State of North Carolina

Office of The State Auditor

Beth A. Wood, CPA

Appalachian State University

Boone, North Carolina

Financial Statement Audit Report

For the Year Ended June 30, 2015

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

NCOSA

The Taxpayers' Watchdog

STATE OF NORTH CAROLINA

Office of the State Auditor

Beth A. Wood, CPA
State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0600
Telephone: (919) 807-7500
Fax: (919) 807-7647
http://www.ncauditor.net

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, 2015, 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

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Article V, Chapter 147 of the North Carolina General Statutes, gives the Auditor broad powers to examine all books, records, files, papers, documents, and financial affairs of every state agency. The Auditor also has the power to summon people to produce records and to answer questions under oath.

INDEPENDENT AUDITOR’S REPORT

STATE OF NORTH CAROLINA
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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, 2015, 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 reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the Appalachian State University Foundation, Inc. and the Appalachian Student Housing Corporation were not audited in accordance with *Government Auditing Standards*.

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

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

Opinions

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of Appalachian State University and its discretely presented component units, as of June 30, 2015, 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

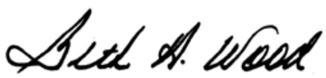
As discussed in Note 15 to the financial statements, during the year ended June 30, 2015, Appalachian State University adopted new accounting guidance, Governmental Accounting Standards Board Statement No *68 – Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27 and Statement No. 71 – Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68.* 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 and other required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 12, 2015 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, CPA
State Auditor

Raleigh, North Carolina

November 12, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

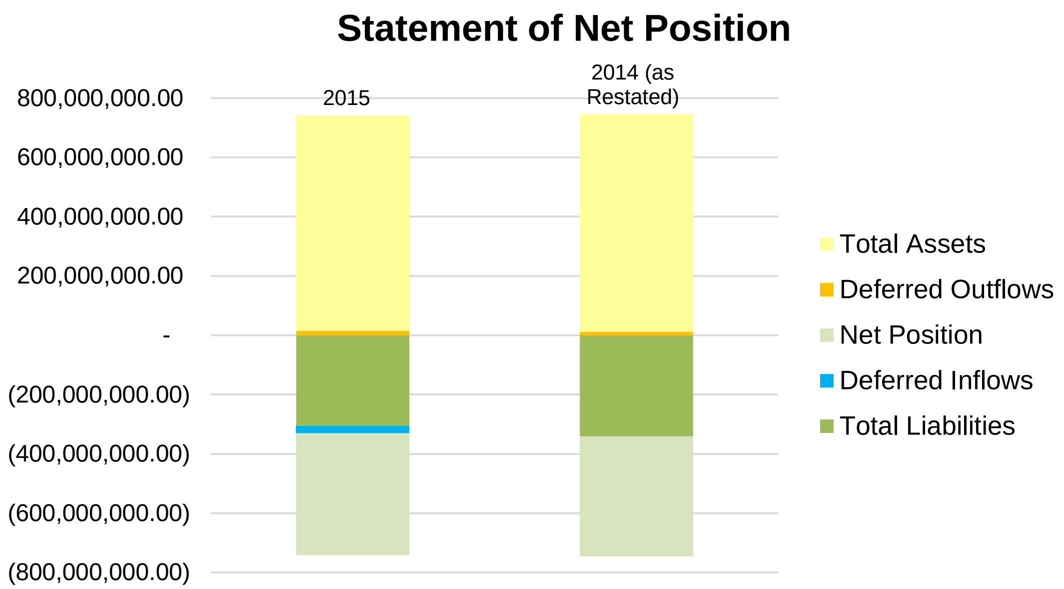
Overview of the Financial Statement Information

Appalachian State University (the 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 2015. These statements are prepared in accordance with standards issued by the Governmental Accounting Standards 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 the University for the years ended June 30, 2015 and 2014, 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 of resources, liabilities, deferred inflows of resources, 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.

Figure 1.0



Effective for fiscal year 2015, the GASB issued statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27 and Statement No. 71 – Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68,* effective for fiscal years beginning after June 15, 2014. The primary change on the Statement of Net Position is the recognition of net pension liability, which represents the University's proportionate share of the total net pension liability for the Teachers' and State Employees Retirement System (TSERS). Prior year amounts in the condensed Statement of Net Position have been restated to reflect this change in accounting standards. The effects of the restatement and the changes resulting from the implementation of GASB Statement No. 68 will be included in the discussion below.

Overall, the Condensed Statement of Net Position reflects an increase of $7.2 million. This represents a 1.8% increase over the prior year as restated and will be discussed in an analysis of each component of the statement beginning with total assets followed by, deferred outflows of resources, total liabilities, deferred inflows of resources, and lastly, net position.

Condensed Statement of Net Position

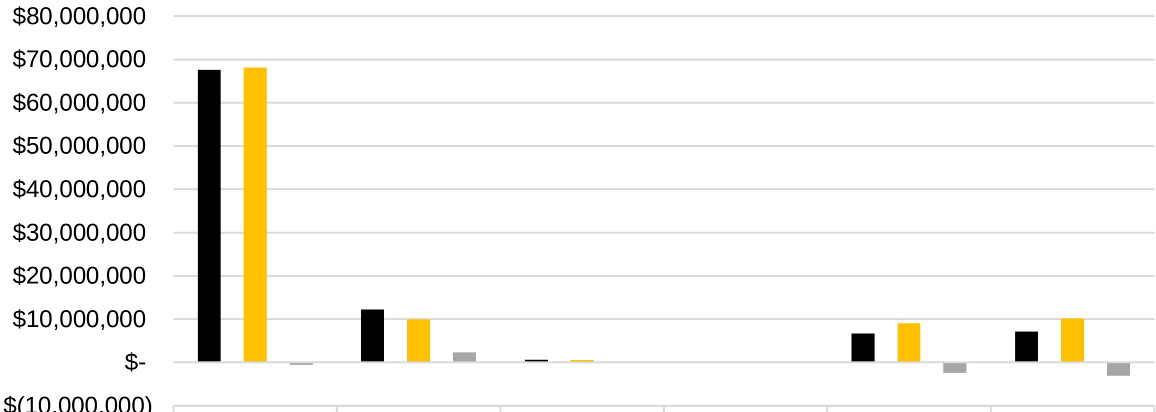
	Fiscal Year 2015	Fiscal Year 2014 (As Restated)	$ Change	% Change
Assets				
Current Assets	$ 94,275,223	$ 97,901,651	$ (3,626,428)	(3.7)
Captial Assets, Net	593,762,449	582,299,332	11,463,117	2.0
Other Noncurrent Assets	38,868,573	53,642,497	(14,773,924)	(27.5)
Total Assets	726,906,245	733,843,480	(6,937,235)	(0.9)
Deferred Outflows of Resources	14,899,850	12,199,767	2,700,083	22.1
Liabilities				
Current Liabilities	40,964,725	39,940,755	1,023,970	2.6
Long-Term Liabilities, Net	259,880,453	296,792,683	(36,912,230)	(12.4)
Other Noncurrent Liabilities	5,170,370	4,664,284	506,086	10.9
Total Liabilities	306,015,548	341,397,722	(35,382,174)	(10.4)
Deferred Inflows of Resources	23,865,456	0	23,865,456	100.0
Net Position				
Net Investment in Capital Assets	348,553,822	340,484,044	8,069,778	2.4
Restricted - Nonexpendable	14,396,861	14,425,404	(28,543)	(0.2)
Restricted - Expendable	9,463,239	8,189,244	1,273,995	15.6
Unrestricted	39,511,169	41,546,833	(2,035,664)	(4.9)
Total Net Position	$ 411,925,091	$ 404,645,525	$ 7,279,566	1.8

Total Assets

Total assets decreased by $6.9 million representing a 0.9% change from fiscal year 2014. Prominent changes in total assets are represented by a decrease of $3.6 million in current assets, a 2.0% increase in capital assets totaling $11.4 million, and a 27.5% decrease in other noncurrent assets of $14.7 million.

An analysis of current assets reveals that the decrease is primarily a result of a decrease in restricted cash and cash equivalents totaling $3.0 million, or 29.9%, and a decrease in receivables of $2.4 million representing a 26.6% change. (See Figure 1.1)

Figure 1.1



	Cash and Cash Equivalents	Inventories	Notes Receivable, Net	Other Assets	Receivables , Net	Restricted Cash and Cash Equivalents
FY2015	$67,580,287	$12,261,932	$624,274	$14,667	$6,662,292	$7,131,771
FY2014	$68,112,996	$9,960,714	$574,306		$9,076,589	$10,177,047
$ Change	(532,709)	2,301,218	49,968	14,667	(2,414,297)	(3,045,276)

The change in restricted cash and equivalents is primarily related to less noncurrent restricted cash and equivalents reclassified to cover current liabilities in capital improvement funds. In 2014, $8.0 million was reclassified for the University's 2013 energy savings project, the renovation of Trivette Dining Hall, renovations to residence halls, improvements to the steam utility system, and renovations to Anne Belk Hall.

In contrast, associated current liabilities for the fiscal year end 2015 decreased mostly related to the completion of work on the energy savings, Anne Belk Hall, and Trivette Dining Hall resulting in approximately $5.2 million reclassification, down $2.8 million from the prior year.

Table 1.0

Comparison of Current Liabilities Related to Capital Improvement Projects			
Fiscal Year 2014		*Fiscal Year 2015*	
Energy Savings Project 2013	$ 3,673,844	Energy Savings Project 2013	$ 1,528,056
Trivette Dining Hall	1,760,524	Belk Residence Hall	1,266,570
Residence Halls	1,088,687	UNC Energy Savings Project 2015	714,254
Anne Belk Hall	846,975	Building and Roof Repairs	631,065
Steam Utility System	394,740	Steam Utility System	390,622
Other	238,872	Recreation Field Improvements	286,154
		Health Sciences-Advanced Planning	157,974
	$ 8,003,642	Trivette Dining Hall	106,406
		Other	66,467
		Anne Belk Hall	33,031
			$ 5,180,599
		Change from 2014	$ (2,823,043)

The decrease in net receivables is largely attributable to a $2.6 million decrease in federal funds receivable for financial aid. At fiscal year end 2014, funds available for draw down relating to the federal direct lending program totaled $2.7 million. This is attributable to the timing of financial aid disbursements in 2014 and requests for funds, which were received at the beginning of the next fiscal year. In fiscal year 2015, financial aid disbursements occurred sooner and the majority of federal funds were requested and deposited prior to the June 30 fiscal year end. The ending receivable balance related to the federal direct lending program was $167.6 thousand.

The decreases in current assets discussed above are offset by an increase in inventory of $2.3 million. The change is primarily due to an increase in the cost of textbooks utilized in the University's rental textbook program. Rental textbooks for undergraduate courses are made available to students on a two year adoption cycle. At the end of the cycle a book for an entire course may be replaced. The cost of textbooks has increased significantly since the purchase price of many new releases now includes access to additional online and electronic material. Rental textbook inventory increased $2.2 million, which represents a 34.3% difference from last year.

