restrictions, funds restricted to specific university programs either by legislation or other third party restriction, unexpended debt proceeds, and grants from third party agencies with expenditure restrictions.

Overall, the Statement of Net Position reflects an increase of $3,964,377. This represents a 0.9% increase over the prior year and will be discussed in an analysis of each component of the statement beginning with total assets followed by, deferred outflows, total liabilities and lastly, net position.

Total assets increased $13,344,765 representing a 1.9% increase over fiscal year 2013. Prominent changes in total assets are represented by an increase of $9,165,235 or 10.3% in current assets and a slight increase in noncurrent assets of $4,179,530 or 0.67%.

The increase in current assets is primarily a result of changes in unrestricted cash and equivalents and restricted cash and equivalents. The largest dollar change in current assets is an increase of $4,343,037 or 6.8% overall in unrestricted cash and equivalents. This is the result of more timely availability of restricted funds for restricted projects, eliminating the need to first spend unrestricted funds and await reimbursement. The increase in current restricted cash and equivalents of $4,077,789 representing a 66.9% change is mostly related to reclassification of noncurrent restricted funds to cover current liabilities for associated capital projects and improvements. For fiscal year 2014, $8,003,642 in noncurrent restricted cash has been allocated to cover current liabilities. This is in contrast to the $3,728,696 that was needed to cover current liabilities in 2013.

The increase in noncurrent assets is primarily attributable to the receipt of funds in noncurrent restricted cash and equivalents from the issuance of Series 2014A general revenue bonds totaling $14,865,000. The bond proceeds are related to the renovation of Belk Residence Hall, renovation of Anne Belk Hall, and the redesign of an Athletic field for the Field Hockey program. (Table 1.0) Additionally, allotted cash for capital improvement projects increased $3,099,616 primarily related to the College of Health Sciences building planning for $1,550,802 and $2,982,626 in repair and renovation funds allotted in 2014.

(Table 1.0)

Series 2014 Project Funds	Amount
Belk Residence Hall	$ 9,565,000
Anne Belk Hall	3,800,000
ASU Field Hockey	1,500,000
	$ 14,865,000

Other increases primarily resulted from increases in the fair market value of restricted investments held for Endowed Professorships Income Funds, which increased $2,720,332 and other investments for New River Light and Power and the University Bookstore totaling $823,814. These gains resulted from the strong performance of the UNC Investment Fund, LLC's portfolio. In addition permanent endowment funds increased $507,500 resulting from the establishment of the McFarlane Distinguished Professorship fund.

These increases were offset by a reduction in restricted investments of $5,756,421 which represents the spending down of restricted funds related to the projects funded by the 2013 Energy Savings Project. The funds for the project were invested in a money market mutual fund in fiscal year 2013. These reductions represent disbursements to vendors from the account for the projects covered by the savings project. The majority of the projects are related to the repair and maintenance of existing equipment and facilities.

The overall decrease in capital assets is due to net increases in depreciation of $16,673,308, which exceeded increases in assets net of depreciation totaling $14,130,452.

Increases in depreciable assets for 2014 included the following amounts being moved from construction in progress to capital assets-buildings: $2,304,142 for the College of Education-Annex, $1,194,427 for Summit Hall (Honors), $878,348 for Plemmons Student Union, $461,315 for Justice Residence Hall, and $419,191 for Summit Hall Annex. Additionally, the following amounts were moved from construction in progress to capital assets-infrastructure: $1,416,026 for conversion of a soccer field to field hockey, $1,140,668 for steam projects,

$1,101,493 for a pedestrian bridge, and $1,191,277 for staging lot repairs. These increases along with other smaller building projects are offset by total depreciation of $18,782,623.

The increase in nondepreciable capital assets is primarily due to an increase in construction in progress of $14,915,669, offset by completion of construction in progress of $12,253,024. Current year additions to construction in progress include renovations of Trivette Hall and Belk Residence Hall, renovation of Anne Belk Hall, and additions relating to the aforementioned capitalized building and infrastructure projects.

The Governmental Accounting Standards Board (GASB) issued Statement No. 65 in March 2012. GASB Statement No. 65 is effective for fiscal year 2014 and changes the financial statement classification of certain items that had been reported as assets and liabilities. The effect on the statement of net position in 2014 related to GASB Statement No. 65 is reflected in the $5,301,766 listed as a deferred outflow of resources. This deferred outflow is related to the deferred loss on refunding bonds and advanced refundings that result in defeasance of debt. It represents the difference between the amount required to repay previously issued debt and the net carrying value of the old debt being refunded. Over time the deferred outflow is amortized as a component of interest expense over the shorter of the remaining life of the old debt or the life of the new debt. For the year ending June 30, 2013 this amount totaled $4,237,845 and was reflected in the net amount of non-current long-term liabilities and as a line item in the net amount of revenue bonds payable on Note 7 (Changes in Long-Term Liabilities) of the financial statements.

Total liabilities increased $14,682,154 or 5.0% from the previous year. This increase was due to an increase in current liabilities of $6,558,411 representing a 19.6% change and a 3.0% increase in long-term liabilities totaling $7,619,386.

The increase in current liabilities primarily resulted from an increase in accounts payable and accrued liabilities of $5,495,095. The most significant increase is attributable to accrued payables related to the 2013 Energy Savings project expenses that totaled $3,242,704 (Table 1.1) followed primarily by increases in payables related to the $1,550,392 renovation of Trivette Dining Hall, $788,011 renovations in Anne Belk Hall, and $452,520 for renovations in Belk Residence Hall. These increases are offset by decreases related to the completion of the Student Leadership Annex for $916,579 and the College of Education building totaling $584,743. (Table 1.1) Also notable is a $1,130,000 increase in the current portion of bonds payable primarily related to the additional debt resulting from the issuance of Series 2014A General Revenue bonds.

(Table 1.1)

Significant Changes in Accounts Payable

	2014	2013	Dollar Change
Energy Savings Project	$ 3,242,703.50	$ 0.00	$ 3,242,703.50
Capital Improvement Funds			
Trivette Hall	1,570,559.89	20,167.54	1,550,392.35
Anne Belk Hall	788,011.61		788,011.61
College of Education	450.00	585,192.97	(584,742.97)
Student Leadership Annex	2,035.69	918,614.98	(916,579.29)
Belk Residence Hall	537,082.80	84,562.98	452,519.82
Other Capital Improvements	966,352.55	1,087,455.97	(121,103.42)
Total Capital Improvement Funds	$ 3,864,492.54	$ 2,695,994.44	$ 1,168,498.10

The increase in noncurrent long-term liabilities of $8,123,743 is primarily related to two factors. The first is an increase of $5,642,643 in bonds payable attributable to the issuance of Series 2014A General Revenue Bonds, which is offset by decreases in principal balances for bond payments. A further discussion of the Series 2014 bonds will be included in the Capital Assets and Debt Administration section that follows the condensed Statement of Revenues, Expenses, and Changes in Net Position. The second change that resulted in an increase in long-term liabilities is due to the implementation of GASB 65, which has been discussed previously. In past years, the unamortized loss on refunding would have been a reduction to Revenue Bonds Payable, as noted in the previous discussion.

Overall, Appalachian had an increase of $3,964,377 in total net position. The change was primarily due to the increases in restricted expendable endowed professorships of $2,633,229, an increase in net investment in capital assets of $844,083, and an increase in restricted nonexpendable endowed professorship of $511,637. These increases are offset by a decrease in unrestricted net position of $225,272. The reasons for these changes are the result of the overall effect of changes in assets and liabilities discussed above.

