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, 2016

A CONSTITUENT INSTITUTION OF THE UNIVERSITY OF NORTH CAROLINA SYSTEM AND A COMPONENT UNIT OF THE STATE OF NORTH CAROLINA

The Taxpayers' Watchdog

STATE OF NORTH CAROLINA

Office of the State Auditor

Beth A. Wood, CPA
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AUDITOR'S TRANSMITTAL

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

We have completed a financial statement audit of Appalachian State University for the year ended June 30, 2016, 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

Beth A. Wood, CPA
State Auditor

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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

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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 (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, 2016, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Appalachian State University Foundation, Inc. or the Appalachian Student Housing Corporation, the University's discretely presented component units. Those statements were audited by other auditors, whose reports have been furnished to us, and our opinions, insofar as they relate to the amounts included for those entities, are based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the Appalachian State University Foundation, Inc. and the Appalachian Student Housing Corporation were not audited in accordance with *Government Auditing Standards*.

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, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters – Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis 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 December 6, 2016 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the University's internal control over financial reporting and compliance.

Beth A. Wood

Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

December 6, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

Overview of the Financial Statement Information

The management's discussion and analysis summarizes information from the financial statements and the notes to the financial statements. It provides an analytical overview of activities that have occurred during the year which affect the fiscal year-end financial position. The following discussion and analysis provides an overview of the activities and financial position only for Appalachian State University (the University) for the years ended June 30, 2016 and 2015.

The University is a constituent institution of the multi-campus University of North Carolina System (UNC System), which is a component unit of the State of North Carolina. 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, and Notes to the Financial Statements. The notes provide additional information that is essential to understanding the financial statements.

In addition to the University's financial statements and accompanying notes, information for two component units is presented. The Statements of Financial Position, Statements of Activities, and certain notes to the financial statements for the Appalachian State University Foundation Inc. and the Appalachian Student Housing Corporation are discretely presented alongside the University financial statements; however, the component units are not included in management's discussion and analysis. More information describing the relationship between the University and it's discretely presented component units can be found in Note 1A, Significant Accounting Policies - Financial Reporting Entity.

Adoption of New Accounting Standards

For the fiscal year ended June 30, 2016, the University implemented GASB Statement No. 72 - *Fair Value Measurement and Application*, which provides guidance on which assets and liabilities should be measured at fair value and requires additional disclosures in the notes to the financial statements. The standard expands the use of fair value to almost all investments, clarifies the definition of investments to focus on assets that are held primarily for the generation of income, and provides a hierarchy of valuation methods used to measure fair value. In addition, donated assets are now required to be reported at "acquisition price", which is a shift from using a value derived from the organization's perspective to a market based value. Additional information regarding fair value measurements can be found in Note 3, Fair Value Measurements.

Statement of Net Position

The Condensed Statement of Net Position below presents:

- The resources owned by the University or owed to the University (Assets);
- The consumption of net position related to a future reporting period (Deferred Outflows of Resources);
- What the University owes or has received before services have been provided (Liabilities);
- The acquisition of net position related to a future reporting period (Deferred Inflows of Resources);

- The residual of: Assets + Deferred Outflows of Resources – Liabilities – Deferred Inflows of Resources (Net Position).

This statement is similar to a balance sheet and presents the University's financial position at a single point in time. Prior year balances have been included for comparison and discussion.

Condensed Statement of Net Position

	Fiscal Year 2016	Fiscal Year 2015	$ Change	% Change
Assets				
Current Assets	$ 99,389,955	$ 94,275,223	$ 5,114,732	5.4
Capital Assets, Net	590,807,137	593,762,449	(2,955,312)	(0.5)
Other Noncurrent Assets	37,788,836	38,868,573	(1,079,737)	(2.8)
Total Assets	727,985,928	726,906,245	1,079,683	0.1
Deferred Outflows of Resources	17,479,081	14,899,850	2,579,231	17.3
Liabilities				
Current Liabilities	36,547,178	40,964,725	(4,417,547)	(10.8)
Long-Term Liabilities, Net	266,672,966	259,880,453	6,792,513	2.6
Other Noncurrent Liabilities	4,847,626	5,170,370	(322,744)	(6.2)
Total Liabilities	308,067,770	306,015,548	2,052,222	0.7
Deferred Inflows of Resources	4,739,484	23,865,456	(19,125,972)	(80.1)
Net Position				
Net Investment in Capital Assets	356,164,293	348,553,822	7,610,471	2.2
Restricted - Nonexpendable	14,305,122	14,396,861	(91,739)	(0.6)
Restricted - Expendable	10,542,418	9,463,239	1,079,179	11.4
Unrestricted	51,645,922	39,511,169	12,134,753	30.7
Total Net Position	$ 432,657,755	$ 411,925,091	$ 20,732,664	5.0

Overall, net position increased by 5.0%, representing a $20.7 million increase over fiscal year 2015. This change 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.

Total Assets

Total assets remained relatively unchanged with only a slight increase. The almost $1.1 million increase includes a $5.1 million increase in current assets that was offset by an approximate $3.0 million decrease in capital assets and a $1.0 million decrease in other noncurrent assets.

Taking a closer look at current assets reveals that the increase is primarily related to an approximate $4.7 million increase in cash and cash equivalents when compared to the prior year combined with increases in receivables and other assets totaling $1.4 million. (Figure 1.0)

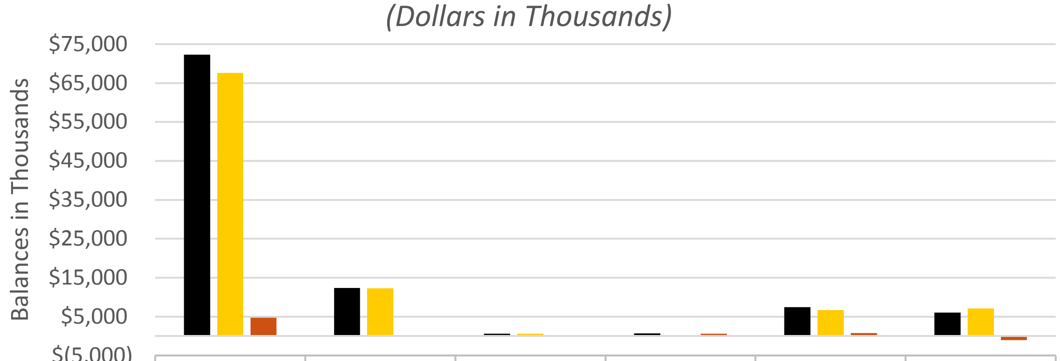
The increase in cash and cash equivalents is mostly related to increased cash balances in Education and Technology (Ed & Tech) trust funds and auxiliary services trust funds. The change in Ed & Tech trust funds totaled $2.4 million and is primarily a result of a 5.05% increase in student fees for technology in 2015-2016 combined with decreases in operating expenses. The balance of these funds is budgeted for purchases related to technology infrastructure, academic technology, and classroom technology needs for campus.

The most significant changes in cash balances for auxiliary trust funds occurred in dining services and residential life. Dining cash balances increased by $1.4 million primarily related to an increase in revenues combined with decreases in operating expenses. Residential life revenues grew by $1.5 million primarily as a result of increases in room rates for the 2015-2016 academic year and the availability of additional rooms with the completion of Belk Residence Hall renovations. Other auxiliary and trust funds that experienced increases in cash balances include the university bookstore, athletics, student union, and the unrestricted endowment fund totaling $3.3 million.

These increases were offset by decreases in cash balances in utility system trust funds, New River Light and Power, university recreation, and health services. Decreases in these funds totaled $4.2 million.

Increases in current assets were offset by a decrease in current restricted cash and cash equivalents. This decrease of $1.1 million is primarily related to payments made from current restricted cash for payables that became due in fiscal year 2016 for the renovation of Belk Residence Hall.

Figure 1.0
Analysis of Current Assets
(Dollars in Thousands)



	Cash and Cash Equivalents	Inventories	Notes Receivable, Net	Other Assets	Receivables, Net	Restricted Cash and Cash Equivalents
FY2016	$72,261	$12,354	$638	$656	$7,423	$6,058
FY2015	$67,580	$12,262	$624	$15	$6,662	$7,132
$ Change	4,681	92	14	641	761	(1,074)

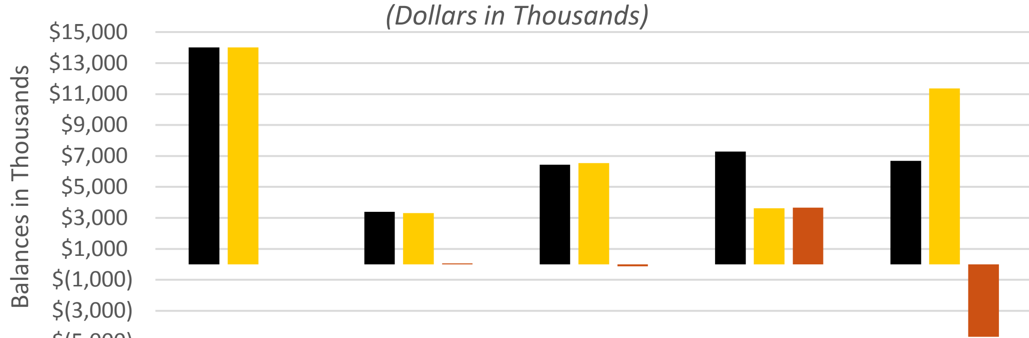
Decreases in noncurrent assets are a result of changes in depreciable and nondepreciable capital assets, 0.5%, and other noncurrent assets, 2.8%.

Capital assets, net of depreciation, decreased by almost $3.0 this fiscal year. This decrease is primarily due to net increases in accumulated depreciation of $18.5 million, which exceeds additions and disposals of assets totaling $15.5 million. Nondepreciable assets, such as land, construction in progress, art, artifacts, and historical collections, increased by nearly

$2.1 million. Depreciable assets, net of accumulated depreciation, decreased by approximately $5.1 million. The change was primarily related to a decrease in balances related to buildings. Additional information regarding capital assets is included in the section Capital Assets and Debt Administration that follows.