Changes in noncurrent assets include changes in depreciable and nondepreciable capital assets and other noncurrent assets. These changes include a 2.0% increase in capital assets and a 27.5% decrease in other noncurrent assets.

The overall $11 million increase in capital assets is primarily due to an increase in buildings and infrastructure capitalized in 2015 less accumulated depreciation. This increase was offset by a $5.9 million decrease in nondepreciable assets.

Increases in depreciable assets for 2015 included the following amounts being moved from construction in progress to depreciable capital assets; $17.5 million related to the 2013 energy savings contract that impacted several buildings across campus, $7.2 million for Anne Belk Hall, $5.1 million for Trivette Dining Hall, $2.7 million for the steam utility system, $1.2 million for New River Light and Power's utility system, buildings, and equipment, and $708 thousand for a new sprinkler system in East Residence Hall. These increases along with other smaller building projects and equipment purchases are offset by total depreciation/amortization of $19.4 million. It should be noted that the University restated $8.0 million in prior year expenses related to the 2013 energy savings. This restatement to the beginning balance of work in progress and net position for capital assets net was made based on additional guidance and review of state accounting policies for accounting for assets acquired through energy performance contracts. By capitalizing the savings project, the University's accounting treatment will be in line with the additional guidance released, state accounting policies, and will be more consistent with the reporting of other energy savings projects in the UNC System, in addition to future energy savings projects the University may enter.

The decrease in nondepreciable capital assets is primarily due to an increase in construction in progress of $28.1 million, offset by deletions to construction in progress of $34.9 million as buildings and infrastructure were capitalized as fixed assets, discussed above. Current year additions to construction in progress include renovations of Trivette Hall and Belk Residence Hall, renovation of Anne Belk Hall, and advance planning for the College of Health Sciences.

The decrease of $14.7 million, a 27.5% change, in other noncurrent assets is primarily attributable to a reduction in restricted noncurrent cash and equivalents and a reduction in restricted investments. Restricted noncurrent cash decreased primarily due to the spending of bond proceeds for renovations, a reduction in allotted cash for repairs and renovations, and a reduction of cash reclassified for current liabilities. The reduction related to the spending of bond proceeds represents a $10.2 million decrease and includes the renovations of Belk Residence Hall and Anne Belk Hall, in addition to the Plemmons Student Union addition. This is offset by approximately $1.4 million balance in a debt service fund for the first payment of the 2013 energy savings project liability. (See Table 1.1)

Table 1.1

Construction Fund Balances	2014	2015	$ Change
Student Union Renovation	$ 573,403	$ 0	$ (573,403)
Anne Belk Hall	3,391,555		(3,391,555)
Belk Residence Hall	8,856,268	2,551,449	(6,304,819)
	$ 12,821,226	$ 2,551,449	$ (10,269,777)
Offset by Cash in a Debt Service Fund for the 2013 ESCO			1,390,016
			$ (8,879,761)

Cash allotted for capital improvement projects decreased $2.1 million primarily related to the spending of repairs and renovations funds received in 2014. Ending balances for 2014 were $4.0 million and $1.2 million in 2015 representing a $2.8 million decrease that was offset by a $1.0 million increase in funds allotted for the advanced planning for the College of Health Sciences building.

As mentioned previously, a portion of noncurrent cash and equivalents are reclassified to restricted current cash and equivalents to cover current liabilities for the related projects. Since current liabilities decreased this fiscal year, the cumulative effect on restricted noncurrent cash in capital improvement funds results in an increase of $2.8 million that helps offset the overall decrease in restricted noncurrent cash and equivalents.

Lastly, there was a $6.9 million reduction in restricted investments. This 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 consist of disbursements to vendors from for the projects covered by the savings contract.

Deferred Outflows of Resources

Total deferred outflows of resources increased by $2.7 million for the year ending June 30, 2015. This increase is primarily due to the issuance of Series 2014C refunding bonds and the implementation of accounting standard GASB Statement No. 68. The deferred losses on refunding increased by $1.4 million. Of this amount, $1.9 million is related to a deferred loss resulting from the issuance of Series 2014C refunding bonds. This increase is offset by the amortization of deferred losses related to prior year refunding bonds totaling $467 thousand.

With the implementation of GASB Statement No. 68, the University was required to restate the beginning balance of deferred outflows related to pensions. This restatement totaled $6.9 million and represents the prior fiscal year contributions the University made to the TSERS retirement plan. The ending balance for the current year is comprised of $595 thousand changes in proportion and differences between employer contributions and proportionate share of contributions and $7.6 million in employer contributions for fiscal year 2015. The difference between the prior year contributions and current year contributions and changes totaled $1.3 million.

Total Liabilities

Total liabilities decreased by approximately $35.4 million from restated 2014 balances, a 10.4% decrease. This reduction was primarily due to a downward change in noncurrent long term liabilities of $36.9 million representing a 12.4% change. Most of this change was related to decreases in outstanding balances of revenue bonds payable and net pension liability. Revenue bonds payable decreased $9.2 million, down from $241.5 million outstanding at the end of 2014 to $232.3 million for fiscal year 2015.

The net pension liability beginning balance was restated for GASB Statement No. 68 and totaled $33.8 million. This amount represents the University's proportionate share of the net pension liability for the TSERS retirement system for the measurement date ending June 30, 2013. The ending net pension liability for fiscal year 2015 is $6.6 million and reflects $27.2 million in changes in the University's proportionate share of the net pension liability as of the June 30, 2014 measurement date.

Deferred Inflows of Resources

The 100.0% increase in deferred inflows of resources is for deferred inflows related to pensions as required by GASB Statement No. 68. The balance of deferred inflows related to pensions for the fiscal year ending 2015 is $23.9 million. This amount is primarily comprised of $22.3 million in differences between projected investment earnings and actual earnings of funds invested for the TSERS retirement system.

Net Position

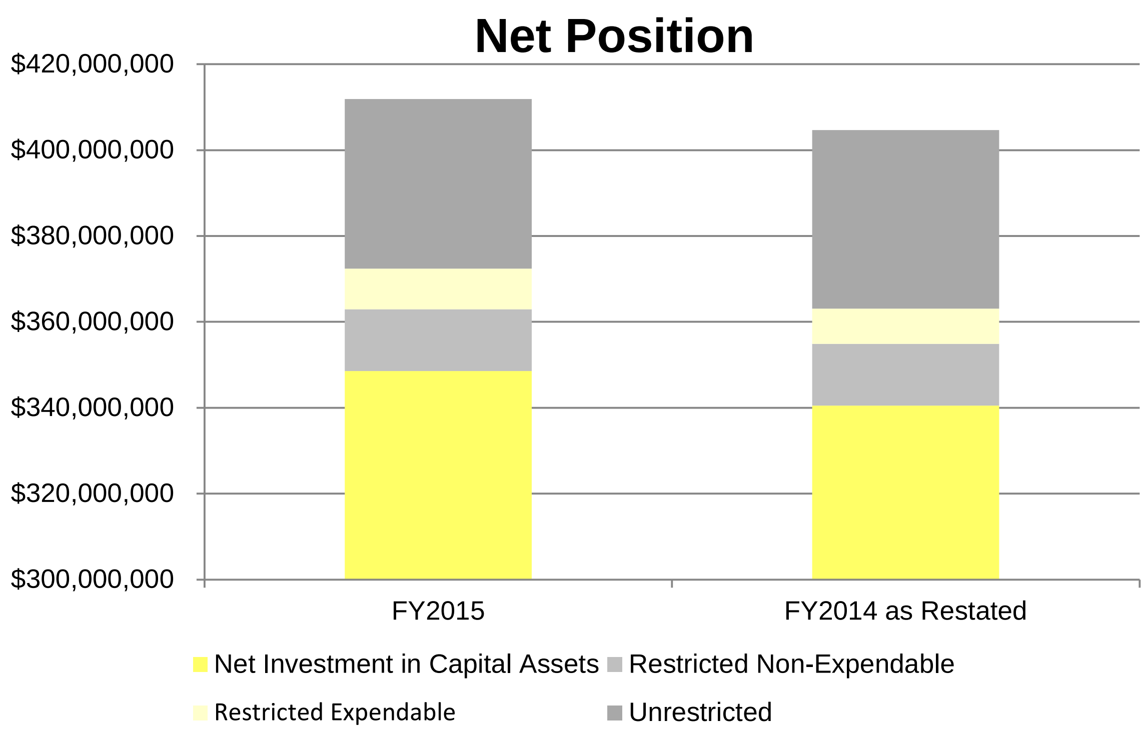
The change in net position from year to year is an indicator of the financial condition of the institution. It is comprised of net investment in capital assets, restricted nonexpendable net position, restricted expendable net position, and unrestricted net position. (Figure 1.2)

Net investment in capital assets represents the University's investment in assets such as buildings, land, general infrastructure, machinery and equipment, and other improvements less accumulated depreciation/amortization, outstanding principal balances of debt, and deferred outflows of resources related to the construction or acquisition of capital assets.

Restricted nonexpendable net position consists of loan funds, research funds, and endowment gifts with specific restrictions on spending the principal. Restricted expendable net position consist of income from endowment funds, gifts and pledges with specific restrictions, funds restricted to specific University programs either by legislation or other third party restrictions, unexpended debt proceeds, and grants from third party agencies with expenditure restrictions.

Unrestricted net position is comprised of fund balances that are not subject to external restrictions on use. Management may designate use of these funds for various institutional, academic, and other initiatives to support the mission of the University.

Figure 1.2



The implementation of GASB Statement No. 68 required a restatement to beginning fund balances. A beginning fund balance restatement totaling $26.9 million was posted to unrestricted net position. Overall, the University had an increase of $7.2 million in total net position when compared to the restated 2014 balances. The change was primarily due to the increase in net investment in capital assets of $8.0 million. The reason for this increase is the result of the 2013 energy savings project.