Condensed Statement of Net Position

	Fiscal Year 2014	Fiscal Year 2013	$ Change	% Change
Assets				
Current Assets	$ 97,901,651.43	$ 88,736,416.19	$ 9,165,235.24	10.3
Noncurrent Assets:				
Restricted Cash and Cash Equivalents	11,912,462.77	3,384,429.34	8,528,033.43	252.0
Capital Assets - Nondepreciable	49,137,074.87	46,439,896.51	2,697,178.36	5.8
Capital Assets - Depreciable	525,158,594.96	530,398,629.46	(5,240,034.50)	(1.0)
Other	41,730,034.23	43,535,681.36	(1,805,647.13)	(4.1)
Total Assets	725,839,818.26	712,495,052.86	13,344,765.40	1.9
Deferred Outflows				
Deferred Loss on Refunding	5,301,765.67	0.00	5,301,765.67	100.0
Liabilities				
Current Liabilities	39,940,755.36	33,382,344.53	6,558,410.83	19.6
Funds Held Others	606,086.17	167,211.22	438,874.95	262.5
Long-Term Liabilities, Net	263,001,390.77	255,382,004.63	7,619,386.14	3.0
Other Noncurrent Liabilities	4,058,198.17	3,992,716.39	65,481.78	1.6
Total Liabilities	307,606,430.47	292,924,276.77	14,682,153.70	5.0
Deferred Inflows	0.00	0.00	0.00	0.0
Net Investment in Capital Assets	340,484,043.66	339,639,961.08	844,082.58	0.2
Restricted				
Nonexpendable	14,425,403.94	13,916,752.95	508,650.99	3.7
Expendable	8,189,244.27	5,352,328.29	2,836,915.98	53.0
Unrestricted	60,436,461.59	60,661,733.77	(225,272.18)	(0.4)
Total Net Position	$ 423,535,153.46	$ 419,570,776.09	$ 3,964,377.37	0.9

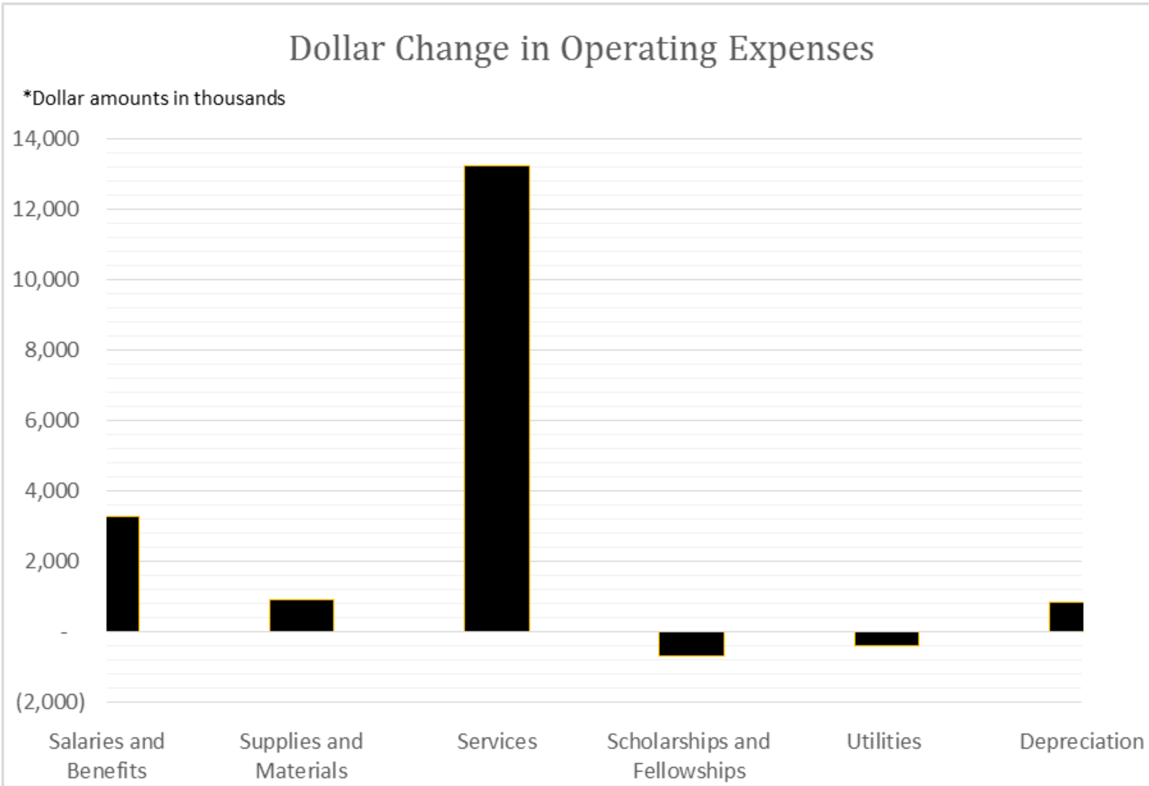
Statement of Revenues, Expenses, and Changes in Net Position

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.

Total operating revenues increased from $183,555,346 in 2013 to $190,970,795 in 2014 representing a 4.0% overall increase of $7,415,449. This is primarily due to a 7.6% increase in tuition and fee revenue for a total increase of $7,620,924. The increase in tuition and fees can be mostly attributed to an overall increase in tuition and fees per student for in-state undergraduates of $403, in-state graduates of $436, out-of-state undergraduates for $563, and out-of-state graduates for $569.

Operating expenses increased by $17,175,947 in fiscal year 2014 representing an overall increase of 5.0%. The increase resulted primarily from increases in Services. (Figure 2.0)

(Figure 2.0)



Services increased by 40.7% from $32,564,262 in 2013 to $45,804,069. This increase is primarily related to increases in contracted services related to $1,301,807 planning and eventual the demolition of Winkler Residence Hall. The University evaluated the cost effectiveness of a significant renovation of Winkler Hall based on the age of the building. When bids for construction came in significantly over projections and budget, the University determined that the best option was to demolish the building and preserve the former space for a future project. The other major increases in contracted services were related to expenses for the 2013 Energy Savings project totaling $602,924. Other services, primarily related to building repairs, increased by $7,685,257. This increase is primarily related to noncapitalizable expenses for the 2013 Energy savings project for $6,217,419, followed by fire alarm and sprinkler systems in residence halls and the student union that totaled $912,610, and lastly expenses related to other approved projects and other building repairs amounting to $555,227.

In 2014, nonoperating revenues fell by 1.4% representing a $2,463,789 decrease. During the year, the University experienced a decrease in state appropriations totaling $1,045,249, 0.8%. Also notable is a $726,235 increase in losses on the disposal or sale of capital assets mostly related to the demolition of Winkler Residence Hall and $492,319 in bond issuance costs related to the Series 2014A and B General Revenue Bonds. These decreases were offset by an increase in investment earnings net of expenses, which totaled $1,129,388 related to the performance of funds invested with UNC Management and a decrease in nonoperating expenses for interest and fees related to debt of $898,063.

Other revenues consist of capital appropriations, capital gifts, and additions to endowments. In 2014, other revenues decreased by 32% a total of $3,488,789. This decrease was primarily due to the reduction of capital gifts totaling $5,067,332 for the renovation of the Schaeffer Center for the Performing Arts that were gifted to the University in fiscal year 2013.

The decrease in other revenues was offset by a $1,561,500 increase in capital appropriations. This increase is primarily due to funds provided for the planning of a new College of Health Sciences building.