Other noncurrent assets decreased by approximately $1.1 million and was primarily a result of a decrease in restricted investments of nearly $4.7 million offset by an increase in noncurrent restricted cash and cash equivalents totaling almost $3.7 million. (Figure 1.1) The decrease in restricted investments is mostly attributable to $2.6 million in disbursements from money market mutual funds used for payments related to the completion of work for two energy performance contracts that involved the installation of equipment and improvements in buildings to reduce energy consumption. Also, $1.5 million in decreases was drawn down from endowment investment earnings to fund operating expenses for endowed professorships. These decreases were countered by an increase in noncurrent restricted cash resulting from $2.7 million in remaining bond proceeds for New River Light and Power and $946 thousand allotted for other capital improvement projects on campus.

Figure 1.1
Analysis of Noncurrent Assets Excluding Capital Assets
(Dollars in Thousands)



	Endowment Investments	Notes Receivable	Other Investments	Restricted Cash and Cash Equivalents	Restricted Investments
FY2016	$14,014	$3,384	$6,429	$7,284	$6,678
FY2015	$14,014	$3,319	$6,546	$3,625	$11,366
$ Change	0	65	(117)	3,659	(4,688)

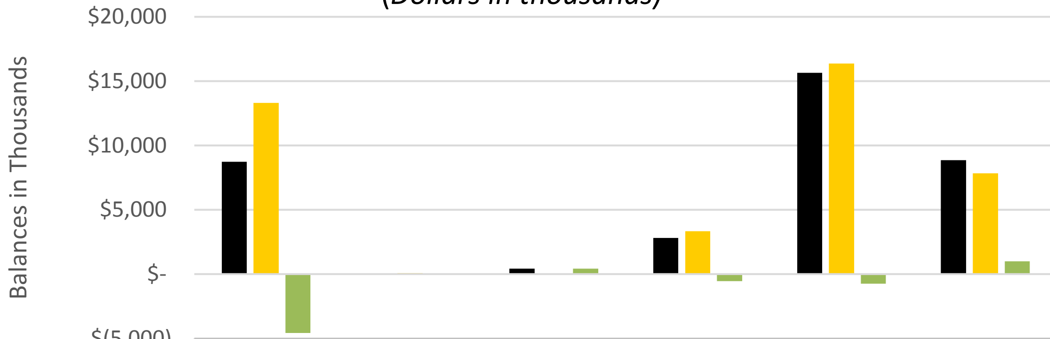
Deferred Outflows of Resources

Total deferred outflows of resources increased by approximately $2.6 million, or 17.3%, for the fiscal year ended June 30, 2016. Deferred loss on refunding increased by $1.6 million due to the issuance of Series 2016A refunding (refinancing) bonds, net of current year amortization of losses related to bonds issued in prior years. The $929 thousand increase in deferred outflows related to pensions is primarily related to the change in contributions to the Teachers' and State Employees' Retirement System (TSERS) during the measurement period.

Total Liabilities

Total liabilities increased by almost $2.1 million representing a slight 0.7% increase. This change was primarily due to an increase in noncurrent long-term liabilities of approximately $6.8 million, reduced by a 10.8% decrease in current liabilities, which totaled $4.4 million. The majority of the change in current liabilities resulted from nearly a $4.6 million decrease in accounts payable. This can be attributed to less accounts payable and accrued liability balances at year end 2016 related to capital improvement projects that were completed as compared to 2015 when the University had large projects in progress. (Figure 1.2)

Figure 1.2
Analysis of Current Liabilities
(Dollars in thousands)



	Accounts Payable and Accrued Liabilities	Due to Primary Government	Funds Held for Others	Interest Payable	Long-Term Liabilities - Current Portion	Unearned Revenue
FY2016	$8,746	$45	$436	$2,822	$15,642	$8,856
FY2015	$13,314	$88		$3,346	$16,371	$7,845
$ Change	(4,568)	(43)	436	(524)	(729)	1,011

The most significant change in net long-term liabilities resulted from a $14.7 million increase in the University's proportionate share of the State's pension liability for the TSERS retirement plan. This increase is mostly attributable to the difference in projected versus actual investment earnings for the plan. The large increase is mostly offset by decreases in bonds, notes, and capital leases payable totaling $8.5 million. These reductions are primarily a result of the regularly scheduled retirement of debt.

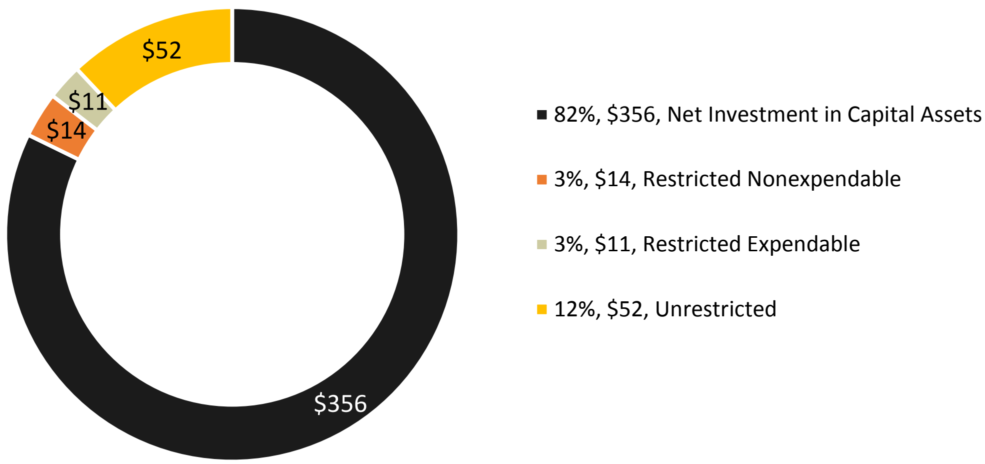
Deferred Inflows of Resources

An 80.1% decrease in deferred inflows of resources is also related to changes affecting the TSERS retirement plan. The balance of deferred inflows related to pensions for the fiscal year ended 2016 is $4.7 million as compared to almost $23.9 million in fiscal year 2015. The decrease is mostly due to differences between projected investment earnings and actual earnings of funds invested for the retirement system.

Net Position

Net position represents the difference between the University's assets and deferred outflows of resources less liabilities and deferred inflows of resources. 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 1.3)

Figure 1.3
Net Postion *(Dollars in Millions)*



Net investment in capital assets represents the University's investment in capital assets, such as buildings, land, general infrastructure, machinery and equipment, and other improvements, net of accumulated depreciation/amortization, outstanding principal balances of capital related debt, deferred loss on refunding, and other liabilities 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 balance. Restricted expendable net position consists of income from endowment funds, gifts and pledges with specific restrictions, funds restricted to specific university programs, either by legislation or other third-party restrictions, unexpended capital project funds not related to 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.

Overall, the University had an increase of $20.7 million in total net position when compared to 2015. The change was primarily due to the increase in unrestricted net position of $12.1 million and the increase in net investment of capital assets totaling $7.6 million. The explanation for these changes is the result of the fiscal year activity as discussed above in addition to the information presented next by the discussion of the activity reported in the Statement of Revenues, Expenses, and Changes in Net Position.

Statement of Revenues, Expenses, and Changes in Net Position

The Statement of Revenues, Expenses, and Changes in Net Position (condensed, comparative table presented below) presents the University's operating and nonoperating revenues, operating and nonoperating expenses, and other revenues.

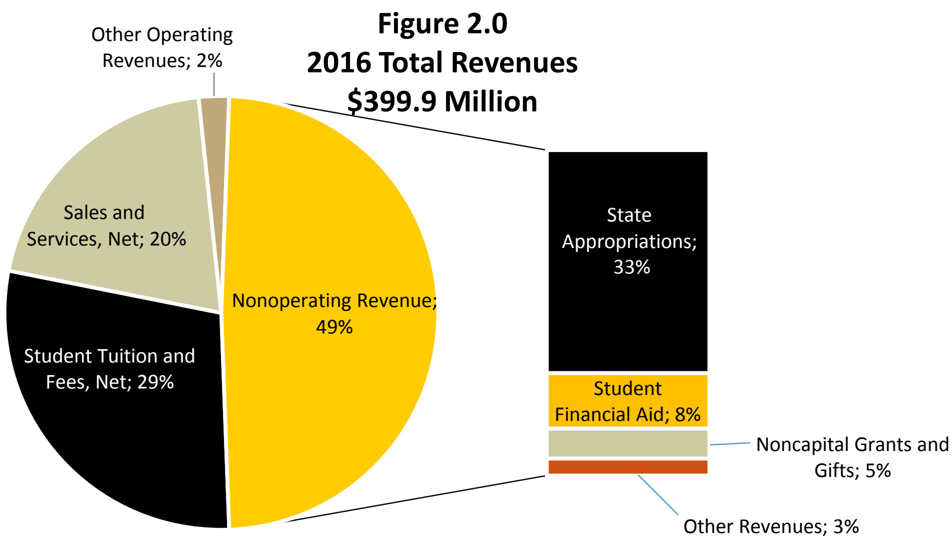
Condensed Statement of Revenues, Expenses, and Changes in Net Position

	Fiscal Year 2016	Fiscal Year 2015 (as Restated)	$ Change	% Change
Operating Revenues				
Student Tuition and Fees, Net	$ 114,819,207	$ 111,256,447	$ 3,562,760	3.2
Grants and Contracts*	7,187,409	3,640,594	3,546,815	97.4
Sales and Services, Net	80,758,600	79,805,194	953,406	1.2
Other Operating Revenues	1,864,717	1,992,601	(127,884)	(6.4)
Total Operating Revenues	204,629,933	196,694,836	7,935,097	4.0
Operating Expenses				
Salaries and Benefits	230,614,262	223,467,598	7,146,664	3.2
Supplies and Materials	40,915,818	42,442,571	(1,526,753)	(3.6)
Services	43,290,980	42,041,899	1,249,081	3.0
Scholarships and Fellowships	22,292,193	22,903,243	(611,050)	(2.7)
Utilities	10,482,173	12,437,510	(1,955,337)	(15.7)
Depreciation/Amortization	20,397,827	19,446,910	950,917	4.9
Total Operating Expenses	367,993,253	362,739,731	5,253,522	1.4
Operating Loss	(163,363,320)	(166,044,895)	2,681,575	(1.6)
Nonoperating Revenues (Expenses)				
State Appropriations	133,764,390	127,004,801	6,759,589	5.3
Other Nonoperating Revenues	51,270,863	53,536,974	(2,266,111)	(4.2)
Nonoperating Expenses	(11,190,940)	(10,324,186)	(866,754)	8.4
Net Nonoperating Revenues	173,844,313	170,217,589	3,626,724	2.1
Income Before Other Revenues	10,480,993	4,172,694	6,308,299	151.2
Other Revenues				
Capital Appropriations	2,782,121	3,002,611	(220,490)	(7.3)
Capital Gifts	7,456,580	91,791	7,364,789	8,023.4
Additions to Endowments	12,970	12,470	500	4.0
Total Other Revenues	10,251,671	3,106,872	7,144,799	230.0
Total Increase in Net Position	20,732,664	7,279,566	13,453,098	184.8
Net Position				
Net Position at Beginning of Year	411,925,091	404,645,525	7,279,566	1.8
Net Position at End of Year	$ 432,657,755	$ 411,925,091	$ 20,732,664	5.0
Reconciliation of Change in Net Position				
Total Revenues	$ 399,916,857	$ 380,343,483	$ 19,573,374	5.1
Less: Total Expenses	379,184,193	373,063,917	6,120,276	1.6
Total Increase in Net Position	$ 20,732,664	$ 7,279,566	$ 13,453,098	184.8

*In 2016, the University reexamined its classification of grant revenue related to exchange and exchange like transactions in accordance with GASB standards. As a result, the University recorded grant revenues as operating that had been previously reported as nonoperating. The 2015 balances have been adjusted to reflect this change for purposes of comparison. The net position beginning balances were not affected.