Statement of Revenues, Expenses, and Changes in Net Position

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

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

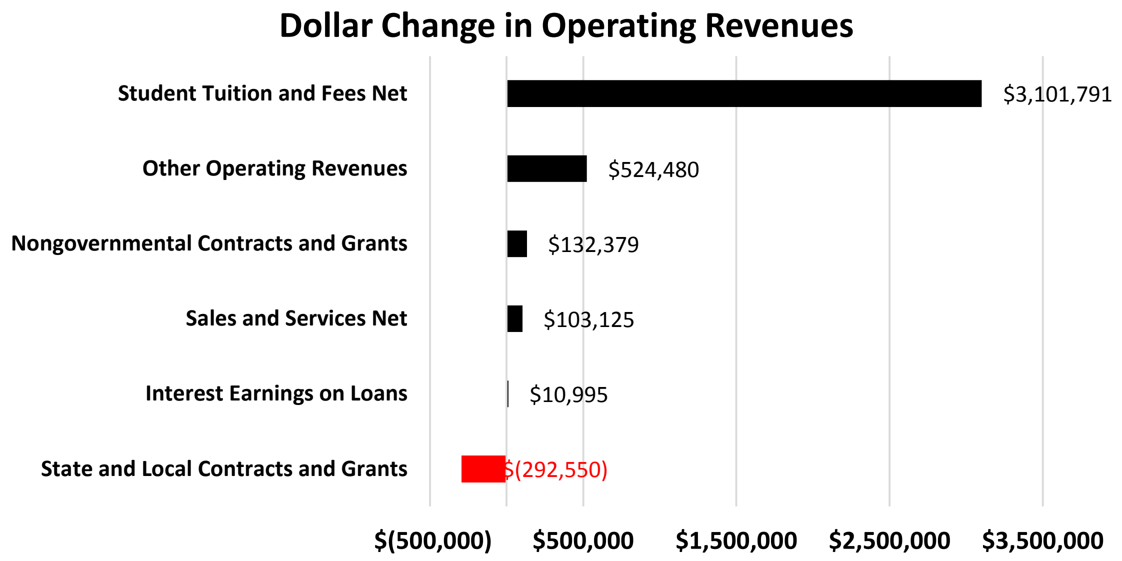
	Fiscal Year 2015	Fiscal Year 2014 (as Restated*)	$ Change	% Change
Operating Revenues				
Tuition and Fees, Net	$ 111,256,447	$ 108,154,656	$ 3,101,791	2.9
State and Local Grants and Contracts	302,250	594,800	(292,550)	(49.2)
Nongovernmental Grants and Contracts	1,194,523	1,062,144	132,379	12.5
Sales and Services, Net	79,805,194	79,702,069	103,125	0.1
Interest Earnings on Loans	39,172	28,177	10,995	39.0
Other Operating Revenues	1,953,429	1,428,949	524,480	36.7
Total Operating Revenues	194,551,015	190,970,795	3,580,220	1.9
Salaries and Benefits	223,467,598	218,478,767	4,988,831	2.3
Supplies and Materials	42,442,571	35,697,525	6,745,046	18.9
Services	42,041,899	45,804,069	(3,762,170)	(8.2)
Scholarships and Fellowships	22,903,243	22,376,540	526,703	2.4
Utilities	12,437,510	14,082,496	(1,644,986)	(11.7)
Depreciation / Amortization	19,446,910	18,782,624	664,286	3.5
Operating Expenses	362,739,731	355,222,021	7,517,710	2.1
Operating Loss	(168,188,716)	(164,251,226)	(3,937,490)	(2.4)
Nonoperating Revenues				
State Appropriations	127,004,801	127,551,885	(547,084)	(0.4)
Other Nonoperating Revenues	45,356,609	40,594,046	4,762,563	11.7
Net Nonoperating Revenues	172,361,410	168,145,931	4,215,479	2.5
Income Before Other Revenues	4,172,694	3,894,705	277,989	7.1
Capital Appropriations	3,002,611	6,048,736	(3,046,125)	(50.4)
Capital Gifts	91,791	837,495	(745,704)	(89.0)
Additions to Endowments	12,470	530,682	(518,212)	(97.7)
Total Other Revenues	3,106,872	7,416,913	(4,310,041)	(58.1)
Total Increase in Net Position	7,279,566	11,311,618	(4,032,052)	(35.6)
Net Position				
Net Position at Beginning of Year (prior to GASB 68 restatement)	404,645,525	420,227,198	(15,581,673)	(3.7)
Restatement to record the University's net pension liability and pension related deferred outflows of resources per GASB 68 requirements *	0	(26,893,291)	26,893,291	(100.0)
Net Position at End of Year (as restated)	$ 411,925,091	$ 404,645,525	$ 7,279,566	1.8
Reconciliation of Change in Net Position				
Total Revenues	$ 380,199,724	$ 378,828,724	$ 1,371,000	0.4
Less: Total Expenses	372,920,158	367,517,106	5,403,052	1.5
Increase in Net Position	$ 7,279,566	$ 11,311,618	$ (4,032,052)	(35.6)

*Note: The year ended June 30, 2014 column is restated for all items other than those related to the implementation of GASB 68. The restatement for GASB 68 is show as a separate line item because actuarial calculations performed relative to the implementation of GASB 68 do not provide sufficient information to restate these amounts.

Operating Revenues

Total operating revenues increased from $191.0 million in 2014 to $194.5 million in 2015. This represents a slight increase over the prior year of 1.9%. This is primarily due to a 2.9% increase in tuition and fee net revenue totaling $3.1 million. (Figure 2.0) The increase in tuition and fees can be mostly attributed to an increase in the 2014-15 academic year tuition rate for out-of-state undergraduates of $959, increases in fees for all students of $49 in general fees, and $33 for indebtedness fees.

Figure 2.0



Operating Expenses

Operating expenses increased by 2.1%, or $7.5 million, over last year. Increases in salaries and benefits of approximately $5.0 million as well as an increase in supplies and materials of $6.7 million were offset by decreases in expense primarily related to services, a reduction of $3.7 million, and utilities, which decreased by $1.6 million.

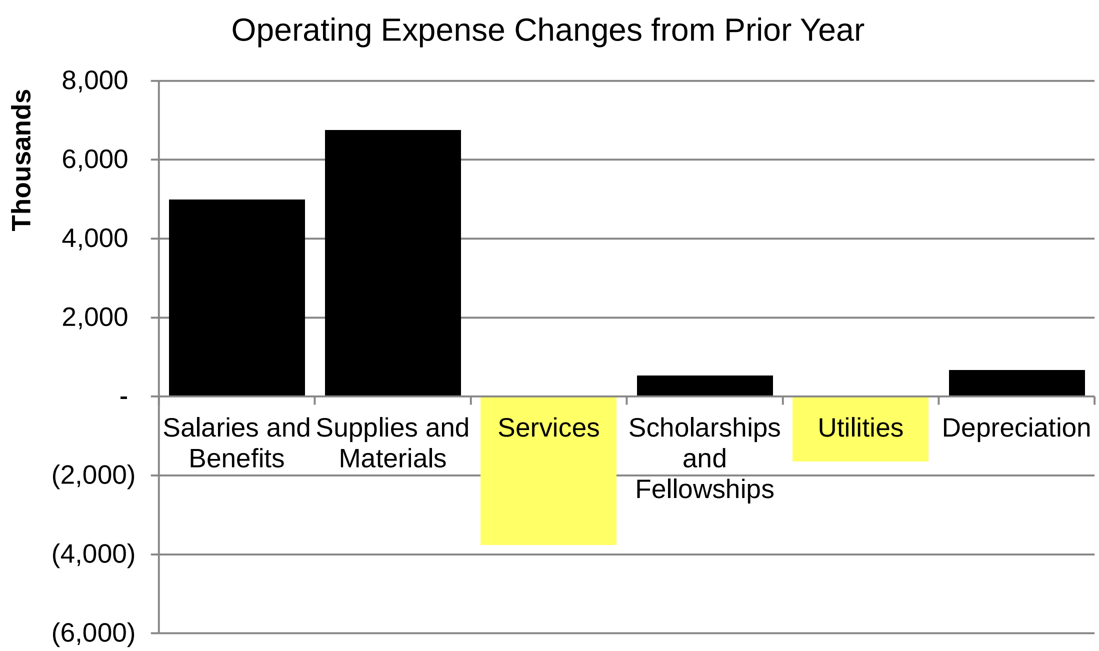
Increases in salaries and benefits were primarily attributable to increases in base pay for employees. Staff who are subject to the state personnel act (SPA) received a $1,000 legislative increase in base pay across all positions. Additionally, faculty and administrative staff positions (EPA) received a 2.5% increase in base pay.

Fewer expenses were capitalized in the 2014 fiscal year in comparison to the 2015 fiscal year. This primarily explains the $6.7 million increase in supplies and materials.

The decrease in services is primarily due to a reduction in building repairs of $3.7 million primarily related the capitalization of projects on the 2013 energy savings project, a $6.1 million decrease offset by an increase in services related to various repair and renovation projects totaling $2.1 million. Also notable is a 16.8% decrease in contracted personal services of $1.2 million.

Overall utilities expense fell 11.7% primarily related to decreases in expense for propane, natural gas, and electricity totaling $1.7 million. These decreases are the result of efficiencies gained through building and infrastructure improvements associated with the 2013 energy savings project. In the year the improvements are placed into service the savings remain with the University. For future years, the savings will cover debt payments for the associated note payable. (Figure 2.1)

Figure 2.1



Other Nonoperating Revenues and Expenses

In 2015, nonoperating revenues and expenses rose by 2.5% representing a $4.2 million change from the prior year. During the year, the University experienced a slight decrease in state appropriations totaling $547 thousand, 0.4%. The most notable increases were related to a $1.1 million increase in scholarship awards, a $1.1 million increase in noncapital grants, an increase of $1.8 million in noncapital gifts, and a reduction in other nonoperating expenses for $1.2 million primarily related to the disposal of Winkler Residence Hall that occurred in the prior fiscal year. These increases were offset by a decrease in investment earnings net of expenses, which totaled $1.2 million related to the performance of funds invested with UNC Management with the market growing at a slower pace than in 2014.

Other Revenues

Other revenues consist of capital appropriations, capital gifts, and additions to endowments. In 2015, other revenues decreased by 58.1% or a total of $4.3 million. This decrease was primarily due to the reduction of capital appropriations totaling $3.0 million. The reduction in capital appropriations relates to certificate of participation and repairs and maintenance. Certificates of participation related to the construction of the College of Education building decreased by $1.0 million as construction has been completed. Relative to the appropriations received in 2014, there was a decrease in appropriations for repairs and in the amount of $3.0 million. These decreases are offset by an additional $1.0 million, when comparing fiscal years 2015 to 2014, in state appropriations received for the planning of a new College of

Health Sciences building. Within other revenues, capital gifts and additions to endowments make an additional decrease. This marks a $1.2 million decrease.

Capital Assets and Debt Administration

Capitalized assets placed into service from construction in process primarily consisted of: $17.5 million related to the 2013 energy savings project, $7.2 million for Anne Belk Hall, $5.1 million for Trivette Dining Hall, $2.7 million for the steam utility system, $1.2 million for New River Light and Power's utility system, buildings, and equipment, and $708 thousand for a new sprinkler system in East Residence Hall.