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

	Fiscal Year 2014	Fiscal Year 2013	$ Change	% Change
Operating Revenues				
Tuition and Fees, Net	$ 108,154,655.50	$ 100,533,731.55	$ 7,620,923.95	7.6
State and Local Grants and Contracts	594,800.00	836,100.00	(241,300.00)	(28.9)
Nongovernmental Grants and Contracts	1,062,144.31	1,271,314.06	(209,169.75)	(16.5)
Sales and Services, Net	79,702,068.75	79,528,742.36	173,326.39	0.2
Interest Earnings on Loans	28,177.03	22,684.84	5,492.19	24.2
Other Operating Revenues	1,428,949.38	1,362,773.29	66,176.09	4.9
Total Operating Revenues	190,970,794.97	183,555,346.10	7,415,448.87	4.0
Salaries and Benefits	218,478,767.29	215,199,979.93	3,278,787.36	1.5
Supplies and Materials	42,721,585.46	41,816,273.53	905,311.93	2.2
Services	45,804,068.70	32,564,262.08	13,239,806.62	40.7
Scholarships and Fellowships	22,376,540.14	23,051,204.01	(674,663.87)	(2.9)
Utilities	14,082,496.16	14,498,543.23	(416,047.07)	(2.9)
Depreciation / Amortization	18,782,623.73	17,939,872.13	842,751.60	4.7
Total Operating Expenses	362,246,081.48	345,070,134.91	17,175,946.57	5.0
Operating Loss	(171,275,286.51)	(161,514,788.81)	(9,760,497.70)	(6.0)
Nonoperating Revenues				
State Appropriations	127,551,885.09	128,597,133.77	(1,045,248.68)	(0.8)
Other Nonoperating Revenues	52,565,950.68	51,828,067.12	737,883.56	1.4
Other Nonoperating Expenses	(12,295,084.68)	(10,138,660.86)	(2,156,423.82)	
Net Nonoperating Revenues	167,822,751.09	170,286,540.03	(2,463,788.94)	(1.4)
Income Before Other Revenues	(3,452,535.42)	8,771,751.22	(12,224,286.64)	(139.4)
Capital Appropriations	6,048,735.53	4,487,235.72	1,561,499.81	34.8
Capital Gifts	837,495.20	5,904,827.33	(5,067,332.13)	(85.8)
Additions to Endowments	530,682.06	513,638.74	17,043.32	3.3
Total Other Revenues	7,416,912.79	10,905,701.79	(3,488,789.00)	(32.0)
Total Increase in Net Assets	3,964,377.37	19,677,453.01	(15,713,075.64)	(79.9)
Net Position				
Net Position at Beginning of Year	419,570,776.09	399,893,323.08	19,677,453.01	4.9
Net Position at End of Year	$ 423,535,153.46	$ 419,570,776.09	$ 3,964,377.37	0.9

Reconciliation of Change in Net Position

	Fiscal Year 2014	Fiscal Year 2013	$ Change	% Change
Total Revenues	$ 378,505,543.53	$ 374,886,248.78	$ 3,619,294.75	1.0
Less: Total Expenses	374,541,166.16	355,208,795.77	19,332,370.39	5.4
Increase in Net Position	$ 3,964,377.37	$ 19,677,453.01	$ (15,713,075.64)	(79.9)

Capital Asset and Debt Administration

Capitalized assets placed into service from construction in process primarily consisted of $878,348 for Plemmons Student Union, $461,315 for Justice Residence Hall, $419,191 for Summit Hall Annex, $1,416,026 for conversion of a soccer field to field hockey, $1,140,668 for steam projects, $1,099,428 for a pedestrian bridge, and $1,191,277 for staging lot repairs.

All capital projects will be evaluated to determine whether they meet capitalization criteria or are more appropriately expensed. Major projects currently in the planning phase or to be completed in the near future include:

- The renovation and expansion of Trivette Dining Hall project is underway and is expected to be completed by the summer of 2015. 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 and is estimated to cost $6,000,000 funded by dining receipts.
- The $9,765,000 renovation of Belk residence hall project is currently in the construction phase for both sprinkler system installation and renovation. This project has a projected completion date of August 2015.
- Construction for the renovation of Anne Belk Hall has begun. The renovation will primarily involve the upper most floor of the building and will include work on fire protection and fire alarms for the entire building. Total costs on the upper level are anticipated to be $6,338,000. The remaining renovations are expected to cost $2,982,000.
- Last year ASU entered into an Energy Services Agreement (ESA) with Pepco Energy Services. 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 costs are expected to be up to $16,500,000.

In 2013-2014, $2,000,000 was allocated by the state for the planning and design of a new 200,000 square foot College of Health Sciences facility. An additional $3,000,000 was approved for the 2014-2015 fiscal year. The project is now in the design stage and will house the University's allied health programs.

On May 6, 2014, the University issued $22,540,000 in General Revenue and Revenue Refunding Bonds, Series 2014A with an average interest rate of 3.25%. $14,865,000 of the bonds issued were for capital projects consisting of a renovation to Belk Residence Hall, Anne Belk Hall, and the conversion of a soccer field to a field hockey playing surface.

Additional bonds in Series 2014A were issued to advance refund $7,490,000 of outstanding General Revenue and Refunding Revenue Bonds, Series 2005 with an average interest rate of 4.88%. The refunded bonds are considered to be defeased and the liability has been removed from the statement of net position. This advance refunding was undertaken to reduce total debt service payments by $1,082,815 over the next 17 years and resulted in an economic gain of $838,443. At June 30, 2014, the outstanding balance was $7,490,000 for the defeased General Revenue and Refunding Revenue Bonds, Series 2005.

Also on May 6, 2014, the University issued $12,965,000 in Taxable General Revenue Refunding Bonds, Series 2014B with an average interest rate of 3.43%. The bonds were issued to advance refund $12,460,000 of outstanding General Revenue and Refunding Revenue Bonds, Series 2005 with an average interest rate of 4.95%. Like Series 2014A, the refunded bonds are considered to be defeased and the liability has been removed from the statement of net position. This advance refunding was undertaken to reduce total debt service payments by $1,093,672 over the next 12 years and resulted in an economic gain of $911,432.

At June 30, 2014, the outstanding balance was $12,460,000 for the defeased General Revenue and Refunding Revenue Bonds, Series 2005.

Total debt service payments were $42,835,647 in 2014 compared to $21,241,079 in 2013. The difference is primarily related to the refunding of Series 2005 bonds in FY2014 for $19,950,000. For fiscal year 2014, debt service payments included bonds and notes payable for $41,548,723 and $1,286,924 for capital leases.

Economic Outlook

For the fiscal year ended June 30, 2014 the University experienced a 0.8% decrease in state appropriations. This decrease was managed through the elimination of vacant teaching, administrative, and staff positions and was offset partially by funds budgeted for enrollment growth that resulted in the addition of teaching positions to meet program needs.

Looking forward to 2014-2015, the University expects the cumulative effect of adjustments to the budget to result in a $2,100,000 decrease. This decrease is representative of reductions in appropriations for distance education, management flexibility, instructional efficiencies reduction, administrative efficiencies, and an increase in EPA salary reserves. The decreases in appropriations are offset by an anticipated increase for enrollment.

A major factor that lessens the impact of anticipated reductions is that enrollment continues an upward trend. Enrollment numbers for the 2014-2015 academic year are expected to remain strong. A high student retention rate and an increase in transfer students is expected maintain these rates. 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. The university received more than 15,000 complete and partial applications for the 2014 freshman class representing the highest number of applications in the university's history.

Appalachian's goal has been to protect the quality academic experience for our students while maintaining value. In 2014, Appalachian was included in the Princeton Review's 150 best buy schools list, was ranked 11th out of 386 schools in Washington Monthly Magazines "Best Bang for the Buck" list, and was included in Forbes Magazines "The Best Colleges for Your Money" list. Additionally, U.S. News and World Report ranked Appalachian 3rd among top regional public universities in the South.