Total Revenues

Total revenues for the University are comprised of operating revenues, nonoperating revenues, and other revenues. Figure 2.0 provides an illustration of how each of these categories make up total revenues. It is important to note that state appropriations are reported as nonoperating even though these appropriations are used in the day-to-day operations of the campus. These revenues are considered nonoperating as opposed to operating revenues because the University is not providing services or goods in exchange for this appropriation.



Operating Revenues

Total operating revenues increased from almost $196.7 million in 2015 to $204.6 million in 2016. This represents an increase over the prior year of 4.0%. This is primarily due to a 3.2% increase in student tuition and fee revenue totaling approximately $3.6 million and a $3.5 million increase in grants and contracts. The increase in student tuition and fees can be mostly attributed to a 5% increase in campus based tuition and a 3.45% increase in general and debt service fees.

Increases in grants and contracts revenues are primarily related to the growth of the University's GEAR UP college awareness program that works with 11 school districts in the State. In 2016 the grant award from the U.S. Department of Education increased by $3.1 million.

Nonoperating Revenues

In fiscal year 2016, nonoperating revenues rose by $4.5 million over the prior year. The most significant increase came from state appropriations, which increased nearly $6.8 million. The increased funding primarily relates to allocations for enrollment growth in addition to legislative salary increases and one-time employee bonuses.

Another factor that impacted nonoperating revenues was a $3.0 million decrease in investment earnings, which is primarily related to the performance of funds invested with

UNC Management. After generating healthy earnings for the past several years, the investment fund experienced its first down year since 2009 ending with a negative 2.0% return. Several market factors that produced positive results in 2015 reversed in 2016. In general, 2016 was a difficult year for endowment portfolios as international equities lagged behind domestic equities, most hedge fund indices were negative, and energy and commodity backed investments did not perform as well as they had in previous years. On the other hand, the fund's 3, 5, and 10 year returns remained strong.

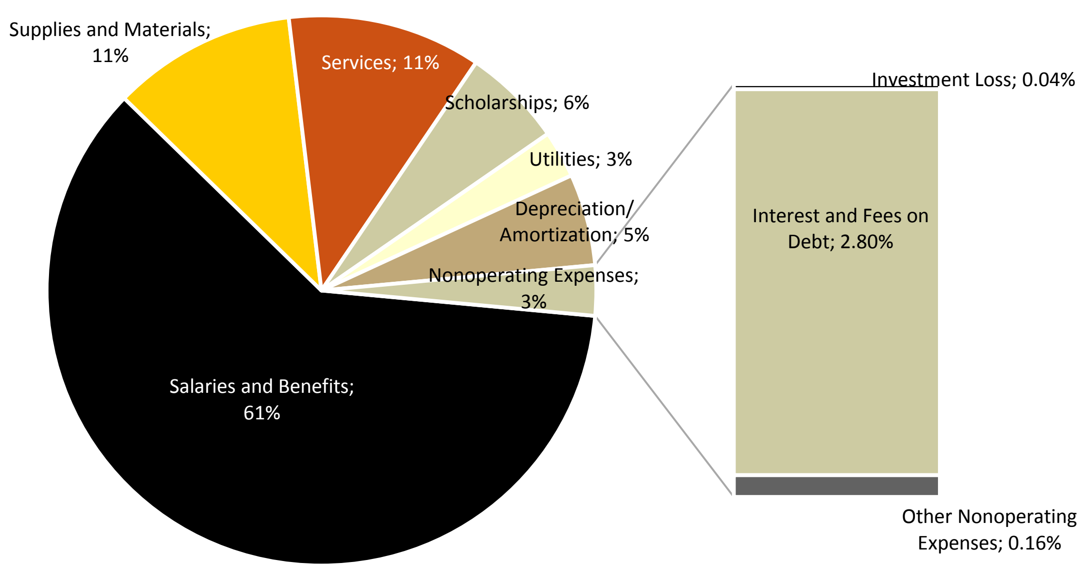
Other Revenues

Other revenues consist of capital appropriations, capital gifts, and additions to endowments. In fiscal year 2016, other revenues increased by $7.1 million. This increase is mostly due to the increase in capital gifts, which includes a $7.0 million donation of land from the Appalachian Regional Health Care System. This property will be the future sight of the Beaver College of Health Sciences, which is currently under construction.

Total Expenses

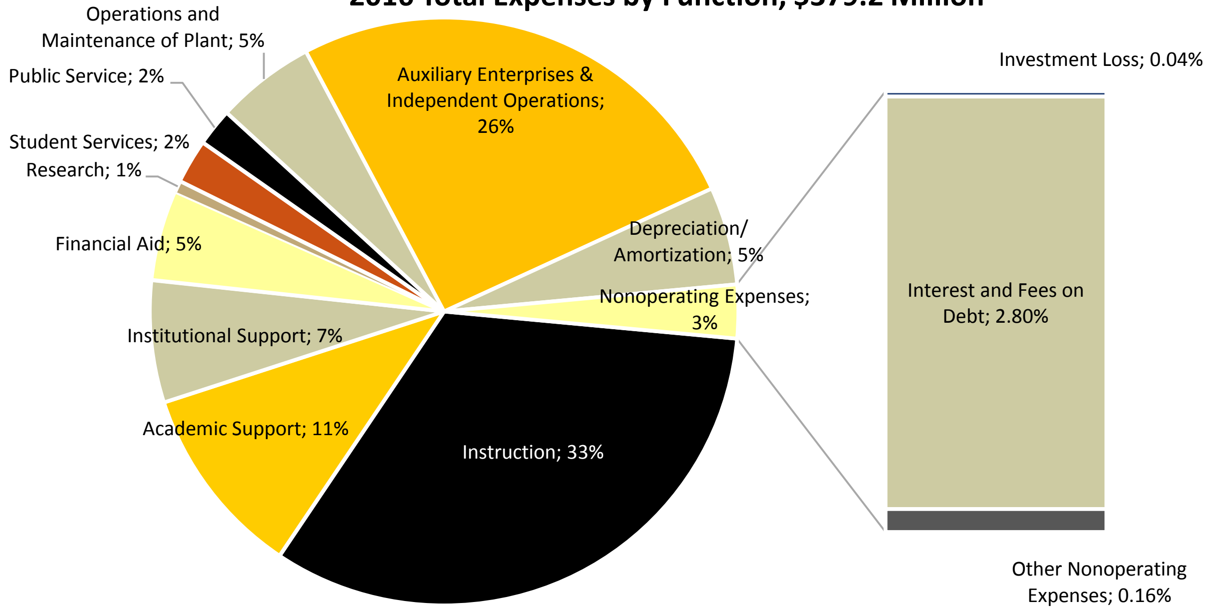
The Statement of Revenues, Expenses, and Changes in Net Position reports expenses by natural classification. Figure 2.1 is a graphic representation of this natural classification and shows what types of activities generate expenses incurred during the year.

Figure 2.1
2016 Total Expenses by Natural Classification, $379.2 Million



Additional information related to expenses is disclosed in the notes to the financial statements. Note 11 of the University's financial statements allows readers to review expenses by function. Figure 2.2 is a graphical representation of expenses by function with nonoperating expenses included.

Figure 2.2
2016 Total Expenses by Function, $379.2 Million



Operating Expenses

Operating expenses increased slightly by 1.4% or a total of $5.2 million. Increases in salaries and benefits of $7.1 million were offset by decreases in expenses primarily related to supplies and materials and utilities totaling $1.5 million and $1.9 million, respectively.

Increases in salaries and benefits of 3.2% were primarily attributable to a one-time bonus and some salary increases. All state employees received a $750 legislative bonus. Additionally, faculty and administrative staff positions exempt from the Human Resources Act received increases in base pay as part of the annual raise process.

The decrease in supplies and materials is primarily due to a change in the cost of goods purchased for resale by New River Light and Power.

Similar to fiscal year 2015, utilities expense fell 15.7% primarily related to decreases in expense for propane, natural gas, fuel oil, and electricity totaling $1.9 million. These decreases are the result of efficiencies gained through building and infrastructure improvements associated with phase I and II of the University's energy performance contract in addition to an energy lighting contract entered into as a part of a UNC System savings contract.

Nonoperating Expenses

Nonoperating expenses include interest and fees on debt, investment expense, and other nonoperating expenses. In total, nonoperating expenses increased by $877 thousand. The most prominent change occurred in interest and fees on debt and other nonoperating expenses. In 2016, the University paid $295 thousand more in interest and fees related to debt than in the previous year. The change in other nonoperating expenses is primarily related to accounting losses on the sale of assets. The most notable sale in 2016 was the sale of the Washington House. This was a property owned by the Endowment Fund that the University had used in the past for academic programs and other studies in Washington, DC. Due to changes in zoning regulations, the University was no longer able to use the property in the same capacity, therefore the property was sold. The sale resulted in a $193 thousand accounting loss.

Capital Assets and Debt Administration

Increases in depreciable assets of almost $17.1 million for fiscal year 2016 included the following amounts being moved from construction in progress: $9.1 million for Belk Residence Hall, $1.5 million for the UNC Lighting Project, $2.1 million for steam projects, $408 thousand for grease trap projects, and $376 thousand for New River Light and Power's Utility System. These increases, along with other smaller projects, are offset by total depreciation/amortization of nearly $20.4 million.