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

- Belk Residence Hall Renovation: The $9.8 million renovation of Belk Residence Hall is in the construction phase. Construction is funded by Housing Construction Reserves and the issuance of Series 2014 A General Revenue Bonds issued in fiscal year 2014. Housing revenues pay the debt service requirements. This project has a projected completion date of August 2015.
- Winkler Residence Hall, New Construction: The University is currently accepting proposals for a construction manager at risk for a new residence hall. The new building with replace Winkler Hall, which was demolished in fiscal year 2014. Construction will be on the same site as the former Winkler Hall and it is anticipated that the new residence hall will accommodate 350 students. The estimated construction budget is $32.0 million. The University plans to fund construction from Housing Construction reserves and general revenue bonds to be issued in the future. Housing revenues will pay the debt service payments.
- College of Health Sciences: In 2013-2014, $2.0 million was allocated by the State for the planning and design of a new 200,000 square foot College of Health Sciences facility. An additional $3.0 million 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.
- Drainage Improvements to Recreation Fields: The University is working with the Town of Boone and the Army Corps of Engineers to make improvements to fields used by University Recreation in order to enhance storm water drainage in conjunction with their stream bank restoration project. There is $1.2 million budgeted for this project.
- Steam Utility System Upgrades: Upgrades to the steam system from the central steam plant to the Holmes Convocation Center are under way. This project will repair and replace steam and condensate lines. Phase I has a budget of $1.8 million and phase II is budgeted at $1.2 million.

During fiscal year 2015 the University advance refunded $21.4 million of UNC System Pool Revenue Bonds, Series 2006A. As a result of the refunding the university will realize a $2.8 million reduction in total debt service payments over the life of the debt. This represents a $2.3 million economic gain. (See Note 7 Long Term Liabilities Section D Bond Defeasances)

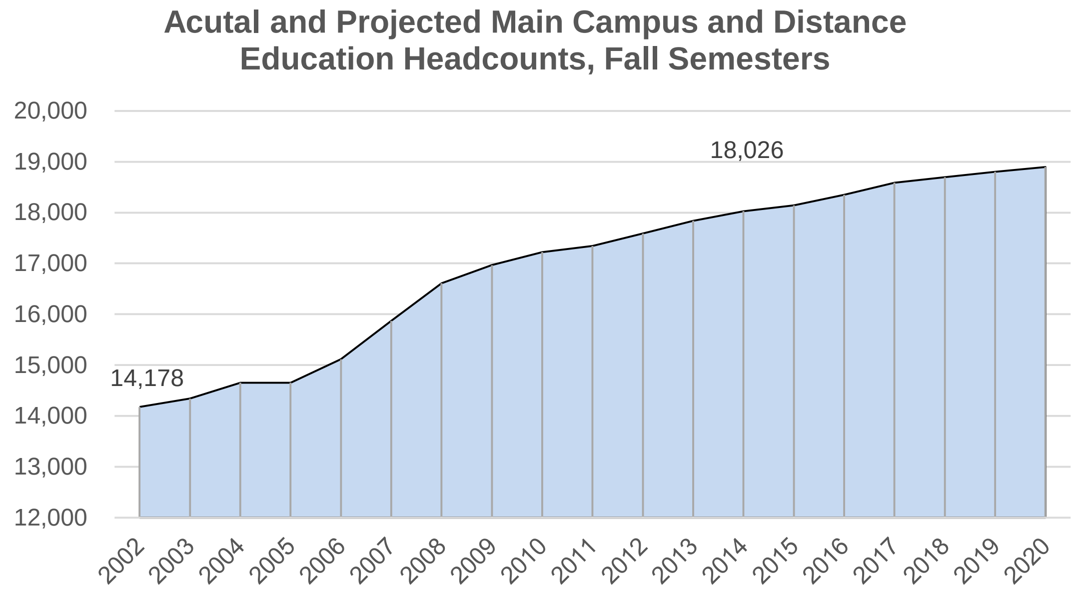
Total debt service payments were $23.5 million in 2015. Other significant reductions to bonds payable in the current year include $21.4 million for the refunding of the Series 2006A bonds, discussed above. In contrast, 2014 debt service payments totaled $22.9 million in addition to a reduction of $19.5 million for the refunding of Series 2005 bonds. For fiscal year 2015, debt service payments included bonds and notes payable for $23.0 million and $1.3 million for capital leases.

Economic Outlook

As of the financial reporting date for the 2014-2015 period, the North Carolina General Assembly had not approved a budget for the State. However, in preparation for fiscal year 2015-2016 the University has planned and prepared for an anticipated 2% reduction in state appropriations. This reduction will be managed by reducing departmental operating budgets, in addition to the elimination of vacant teaching, administrative, and staff positions based upon institutional and program needs. An increase for enrollment growth may be appropriated, which can help offset budget reductions.

Enrollment at the University remains strong. For the fall semester 2014, enrollment topped 18,000 for the first time. Main campus enrollment for undergraduates was 15,634 and 1,002 for graduates. Enrollment growth is anticipated to follow an upward trend in the future. (Figure 3.0)

Figure 3.0



Another positive indicator for the University is the retention and graduation rates. For 2015, the freshman to sophomore retention rate remained around 88%. Six year graduation rates increased from 68.5% to 69.6%. Additionally, the University remains a popular institution in the UNC system. For the 2014 fall semester, admissions received 18,046 in applications for first time freshmen, new transfers, and new graduate students. This represents an increase from 17,988 for the fall semester of 2013.

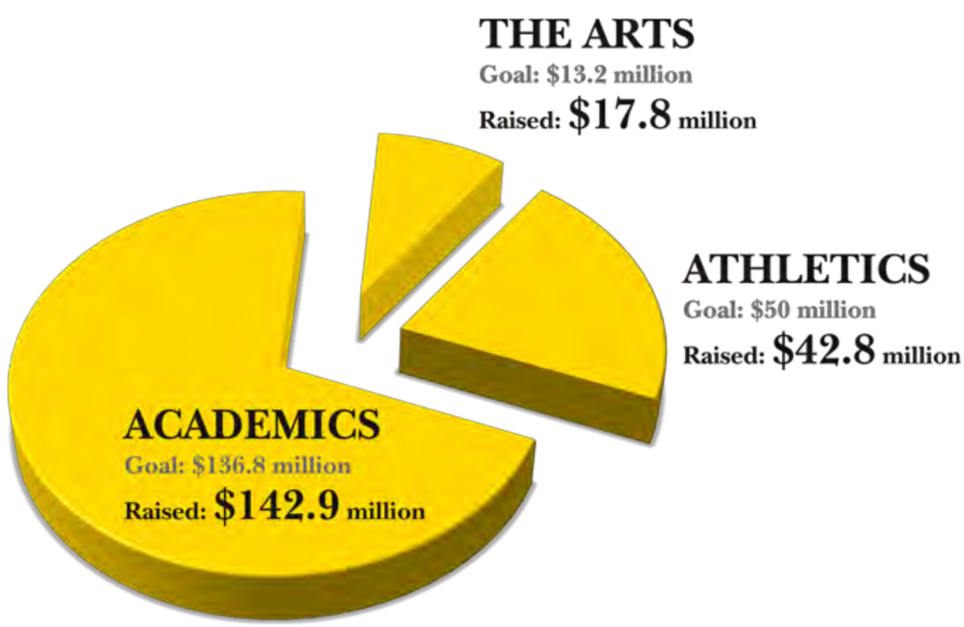
For the 2015-2016 academic year, the UNC Board of Governors approved tuition and fee increases. Tuition increased for in-state undergraduate students by $189, out-of-state undergraduate students by $847, in-state graduate students by $215, and out-of-state graduate students by $812. The additional tuition revenue will primarily be used to support faculty salaries.

For all students, general fee increases were approved for $92. This increase will support several different institutional and auxiliary programs that support and enhance the student's experience at the University. Tuition and fee recommendations to the Board are made through a formal process that involves faculty, staff, and students. Of the $92 increase in fees, $30 has been designated as a campus security fee. This fee provides funding for police officer and telecommunication compensation, trained investigators and hearings officers, Title IX and Clery Act compliance, and substance abuse and other counseling staff. Additionally, a portion of the fee will go towards system wide initiatives for example safety and security training.

The University has maintained a high position in the U.S. New & World Report rankings. The University was ranked 3rd among top public regional universities in the South and 10th among public and private universities in the South. The report also recognized Appalachian in its list of "Best Value Schools" and "Best Undergraduate Teaching" ranking 13th and 6th respectively. In a new category this year Appalachian was recognized in the list of "Most Innovative Schools" in a tie for 4th. Kiplinger's Personal Finance also listed Appalachian in its list of "Best College Values under $30,000 a Year".

The University's largest fundraising campaign concluded in 2015, raising $203.6 million and exceeding the $200.0 million goal. The campaign's contributions will support the University's academic and scholarship needs, program support, endowed professorships, cultural and visual arts programs, and athletic scholarships and facilities. A breakdown of the campaign is illustrated in the chart below.

Figure 3.1



FINANCIAL STATEMENTS

Appalachian State University
Statement of Net Position — Exhibit A-1
June 30, 2015 — Page 1 of 2

ASSETS		
Current Assets:		
Cash and Cash Equivalents	$	67,580,287
Restricted Cash and Cash Equivalents		7,131,771
Receivables, Net (Note 4)		6,662,292
Inventories		12,261,932
Notes Receivable, Net (Note 4)		624,274
Other Assets		14,667
Total Current Assets		94,275,223
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		3,624,677
Endowment Investments		14,013,556
Restricted Investments		11,365,640
Other Investments		6,546,186
Notes Receivable, Net (Note 4)		3,318,514
Capital Assets - Nondepreciable (Note 5)		51,210,220
Capital Assets - Depreciable, Net (Note 5)		542,552,229
Total Noncurrent Assets		632,631,022
Total Assets		726,906,245
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Loss on Refunding		6,700,119
Deferred Outflows Related to Pensions		8,199,731
Total Deferred Outflows of Resources		14,899,850
LIABILITIES		
Current Liabilities:		
Accounts Payable and Accrued Liabilities (Note 6)		13,314,490
Due to Primary Government		88,249
Unearned Revenue		7,845,070
Interest Payable		3,345,936
Long-Term Liabilities - Current Portion (Note 7)		16,370,980
Total Current Liabilities		40,964,725
Noncurrent Liabilities:		
Accounts Payable and Accrued Liabilities (Note 6)		300,000
Deposits Payable		194,899
Funds Held for Others		784,733
U. S. Government Grants Refundable		3,890,738
Long-Term Liabilities, Net (Note 7)		259,880,453
Total Noncurrent Liabilities		265,050,823
Total Liabilities		306,015,548
DEFERRED INFLOWS OF RESOURCES		
Deferred Inflows Related to Pensions		23,865,456

NET POSITION

Net Investment in Capital Assets		348,553,822
Restricted for:		
Nonexpendable:		
Research		20,000
Endowed Professorships		14,012,323
Loans		364,538
Expendable:		
Scholarships and Fellowships		525,562
Research		36,346
Endowed Professorships		8,601,389
Departmental Uses		154,339
Restricted for Specific Programs		145,603
Unrestricted		39,511,169
Total Net Position	$	411,925,091