Appalachian's largest fundraising campaign in history continues to meet goals. The total goal of the campaign is $200,000,000 and will continue through December 2014. By June of 2014, the University had raised $184,000,000 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, 2014

ASSETS	
Current Assets:	
Cash and Cash Equivalents	$ 68,112,995.58
Restricted Cash and Cash Equivalents	10,177,047.25
Receivables, Net (Note 4)	9,076,588.76
Inventories	9,960,713.87
Notes Receivable, Net (Note 4)	574,305.97
Total Current Assets	97,901,651.43
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	11,912,462.77
Endowment Investments	13,995,929.46
Restricted Investments	18,313,612.32
Other Investments	6,254,660.45
Notes Receivable, Net (Note 4)	3,165,832.00
Capital Assets - Nondepreciable (Note 5)	49,137,074.87
Capital Assets - Depreciable, Net (Note 5)	525,158,594.96
Total Noncurrent Assets	627,938,166.83
Total Assets	725,839,818.26
DEFERRED OUTFLOWS OF RESOURCES	
Deferred Loss on Refunding	5,301,765.67
LIABILITIES	
Current Liabilities:	
Accounts Payable and Accrued Liabilities (Note 6)	15,129,994.14
Due to Primary Government	72,227.98
Unearned Revenue	6,929,342.16
Interest Payable	2,781,121.72
Long-Term Liabilities - Current Portion (Note 7)	15,028,069.36
Total Current Liabilities	39,940,755.36
Noncurrent Liabilities:	
Deposits Payable	211,078.11
Funds Held for Others	606,086.17
U. S. Government Grants Refundable	3,847,120.06
Long-Term Liabilities, Net (Note 7)	263,001,390.77
Total Noncurrent Liabilities	267,665,675.11
Total Liabilities	307,606,430.47
DEFERRED INFLOWS OF RESOURCES	
Total Deferred Inflows of Resources	0.00

NET POSITION

Net Investment in Capital Assets		340,484,043.66
Restricted for:		
Nonexpendable:		
Research		20,000.00
Endowed Professorships		13,979,930.33
Loans		425,473.61
Expendable:		
Scholarships and Fellowships		427,040.89
Research		32,413.42
Endowed Professorships		7,529,268.23
Departmental Uses		52,113.95
Restricted for Specific Programs		148,407.78
Unrestricted		60,436,461.59
Total Net Position	$	423,535,153.46

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, 2014 — *Exhibit A-2*

REVENUES	
Operating Revenues:	
Student Tuition and Fees, Net (Note 9)	$ 108,154,655.50
State and Local Grants and Contracts	594,800.00
Nongovernmental Grants and Contracts	1,062,144.31
Sales and Services, Net (Note 9)	79,702,068.75
Interest Earnings on Loans	28,177.03
Other Operating Revenues	1,428,949.38
Total Operating Revenues	190,970,794.97
EXPENSES	
Operating Expenses:	
Salaries and Benefits	218,478,767.29
Supplies and Materials	42,721,585.46
Services	45,804,068.70
Scholarships and Fellowships	22,376,540.14
Utilities	14,082,496.16
Depreciation/ Amortization	18,782,623.73
Total Operating Expenses	362,246,081.48
Operating Loss	(171,275,286.51)
NONOPERATING REVENUES (EXPENSES)	
State Appropriations	127,551,885.09
Noncapital Grants - Student Financial Aid	30,511,206.87
Noncapital Grants	8,039,405.23
Noncapital Gifts	9,985,721.67
Investment Income (Net of Investment Expense of $110,991.82)	4,029,616.91
Interest and Fees on Debt	(11,036,724.35)
Other Nonoperating Expenses	(1,258,360.33)
Net Nonoperating Revenues	167,822,751.09
Loss Before Other Revenues	(3,452,535.42)
Capital Appropriations	6,048,735.53
Capital Gifts	837,495.20
Additions to Endowments	530,682.06
Increase in Net Position	3,964,377.37
NET POSITION	
Net Position - July 1, 2013	419,570,776.09
Net Position - June 30, 2014	$ 423,535,153.46

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

CASH FLOWS FROM OPERATING ACTIVITIES	
Received from Customers	$ 189,316,862.27
Payments to Employees and Fringe Benefits	(217,775,711.01)
Payments to Vendors and Suppliers	(95,598,971.16)
Payments for Scholarships and Fellowships	(22,376,540.14)
Loans Issued	(719,119.11)
Collection of Loans	676,752.22
Interest Earned on Loans	2,200.33
Student Deposits Received	3,789,252.71
Student Deposits Returned	(3,759,038.91)
Other Receipts	1,562,840.86
Net Cash Used by Operating Activities	(144,881,471.94)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Appropriations	127,551,885.09
Noncapital Grants - Student Financial Aid	30,511,206.87
Noncapital Grants	8,420,590.52
Noncapital Gifts	8,732,566.02
Additions to Endowments	530,682.06
William D. Ford Direct Lending Receipts	83,750,865.00
William D. Ford Direct Lending Disbursements	(84,849,580.00)
Related Activity Agency Receipts	9,807.56
Other Payments	(60,688.46)
Net Cash Provided by Noncapital Financing Activities	174,597,334.66
CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES	
Proceeds from Capital Debt	14,889,432.14
Capital Appropriations	6,048,735.53
Capital Gifts	4,220.04
Proceeds from Sale of Capital Assets	12,390.42
Acquisition and Construction of Capital Assets	(12,211,287.45)
Principal Paid on Capital Debt and Leases	(11,358,304.13)
Interest and Fees Paid on Capital Debt and Leases	(10,774,074.78)
Net Cash Used by Capital Financing and Related Financing Activities	(13,388,888.23)
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from Sales and Maturities of Investments	809,726.12
Investment Income	381,230.89
Purchase of Investments and Related Fees	(569,071.57)
Net Cash Provided by Investing Activities	621,885.44
Net Increase in Cash and Cash Equivalents	16,948,859.93
Cash and Cash Equivalents - July 1, 2013	73,253,645.67
Cash and Cash Equivalents - June 30, 2014	$ 90,202,505.60

RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES

Operating Loss	$	(171,275,286.51)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation/ Amortization Expense		18,782,623.73
Allowances, Write-Offs, and Amortizations		(221,841.57)
Nonoperating Other Income		6,598,146.77
Changes in Assets and Liabilities:		
Receivables, Net		416,828.73
Due from State of North Carolina Component Units		65,000.00
Inventories		(129,672.51)
Notes Receivable, Net		(42,366.89)
Accounts Payable and Accrued Liabilities		1,418,161.53
Due to Primary Government		(64,304.84)
Unearned Revenue		(760,553.10)
Compensated Absences		329,421.31
Deposits Payable		2,371.41
Net Cash Used by Operating Activities	$	(144,881,471.94)

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:		
Cash and Cash Equivalents	$	68,112,995.58
Restricted Cash and Cash Equivalents		10,177,047.25
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		11,912,462.77
Total Cash and Cash Equivalents - June 30, 2014	$	90,202,505.60

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through the Assumption of a Liability	$	7,827,385.47
Assets Acquired through a Gift		833,275.16
Change in Fair Value of Investments		3,727,769.43
Reinvested Distributions		63,689.20
Loss on Disposal of Capital Assets		1,102,434.12
Bond Issuance Cost Withheld		317,768.74
Funds Escrowed to Defease Debt		21,383,037.49
Amortization of Bond Premiums		12,142.35
Increase in Receivables Related to Nonoperating Income		713,017.16
Payments Made On Behalf of the University		5,101,019.73

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

Appalachian State University Foundation, Inc.
Statement of Financial Position
June 30, 2014 — *Exhibit B-1*