An increase in nondepreciable capital assets is primarily due to an increase in land of $7.1 million of which $7.0 million was a donated tract for the College of Health Sciences. This increase was offset by a net decrease in construction in progress of $5.1 million. Current year additions to work in progress include advance planning for the new health sciences building, advance planning for a new residence hall, and the renovation of academic space in Panhellenic Hall for Fermentation Sciences and Howard Street Hall. (See Note 6 Capital Assets).

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

- Beaver College of Health Sciences: This academic facility will provide 203,000 gross square feet of space for the College of Health Sciences. Construction began in early July 2016 and is scheduled for completion for the Fall of 2018. The total project is budgeted for $80 million with $5 million provided by the State for advanced planning, an additional $5 million is budgeted from private donations, and the remaining $70 million will be allotted from the State from the Connect NC bond proceeds, which began disbursement in September 2016.
- New Residence Hall Construction: The new building will 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 project has been approved for $32 million. The University plans to fund construction from housing construction reserves and $24 million in general revenue bonds to be issued toward the end of calendar year 2016 (See Note 17 Subsequent Events for details on the issuance of the general revenue bonds). Housing revenues will pay the debt service payments.

During fiscal year 2016, the University advance refunded $23.7 million of UNC System Pool Revenue Bonds, Series 2008A with Series 2016A General Revenue Bonds. As a result of the refunding the University will realize a $3.8 million reduction in total debt service payments over the life of the debt. This represents a $3.1 million economic gain. (See Note 8 Long-Term Liabilities, Section D - Bond Defeasances). Also, the University has refunded two additional UNC System Pool Revenue Bonds after June 30, 2016. (See Note 17 Subsequent Events for further details).

Moody's assigned an Aa3 rating for all of the Series 2016 bonds. Additionally, the ratings agency affirmed the Aa3 rating for the University's general revenue bonds with a stable outlook. Strong and consistent support from the State, combined with tuition revenue growth, were factors mentioned in support of the rating.

Total debt service payments were $24.8 million in 2016. Other significant reductions to bonds payable in the current year include $23.7 million for the refunding of the remaining Series 2006A bonds, discussed above. In contrast, 2015 debt service payments totaled $23.5 million in addition to a reduction of $21.4 million for the refunding of Series 2006A bonds. For fiscal year 2016, debt service payments included bonds and notes payable for $23.1 million and $1.7 million for capital leases.

Economic Outlook

As a public institution, the University's economic outlook is closely tied to the State. North Carolina's economy is at its strongest since the last recession. Similar to the national economy, growth remains moderate and steady. Trends at the state level are often a factor in the amount of budget allocated to the University. As the economy lagged, the UNC System has seen appropriations reduced. With improvements in the state economy, the University would expect allocations from the State to stabilize.

The state budget is only allocated to the general fund and does not include university trust funds like the university bookstore, dining services, residence life, New River Light & Power, athletics, and other auxiliary trust funds. The base budget for 2016-2017 is set for $127.8 million. Added to the base is $2.1 million for enrollment growth, $4.4 million in campus initiated tuition increases, and $2.4 million for one-time employee bonuses. (Table 1.0)

Table 1.0

2016-2017 General Fund Budget

Base Budget 2016-2017	$ 127,835,582.00
Campus Initiated Tuition Increases	4,410,884.00
Enrollment Growth Funding	2,071,166.00
Employee One-Time and Merit Bonus	2,368,419.00
Total Additions	8,850,469.00
Less: Management Flexibility Reduction	(2,576,917.00)
Total Increase to Base Budget	6,273,552.00
2016-2017 Budget	$ 134,109,134.00

For the 2016-2017 academic year, campus initiated tuition will increase by $198 for in-state undergraduates, $889 for out-of-state undergraduates, $226 for in-state graduates, and $853 for out-of-state graduate students. The increase for employee bonuses include a flat 0.5% bonus for all employees, a $400 to $600 merit bonus for staff subject to the State Human Resources Act, and up to a 1% merit based bonus for faculty and staff exempt from the State Human Resources Act. The amounts are calculated on a percentage based on salaries and wages as of June 30, 2016. Overall, increases to the budget total $8.8 million. In addition to budget increases, a reduction of almost $2.6 million through management flexibility cuts is planned. These reductions will be managed based on campus and program needs. For example, the University may reduce operating budgets, or eliminate vacant teaching, administrative, and staff positions.

Total student fees will increase by $101 per year for undergraduates and by $86 for graduate students. General fees that support campus technology and auxiliary operations that do not receive state appropriations will increase by $74 for all students. An additional $12 increase, charged to all students, goes to the university transportation fund that supports the local public transportation system. Lastly, a $15 increase to a fee charged to all undergraduate students supports the university bookstore's textbook rental program. The rental program is designed to save students a significant amount of money through the use of a textbook selected on a two-year adoption cycle for most undergraduate courses. There were no increases to fees that support debt service.

Looking forward to the Fall of 2018, legislation was enacted with the goal of making college more affordable. The new legislation implements a fixed tuition rate that allows students to lock tuition in at a fixed rate for eight semesters. In addition, a 3% cap on increases in student fees will be implemented. The UNC System is currently in the process of evaluating the impact of this new law in preparation for the 2017-2018 tuition and fee proposal process. Tuition and fee recommendations to the UNC Board of Governors are made through a formal process that involves faculty, staff, and students.

Enrollment growth at the University remains steady. For the Fall semester 2015, enrollment was 17,932. Main campus enrollment for undergraduates was 15,746 and 1,031 for graduates. Distance education enrollment for undergraduates was 544 and 611 for graduates. Enrollment growth is anticipated to follow an upward trend in the future, reaching more than 19,000 by 2020.

Retention and graduation rates are other indicators of the current and future outlook for the University. For 2016, the freshman to sophomore retention rate was 85.8%. Six-year graduation rates increased from 69.6% to 70.9%. For the 2015 Fall semester, admissions received 17,422 in applications for first time freshmen, new transfers, and new graduate students.

The University continues to maintain a high position in the U.S. News & World Report rankings. The University was ranked 3rd among top public regional universities in the south, 9th among public and private universities in the south, and 7th in Best Colleges for Veterans. Kiplinger's Personal Finance also listed the University in its list of "Best Values in Public Colleges", ranking the University at 28th for undergraduates and 30th for graduates out of 300 institutions.

FINANCIAL STATEMENTS

Appalachian State University
Statement of Net Position
June 30, 2016

ASSETS		
Current Assets:		
Cash and Cash Equivalents	$	72,261,141
Restricted Cash and Cash Equivalents		6,057,862
Receivables, Net (Note 5)		7,423,193
Inventories		12,353,897
Notes Receivable, Net (Note 5)		638,233
Other Assets		655,629
Total Current Assets		99,389,955
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		7,284,264
Endowment Investments		14,013,649
Restricted Investments		6,678,065
Other Investments		6,429,084
Notes Receivable, Net (Note 5)		3,383,774
Capital Assets - Nondepreciable (Note 6)		53,305,750
Capital Assets - Depreciable, Net (Note 6)		537,501,387
Total Noncurrent Assets		628,595,973
Total Assets		727,985,928
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Loss on Refunding		8,350,062
Deferred Outflows Related to Pensions		9,129,019
Total Deferred Outflows of Resources		17,479,081
LIABILITIES		
Current Liabilities:		
Accounts Payable and Accrued Liabilities (Note 7)		8,746,266
Due to Primary Government		45,386
Funds Held for Others		436,356
Unearned Revenue		8,856,340
Interest Payable		2,821,485
Long-Term Liabilities - Current Portion (Note 8)		15,641,345
Total Current Liabilities		36,547,178
Noncurrent Liabilities:		
Accounts Payable and Accrued Liabilities (Note 7)		254,628
Deposits Payable		221,933
Funds Held for Others		423,502
U. S. Government Grants Refundable		3,947,563
Long-Term Liabilities, Net (Note 8)		266,672,966
Total Noncurrent Liabilities		271,520,592
Total Liabilities		308,067,770
DEFERRED INFLOWS OF RESOURCES		
Deferred Inflows Related to Pensions		4,739,484

Appalachian State University
Statement of Net Position
June 30, 2016

NET POSITION

Net Investment in Capital Assets		356,164,293
Restricted for:		
Nonexpendable:		
Research		20,000
Endowed Professorships		13,744,831
Loans		540,291
Expendable:		
Scholarships and Fellowships		587,145
Research		34,360
Endowed Professorships		6,596,525
Departmental Uses		152,161
Capital Projects		2,970,575
Restricted for Specific Programs		201,652
Unrestricted		51,645,922
Total Net Position	$	432,657,755

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, 2016

Exhibit A-2

REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net (Note 10)	$	114,819,207
Federal Grants and Contracts		5,510,764
State and Local Grants and Contracts		705,146
Nongovernmental Grants and Contracts		971,499
Sales and Services, Net (Note 10)		80,758,600
Interest Earnings on Loans		30,884
Other Operating Revenues		1,833,833
Total Operating Revenues		204,629,933
EXPENSES		
Operating Expenses:		
Salaries and Benefits		230,614,262
Supplies and Materials		40,915,818
Services		43,290,980
Scholarships and Fellowships		22,292,193
Utilities		10,482,173
Depreciation/Amortization		20,397,827
Total Operating Expenses		367,993,253
Operating Loss		(163,363,320)
NONOPERATING REVENUES (EXPENSES)		
State Appropriations		133,764,390
Noncapital Grants - Student Financial Aid		33,251,231
Noncapital Grants		6,184,153
Noncapital Gifts		11,835,479
Investment Loss (Includes Investment Expense of $139,863)		(129,399)
Interest and Fees on Debt		(10,475,195)
Other Nonoperating Expenses		(586,346)
Net Nonoperating Revenues		173,844,313
Income Before Other Revenues		10,480,993
Capital Appropriations		2,782,121
Capital Gifts		7,456,580
Additions to Endowments		12,970
Increase in Net Position		20,732,664
NET POSITION		
Net Position - July 1, 2015		411,925,091
Net Position - June 30, 2016	$	432,657,755

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

Appalachian State University
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2016