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, 2015 — *Exhibit A-2*

REVENUES	
Operating Revenues:	
Student Tuition and Fees, Net (Note 9)	$ 111,256,447
State and Local Grants and Contracts	302,250
Nongovernmental Grants and Contracts	1,194,523
Sales and Services, Net (Note 9)	79,805,194
Interest Earnings on Loans	39,172
Other Operating Revenues	1,953,429
Total Operating Revenues	194,551,015
EXPENSES	
Operating Expenses:	
Salaries and Benefits	223,467,598
Supplies and Materials	42,442,571
Services	42,041,899
Scholarships and Fellowships	22,903,243
Utilities	12,437,510
Depreciation/Amortization	19,446,910
Total Operating Expenses	362,739,731
Operating Loss	(168,188,716)
NONOPERATING REVENUES (EXPENSES)	
State Appropriations	127,004,801
Noncapital Grants - Student Financial Aid	31,595,916
Noncapital Grants	9,163,754
Noncapital Gifts	11,753,434
Investment Income (Net of Investment Expense of $143,759)	2,836,566
Interest and Fees on Debt	(10,180,427)
Other Nonoperating Revenues	187,366
Net Nonoperating Revenues	172,361,410
Income Before Other Revenues	4,172,694
Capital Appropriations	3,002,611
Capital Gifts	91,791
Additions to Endowments	12,470
Increase in Net Position	7,279,566
NET POSITION	
Net Position - July 1, 2014, as Restated (Note 15)	404,645,525
Net Position - June 30, 2015	$ 411,925,091

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

Appalachian State University
Statement of Cash Flows — *Exhibit A-3*
For the Fiscal Year Ended June 30, 2015 — *Page 1 of 2*

CASH FLOWS FROM OPERATING ACTIVITIES	
Received from Customers	$ 193,345,329
Payments to Employees and Fringe Benefits	(226,883,536)
Payments to Vendors and Suppliers	(98,291,759)
Payments for Scholarships and Fellowships	(22,903,243)
Loans Issued	(1,013,702)
Collection of Loans	785,563
Interest Earned on Loans	18,316
Student Deposits Received	4,265,064
Student Deposits Returned	(4,347,143)
Other Receipts	1,978,917
Net Cash Used by Operating Activities	(153,046,194)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Appropriations	127,004,801
Noncapital Grants - Student Financial Aid	31,595,916
Noncapital Grants	9,211,998
Noncapital Gifts	10,761,623
Additions to Endowments	12,470
William D. Ford Direct Lending Receipts	90,574,783
William D. Ford Direct Lending Disbursements	(88,031,780)
Related Activity Agency Receipts	596,264
Related Activity Agency Disbursements	(335,538)
Other Receipts	378,362
Net Cash Provided by Noncapital Financing Activities	181,768,899
CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES	
Proceeds from Capital Debt	150,783
Capital Appropriations	3,002,611
Proceeds from Sale of Capital Assets	5,032
Acquisition and Construction of Capital Assets	(22,183,742)
Principal Paid on Capital Debt and Leases	(8,261,950)
Interest and Fees Paid on Capital Debt and Leases	(1,624,537)
Net Cash Used by Capital Financing and Related Financing Activities	(28,911,803)
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from Sales and Maturities of Investments	1,145,282
Investment Income	414,821
Purchase of Investments and Related Fees	(13,236,776)
Net Cash Used by Investing Activities	(11,676,673)
Net Decrease in Cash and Cash Equivalents	(11,865,771)
Cash and Cash Equivalents - July 1, 2014	90,202,506
Cash and Cash Equivalents - June 30, 2015	$ 78,336,735

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

Operating Loss	$	(168,188,716)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation/Amortization Expense		19,446,910
Allowances, Write-Offs, and Amortizations		(273,798)
Pension Expense		2,985,343
Nonoperating Other Income		991,811
Changes in Assets, Liabilities, and Deferred Outflows of Resources:		
Receivables, Net		122,336
Inventories		(2,301,218)
Notes Receivable, Net		(228,139)
Other Assets		(14,667)
Accounts Payable and Accrued Liabilities		118,922
Due to Primary Government		16,021
Unearned Revenue		915,728
Funds Held for Others - Student Deposits		(82,079)
Deferred Outflows for Contributions Subsequent to the Measurement Date		(7,605,144)
Compensated Absences		1,066,676
Deposits Payable		(16,180)
Net Cash Used by Operating Activities	$	(153,046,194)

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:		
Cash and Cash Equivalents	$	67,580,287
Restricted Cash and Cash Equivalents		7,131,771
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		3,624,677
Total Cash and Cash Equivalents - June 30, 2015	$	78,336,735

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through the Assumption of a Liability	$	7,791,812
Assets Acquired through a Gift		91,791
Change in Fair Value of Investments		2,233,503
Reinvested Distributions		(354,459)
Loss on Disposal of Capital Assets		(147,378)
Bond Issuance Cost Withheld		(207,858)
Amortization of Bond Premiums		(168,953)
Decrease in Receivables Related to Nonoperating Income		(2,591,247)
Payments Made on Behalf of the University		(22,671,897)
Funds Escrowed to Defease Debt		23,314,240
UNC Management Company Investment Management Fees		(143,759)

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, 2015

Exhibit B-1

ASSETS		
Cash	$	3,920,197
Contributions Receivable, Net		21,147,961
Other Receivables		33,980
Prepaid Expenses		5,163
Investments		91,614,587
Real Estate Held for Investment		4,642,500
Note Receivable		1,754
Beneficial Interests in Perpetual Trusts		1,549,126
Contributions Receivable from Trusts		1,955,393
Contributions Receivable from Irrevocable Bequests		4,968,179
Cash Surrender Value of Life Insurance		187,578
In-Kind Gifts		8,735
Property and Equipment, Net		1,896,500
Total Assets	$	131,931,653
LIABILITIES		
Accounts Payable and Accrued Expenses	$	130,545
Deferred Revenues		3,590
Long-Term Debt		4,412,035
Split Interest Agreement Obligations		1,982,314
Total Liabilities		6,528,484
NET ASSETS		
Unrestricted		6,092,461
Temporarily Restricted		54,999,821
Permanently Restricted		64,310,887
Total Net Assets		125,403,169
Total Liabilities and Net Assets	$	131,931,653

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, 2015

Exhibit B-2

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, GAINS, LOSSES AND OTHER SUPPORT				
Contributions	$ 3,435,295	$ 19,184,717	$ 1,894,196	$ 24,514,208
Investment Income	996,799	(291,108)	28,379	734,070
Auxiliary Income	102,892	79,802		182,694
Net Realized and Unrealized Gains (Losses) on Investments	43,130	1,388,616	(155,287)	1,276,459
Net Change in Beneficial Interests in Perpetual Trusts, Contributions Receivable from Trusts and Split Interest Agreement Obligations	(32,024)	(90,194)	(71,702)	(193,920)
Other Income	(2,505)	(1,997)		(4,502)
Net Assets Released from Restrictions	11,395,505	(11,395,505)		
Total Revenues, Gains, Losses, and Other Support	15,939,092	8,874,331	1,695,586	26,509,009
EXPENSES				
Program Services:				
General University Support	6,829,523			6,829,523
Student Financial Aid	4,923,065			4,923,065
Alumni Affairs	123,430			123,430
Other	241,313			241,313
Total Program Services	12,117,331			12,117,331
Supporting Services:				
General and Administrative	698,727			698,727
Fundraising	3,127,072			3,127,072
Total Supporting Services	3,825,799			3,825,799
Total Expense	15,943,130			15,943,130
Net Increase Allowance for Doubtful Contributions Receivable		(208,221)	(14,014)	(222,235)
Increase (Decrease) in Net Assets	(4,038)	8,666,110	1,681,572	10,343,644
NET ASSETS				
Net Assets at Beginning of Year	6,096,499	46,333,711	62,629,315	115,059,525
Net Assets at End of Year	$ 6,092,461	$ 54,999,821	$ 64,310,887	$ 125,403,169

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

Appalachian Student Housing Corporation
Consolidated Statement of Financial Position
June 30, 2015 *Exhibit B-3*

ASSETS		
Current Assets:		
Cash and Cash Equivalents	$	4,184,165
Accounts Receivable, Net		4,145
Sales Tax Refund Receivable		13,737
Prepaid Expenses		77,494
Net Investment in Direct Financing Lease		1,210,770
Total Current Assets		5,490,311
Property and Equipment, Net		19,902,812
Other Assets		
Deferred Financing Cost, Net		24,125
Net Investment in Direct Financing Lease		1,202,692
Assets Limited as to Use by Bond Order		900,000
Total Other Assets		2,126,817
Total Assets	$	27,519,940
LIABILITIES		
Current Liabilities		
Current Portion of Long-Term Debt	$	2,882,760
Accounts Payable		619,322
Accrued Expenses		64,610
Deferred Income		92,718
Total Current Liabilities		3,659,410
Long-Term Debt, Less Current Portion		4,673,920
Total Liabilities		8,333,330
NET ASSETS		
Unrestricted		19,186,610
Total Liabilities and Net Assets	$	27,519,940

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

Appalachian Student Housing Corporation
Consolidated Statement of Activities
For the Fiscal Year Ended June 30, 2015 — *Exhibit B-4*

REVENUES AND OTHER SUPPORT	
Net Rental Income	$ 4,326,823
Other Operating Revenue	81,078
Total Revenues and Other Support	4,407,901
EXPENSES	
Salaries and Benefits	351,236
Purchased Services	114,182
Professional Fees	18,352
Building	135,495
Utilities	586,894
Insurance	85,036
Depreciation	550,315
Amortization	11,299
Interest	140,316
Taxes	133,517
Advertising	8,750
Other	222,425
Total Expenses	2,357,817
OTHER INCOME	
Interest	4,509
Increase in Net Assets	2,054,593
NET ASSETS	
Net Assets at Beginning of Year	17,132,017
Net Assets at End of Year	$ 19,186,610

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

NOTES TO THE FINANCIAL STATEMENTS

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. See below for further discussion of the University's component units.

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 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-non-voting 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'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 consolidated financial statements due to the difference in its reporting model, as described below. Also included in the consolidated financial statements are the net assets and operations of Mountaineer Hall, LLC, a 100 percent-owned limited liability company formed April 21, 2010 to develop and construct a student housing facility on the campus of the University.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, 2015, the Foundation distributed $11,752,589 to the University for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from the Vice Chancellor for the 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, 2015, 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 at 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 is 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 in the following manner:

Asset Class	Estimated Useful Life
Buildings	10-100 years
Machinery & Equipment	2-30 years
General Infrastructure	10-75 years
Computer Software	2-30 years

The University's artworks and literary collections are capitalized at cost or fair value at the date of donation. These collections are considered inexhaustible and are therefore not depreciated.