ASSETS		
Cash	$	1,968,907
Contributions Receivable, Net		19,385,454
Other Receivables		47,714
Prepaid Expenses		12,703
Investments		89,465,362
Real Estate Held for Investment		4,755,285
Notes Receivable		4,668
Beneficial Interests in Perpetual Trusts		1,609,611
Contributions Receivable from Trusts		1,999,182
Contributions Receivable from Irrevocable Bequests		1,175,082
Cash Surrender Value of Life Insurance		194,721
In-Kind Gifts		8,005
Property and Equipment, Net		1,896,500
Total Assets	$	122,523,194
LIABILITIES		
Accounts Payable and Accrued Expenses	$	179,033
Deferred Revenue - Advance Royalties		434,471
Long-Term Debt		4,729,156
Split Interest Agreement Obligations		2,121,009
Total Liabilities		7,463,669
NET ASSETS		
Unrestricted		6,096,499
Temporarily Restricted		46,333,711
Permanently Restricted		62,629,315
Total Net Assets		115,059,525
Total Liabilities and Net Assets	$	122,523,194

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, 2014

Exhibit B-2

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, GAINS, LOSSES AND OTHER SUPPORT				
Contributions	$ 899,354	$ 10,626,491	$ 5,460,107	$ 16,985,952
Investment Income	948,696	(136,540)	24,521	836,677
Auxiliary Income	283,752	81,475		365,227
Net Realized and Unrealized Gains (Losses) on Investments	301,568	7,573,497	(587,993)	7,287,072
Net Change in Beneficial Interests in Perpetual Trusts, Contributions Receivable from Trusts and Split Interest Agreement Obligations	8,576	26,159	383,078	417,813
Other Income	47,572	5,820		53,392
Net Assets Released from Restrictions	10,371,217	(10,371,217)		
Total Revenues, Gains, Losses, and Other Support	12,860,735	7,805,685	5,279,713	25,946,133
EXPENSES				
Program Services:				
General University Support	6,319,207			6,319,207
Student Financial Aid	4,384,116			4,384,116
Alumni Affairs	112,339			112,339
Other	435,395			435,395
Total Program Services	11,251,057			11,251,057
Supporting Services:				
General and Administrative	133,037			133,037
Fundraising	1,001,583			1,001,583
Total Supporting Services	1,134,620			1,134,620
Total Expenses	12,385,677			12,385,677
Net Increase in Allowance for Doubtful Contributions Receivable		(367,320)	(72,601)	(439,921)
Increase in Net Assets	475,058	7,438,365	5,207,112	13,120,535
NET ASSETS				
Net Assets, Beginning	5,621,441	38,895,346	57,422,203	101,938,990
Net Assets, Ending	$ 6,096,499	$ 46,333,711	$ 62,629,315	$ 115,059,525

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

Appalachian Student Housing Corporation
Statement of Financial Position
June 30, 2014 — *Exhibit B-3*

ASSETS		
Current Assets:		
Cash and Cash Equivalents	$	3,753,682
Accounts Receivable, Net		4,140
Sales Tax Refund Receivable		2,228
Prepaid Expenses		78,367
Net Investment in Direct Financing Lease		1,218,847
Total Current Assets		5,057,264
Property and Equipment, Net		19,660,547
Other Assets:		
Deferred Financing Cost, Net		35,425
Net Investment in Direct Financing Lease		2,413,462
Assets Limited as to Use by Bond Order		900,000
Total Other Assets		3,348,887
Total Assets	$	28,066,698
LIABILITIES		
Current:		
Current Portion of Long-Term Debt	$	2,848,248
Accounts Payable		415,294
Accrued Expenses		60,313
Deferred Income		54,146
Total Current Liabilities		3,378,001
Long-Term Debt, Less Current Portion		7,556,680
Total Liabilities		10,934,681
NET ASSETS		
Unrestricted		17,132,017
Total Liabilities and Net Assets	$	28,066,698

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, 2014 *Exhibit B-4*

REVENUES AND OTHER SUPPORT		
Net Rental Income	$	4,344,287
Other Operating Revenue		84,305
Total Revenues and Other Support		4,428,592
EXPENSES		
Salaries and Benefits		350,388
Purchased Services		123,790
Professional Fees		18,473
Building		88,566
Utilities		570,142
Insurance		78,746
Renovation		7,763
Depreciation		501,660
Amortization		11,299
Interest		181,449
Taxes		120,625
Advertising		8,197
Other		187,115
Total Expenses		2,248,213
OTHER INCOME AND EXPENSE		
Interest		2,124
Increase in Net Assets		2,182,503
NET ASSETS		
Net Assets at Beginning of Year		14,949,514
Net Assets at End of Year	$	17,132,017

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

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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 (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 – The Appalachian State University Foundation, Inc. (Foundation) and the Appalachian Student Housing Corporation (Corporation) are legally separate nonprofit corporations and are reported as discretely presented component units based on the nature and significance of their relationship to the University.

The Foundation is a legally separate, tax-exempt component unit of the University. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the University in support of its programs. The Foundation board consists of 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. 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 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 because of the difference in its reporting model, as described below.

The Foundation and the Corporation are private nonprofit 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, 2014, the Foundation distributed $10,703,322.78 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, 2014, 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 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. The 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 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 the 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, and electric utility assets which are capitalized in accordance with the guidelines from the North Carolina Utilities Commission.

Depreciation and amortization are computed using the straight-line method 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 unamortized premiums or discounts. The University amortizes bond premiums/discounts over the life of the bonds using the straight-line method. Deferred charges on refundings are amortized over the life of the old debt or new debt (whichever is shorter) using the straight-line method, and are included as

Deferred Outflows or Deferred Inflows of Resources on the Statement of Net Position. Issuance costs are expensed.

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

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

There is no liability for unpaid accumulated sick leave because the University has no obligation to pay sick leave upon termination or retirement. However, additional service credit for retirement pension benefits is given for accumulated sick leave upon retirement.

L. **Net 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. Additionally, deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of capital assets or related debt are also included in this component of net position.

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 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. Both restricted and unrestricted net position include consideration of deferred outflows and inflows of resources.

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 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, 2014, the amount shown on the Statement of Net Position as cash and cash equivalents includes $88,931,308.68 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 1.3 years as of June 30, 2014. 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, 2014 was $172,346.83. The carrying amount of the University's deposits not with the State Treasurer was $1,098,850.09 and the bank balance was $717,933.08. Custodial credit risk is the risk that in the event of a bank failure, the University's deposits may not be returned to it. The University does not have a deposit policy for custodial credit risk. As of June 30, 2014, the University's bank balance was exposed to custodial credit risk as follows:

Uninsured and Uncollateralized	$ 364,020.84

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; certificates of deposit and other deposit accounts of specified financial institutions; prime quality commercial paper; asset-backed securities with specified ratings, specified bills of exchange or time drafts, and corporate bonds/notes with specified ratings; 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 unit, the Foundation, are subject to and restricted by G.S. 36E "Uniform Prudent Management of Institutional Funds Act" (UPMIFA) and any requirements placed on it by contract or donor agreements.

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

Investments are subject to the following risks.

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

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

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

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, 2014, the University's investments include $27,705,366.07 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, does not have a credit rating, and is not subject to any regulatory oversight. Asset and ownership interests of the UNC Investment Fund are determined on a market unit valuation basis each month. Investment risks associated with the UNC Investment Fund are included in audited financial statements of the UNC Investment Fund, LLC which may be obtained from UNC Management Company, Inc., 1400 Environ Way, Chapel Hill, NC 27517.

Non-Pooled Investments - The following table presents the fair value of investments by type and investments subject to interest rate risk at June 30, 2014, for the University's non-pooled investments.