CASH FLOWS FROM OPERATING ACTIVITIES		
Received from Customers	$	203,150,088
Payments to Employees and Fringe Benefits		(235,880,033)
Payments to Vendors and Suppliers		(94,473,111)
Payments for Scholarships and Fellowships		(22,292,193)
Loans Issued		(727,451)
Collection of Loans		649,512
Interest Earned on Loans		22,152
Student Deposits Received		3,329,566
Student Deposits Returned		(2,969,806)
Other Receipts		1,832,554
Net Cash Used by Operating Activities		(147,358,722)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State Appropriations		133,764,390
Noncapital Grants - Student Financial Aid		33,251,231
Noncapital Grants		5,131,821
Noncapital Gifts		10,758,281
Additions to Endowments		12,970
William D. Ford Direct Lending Receipts		87,283,410
William D. Ford Direct Lending Disbursements		(87,372,983)
Related Activity Agency Receipts		134,533
Related Activity Agency Disbursements		(78,300)
Other Disbursements		(92,644)
Net Cash Provided by Noncapital Financing Activities		182,792,709
CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES		
Proceeds from Capital Debt		3,823,821
Capital Appropriations		2,782,121
Capital Gifts		62,000
Proceeds from Sale of Capital Assets		1,520,324
Acquisition and Construction of Capital Assets		(14,265,126)
Principal Paid on Capital Debt and Leases		(10,946,211)
Interest and Fees Paid on Capital Debt and Leases		(7,246,771)
Net Cash Used by Capital Financing and Related Financing Activities		(24,269,842)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Sales and Maturities of Investments		2,488,236
Investment Income		549,751
Purchase of Investments and Related Fees		(6,935,600)
Net Cash Used by Investing Activities		(3,897,613)
Net Increase in Cash and Cash Equivalents		7,266,532
Cash and Cash Equivalents - July 1, 2015		78,336,735
Cash and Cash Equivalents - June 30, 2016	$	85,603,267

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

Operating Loss	$	(163,363,320)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation/Amortization Expense		20,397,827
Allowances and Write-Offs		(40,296)
Pension Expense		2,480,332
Miscellaneous Pension Adjustments		13,622
Nonoperating Other Income		1,148,203
Changes in Assets, Liabilities, and Deferred Outflows of Resources:		
Receivables, Net		420,018
Inventories		(91,966)
Notes Receivable, Net		(77,939)
Other Assets		(640,961)
Accounts Payable and Accrued Liabilities		(613,006)
Due to Primary Government		(42,864)
Unearned Revenue		1,011,270
Deferred Outflows for Contributions Subsequent to the Measurement Date		(7,811,944)
Compensated Absences		(189,626)
Deposits Payable		27,035
Funds Held for Others		14,893
Net Cash Used by Operating Activities	$	(147,358,722)

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:		
Cash and Cash Equivalents	$	72,261,141
Restricted Cash and Cash Equivalents		6,057,862
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		7,284,264
Total Cash and Cash Equivalents - June 30, 2016	$	85,603,267

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through the Assumption of a Liability	$	2,192,370
Assets Acquired through a Gift		7,394,580
Change in Fair Value of Investments		(1,081,427)
Reinvested Distributions		(542,140)
Loss on Disposal of Capital Assets		(432,878)
Bond Issuance Cost Withheld		(70,004)
Amortization of Bond Premiums		(282,426)
Increase in Receivables Related to Nonoperating Income		1,141,905
Payments Made on Behalf of the University		(8,571,797)
Funds Escrowed to Defease Debt		26,593,165

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

Appalachian State University Discretely Presented Component Units
Statement of Financial Position
June 30, 2016

Exhibit B-1

	Appalachian State University Foundation, Inc.	Appalachian Student Housing Corporation
ASSETS		
Cash and Cash Equivalents	$ 1,937,481	$ 4,133,220
Investments	92,522,324	
Cash Surrender Value of Life Insurance	186,427	
Real Estate Held for Investment	6,250,000	
Accounts Receivables, Net		3,161
Contributions Receivables, Net	18,118,538	
Sales Tax Refund Receivable		6,742
Other Receivables	73,919	
Prepaid Expenses	8,073	83,269
Net Investment in Direct Financing Lease		1,202,692
Beneficial Interests in Perpetual Trusts	1,461,153	
Contributions Receivable from Trusts	1,950,207	
Contributions Receivable of Life Insurance	5,053,735	
In-Kind Gifts	8,004	
Property and Equipment, Net	1,884,000	19,954,808
Deferred Financing Cost, Net		12,826
Assets Limited to Use by Bond Order		900,000
Total Assets	$ 129,453,861	$ 26,296,718
LIABILITIES		
Accounts Payable and Accrued Expenses	$ 135,953	$ 306,160
Deferred Income		118,160
Deferred Revenue - Advance Royalties	646	
Long-Term Debt, Current Portion		2,918,484
Split Interest Agreement Obligations	1,969,850	
Long-Term Debt	4,225,549	1,755,436
Total Liabilities	6,331,998	5,098,240
NET ASSETS		
Unrestricted	6,054,858	21,198,478
Temporarily Restricted	49,717,522	
Permanently Restricted	67,349,483	
Total Net Assets	123,121,863	21,198,478
Total Liabilities and Net Assets	$ 129,453,861	$ 26,296,718

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

Appalachian State University Discretely Presented Component Units
Statement of Activities
For the Fiscal Year Ended June 30, 2016

Exhibit B-2

	Appalachian State University Foundation, Inc.	Appalachian Student Housing Corporation
CHANGES IN UNRESTRICTED NET ASSETS		
Revenues and Gains:		
Contributions	$ 3,708,940	$ 0
Investment Income	1,103,644	
Net Rental Income		4,444,160
Auxiliary Income	113,719	
Net Realized and Unrealized Gains on Investments	(93,487)	
Net Change in Beneficial Interests in Perpetual Trusts, Contributions Receivable from Trusts and Split Interest Agreement Obligations	3,592	
Other Income	5,058	90,044
Total Unrestricted Revenues and Gains	4,841,466	4,534,204
Net Assets Released from Restrictions:	11,671,151	
Total Unrestricted Revenues, Gains, and Other Support	16,512,617	4,534,204
Expenses and Losses:		
Program Services		
General University Support	6,700,891	
Student Financial Aid	5,347,331	
Alumni Affairs	142,307	
Housing Support		2,527,239
Other	349,121	
Support Services		
General and Administrative	755,216	
Fundraising	3,255,354	
Total Expenses	16,550,220	2,527,239
Interest		4,903
Increase (Decrease) in Unrestricted Net Assets	(37,603)	2,011,868
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS		
Revenues and Gains:		
Contributions	9,384,515	
Investment Income	(1,145,507)	
Auxiliary Income	67,798	
Net Realized and Unrealized Gains on Investments	(1,335,787)	
Net Change in Beneficial Interests in Perpetual Trusts, Contributions Receivable from Trusts and Split Interest Agreement Obligations	(32,088)	
Other Income	(2,310)	
Total Temporarily Restricted Revenues and Gains	6,936,621	
Net Assets Released from Restrictions:	(11,671,151)	
Total Temporarily Restricted Revenues and Gains	(4,734,530)	
Net Increase in Allowance for Doubtful Contributions Receivable	(547,769)	
Decrease in Temporarily Restricted Net Assets	(5,282,299)	
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS		
Revenues and Gains:		
Contributions	1,602,848	
Investment Income	31,174	
Net Realized and Unrealized Gains on Investments	1,621,258	
Net Change in Beneficial Interests in Perpetual Trusts, Contributions Receivable from Trusts and Split Interest Agreement Obligations	(189,414)	
Total Permanently Restricted Revenues and Gains	3,065,866	
Net Increase in Allowance for Doubtful Contributions Receivable	(27,270)	
Increase in Permanently Restricted Net Assets	3,038,596	
Increase (Decrease) in Net Assets	(2,281,306)	2,011,868
Net Assets at Beginning of Year	125,403,169	19,186,610
Net Assets at End of Year	$ 123,121,863	$ 21,198,478

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 the University. The Corporation board consists of seven members of which three members are administrative officers of the University. Because the Corporation's sole purpose is to benefit the University, it is considered a component unit of the University and is reported in separate financial statements because of the difference in its reporting model, as described below. 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 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 or the Corportation's financial information in the University's financial reporting entity for these differences.

During the year ended June 30, 2016, the Foundation distributed $12,531,051 to the University for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from the Vice Chancellor for University Advancement or the ASU Foundation President. The address is Dougherty Administration Building, 438 Academy Street, Boone, North Carolina 28608.

During the year ended June 30, 2016, 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 – To the extent available, investments are recorded at fair value based on quoted market prices in active markets on a trade-date basis. Additional information regarding the fair value measurement of investments is disclosed in Note 3. 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 value of investments is recognized as a component of investment income.

Money market investments that have a remaining maturity at the time of purchase of one year or less are reported at cost, if purchased, or at fair value or appraised value at date of gift, if donated.

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

F. Receivables - Receivables consist of tuition and fees charged to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from the federal government, state and local governments, 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 acquisition value at date of donation in the case of gifts. Donated capital assets acquired prior to July 1, 2015 are stated at fair value as of the date of donation. 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 acquisition value at the date of donation. Donated capital assets acquired prior to July 1, 2015 are stated at fair value as of 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 2015 *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 12 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 liabilities 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.

Cash on hand at June 30, 2016 was $325,567. The carrying amount of the University's deposits not with the State Treasurer was $3,519,399 and the bank balance was $3,519,299. 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, 2016, the University's bank balance was exposed to custodial credit risk as follows:

Uninsured and Uncollateralized	$ 3,233,408

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 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.

Short-Term Investment Fund - At June 30, 2016, the amount shown on the Statement of Net Position as cash and cash equivalents includes $81,758,301 which represents the University's equity position in the State Treasurer's Short-Term Investment Fund (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, 2016. Assets and shares of the STIF are valued at 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.

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, 2016, the University's investments include $26,929,634 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. 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 investments by type and investments subject to interest rate risk at June 30, 2016, for the University's non-pooled investments.

Non-Pooled Investments

	Amount	Investment Maturity Less Than 1 Year
Investment Type		
Debt Securities		
Money Market Mutual Funds	$ 74,965	$ 74,965
Other Securities		
International Mutual Funds	8,345	
Equity Mutual Funds	22,469	
Domestic Stocks	80,847	
Foreign Stocks (denominated in US dollars)	4,538	
Total Non-Pooled Investments	$ 191,164	

At June 30, 2016, the University's non-pooled investments included $74,965 in money market mutual funds with credit exposure for which Standard and Poor's credit quality distribution was AAAm.