I. **Restricted Assets** - Certain resources are reported as restricted assets because restrictions on asset use change the nature or normal understanding of the availability of the asset. Resources that are not available for current operations and are reported as restricted include resources restricted for the acquisition or construction of capital assets, resources legally segregated for the payment of principal and interest as required by debt covenants, unspent debt proceeds, and endowment and other restricted investments.

J. **Noncurrent Long-Term Liabilities** - Noncurrent long-term liabilities include principal amounts of revenue bonds payable, net pension liability, 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.

The net pension liability represents the University's proportionate share of the collective net pension liability reported in the State of North Carolina's 2014 *Comprehensive Annual Financial Report.* This liability represents the University's portion of the collective total pension liability less the fiduciary net position of the Teachers' and State Employees' Retirement System. See Note 11 for further information regarding the University's policies for recognizing liabilities, expenses, and deferred outflows and inflows related to pensions.

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 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, 2015, the amount shown on the Statement of Net Position as cash and cash equivalents includes $77,418,770 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 or subject to any other regulatory oversight and does not have a credit rating) had a weighted average maturity of 1.5 years as of June 30, 2015. 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, 2015 was $130,390. The carrying amount of the University's deposits not with the State Treasurer was $787,575 and the bank balance was $1,296,131. 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, 2015, the University's bank balance was exposed to custodial credit risk as follows:

Uninsured and Uncollateralized	$ 758,498

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 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, 2015, the University's investments include $29,150,564 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, 2015, for the University's non-pooled investments.

Non-Pooled Investments

	Fair Value	Investment Maturities (in Years) Less Than 1
Investment Type		
Debt Securities		
Money Market Mutual Funds	$ 2,652,990	$ 2,652,990
Other Securities		
International Mutual Funds	9,357	
Equity Mutual Funds	26,491	
Domestic Stocks	72,117	
Foreign Stocks (denominated in US dollars)	12,863	
Guaranty Capital - Medical Mutual Insurance	1,000	
Total Non-Pooled Investments	$ 2,774,818	

At June 30, 2015, the University's non-pooled investments included $2,652,990 in money market mutual funds with credit exposure for which Standard and poor's credit quality distribution was AAAm.

At June 30, 2015, 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	$ 72,117
Foreign Stocks (denominated in US dollars)	12,863
Total	$ 84,980

Total Investments - The following table presents the fair value of the total investments at June 30, 2015:

	Fair Value
Investment Type	
Debt Securities	
Money Market Mutual Funds	$ 2,652,990
Other Securities	
UNC Investment Fund	29,150,564
International Mutual Funds	9,357
Equity Mutual Funds	26,491
Domestic Stocks	72,117
Foreign Stocks (denominated in US dollars)	12,863
Guaranty Capital - Medical Mutual Insurance	1,000
Total Investments	$ 31,925,382

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	$ 19,263,774
Money Market Funds	7,758,268
Equity Investments	1,341,041
Fixed Income Investments	650,475
Alternative Investments	62,601,029
Total Investments	91,614,587
Real Estate Held for Investment	4,642,500
Total Investments and Real Estate Held for Investment	$ 96,257,087

C. Reconciliation of Deposits and Investments - A reconciliation of deposits and investments for the University as of June 30, 2015, is as follows:

Cash on Hand	$	130,390
Amount of Deposits with Private Financial Institutions		787,575
Deposits in the Short-Term Investment Fund		77,418,770
Investments in the UNC Investment Fund		29,150,564
Non-Pooled Investments		2,774,818
Total Deposits and Investments	$	110,262,117
Deposits		
Current:		
Cash and Cash Equivalents	$	67,580,287
Restricted Cash and Cash Equivalents		7,131,771
Noncurrent:		
Restricted Cash and Cash Equivalents		3,624,677
Total Deposits		78,336,735
Investments		
Noncurrent:		
Endowment Investments		14,013,556
Restricted Investments		11,365,640
Other Investments		6,546,186
Total Investments		31,925,382
Total Deposits and Investments	$	110,262,117

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 value at the end of the previous year. An earnings reserve must be held in each endowment account in an amount equal to 5% of the original contribution. Earnings in excess of the reserve amount as calculated at the end of the fiscal year are eligible for pay out. Realized and unrealized net capital losses that invade the original corpus amounts are recovered from accumulated income before any spending budgets are calculated. Subject to these limitations, the budgeted spending amount will be based on the net position value of each individual endowment fund. At June 30, 2015, net appreciation of $8,572,783 was available to be spent which 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, 2015, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	$ 3,438,434	$ 883,006	$ 2,555,428
Student Sponsors	2,369		2,369
Accounts	2,963,290	107,671	2,855,619
Intergovernmental	1,037,558		1,037,558
Interest on Loans	211,318		211,318
Total Current Receivables	$ 7,652,969	$ 990,677	$ 6,662,292
Notes Receivable:			
Notes Receivable - Current:			
Federal Loan Programs	$ 622,719	$ 0	$ 622,719
Institutional Student Loan Programs	4,290	2,735	1,555
Total Notes Receivable - Current	$ 627,009	$ 2,735	$ 624,274
Notes Receivable - Noncurrent:			
Federal Loan Programs	$ 3,995,495	$ 676,981	$ 3,318,514

NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2015, is presented as follows:

	Balance July 1, 2014 (as restated)	Increases	Decreases	Balance June 30, 2015
Capital Assets, Nondepreciable:				
Land	$ 33,548,567	$ 844,179	$ 0	$ 34,392,746
Art, Literature, and Artifacts	2,992,516	70,409		3,062,925
Construction in Progress	20,599,654	28,106,553	34,951,658	13,754,549
Total Capital Assets, Nondepreciable	57,140,737	29,021,141	34,951,658	51,210,220
Capital Assets, Depreciable:				
Buildings	635,047,048	30,863,936		665,910,984
Machinery and Equipment	48,911,185	1,848,749	1,295,164	49,464,770
General Infrastructure	70,886,067	4,069,848	12,598	74,943,317
Computer Software	449,197	210,420		659,617
Total Capital Assets, Depreciable	755,293,497	36,992,953	1,307,762	790,978,688
Less Accumulated Depreciation/Amortization for:				
Buildings	179,119,505	14,241,993		193,361,498
Machinery and Equipment	27,973,294	2,472,424	1,136,819	29,308,899
General Infrastructure	22,915,804	2,697,375	12,598	25,600,581
Computer Software	120,363	35,118		155,481
Total Accumulated Depreciation/Amortization	230,128,966	19,446,910	1,149,417	248,426,459
Total Capital Assets, Depreciable, Net	525,164,531	17,546,043	158,345	542,552,229
Capital Assets, Net	$ 582,305,268	$ 46,567,184	$ 35,110,003	$ 593,762,449

During the year ended June 30, 2015, the University incurred $11,005,993 in interest costs related to the acquisition and construction of capital assets. Of this total, $10,180,427 was charged in interest expense, and $825,566 was capitalized.

The University has pledged the energy savings improvements installed in its buildings and other structures financed through the UNC System Guaranteed Energy Savings Installment Financing Agreement (Agreement) dated September 1, 2014. The value of the energy savings improvement assets capitalized as construction in progress associated with the Agreement as of June 30, 2015 is $1,262,789 and is subject to the security provisions in the Agreement to ensure timely debt service payments. Additional information regarding the agreement can be found in Note 7.

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2015, were as follows:

		Amount
Current Accounts Payable and Accrued Liabilities		
Accounts Payable	$	8,411,942
Accrued Payroll		3,330,468
Contract Retainage		1,487,861
Intergovernmental Payables		84,219
Total Current Accounts Payable and Accrued Liabilities	$	13,314,490
Noncurrent Accounts Payable and Accrued Liabilities		
Accounts Payable	$	300,000

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, 2015, is presented as follows:

	Balance July 1, 2014 (As Restated)	Additions	Reductions	Balance June 30, 2015	Current Portion
Revenue Bonds Payable	$ 240,260,000	$ 21,210,000	$ 32,535,000	$ 228,935,000	$ 11,295,000
Plus: Unamortized Premium	1,247,643	2,304,583	168,953	3,383,273	
Total Revenue Bonds, Net	241,507,643	23,514,583	32,703,953	232,318,273	11,295,000
Net Pension Liability	33,791,292		27,183,527	6,607,765	
Notes Payable	21,003,607	1,495,951	601,875	21,897,683	1,362,156
Capital Leases Payable	4,134,319	102,902	1,260,075	2,977,146	1,724,055
Compensated Absences	11,383,891	10,440,869	9,374,194	12,450,566	1,989,769
Total Long-Term Liabilities, Net	$ 311,820,752	$ 35,554,305	$ 71,123,624	$ 276,251,433	$ 16,370,980

Additional information regarding capital lease obligations is included in Note 8.
Additional information regarding the net pension liability is included in Note 11.

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, 2015	Principal Outstanding June 30, 2015	See Table Below
Revenue Bonds Payable							
Utility System							
ASU Utility System Revenue Bonds	2011	3.14%	12/20/2021	$ 2,700,000	$ 945,000	$ 1,755,000	(1)
The University of North Carolina System Pool Revenue Bonds							
Broyhill Inn	(A)	3.82%	10/01/2015	990,000	860,000	130,000	
Broughton Renovation	(A)	4.27%	10/01/2026	3,755,000	575,000	3,180,000	
Dinning Hall	(A)	4.38%	10/01/2016	23,330,000	21,860,000	1,470,000	
Hoey Hall Renovation	(A)	4.25%	10/01/2016	6,980,000	6,345,000	635,000	
Student Recreation Center	(A)	4.13%	10/01/2021	7,680,000		7,680,000	
Utility System	(B)	4.28%	10/01/2023	19,230,000	3,920,000	15,310,000	
Cannon Hall	(B)	4.69%	10/01/2033	8,520,000	1,265,000	7,255,000	
Parking - Stadium	(B)	4.69%	10/01/2033	3,350,000	500,000	2,850,000	
New Field House Complex	(B)	4.69%	10/01/2033	20,600,000	3,030,000	17,570,000	
Stadium East Stands	(C)	4.65%	10/01/2034	8,370,000	1,035,000	7,335,000	
Frank Hall	(C)	4.65%	10/01/2034	7,060,000	875,000	6,185,000	
Cone Hall	(D)	4.35%	10/01/2035	8,880,000	865,000	8,015,000	
University Bookstore	(D)	3.76%	10/01/2027	5,000,000	1,040,000	3,960,000	
Stadium East Stands and Field House Complex	(D)	4.35%	10/01/2035	7,875,000	770,000	7,105,000	
Total The University of North Carolina System Pool Revenue Bonds				131,620,000	42,940,000	88,680,000	
ASU General Revenue Bonds							
ASU General Revenue Bonds - Housing, Athletics, Parking	2005	4.54%	07/15/2018	50,915,000	46,995,000	3,920,000	
ASU General Revenue Bonds - Housing, Student Union, Steam Tunnels	2011	4.07%	10/01/2036	60,435,000	3,805,000	56,630,000	
ASU General Revenue Bonds - Housing, Athletics, Student Rec Center	2012	2.84%	05/01/2028	26,495,000	4,450,000	22,045,000	
ASU General Revenue Bonds - Housing , Athletics, Parking	2014A	3.35%	07/15/2039	22,540,000	605,000	21,935,000	
ASU General Revenue Taxable Bonds - Housing, Athletics, Parking	2014B	2.95%	07/15/2025	12,965,000	205,000	12,760,000	
ASU General Revenue Bonds - Housing, Dining	2014C	2.77%	10/01/2031	21,210,000		21,210,000	
Total General Revenue Bonds				194,560,000	56,060,000	138,500,000	
Total Revenue Bonds Payable (principal only)				$ 328,880,000	$ 99,945,000	228,935,000	
Plus: Unamortized Premium						3,383,273	
Total Revenue Bonds Payable, Net						$ 232,318,273	