Non-Pooled Investments

	Fair Value	Investment Maturity Less Than 1 Year
Investment Type		
Debt Securities		
Money Market Mutual Funds	$ 10,743,507.70	$ 10,743,507.70
Other Securities		
Equity Mutual Funds	21,167.56	
Domestic Stocks	75,309.25	
Foreign Stocks (denominated in US dollars)	17,851.65	
Guaranty Capital - Medical Mutual Insurance	1,000.00	
Total Non-Pooled Investments	$ 10,858,836.16	

At June 30, 2014, the University's non-pooled investments included $10,743,507.710 in money market mutual funds with credit exposure for which Standard and Poor's credit quality distribution was AAAm.

At June 30, 2014, 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	$ 75,309.25
Foreign Stocks (denominated in US dollars)	17,851.65
Total	$ 93,160.90

Total Investments - The following table presents the fair value of the total investments at June 30, 2014:

	Fair Value
Investment Type	
Debt Securities	
Money Market Mutual Funds	$ 10,743,507.70
Other Securities	
UNC Investment Fund	27,705,366.07
Equity Mutual Funds	21,167.56
Domestic Stocks	75,309.25
Foreign Stocks (denominated in US dollars)	17,851.65
Guaranty Capital - Medical Mutual Insurance	1,000.00
Total Investments	$ 38,564,202.23

Component Unit - Investments of the University's discretely presented component unit, the Foundation, 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	$ 18,353,995
Money Market Funds	2,025,213
Equity Investments	33,294,214
Fixed Income Investments	14,194,066
Alternative Investments	21,597,874
Total Investments	89,465,362
Real Estate Held for Resale	4,755,285
Total Investments and Real Estate Held for Resale	$ 94,220,647

C. Reconciliation of Deposits and Investments - A reconciliation of deposits and investments for the University as of June 30, 2014, is as follows:

Cash on Hand	$	172,346.83
Amount of Deposits with Private Financial Institutions		1,098,850.09
Deposits in the Short-Term Investment Fund		88,931,308.68
Investments in the UNC Investment Fund		27,705,366.07
Non-Pooled Investments		10,858,836.16
Total Deposits and Investments	$	128,766,707.83
Deposits		
Current:		
Cash and Cash Equivalents	$	68,112,995.58
Restricted Cash and Cash Equivalents		10,177,047.25
Noncurrent:		
Restricted Cash and Cash Equivalents		11,912,462.77
Total Deposits		90,202,505.60
Investments		
Noncurrent:		
Endowment Investments		13,995,929.46
Restricted Investments		18,313,612.32
Other Investments		6,254,660.45
Total Investments		38,564,202.23
Total Deposits and Investments	$	128,766,707.83

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 endowment account's net position 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 fund. At June 30, 2014, net appreciation of $7,421,049.38 was available to be spent, of which $916,037.00 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, 2014, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	$ 3,980,684.21	$ 1,087,684.27	$ 2,892,999.94
Student Sponsors	7,477.14		7,477.14
Accounts	2,559,124.09	202,279.08	2,356,845.01
Intergovernmental	3,628,804.93		3,628,804.93
Interest on Loans	190,461.74		190,461.74
Total Current Receivables	$ 10,366,552.11	$ 1,289,963.35	$ 9,076,588.76
Notes Receivable:			
Notes Receivable - Current:			
Federal Loan Programs	$ 571,519.47	$ 0.00	$ 571,519.47
Institutional Student Loan Programs	4,271.11	1,484.61	2,786.50
Total Notes Receivable - Current	$ 575,790.58	$ 1,484.61	$ 574,305.97
Notes Receivable - Noncurrent:			
Federal Loan Programs	$ 3,843,792.64	$ 677,960.64	$ 3,165,832.00

NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2014, is presented as follows:

	Balance July 1, 2013	Increases	Decreases	Balance June 30, 2014
Capital Assets, Nondepreciable:				
Land	$ 33,552,033.13	$ 22,447.75	$ 25,914.00	$ 33,548,566.88
Art, Literature, and Artifacts	2,954,515.89	38,000.00		2,992,515.89
Construction in Progress	9,933,347.49	14,915,668.98	12,253,024.37	12,595,992.10
Total Capital Assets, Nondepreciable	46,439,896.51	14,976,116.73	12,278,938.37	49,137,074.87
Capital Assets, Depreciable:				
Buildings	630,311,361.72	6,518,848.14	1,783,161.97	635,047,047.89
Machinery and Equipment	47,579,359.03	2,306,445.61	974,619.94	48,911,184.70
General Infrastructure	65,668,259.92	5,684,165.47	466,358.32	70,886,067.07
Computer Software	301,242.00	147,954.55		449,196.55
Total Capital Assets, Depreciable	743,860,222.67	14,657,413.77	3,224,140.23	755,293,496.21
Less Accumulated Depreciation/Amortization for:				
Buildings	166,631,395.72	13,672,939.97	1,184,830.35	179,119,505.34
Machinery and Equipment	26,318,734.14	2,510,658.54	856,099.09	27,973,293.59
General Infrastructure	20,413,559.70	2,576,565.39	68,386.25	22,921,738.84
Computer Software	97,903.65	22,459.83		120,363.48
Total Accumulated Depreciation/Amortization	213,461,593.21	18,782,623.73	2,109,315.69	230,134,901.25
Total Capital Assets, Depreciable, Net	530,398,629.46	(4,125,209.96)	1,114,824.54	525,158,594.96
Capital Assets, Net	$ 576,838,525.97	$ 10,850,906.77	$ 13,393,762.91	$ 574,295,669.83

During the year ended June 30, 2014, the University incurred $10,153,336.33 in interest costs related to the acquisition and construction of capital assets. Of this total, $10,079,422.68 was charged in interest expense, and $73,913.65 was capitalized.

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2014, were as follows:

	Amount
Current Accounts Payable and Accrued Liabilities	
Accounts Payable	$ 11,158,839.68
Accrued Payroll	3,193,279.21
Contract Retainage	751,783.03
Intergovernmental Payables	26,092.22
Total Current Accounts Payable and Accrued Liabilities	$ 15,129,994.14

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, 2014, is presented as follows:

	Balance July 1, 2013 (As Restated)	Additions	Reductions	Balance June 30, 2014	Current Portion
Revenue Bonds Payable	$ 234,735,000.00	$ 35,505,000.00	$ 29,980,000.00	$ 240,260,000.00	$ 11,160,000.00
Plus: Unamortized Premium		1,259,785.65	12,142.35	1,247,643.30	
Total Revenue Bonds, Net	234,735,000.00	36,764,785.65	29,992,142.35	241,507,643.30	11,160,000.00
Notes Payable	21,594,225.24		590,618.19	21,003,607.05	601,875.26
Capital Leases Payable	5,362,622.97		1,228,304.13	4,134,318.84	1,233,887.05
Compensated Absences	11,054,469.63	7,958,668.50	7,629,247.19	11,383,890.94	2,032,307.05
Total Long-Term Liabilities	$ 272,746,317.84	$ 44,723,454.15	$ 39,440,311.86	$ 278,029,460.13	$ 15,028,069.36