At June 30, 2016, 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	$ 80,847
Foreign Stocks (denominated in US dollars)	4,538
Total	$ 85,385

Total Investments - The following table presents the total investments at June 30, 2016:

	Amount
Investment Type	
Debt Securities	
Money Market Mutual Funds	$ 74,965
Other Securities	
UNC Investment Fund	26,929,634
International Mutual Funds	8,345
Equity Mutual Funds	22,469
Domestic Stocks	80,847
Foreign Stocks (denominated in US dollars)	4,538
Total Investments	$ 27,120,798

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:

	Amount
Short-Term Investment Fund	$ 22,867,913
Money Market Funds	29,486
Equity Investments	1,466,180
Fixed Income Investments	421,899
Alternative Investments	67,736,846
Total Investments	92,522,324
Real Estate Held for Investment	6,250,000
Total Investments and Real Estate Held for Investment	$ 98,772,324

C. **Reconciliation of Deposits and Investments** - A reconciliation of deposits and investments for the University as of June 30, 2016, is as follows:

Cash on Hand	$	325,567
Amount of Deposits with Private Financial Institutions		3,519,399
Deposits in the Short-Term Investment Fund		81,758,301
Investments in the UNC Investment Fund		26,929,634
Non-Pooled Investments		191,164
Total Deposits and Investments	$	112,724,065
Deposits		
Current:		
Cash and Cash Equivalents	$	72,261,141
Restricted Cash and Cash Equivalents		6,057,862
Noncurrent:		
Restricted Cash and Cash Equivalents		7,284,264
Total Deposits		85,603,267
Investments		
Noncurrent:		
Endowment Investments		14,013,649
Restricted Investments		6,678,065
Other Investments		6,429,084
Total Investments		27,120,798
Total Deposits and Investments	$	112,724,065

NOTE 3 - FAIR VALUE MEASUREMENTS

University - To the extent available, the University's investments are recorded at fair value as of June 30, 2016. GASB Statement No. 72 - *Fair Value Measurement and Application*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Inputs are used in applying the various valuation techniques and take into account the assumptions that market participants use to make valuation decisions. Inputs may include price information, credit data, interest and yield curve data, and other factors specific to the financial instrument. Observable inputs reflect market data obtained from independent sources. In contrast, unobservable inputs reflect the entity's assumptions about how market participants would value the financial instrument. Valuation techniques should maximize the use of observable inputs to the extent available.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used for financial instruments measured at fair value on a recurring basis:

Level 1	Investments whose values are based on quoted prices (unadjusted) for identical assets in active markets that a government can access at the measurement date.
Level 2	Investments with inputs – other than quoted prices included within Level 1 – that are observable for an asset, either directly or indirectly.
Level 3	Investments classified as Level 3 have unobservable inputs for an asset and may require a degree of professional judgment.

The following table summarizes the University's investments, including the Short-Term Investment Fund, within the fair value hierarchy at June 30, 2016:

		Fair Value Measurements Using		
	Fair Value	Level 1	Level 2	Level 3
Investments by Fair Value Level				
Short-Term Investment Fund	$ 81,758,301	$ 0	$ 81,758,301	$ 0
UNC Investment Fund	26,929,634			26,929,634
International Mutual Funds	8,345	8,345		
Equity Mutual Funds	22,469	22,469		
Domestic Stocks	80,847	80,847		
Foreign Stocks (denominated in US dollars)	4,538	4,538		
Total Investments Measured at Fair Value	$ 108,804,134	$ 116,199	$ 81,758,301	$ 26,929,634

Short-Term Investment Fund - Ownership interest of the STIF is determined on a fair market valuation basis as of fiscal year end in accordance with the STIF operating procedures. Valuation of the underlying assets is performed by the custodian.

UNC Investment Fund - Ownership interests of the UNC Investment Fund are determined on a market unit valuation basis each month and in accordance with the UNC Investment Fund's operating procedures.

Equity Securities - Equity securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities.

Component Unit - The carrying value of the Foundation's receivables and accounts payable approximate the fair value of these financial instruments at June 30, 2016, due to the short maturities of these instruments. The carrying value of the revolving line of credit approximates the fair value due to the variable rate associated with the revolver. The carrying value of the fixed rate note payable is believed to approximate fair value as the terms were recently negotiated.

Fair value measurement rules define fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and require the use of valuation techniques that are consistent with the market approach, the income approach and/or the cost approach. Inputs to valuation techniques refer to the assumptions that market participants would use in pricing the asset or liability. In that regard, accounting rules establish a fair value hierarchy for valuation inputs that give the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy are described as follows:

Level 1 Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2 Inputs to the valuation methodology include significant other observable inputs, other than Level 1 inputs, such as quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; inputs other than quoted prices that are observable for the asset or liability; inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

A description of the valuation methodologies used for significant assets and liabilities measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, are set forth below:

Investments: Investments are valued at the closing price reported on the active market on which the investment is traded, except for alternative investments valued at net asset value per share.

Beneficial Interests in Perpetual Trusts: Beneficial interests in perpetual trusts are valued based on the fair value of the assets held in trust.

Contributions Receivable from Trusts: Contributions receivable from trusts are valued using present value techniques based on IRS mortality tables and the value of the underlying securities as reported by the third-party trustees.

Contributions Receivable from Irrevocable Bequests: Contributions receivable from irrevocable bequests are valued using present value techniques based on IRS mortality tables and the values of the irrevocable bequests.

Split Interest Obligations: Split interest obligations are valued using present value techniques based on IRS mortality tables and the value of the split interest gifts.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table summarizes significant assets and liabilities measured at fair value on a recurring basis as of June 30, 2016, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

Fair Value Measurements at June 30, 2016 Using:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Investements				
Short-Term Investments	$ 22,867,913	$ 0	$ 0	$ 22,867,913
Money Market Funds	29,486			29,486
Equities	1,466,180			1,466,180
Fixed Income	421,899			421,899
Alternative Investments (a)				
Strategic Investments				66,499,306
Alternative Income Fund				855,159
Private Equity - Real Estate				382,381
Total Alternative Investments				67,736,846
Total Financial Assets	$ 24,785,478	$ 0	$ 0	$ 92,522,324
Beneficial Interests in Perpetual Trusts	$ 0	$ 0	$ 1,461,153	$ 1,461,153
Contributions Receiveable from Trusts	$ 0	$ 0	$ 1,950,207	$ 1,950,207
Receivable from Irrevocable Bequests	$ 0	$ 0	$ 5,053,735	$ 5,053,735
Split Interest Obligations	$ 0	$ 0	$ 1,969,850	$ 1,969,850

(a) In accordance with FASB ASU 2015-07, certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the Statement of Financial Position.

The changes in Level 3 assets measured at fair value on a recurring basis are summarized as follows:

	Beneficial Interests in Perpetual Trusts	Contributions Receivable from Trusts	Total
Balance at July 1, 2015	$ 1,549,126	$ 1,955,393	$ 3,504,519
Change in value	(87,973)	(5,186)	(93,159)
Balance at June 30, 2016	$ 1,461,153	$ 1,950,207	$ 3,411,360

The following table presents qualitative information about contributions receivable from trusts as of June 30, 2016:

	Fair Value	Technique	Discount Rate	Life Expectancy
Beneficial Interest in Charitable Remainder Trust	$ 1,950,207	Income approach	1.80%	4 - 17 years

Assets Measured at Fair Value on a Nonrecurring Basis:

The following table summarizes nonfinancial assets measured at fair value on a nonrecurring basis by classification within the fair value hierarchy as of June 30, 2016.

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Unrealized Gains
Assets				
Real Estate Held for Investment	$ 0	$ 0	$ 62,500,000	$ 1,707,500

The Foundation holds interests in donated and acquired real estate with an estimated fair value of $6,250,000. During the year ended June 30, 2016, the Foundation recognized unrealized gains of $1,707,500 related to estimated net realizable value of individual parcels of land. The amounts reported in the accompanying Statement of Financial Position include management's estimates of fair market value. Such estimates involve an analysis of various real estate market information, including the availability of contemporaneous appraisals.

The changes in real estate during the fiscal year are summarized as follows:

	Amount
Balance at July 1, 2015	$ 4,642,500
Gifts of Real Estate	1,950
Net Change in Market Value	1,707,500
Sale of Real Estate	(101,950)
Balance at June 30, 2016	$ 6,250,000

The following table for June 30, 2016, sets forth a summary of the Foundation's investments with a reported net asset value.

Investment	Fair Value *	Unfunded Commitment	Redemption Frequency	Other Redemption Restrictions	Redemption Notice Period
	Fair Value Estimated Using Net Asset Value per Share June 30, 2016				
Fund of Funds					
All Weather Fund (a)	$ 65,008	$ 0	Quarterly	Investor withdrawal requests on hold as fund is winding down.	90-day notice
Strategic Investment Fund (b)	66,434,298	8,717,542	Monthly and Quarterly	Spending distributions up to 7% of the beginning market value in any given fiscal year; withdrawals up to a cumulative amount of $10 million in a quarter; capital withdrawals > $10 million paid quarterly in $50 million increments until redemption is completed; withdrawal requests in excess of $200 million are paid out over a maximum of 8 quarters; complete withdrawals are subject to a 5% holdback pending completion of the fiscal year audit.	30- day notice, prior to the 1st day of the month (spending distributions and withdrawals < $10 million) 90-day notice, prior to the 1st day of the quarter (capital withdrawals > $10 million
Alternative Income Fund (c)	855,159	7,763,527	Semi-annual	Initial lock-up of 2 years.	Written notice at least 95 days prior to redemption
Private Equity					
Private Real Estate Fund (d)	32,381	581,500	Quarterly	Initial lock-up of 10 years.	Written notice at least 45 days prior to redemption
Total	$ 67,386,846	$ 17,062,569			

* The fair values of the investments have been estimated using the net asset value of the investment.

(a) Seeks capital appreciation while attempting to minimize downside risk by combining a portfolio of investment managers whose historical performance has had little correlation to the major market indices.

(b) Seeks to provide equity-like returns while mitigating risk through diversification and long-term asset allocation and to preserve the real purchasing power of the fund, while providing a predictable and growing stream of spending distributions to fund participants, and earning an annualized real total rate of return of at least 5.5% per year, net of all fees and expenses, over the long-term.