(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 revenue bonds 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 Utilities	$ 2,104,119	$ 1,788,449	$ 370,000	$ 71,533	11.7%

C. **Annual Requirements** - The annual requirements to pay principal and interest on the long-term obligations at June 30, 2015, are as follows:

	Annual Requirements			
	Revenue Bonds Payable		Notes Payable	
Fiscal Year	Principal	Interest	Principal	Interest
2016	$ 11,295,000	$ 9,678,556	$ 1,362,156	$ 779,870
2017	10,290,000	9,193,030	1,856,615	409,627
2018	10,780,000	8,717,542	1,863,416	371,128
2019	11,240,000	8,237,341	1,922,859	332,602
2020	11,700,000	7,763,527	1,983,792	292,865
2021-2025	63,825,000	30,445,149	8,366,147	901,427
2026-2030	55,100,000	17,240,460	4,542,698	183,066
2031-2035	41,990,000	7,023,388		
2036-2040	12,715,000	748,788		
Total Requirements	$ 228,935,000	$ 99,047,781	$ 21,897,683	$ 3,270,585

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

On November 25, 2014, the University issued $21,210,000 in Appalachian State University General Revenue Refunding Bonds, Series 2014C with an average interest rate of 3.82%. The bonds were issued to advance refund $21,375,000 of outstanding UNC System Pool Revenue Bonds, Series 2006A with an average interest rate of 4.96%. 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 $2,835,252 over the next 17 years and resulted in an economic gain of $2,282,699. At June 30, 2015, the outstanding balance was $21,375,000 for the defeased UNC System Pool Revenue Bonds, Series 2006A.

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, 2015, the outstanding balance of prior year defeased bonds was $31,785,000.

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

Purpose	Financial Institution	Interest Rate	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2015	Principal Outstanding June 30, 2015	See Table Above
Electric Utility	BB & T	4.56%	10/12/2016	$ 1,000,000	$ 850,000	$ 150,000	(1)
Energy Savings Project	Sun Trust Bank	2.27%	04/29/2022	5,263,401	1,511,586	3,751,815	
Energy Savings Project	T D bank	1.99%	07/01/2027	16,499,917		16,499,917	
UNC System Guaranteed Energy Savings Project	Banc of America Public Capital Corp	1.84%	02/14/2023	1,495,951		1,495,951	
Total Notes Payable				$ 24,259,269	$ 2,361,586	$ 21,897,683	

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 Line of Credit balance of $25,000 was repaid to PNC Bank in October 2014.

Effective March 3, 2015 the Foundation entered into a $2,000,000 revolving line of credit with Community One Bank that expires on March 3, 2020. The line bears interest at variable interest rate of LIBOR plus 1.25%, and is collateralized by outstanding pledge commitments. As of June 30, 2015, there were no borrowings against the revolving line of credit.

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, 2015 was $4,412,035. 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, 2015 are due in future years as follows:

Years		Amount
2016	$	304,179
2017		316,356
2018		329,974
2019		343,691
2020		357,978
Thereafter		2,759,857
	$	4,412,035

B. Appalachian Student Housing Corporation

Long term debt at June 30, 2015 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	$	5,156,680
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		2,400,000
Total Long-Term Debt		7,556,680
Less: Current Portions		2,882,760
Long-Term Debt, Less Current Portions	$	4,673,920

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

2016	$	2,882,760
2017		2,918,484
2018		1,755,436
	$	7,556,680

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.

NOTE 8 - LEASE OBLIGATIONS

A. Capital Lease Obligations - Capital lease obligations relating to buildings, land, and equipment are recorded at the present value of the minimum lease payments. Future minimum lease payments under capital lease obligations consist of the following at June 30, 2015:

Fiscal Year	Amount
2016	$ 1,756,958
2017	1,228,880
2018	16,855
2019	16,855
Total Minimum Lease Payments	3,019,548
Amount Representing Interest (1.04% to 7.11% Rate of Interest)	42,402
Present Value of Future Lease Payments	$ 2,977,146

Buildings, land, and equipment acquired under capital lease amounted to $17,880,324 at June 30, 2015. Depreciation for the capital assets associated with capital leases is included in depreciation expense, and accumulated depreciation for assets acquired under capital lease totaled $2,140,367 at June 30, 2015.

B. Operating Lease Obligations - The University entered into operating leases for equipment, office space, and other facilities. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2015:

Fiscal Year	Amount
2016	$ 1,283,577
2017	703,541
2018	377,884
2019	312,283
2020	312,283
2021-2025	1,561,415
2026-2030	1,014,920
Total Minimum Lease Payments	$ 5,565,903

Rental expense for all operating leases during the year was $1,919,402.

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, Net	$ 134,506,628	$ 0	$ 23,031,677	$ 218,504	$ 111,256,447
Sales and Services, Net:					
Sales and Services of Auxiliary Enterprises:					
Residential Life	$ 25,495,140	$ 699,511	$ 4,152,751	$ 39,020	$ 20,603,858
Dining	19,220,087	851,526	2,426,880	19,666	15,922,015
Student Union Services	409,118	58,190			350,928
Health, Physical Education, and Recreation Services	1,507,287	69,018		13,969	1,424,300
Bookstore	10,577,125	881,644	728,171	6,667	8,960,643
Parking	3,884,087	80,182		2,880	3,801,025
Camp Programs	3,813,123	232,369			3,580,754
Steam Utility System	6,811,729	6,811,729			
Athletic	6,375,180	14,097			6,361,083
Other	4,191,723	2,135,043	716,445	58,259	1,281,976
Sales and Services of Education and Related Activities	5,417,712	1,417,177	489,537		3,510,998
New River Light and Power	18,659,047	4,658,212		(6,779)	14,007,614
Total Sales and Services, Net	$ 106,361,358	$ 17,908,698	$ 8,513,784	$ 133,682	$ 79,805,194

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	$ 112,342,600	$ 2,398,266	$ 3,575,610	$ 631,935	$ 0	$ 0	$ 118,948,411
Research	1,405,850	369,399	706,613	19,441	357		2,501,660
Public Service	3,225,870	206,553	1,597,488	435,230	3,450		5,468,591
Academic Support	28,105,108	7,228,216	7,296,897	182,999	5,091		42,818,311
Student Services	7,264,874	193,428	1,232,791	196,788			8,887,881
Institutional Support	17,898,800	1,036,906	4,533,605		17,381		23,486,692
Operations and Maintenance of Plant	12,757,378	847,282	3,630,975		6,439,199		23,674,834
Student Financial Aid	477,872		70,098	18,780,681			19,328,651
Auxiliary Enterprises	38,834,107	19,571,090	18,528,701	2,645,929	5,972,032		85,551,859
New River Light and Power	1,155,139	10,591,431	869,121	10,240			12,625,931
Depreciation/Amortization						19,446,910	19,446,910
Total Operating Expenses	$ 223,467,598	$ 42,442,571	$ 42,041,899	$ 22,903,243	$ 12,437,510	$ 19,446,910	$ 362,739,731

NOTE 11 - PENSION PLANS

A. Defined Benefit Plan

Plan Administration: The State of North Carolina administers the Teachers' and State Employees' Retirement System (TSERS) plan. This plan is a cost-sharing, multiple-employer, defined benefit pension plan established by the State to provide pension benefits for general employees and law enforcement officers (LEOs) of the State, general employees and LEOs of its component units, and employees of Local Education Agencies (LEAs) and charter schools not in the reporting entity. Membership is comprised of employees of the State (state agencies and institutions), universities, community colleges, and certain proprietary component units along with the LEAs and charter schools. Benefit provisions are established by General Statute 135-5 and may be amended only by the North Carolina General Assembly.

Benefits Provided: TSERS provides retirement and survivor benefits. Retirement benefits are determined as 1.82% of the member's average final compensation times the member's years of creditable service. A member's average final compensation is calculated as the average of a member's four highest consecutive years of compensation. General employee plan members are eligible to retire with full retirement benefits at age 65 with five years of creditable service, at age 60 with 25 years of creditable service, or at any age with 30 years of creditable service. General employee plan members are eligible to retire with partial retirement benefits at age 50 with 20 years of creditable service or at age 60 with five years of creditable service. Survivor benefits are available to eligible beneficiaries of general members who die while in active service or within 180 days of their last day of service and who also have either completed 20 years of creditable service regardless of age, or have completed five years of service and have reached age 60. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions. The plan does not provide for automatic post-retirement benefit increases. Increases are contingent upon actuarial gains of the plan.

Contributions: Contribution provisions are established by General Statute 135-8 and may be amended only by the North Carolina General Assembly. Employees are required to contribute 6% of their compensation. The contribution rate for employers is set each year by the NC General Assembly in the Appropriations Act based on the actuarially-determined rate recommended by the actuary. The University's contractually-required contribution rate for the year ended June 30, 2015 was 9.15% of covered payroll. The University's contributions to the pension plan were $7,605,144, and employee contributions were $4,986,980 for the year ended June 30, 2015.

The TSERS Plan's financial information, including all information about the plan's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fiduciary net position, is included in the State of North Carolina's fiscal year 2014 *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.

TSERS Basis of Accounting: The financial statements of the TSERS plan were prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has a legal requirement to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan. The plan's fiduciary net position was determined on the same basis used by the pension plan.

Methods Used to Value TSERS Investment: Pursuant to *North Carolina General Statutes*, the State Treasurer is the custodian and administrator of the retirement systems. The State Treasurer maintains various investment portfolios in its Investment Pool. The pension trust funds are the primary participants in the Long-term Investment portfolio and the sole participants in the External Fixed Income Investment, Equity Investment, Real Estate Investment, Alternative Investment, Credit Investment, and Inflation Protection Investment portfolios. The investment balance of each pension trust fund represents its share of the fair market value of the net position of the various portfolios within the pool. Detailed descriptions of the methods and significant assumptions regarding investments of the State Treasurer are provided in the 2014 *Comprehensive Annual Financial Report*.