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, 2014	Principal Outstanding June 30, 2014	See Table Below
Revenue Bonds Payable							
Utility System							
ASU Utility System Revenue Bonds	2011	3.14%	12/20/2021	$ 2,700,000.00	$ 675,000.00	$ 2,025,000.00	(1)
The University of North Carolina System Pool Revenue Bonds							
Broyhill Inn	(A)	3.82%	10/01/2015	990,000.00	740,000.00	250,000.00	
Doughton Renovation	(A)	4.27%	10/01/2026	3,755,000.00	385,000.00	3,370,000.00	
Dining Hall	(A)	4.38%	05/01/2031	23,330,000.00	4,090,000.00	19,240,000.00	
Hoey Hall Renovation	(A)	4.25%	10/01/2026	6,980,000.00	1,760,000.00	5,220,000.00	
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	2,585,000.00	16,645,000.00	
Cannon Hall	(B)	4.69%	10/01/2033	8,520,000.00	1,035,000.00	7,485,000.00	
Parking - Stadium	(B)	4.69%	10/01/2033	3,350,000.00	410,000.00	2,940,000.00	
New Field House Complex	(B)	4.69%	10/01/2033	20,600,000.00	2,480,000.00	18,120,000.00	
Stadium East Stands	(C)	4.65%	10/01/2034	8,370,000.00	815,000.00	7,555,000.00	
Frank Hall	(C)	4.65%	10/01/2034	7,060,000.00	685,000.00	6,375,000.00	
Cone Hall	(D)	4.35%	10/01/2035	8,880,000.00	635,000.00	8,245,000.00	
University Bookstore	(D)	3.76%	10/01/2027	5,000,000.00	815,000.00	4,185,000.00	
Stadium East Stands and Field House Complex	(D)	4.35%	10/01/2035	7,875,000.00	565,000.00	7,310,000.00	
Total The University of North Carolina System Pool Revenue Bonds				131,620,000.00	17,000,000.00	114,620,000.00	
ASU General Revenue Bonds							
ASU General Revenue Bonds - Housing, Athletics, Parking	2005	4.54%	07/15/2018	50,915,000.00	45,150,000.00	5,765,000.00	
ASU General Revenue Bonds - Housing, Stud Un., Steam Tunnels	2011	4.07%	10/01/2036	60,435,000.00	2,320,000.00	58,115,000.00	
ASU General Revenue Bonds - Housing, Athletics, Student Rec Ctr	2012	2.84%	05/01/2028	26,495,000.00	2,265,000.00	24,230,000.00	
ASU General Revenue Bonds - Housing, Athletics, Parking	2014A	3.35%	07/15/2039	22,540,000.00		22,540,000.00	
ASU General Revenue Taxable Bonds - Housing, Athletics, Parking	2014B	2.95%	07/15/2025	12,965,000.00		12,965,000.00	
Total General Revenue Bonds				173,350,000.00	49,735,000.00	123,615,000.00	
Total Revenue Bonds Payable (principal only)				$ 307,670,000.00	$ 67,410,000.00	240,260,000.00	
Plus: Unamortized Premium						1,247,643.30	
Total Revenue Bonds Payable, Net						$ 241,507,643.30	

(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

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: Revenues Net of Expenses	Current Year: Principal	Current Year: Interest	Estimate of % of Revenues Pledged
(1)	Electric Utility	$ 2,545,651.86	$ 2,964,832.35	$ 370,000.00	$ 83,327.27	13%

C. Annual Requirements - The annual requirements to pay principal and interest on the long-term obligations at June 30, 2014, are as follows:

	Annual Requirements			
	Revenue Bonds Payable		Notes Payable	
Fiscal Year	Principal	Interest	Principal	Interest
2015	$ 11,160,000.00	$ 9,940,697.87	$ 601,875.26	$ 101,649.26
2016	11,260,000.00	9,877,225.05	1,315,011.81	772,980.84
2017	10,255,000.00	9,392,399.05	1,665,141.47	384,252.36
2018	10,745,000.00	8,912,310.55	1,665,082.76	349,325.33
2019	11,220,000.00	8,421,609.55	1,716,141.83	314,509.44
2020-2024	63,230,000.00	34,198,060.28	8,076,992.69	1,043,266.09
2025-2029	57,335,000.00	20,348,947.10	5,963,361.23	301,975.63
2030-2034	45,965,000.00	9,062,900.15		
2035-2039	18,250,000.00	1,419,418.80		
2040	840,000.00	15,750.00		
Total Requirements	$ 240,260,000.00	$ 111,589,318.40	$ 21,003,607.05	$ 3,267,958.95

D. Bond Defeasance - The University has extinguished long-term debt obligations by the issuance of new long-term debt instruments as follows: On May 6, 2014 the University issued $7,975,000.00 in Appalachian State University General Revenue and Revenue Refunding Bonds, Series 2014A with an average interest rate of 3.25%. The bonds were issued to advance refund $7,490,000.00 of outstanding Appalachian State University General Revenue and Refunding Revenue Bonds, Series 2005 bonds with an average interest rate of 4.88%. The net proceeds of the refunding bonds were used to purchase U.S. government securities. These securities were deposited into an irrevocable trust to provide for all future debt service payments on the refunded bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the University's Statement of Net Position. This advance refunding was undertaken to reduce total debt service payments by $1,082,814.93 over the next 17 years and resulted in an economic gain of $838,442.64. At June 30, 2014, the outstanding balance was $7,490,000.00 for the defeased Appalachian State University General Revenue and Refunding Revenue Bonds, Series 2005.

On May 6, 2014 the University issued $12,965,000.00 in Appalachian State University Taxable General Revenue and Revenue Refunding Bonds, Series 2014B with an average interest rate of 3.43%. The bonds were issued to advance refund $12,460,000.00 of outstanding Appalachian State University General Revenue and Refunding Revenue Bonds, Series 2005 bonds with an average interest rate of 4.95%. The net proceeds of the refunding bonds were used to purchase U.S. government securities. These securities were deposited into an irrevocable trust to provide for all future debt service payments on the refunded bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the University's Statement of Net Position. This advance refunding was undertaken to reduce total debt service payments by $1,093,671.83 over the next 12 years and resulted in an economic gain of $911,431.55. At June 30, 2014, the outstanding balance was $12,460,000.00 for the defeased Appalachian State University General Revenue and Refunding Revenue Bonds, Series 2005.

Prior Year Defeasances - During prior years, the University defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the University's financial statements. At June 30, 2014, 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, 2014	Principal Outstanding June 30, 2014	See Table Above
Electric Utility	BB&T	4.56%	10/12/2016	$ 1,000,000.00	$ 750,000.00	$ 250,000.00	(1)
Energy Savings Project	Sun Trust Bank	2.27%	04/29/2022	5,263,400.69	1,009,710.64	4,253,690.05	
Energy Savings Project	T D Bank	1.99%	07/01/2027	16,499,917.00		16,499,917.00	
Total Notes Payable				$ 22,763,317.69	$ 1,759,710.64	$ 21,003,607.05	

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, 2014 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% (.78% at June 30, 2014).

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, 2014 was $4,704,156. 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, 2014 are due in future years as follows:

Years		Amount
2015	$	317,036
2016		304,176
2017		316,352
2018		329,971
2019		343,687
Thereafter		3,117,934
	$	4,729,156

B. Appalachian Student Housing Corporation

Long term debt at June 30, 2014 consists of the following:

Note Payable - Branch Bank and Trust Company; dated June 26, 2012; original amount of $10,000,000; variable interest at One-Month LIBOR plus 1% recomputed monthly, due in 72 monthly payments of principal and interest starting July 26, 2012, secured by assignment of rents from the Corporation's University Highlands Apartments	$	6,804,928
Certificates of Participation/Build America Bonds; Dated May 17, 2010; original amount of $16,500,000; interest at one month BBA LIBOR +.85% due serially from October 1, 2012 to October 1, 2016		3,600,000
Total Long-Term Debt		10,404,928
Less Current Portions		2,848,248
Long-Term Debt, Less Current Portions	$	7,556,680

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

2015	$	2,848,248
2016		2,882,760
2017		2,918,484
2018		1,755,436
	$	10,404,928

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

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

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, 2014:

Total Minimum Lease Payments to be Received	$ 3,632,309
Less: Estimated Executory Costs Included in Minimum Lease Payments	-
Minimum Lease Payments Receivable	3,632,309
Less: Allowance for Uncollectibles	-
Net Minimum Lease Payments Receivable	3,632,309
Estimated Residual Value of the Property (Unguaranteed)	-
Net Investment in Direct Financing Lease	$ 3,632,309

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 $339 in 2014. At June 30, 2014 minimum lease payments for each of the remaining years are as follows: $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, 2014:

Fiscal Year	Amount
2015	$ 1,278,847.00
2016	1,730,770.00
2017	1,202,692.00
Total Minimum Lease Payments	4,212,309.00
Amount Representing Interest (1.04% - 3.00% Rate of Interest)	77,990.16
Present Value of Future Lease Payments	$ 4,134,318.84

Buildings and land acquired under capital lease amounted to $17,103,739.16 at June 30, 2014. Depreciation for the capital assets associated with capital leases is included in depreciation expense, and accumulated depreciation for assets acquired under capital lease totaled $1,414,211.03 at June 30, 2014.