(c) Invests in various funds that provide access to institutional quality income-oriented investment managers in asset-backed, opportunistic, and distressed credit, mortgage-backed security, and special situation investment strategies.

(d) Private investment in various real estate sectors with a focus on high-quality assets with diversity in geographic area and investment type.

NOTE 4 - 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, 2016, net appreciation of $6,503,172 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 5 - RECEIVABLES

Receivables at June 30, 2016, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	$ 3,760,264	$ 851,820	$ 2,908,444
Accounts	2,215,078	99,841	2,115,237
Intergovernmental	2,179,462		2,179,462
Interest on Loans	220,050		220,050
Total Current Receivables	$ 8,374,854	$ 951,661	$ 7,423,193
Notes Receivable:			
Notes Receivable - Current:			
Federal Loan Programs	$ 637,365	$ 0	$ 637,365
Institutional Student Loan Programs	2,059	1,191	868
Total Notes Receivable - Current	$ 639,424	$ 1,191	$ 638,233
Notes Receivable - Noncurrent:			
Federal Loan Programs	$ 4,027,092	$ 643,318	$ 3,383,774

NOTE 6 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2016, is presented as follows:

	Balance July 1, 2015	Increases	Decreases	Balance June 30, 2016
Capital Assets, Nondepreciable:				
Land	$ 34,392,746	$ 7,080,630	$ 195,265	$ 41,278,111
Art, Literature, and Artifacts	3,062,925	317,378	5,000	3,375,303
Construction in Progress	13,754,549	10,030,227	15,132,440	8,652,336
Total Capital Assets, Nondepreciable	51,210,220	17,428,235	15,332,705	53,305,750
Capital Assets, Depreciable:				
Buildings	665,910,984	11,629,747	2,322,365	675,218,366
Machinery and Equipment	49,464,770	2,056,604	1,264,515	50,256,859
General Infrastructure	74,943,317	3,413,571	19,756	78,337,132
Computer Software	659,617			659,617
Total Capital Assets, Depreciable	790,978,688	17,099,922	3,606,636	804,471,974
Less Accumulated Depreciation/Amortization for:				
Buildings	193,361,498	15,136,359	626,396	207,871,461
Machinery and Equipment	29,308,899	2,406,842	1,209,014	30,506,727
General Infrastructure	25,600,581	2,814,247	18,289	28,396,539
Computer Software	155,481	40,379		195,860
Total Accumulated Depreciation/Amortization	248,426,459	20,397,827	1,853,699	266,970,587
Total Capital Assets, Depreciable, Net	542,552,229	(3,297,905)	1,752,937	537,501,387
Capital Assets, Net	$ 593,762,449	$ 14,130,330	$ 17,085,642	$ 590,807,137

During the year needed June 30, 2016, the University received a donation of an 8.98 acre tract of land, which will be used as the future location for the Beaver College of Health Sciences. To determine an acquisition value for the donated land, the University obtained recent sales price information on comparable commercial properties. An average price per buildable acre of $1,166,366 was calculated based on comparable properties. Of the total 8.98 acres donated, 5.98 acres are considered buildable. The average price per buildable acre based on the comparable properties multiplied by buildable acres for the donated property provides an acquisition value of $6,974,867.

During the year ended June 30, 2016, the University incurred $10,507,874 in interest costs related to the acquisition and construction of capital assets. Of this total, $10,475,195 was charged in interest expense, and $32,679 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 carrying value of the energy savings improvement assets associated with the agreement is $1,363,631 and is subject to security provisions in the agreement to ensure timely debt service payments. Additional information regarding the agreement can be found in Note 8.

NOTE 7 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2016, were as follows:

	Amount
Current Accounts Payable and Accrued Liabilities	
Accounts Payable	$ 4,235,829
Accrued Payroll	3,585,936
Contract Retainage	897,621
Intergovernmental Payables	26,880
Total Current Accounts Payable and Accrued Liabilities	$ 8,746,266
Noncurrent Accounts Payable and Accrued Liabilities	
Accounts Payable	$ 254,628

NOTE 8 - 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, 2016, is presented as follows:

	Balance July 1, 2015	Additions	Reductions	Balance June 30, 2016	Current Portion
Revenue Bonds Payable	$ 228,935,000	$ 27,615,000	$ 35,030,000	$ 221,520,000	$ 10,655,000
Plus: Unamortized Premium	3,383,273	2,298,871	282,426	5,399,718	
Total Revenue Bonds Payable, Net	232,318,273	29,913,871	35,312,426	226,919,718	10,655,000
Net Pension Liability	6,607,765	14,737,270		21,345,035	
Notes Payable	21,897,683		1,362,156	20,535,527	1,856,615
Capital Leases Payable	2,977,146		1,724,055	1,253,091	1,221,861
Compensated Absences	12,450,566	8,872,752	9,062,378	12,260,940	1,907,869
Total Long-Term Liabilities, Net	$ 276,251,433	$ 53,523,893	$ 47,461,015	$ 282,314,311	$ 15,641,345

Additional information regarding capital lease obligations is included in Note 9.
Additional information regarding the net pension liability is included in Note 12.

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, 2016	Principal Outstanding June 30, 2016	See Table Below
Revenue Bonds Payable							
Utility System							
ASU Utility System Revenue Bonds	2011	3.14%	12/20/2021	$ 2,700,000	$ 1,215,000	$ 1,485,000	
ASU Utility System Revenue Bonds	2016	2.23%	05/05/2026	3,650,000		3,650,000	
Total Utility System				6,350,000	1,215,000	5,135,000	(1)
The University of North Carolina System Pool Revenue Bonds							
Doughton Hall Renovation	(A)	4.27%	10/01/2026	3,755,000	775,000	2,980,000	
Dining Hall	(A)	4.38%	10/01/2016	23,330,000	22,575,000	755,000	
Hoey Hall Renovation	(A)	4.25%	10/01/2016	6,980,000	6,655,000	325,000	
Student Recreation Center	(A)	4.13%	10/01/2021	7,680,000	940,000	6,740,000	
Utility System	(B)	4.28%	10/01/2023	19,230,000	5,320,000	13,910,000	
Cannon Hall Renovation	(B)	4.69%	10/01/2018	8,520,000	7,720,000	800,000	
Stadium Parking	(B)	4.69%	10/01/2018	3,350,000	3,035,000	315,000	
New Field House Complex	(B)	4.69%	10/01/2018	20,600,000	18,685,000	1,915,000	
Stadium East Stands	(C)	4.65%	10/01/2034	8,370,000	1,270,000	7,100,000	
Frank Hall Renovation	(C)	4.65%	10/01/2034	7,060,000	1,070,000	5,990,000	
Cone Residence Hall	(D)	4.35%	10/01/2035	8,880,000	1,105,000	7,775,000	
Bookstore Bonds	(D)	3.76%	10/01/2027	5,000,000	1,280,000	3,720,000	
East Stands and Field House	(D)	4.35%	10/01/2035	7,875,000	985,000	6,890,000	
Total The University of North Carolina System Pool Revenue Bonds				130,630,000	71,415,000	59,215,000	
ASU General Revenue Bonds							
ASU General Revenue Bonds - Housing, Athletics, Parking	2005	4.54%	07/15/2018	50,915,000	48,915,000	2,000,000	
ASU General Revenue Bonds - Housing, Student Union, Steam Tunnels	2011	4.07%	10/01/2036	60,435,000	5,335,000	55,100,000	
ASU General Revenue Bonds - Housing, Athletics, Student Recreation Center	2012	2.84%	05/01/2028	26,495,000	5,815,000	20,680,000	
ASU General Revenue Bonds - Housing, Athletics, Parking	2014A	3.35%	07/15/2039	22,540,000	980,000	21,560,000	
ASU General Revenue Taxable Bonds - Housing, Athletics, Parking	2014B	2.95%	07/15/2025	12,965,000	275,000	12,690,000	
ASU General Revenue Bonds - Housing, Dining	2014C	2.77%	10/01/2031	21,210,000	35,000	21,175,000	
ASU General Revenue Bonds - Housing, Athletics, Parking	2016A	2.45%	10/01/2033	23,965,000		23,965,000	
Total General Revenue Bonds				218,525,000	61,355,000	157,170,000	
Total Revenue Bonds Payable (principal only)				$ 355,505,000	$ 133,985,000	221,520,000	
Plus: Unamortized Premium						5,399,718	
Total Revenue Bonds Payable, Net						$ 226,919,718	

(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	$ 5,719,012	$ 1,627,298	$ 635,000	$ 126,931	24%
(2)	Electric Utilities	51,143	109,413	50,000	1,143	34%

C. Annual Requirements - The annual requirements to pay principal and interest on the long-term obligations at June 30, 2016, are as follows:

	Annual Requirements			
	Revenue Bonds Payable		Notes Payable	
Fiscal Year	Principal	Interest	Principal	Interest
2017	$ 10,655,000	$ 9,097,675	$ 1,856,615	$ 409,627
2018	11,145,000	8,510,399	1,863,416	371,129
2019	11,605,000	8,021,730	1,922,859	332,602
2020	12,135,000	7,545,424	1,983,792	292,865
2021	12,660,000	7,006,420	1,990,443	249,462
2022-2026	66,540,000	26,317,489	7,842,400	742,546
2027-2031	52,895,000	13,893,891	3,076,002	92,485
2032-2036	36,765,000	5,061,091		
2037-2040	7,120,000	330,488		
Total Requirements	$ 221,520,000	$ 85,784,607	$ 20,535,527	$ 2,490,716

Interest on the variable rate debt is predetermined in each of the bond covenants.

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

On February 18, 2016, the University issued $23,965,000 in Appalachian State University General Revenue Bonds, Series 2016A with an average interest rate of 2.45%. The bonds were issued to advance refund $23,735,000 of outstanding UNC System Pool Revenue Bonds, Series 2008A bonds with an average interest rate of 4.69%. The net proceeds of the refunding bonds (along with other resources) 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 $3,799,187 over the next 18 years and resulted in an economic gain of $3,095,740. At June 30, 2016, the outstanding balance was $16,940,000 for the defeased UNC System Pool Revenue Bonds, Series 2008A bonds.

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, 2016, the outstanding balance of prior year defeased bonds was $21,375,000.