Net Pension Liability: At June 30, 2015, the University reported a liability of $6,607,765 for its proportionate share of the collective net pension liability. The net pension liability was measured as of June 30, 2014. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2013, and update procedures were used to roll forward the total pension liability to June 30, 2014. The University's proportion of the net pension liability was based on the present value of future salaries for the University relative to the present value of future salaries for all participating employers, actuarially-determined. As of June 30, 2014, the University's proportion was 0.5636%, which was an increase of 0.0070% from its proportion measured as of June 30, 2013.

Actuarial Assumptions: The following table presents the actuarial assumptions used to determine the total pension liability for the TSERS plan at the actuarial valuation date:

Valuation Date	12/31/2013
Inflation	3%
Salary Increases*	4.25% - 9.10%
Investment Rate of Return**	7.25%

* Salary increases include 3.5% inflation and productivity factor.
** Investment rate of return is net of pension plan investment expense, including inflation.

TSERS currently uses mortality tables that vary by age, gender, employee group (i.e. teacher, general, law enforcement officer) and health status (i.e. disabled and healthy). The current mortality rates are based on published tables and based on studies that cover significant portions of the U.S. population. The healthy mortality rates also contain a provision to reflect future mortality improvements.

The actuarial assumptions used in the December 31, 2013 valuations were based on the results of an actuarial experience study for the period January 1, 2005 through December 31, 2009.

Future ad hoc Cost of Living Adjustment (COLA) amounts are not considered to be substantively automatic and are therefore not included in the measurement.

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2014 (the valuation date) are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return
Fixed Income	2.5%
Global Equity	6.1%
Real Estate	5.7%
Alternatives	10.5%
Credit	6.8%
Inflation Protection	3.7%

The information above is based on 30-year expectations developed with the consulting actuary for the 2013 asset, liability and investment policy study for the North Carolina Retirement Systems. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.19%. All rates of return and inflation are annualized.

Discount Rate: The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate: The following presents the net pension liability of the plan calculated using the discount rate of 7.25%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.25%) or 1-percentage point higher (8.25%) than the current rate:

Net Pension Liability (Asset)		
1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
$ 47,435,118	$ 6,607,765	$ (27,864,987)

Deferred Inflows of Resources and Deferred Outflows of Resources Related to Pensions: For the year ended June 30, 2015, the University recognized pension expense of $2,985,343. At June 30, 2015, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Employer Balances of Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions by Classification:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Actual and Expected Experience	$ 0	$ 1,540,234
Changes of Assumptions		
Net Difference Between Projected and Actual Earnings on Pension Plan Investments		22,325,222
Change in Proportion and Differences Between Agency's Contributions and Proportionate Share of Contributions	594,587	
Contributions Subsequent to the Measurement Date	7,605,144	
Total	$ 8,199,731	$ 23,865,456

The amount of $7,605,144 reported as deferred outflows of resources related to pensions will be included as a reduction of the net pension liability in the fiscal year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Schedule of the Net Amount of the Employer's Balances of Deferred Outflows of Resources and Deferred Inflows of Resources That will be Recognized in Pension Expense:

Year ended June 30:	Amount
2016	$ (5,830,820)
2017	(5,830,820)
2018	(5,830,820)
2019	(5,778,409)
Total	$ (23,270,869)

B. Defined Contribution Plan - The Optional Retirement Program (Program) is a defined contribution pension 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, 2015, 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 $182,317,466, of which $76,149,372 was covered under the Optional Retirement Program. Total employer and employee contributions for pension benefits for the year were $5,208,617 and $4,568,962, respectively. The amount of pension expense recognized in the current year related to ORP is equal to the employer contributions less $208,394 in forfeitures. At June 30, 2015 the University had an accrued contribution amount of $8,091.

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 (TSERS) or the Optional Retirement Program (ORP). 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 TSERS 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 5.49% of the covered payroll under TSERS and ORP to the Fund. Required contribution rates for the years ended June 30, 2014, and 2013, were 5.40% and 5.30%, respectively. The University made 100% of its annual required contributions to the Plan for the years ended June 30, 2015, 2014, and 2013, which were $8,743,687, $8,201,682, and $7,935,118, 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 TSERS and ORP. 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, 2015, the University made a statutory contribution of .41% of covered payroll under TSERS and ORP to the DIPNC. Required contribution rates for the years ended June 30, 2014, and 2013, was .44% in both years. The University made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2015, 2014, and 2013, which were $652,989, $668,285, and $658,764, 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.

A. Employee Benefit Plans

1. State Health Plan

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.

2. Death Benefit Plan of North Carolina

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.

B. Other Risk Management and Insurance Activities

1. Automobile, Fire, and Other Property Losses

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.

2. Public Officers' and Employees' Liability Insurance

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.

3. Employee Dishonesty and Computer Fraud

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.

4. Statewide Workers' Compensation Program

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.

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.

5. **Other Insurance Held by the University**

The University retained the following risks as of June 30, 2015.

The University purchased other authorized coverage form 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.

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 $5,325,263 and on other purchases were $3,147,106 at June 30, 2015.

B. **Pending Litigation and Claims** - The University is a party to litigation and claims in the ordinary course of its operations. Since it is not possible to predict the ultimate outcome of these matters, no provision for any liability has been made in the financial statements. University management is of the opinion that the liability, if any, for any of these matters will not have a material adverse effect on the financial position of the University.

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

Purpose	Amount
Professorship in the College of Health Sciences	$ 674,376

NOTE 15 - NET POSITION RESTATEMENT

As of July 1, 2014, net position as previously reported was restated as follows:

	Amount
July 1, 2014 Net Position as Previously Reported	$ 423,535,154
Restatement:	
Record the University's Net Pension Liability and Pension Related Deferred Outflows of Resources Per GASB 68 Requirements	(26,893,291)
Capitalize Energy Performance Contract Expense from Prior Periods	8,003,662
July 1, 2014 Net Position as Restated	$ 404,645,525

In fiscal year 2015 the University made two restatements to beginning net position balances. The first totaling $26,893,291 is related to a change in accounting principle as a result of the implementation of GASB 68 *Accounting and Financial Reporting for Pensions*.

The second, for $8,003,662, is related to an energy performance contract the University entered in fiscal year 2013. The contract, for which the University recorded a $16,499,917 note payable, involved 21 buildings and an exterior lighting project. Construction and installation of equipment was completed in fiscal year 2015. In 2013 the University evaluated the projects based on the guidance available and determined the majority of costs met the criteria to be expensed as maintenance.

In fiscal year 2015 the UNC System entered into an energy performance contact for lighting that involved several campuses. As a result, UNC General Administration published guidance related to accounting for energy performance contacts. UNC GA also updated the system's Capital Assets Standards to include requirements for recording and reporting for the "Acquisition of Energy Conservation Assets". Accounting for the system wide contract would be administered centrally and the entire project would be capitalized. In light of the new guidance and the fact that the University's share of the new energy performance contract would be capitalized, management determined a review of the expenses related to the 2013 agreement was necessary.

After reviewing each component of the project using the Office of the State Controller's policy 102.3, the new guidance from UNC GA, and having additional conversations with the engineer leading the project, management determined that the University should have capitalized the entire project since the work performed had a significant impact on the assets and produces significant savings over time.

REQUIRED SUPPLEMENTARY INFORMATION

Appalachian State University
Required Supplementary Information
Schedule of the Proportionate Net Pension Liability
Teachers' and State Employees' Retirement System
Last Two Fiscal Years ***Exhibit C-1***

	2014	2013
(1) Proportionate Share Percentage of Collective Net Pension Liability	0.5636%	0.5566%
(2) Proportionate Share of TSERS Collective Net Pension Liability	$ 6,607,765	$ 33,791,292
(3) Covered-Employee Payroll	$ 79,589,512	$ 79,073,247
(4) Net Pension Liability as a Percentage of Covered-Employee Payroll	8.30%	42.73%
(5) Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	98.24%	90.60%

Appalachian State University
Required Supplementary Information
Schedule of University Contributions
Teachers' and State Employees' Retirement System
Last Ten Fiscal Years

Exhibit C-2

	2015	2014	2013	2012	2011
(1) Contractually Required Contribution	$ 7,605,144	$ 6,916,329	$ 6,586,802	$ 5,756,472	$ 3,982,952
(2) Contributions in Relation to the Contractually Determined Contribution	7,605,144	6,916,329	6,586,802	5,756,472	3,982,952
(3) Contribution Deficiency (Excess)	$ 0	$ 0	$ 0	$ 0	$ 0
(4) Covered-Employee Payroll	$ 83,116,332	$ 79,589,512	$ 79,073,247	$ 77,371,931	$ 80,790,099
(5) Contributions as a Percentage of Covered-Employee Payroll	9.15%	8.69%	8.33%	7.44%	4.93%

	2010	2009	2008	2007	2006
(1) Contractually Required Contribution	$ 2,838,461	$ 2,621,773	$ 2,163,331	$ 1,707,518	$ 1,352,980
(2) Contributions in Relation to the Contractually Determined Contribution	2,838,461	2,621,773	2,163,331	1,707,518	1,352,980
(3) Contribution Deficiency (Excess)	$ 0	$ 0	$ 0	$ 0	$ 0
(4) Covered-Employee Payroll	$ 79,382,154	$ 78,023,010	$ 70,718,284	$ 64,192,413	$ 57,819,672
(5) Contributions as a Percentage of Covered-Employee Payroll	3.58%	3.36%	3.06%	2.66%	2.34%

Appalachian State University
Notes to Required Supplementary Information
Schedule of University Contributions
Teachers' and State Employees' Retirement System
For the Fiscal Year Ended June 30, 2015

Changes of Benefit Terms:

Cost of Living Increase

2014	2013	2012	2011	2010	2009	2008	2007	2006
N/A	1.00%	N/A	N/A	N/A	2.20%	2.20%	3.00%	2.00%

Changes of assumptions. In 2008, and again in 2012, the rates of withdrawal, mortality, service retirement and salary increase for active members and the rates of mortality for beneficiaries were adjusted to more closely reflect actual experience. Assumptions for leave conversions and loads were also revised in 2012.

Independent Auditor's Report

STATE OF NORTH CAROLINA
Office of the State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0600
Telephone: (919) 807-7500
Fax: (919) 807-7647
http://www.ncauditor.net

Beth A. Wood, CPA
State Auditor

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

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, 2015, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated November 12, 2015. Our report includes a reference to other auditors who audited the financial statements of the Appalachian State University Foundation, Inc. and the Appalachian Student Housing Corporation, as described in our report on the University's financial statements. The financial statements of the Appalachian State University Foundation, Inc. and the Appalachian Student Housing Corporation were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with the Appalachian State University Foundation, Inc. and the Appalachian Student Housing Corporation.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, 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 12, 2015

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Bill Holmes
Director of External Affairs
919-807-7513

NC OSA
The Taxpayers' Watchdog

This audit required 772 hours at an approximate cost $76,428.