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, 2014:

Fiscal Year	Amount
2015	$ 969,968.08
2016	735,582.28
2017	596,033.28
2018	335,799.77
2019	312,283.08
2020-2024	1,561,415.40
2025-2029	1,327,203.09
Total Minimum Lease Payments	$ 5,838,284.98

Rental expense for all operating leases during the year was $1,962,825.94.

NOTE 9 - REVENUES

A summary of eliminations and allowances by revenue classification is presented as follows:

	Gross Revenues	Internal Sales Eliminations	Less Scholarship Discounts	Less Allowance for Uncollectibles	Net Revenues
Operating Revenues:					
Student Tuition and Fees	$ 130,260,566.49	$ 0.00	$ 21,911,544.41	$ 194,366.58	$ 108,154,655.50
Sales and Services:					
Sales and Services of Auxiliary Enterprises:					
Residential Life	$ 25,943,910.41	$ 865,754.25	$ 4,208,313.00	$ 21,935.71	$ 20,847,907.45
Dining	18,989,459.41	1,319,345.71	2,379,945.91		15,290,167.79
Student Union Services	497,898.31	63,257.10			434,641.21
Health, Physical Education, and Recreation Services	1,642,028.64	97,525.68			1,544,502.96
Bookstore	10,760,483.95	1,014,655.22	729,758.00	3,206.67	9,012,864.06
Parking	3,647,294.13	63,676.00			3,583,618.13
Camp Programs	2,806,471.26	317,923.01			2,488,548.25
Steam Utility System	7,356,952.61	7,356,952.61			0.00
Athletic	5,810,717.70	21,093.38	536,697.58		5,252,926.74
Other	5,841,134.37	2,046,791.73		17,563.35	3,776,779.29
Sales and Services of Education and Related Activities	4,746,758.39	1,331,459.87	501,256.33		2,914,042.19
New River Light and Power	19,721,296.77	5,127,201.85		38,024.24	14,556,070.68
Total Sales and Services	$ 107,764,405.95	$ 19,625,636.41	$ 8,355,970.82	$ 80,729.97	$ 79,702,068.75

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/ Amortization	Total
Instruction	$ 110,551,748.55	$ 3,550,839.07	$ 4,489,865.82	$ 691,042.36	$ 0.00	$ 0.00	$ 119,283,495.80
Research	1,655,257.38	318,645.35	599,198.36	31,278.63	250.00		2,604,629.72
Public Service	2,846,499.58	286,940.97	1,337,825.56	412,480.15	3,260.98		4,887,007.24
Academic Support	27,365,368.70	6,966,612.92	6,257,295.01	71,778.50	5,576.22		40,666,631.35
Student Services	7,217,233.44	251,831.15	1,004,736.42				8,473,801.01
Institutional Support	17,228,164.59	891,320.77	10,087,117.28		26,033.88		28,232,636.52
Operations and Maintenance of Plant	13,045,775.02	386,094.18	4,291,772.77		7,249,752.57		24,973,394.54
Student Financial Aid	152,412.04	4,888.35	144,309.87	18,537,763.67			18,839,373.93
Auxiliary Enterprises	37,383,601.27	20,228,511.22	16,246,788.23	2,632,196.83	6,797,622.51		83,288,720.06
New River Light and Power	1,032,706.72	9,835,901.48	1,345,159.38				12,213,767.58
Depreciation/ Amortization						18,782,623.73	18,782,623.73
Total Operating Expenses	$ 218,478,767.29	$ 42,721,585.46	$ 45,804,068.70	$ 22,376,540.14	$ 14,082,496.16	$ 18,782,623.73	$ 362,246,081.48

NOTE 11 - PENSION PLANS

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

The Teachers' and State Employees' Retirement System (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, 2014, these rates were set at 8.69% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the University had a total payroll of $175,923,136.55, of which $79,589,512.35 was covered under the TSERS. Total employer and employee contributions for pension benefits for the year were $6,916,328.62 and $4,775,370.74, respectively.

Required employer contribution rates for the years ended June 30, 2013, and 2012, were 8.33% and 7.44%, respectively, while employee contributions were 6% each year. The University made 100% of its annual required contributions for the years ended June 30, 2014, 2013, and 2012, which were $6,916,328.62, $6,586,801.50, and $5,756,471.63, 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 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, 2014, 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 $175,923,136.55, of which $72,293,482.02 was covered under the Optional Retirement Program. Total employer and employee contributions for pension benefits for the year were $4,944,874.17 and $4,337,608.92, respectively.

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 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 5.40% 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, 2013, and 2012, were 5.30% and 5.0%, respectively. The University made 100% of its annual required contributions to the Plan for the years ended June 30, 2014, 2013, and 2012, which were $8,201,681.70, $7,935,117.70, and $7,280,233.69, 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, 2014, 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, 2013, and 2012, were .44% and .52%, respectively. The University made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2014, 2013, and 2012, which were $668,285.18, $658,764.49, and $757,144.29, respectively. The University assumes no liability for long-term disability benefits under the Plan other than its contribution.

Additional detailed information about the DIPNC is disclosed in the State of North Carolina's *Comprehensive Annual Financial Report*.

NOTE 13 - RISK MANAGEMENT

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

The risk of tort claims of up to $1,000,000 per claimant is retained under the authority of the State Tort Claims Act. In addition, the State provides excess public officers' and employees' liability insurance up to $10,000,000 via contract with a private insurance company. The University pays the premium, based on a composite rate, directly to the private insurer.

The University is required to maintain fire and lightning coverage on all state-owned buildings and contents through the State Property Fire Insurance Fund (Fund), an internal service fund of the State. Such coverage is provided at no cost to the University for operations supported by the State's General Fund. Other operations not supported by the State's General Fund are charged for the coverage. Losses covered by the Fund are subject to a $5,000 per occurrence deductible. However, some agencies have chosen a higher deductible for a reduction in premium. 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 the program. All exchange students and visitors are required to have medical insurance in effect for themselves and any accompanying spouse and dependents. The maximum coverage for sickness or injury is $150,000 for the International Students participants and dependents with a $100 medical deductible per injury or sickness.

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

University employees and retirees are provided comprehensive major medical care benefits. Coverage is funded by contributions to the State Health Plan (Plan), a discretely presented component unit of the State of North Carolina. The Plan has contracted with third parties to process claims.

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

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

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

NOTE 14 - COMMITMENTS AND CONTINGENCIES

A. Commitments - The University has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were $22,933,464.89 and on other purchases were $3,147,722.85 at June 30, 2014.

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.

NOTE 15 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2014, the University implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, issued by the Governmental Accounting Standards Board (GASB). This standard requires reclassification of certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources. Additional changes included in this standard had no effect on the University.

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

Board of Trustees
Appalachian State University
Boone, North Carolina

We have audited, 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, 2014, 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 13, 2014. 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.

<u>Internal Control Over Financial Reporting</u>

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)

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

Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

November 13, 2014

ORDERING INFORMATION

Copies of this report may be obtained by contacting the:

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For additional information contact:
Bill Holmes
Director of External Affairs

This audit required 845 audit hours at an approximate cost of $79,430.