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, 2016	Principal Outstanding June 30, 2016	See Table Above
Electic Utility	BB&T	4.56%	10/12/2016	$ 1,000,000	$ 950,000	$ 50,000	(2)
Energy Savings Project	Sun Trust Bank	2.27%	04/29/2022	5,263,401	2,024,977	3,238,424	
Energy Savings Project	T D Bank	1.99%	07/01/2027	16,499,917	701,621	15,798,296	
UNC System Guaranteed Energy Savings Project	Banc of America Public Capital Corp.	1.84%	02/04/2023	1,495,951	47,144	1,448,807	
Total Notes Payable				$ 24,259,269	$ 3,723,742	$ 20,535,527	

COMPONENT UNITS

A. Appalachian State University Foundation, Inc.

Effective March 6, 2015, the Foundation entered into a revolving line of credit agreement with a financial institution that expires and is payable on March 6, 2020. The line bears interest at a variable interest rate of LIBOR plus 1.25%, and is collateralized by outstanding pledge commitments. As of June 30, 2016, $117,892 was borrowed against the revolving line of credit. The interest rate as of June 30, 2016 was 1.72%.

The Foundation entered into a future advance loan agreement with a financial institution on March 5, 2012, to finance the renovation of The Schaefer Center for the Performing Arts. The Foundation assigned donor pledges made for purposes of the renovation to First Citizens Bank as collateral for the loan. The outstanding balance as of June 30, 2016, was $4,107,657. 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, 2016 are due in future years as follows:

Years	Amount
2017	$ 316,364
2018	329,983
2019	343,700
2020	475,880
2021	372,555
Thereafter	2,387,067
	$ 4,225,549

B. Appalachian Student Housing Corporation

Long-term debt at June 30, 2016 consists of the following:

Note Payable - Branch Banking and Trust Company; dated June 26, 2012; original amount of $10,000,000; variable interest at One-Month LIBOR plus 1% recomputed monthly, due in 72 monthly payments of principal and interest starting July 26, 2012, secured by assignment of rents from the Corporation's University Highlands apartments.	$ 3,473,920
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.	1,200,000
Total Long-Term Debt	4,673,920
Less: Current Portions	2,918,484
Long-Term Debt, less Current Portions	$ 1,755,436

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

Years	Amount
2017	$ 2,918,484
2018	1,755,436
	$ 4,673,920

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 9 - LEASE OBLIGATIONS

A. Capital Lease Obligations - Capital lease obligations relating to buildings 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, 2016:

Fiscal Year	Amount
2017	$ 1,228,880
2018	16,855
2019	16,855
Total Minimum Lease Payments	1,262,590
Amount Representing Interest (1.81% to 7.11% Rate of Interest)	9,499
Present Value of Future Lease Payments	$ 1,253,091

Buildings and equipment acquired under capital lease amounted to $16,698,528 at June 30, 2016. Depreciation for the capital assets associated with capital leases is included in depreciation expense, and accumulated depreciation for assets acquired under capital lease totaled $2,503,448 at June 30, 2016.

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, 2016:

Fiscal Year		Amount
2017	$	1,067,457
2018		967,269
2019		456,731
2020		362,283
2021		312,283
2022-2026		1,561,415
2027-2029		702,637
Total Minimum Lease Payments	$	5,430,075

Rental expense for all operating leases during the year was $1,019,687.

NOTE 10 - 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	$ 140,313,638	$ 0	$ 25,199,804	$ 294,627	$ 114,819,207
Sales and Services:					
Sales and Services of Auxiliary Enterprises:					
Residential Life	$ 26,909,350	$ 895,248	$ 4,483,937	$ 41,744	$ 21,488,421
Dining	19,680,712	1,208,853	2,594,025	20,825	15,857,009
Student Union Services	588,229	48,190			540,039
Health, Physical Education, and Recreation Services	1,761,312	74,378		19,832	1,667,102
Bookstore	10,432,580	1,155,691	760,254	9,165	8,507,470
Parking	4,235,326	68,499		3,608	4,163,219
Camp Programs	3,332,862	157,605			3,175,257
Steam Utility System	6,315,742	6,315,742			
Athletic	7,474,604	2,205			7,472,399
Other	4,594,818	2,677,343	941,198	92,973	883,304
Sales and Services of Education and Related Activities	5,938,404	1,310,540	531,469		4,096,395
New River Light and Power	16,834,653	3,912,572		14,096	12,907,985
Total Sales and Services, Net	$ 108,098,592	$ 17,826,866	$ 9,310,883	$ 202,243	$ 80,758,600

NOTE 11 - 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	$ 116,820,336	$ 3,308,137	$ 4,288,079	$ 506,755	$ 0	$ 0	$ 124,923,307
Research	1,289,090	218,890	837,896	19,506	1,801		2,367,183
Public Service	3,469,192	262,819	3,632,001	439,811	3,136		7,806,959
Academic Support	28,750,774	5,887,525	5,232,166	202,013	5,627		40,078,105
Student Services	7,555,844	321,100	1,161,459	179,270			9,217,673
Institutional Support	18,687,118	1,386,447	5,401,248		14,396		25,489,209
Operations and Maintenance of Plant	12,476,355	773,514	2,602,620		4,782,883		20,635,372
Student Financial Aid	432,037		13,693	18,406,761			18,852,491
Auxiliary Enterprises	40,096,110	19,467,882	19,380,114	2,538,077	5,674,330		87,156,513
New River Light and Power	1,037,406	9,289,504	741,704				11,068,614
Depreciation/ Amortization						20,397,827	20,397,827
Total Operating Expenses	$ 230,614,262	$ 40,915,818	$ 43,290,980	$ 22,292,193	$ 10,482,173	$ 20,397,827	$ 367,993,253

NOTE 12 - 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 annual pay. 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, 2016 was 9.15% of covered payroll. The University's contributions to the pension plan were $7,811,944, and employee contributions were $5,122,586 for the year ended June 30, 2016.

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 2015 *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 2015 *Comprehensive Annual Financial Report*.

Net Pension Liability: At June 30, 2016, the University reported a liability of $21,345,035 for its proportionate share of the collective net pension liability. The net pension liability was measured as of June 30, 2015. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2014, and update procedures were used to roll forward the total pension liability to June 30, 2015. 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, 2015, the University's proportion was 0.57921%, which was an increase of 0.01561 from its proportion measured as of June 30, 2014.

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	12/31/2014
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, 2014 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, 2015 (the valuation date) are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return
Fixed Income	2.2%
Global Equity	5.8%
Real Estate	5.2%
Alternatives	9.8%
Credit	6.8%
Inflation Protection	3.4%

The information above is based on 30-year expectations developed with the consulting actuary for the 2014 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%)
$ 64,242,666	$ 21,345,035	$ (15,058,551)

Deferred Inflows of Resources and Deferred Outflows of Resources Related to Pensions: For the year ended June 30, 2016, the University recognized pension expense of $2,480,332. At June 30, 2016, 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	$ 2,426,930
Changes of Assumptions		
Net Difference Between Projected and Actual Earnings on Pension Plan Investments		2,312,554
Change in Proportion and Differences Between Agency's Contributions and Proportionate Share of Contributions	1,317,075	
Contributions Subsequent to the Measurement Date	7,811,944	
Total	$ 9,129,019	$ 4,739,484

The amount of $7,811,944 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, 2017. 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
2017	$ (2,378,788)
2018	(2,378,788)
2019	(2,324,012)
2020	3,659,179
Total	$ (3,422,409)

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, 2016, 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 $187,961,606, of which $79,088,742 was covered under the Optional Retirement Program. Total employer and employee contributions for pension benefits for the year were $5,409,670 and $4,745,325, respectively. The amount of pension expense recognized in the current year related to ORP is equal to the employer contributions. At June 30, 2016, the amount of forfeitures reflected in pension expense was $183,449 and the amount of liability for ORP was $42,155.

NOTE 13 - 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 5.60% of the covered payroll under TSERS and ORP to the Fund. Required contribution rates for the years ended June 30, 2015, and 2014, were 5.49% and 5.40%, respectively. The University made 100% of its annual required contributions to the Plan for the years ended June 30, 2016, 2015, and 2014, which were $9,210,050, $8,743,687, and $8,201,682, 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, 2016, 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, 2015, and 2014, were .41% and .44%, respectively. The University made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2016, 2015, and 2014, which were $674,307, $652,989, and $668,285, 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 14 - 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 $100,000 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, 2016:

The University purchased other authorized coverage from private insurance companies through the North Carolina Department of Insurance. Health care coverage is provided to participants in international educational and study abroad programs through the Preferred Health Plan for the University of North Carolina System for participants engaged in the programs. 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 and $350,000 for the study abroad participants. The period of coverage deductible per injury or sickness is $100 and $0, respectively.

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 place with QBE Insurance Corporation through a local agent.

NOTE 15 - 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 $4,108,542 and on other purchases were $4,950,733 at June 30, 2016.

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 College of Business, Applied Investment	$ 207,076
Professorship in School of Music, Music Education	340,665
Professorship in College of Health Sciences	679,201
Total	$ 1,226,942

NOTE 16 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2016, the University implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 72, *Fair Value Measurement and Application*

GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*

GASB Statement No. 72 provides guidance for determining a fair value measurement for financial reporting purposes. This statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

GASB Statement No. 79 establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes.

NOTE 17 - SUBSEQUENT EVENTS

On July 2, 2016, the University issued $7,700,000 in ASU General Revenue Refunding Bonds, Series 2016B to advance refund $8,520,000 of the University of North Carolina System Pool Revenue Bonds, Series 2006A; originally issued for the Doughton Residence Hall renovation ($2,770,000) and the Refunding 2003A; originally issued for the Student Recreation Center ($5,750,000). This advance refunding was undertaken to reduce total debt service payments by $992,023 over the next 11 years and resulted in an economic gain of $864,343.

On November 16, 2016, the University issued $25,845,000 in ASU General Revenue Bonds, Series 2016C, for the construction of the new Winkler Residence Hall. In addition, the University issued $10,895,000 in ASU General Revenue Bonds, Series 2016D, to advance refund $11,175,000 of UNC System Pool Bonds, Series 2009B; originally issued for the Frank Residence Hall renovation and the Kidd Brewer Stadium east stands. This advance refunding was undertaken to reduce total debt service payments by $1,577,355 over the next 19 years and resulted in an economic gain of $1,203,115

REQUIRED SUPPLEMENTARY INFORMATION

Appalachian State University
Required Supplementary Information
Schedule of the Proportionate Net Pension Liability
Teachers' and State Employees' Retirement System
Last Three Fiscal Years

Exhibit C-1

	2015	2014	2013
Proportionate Share Percentage of Collective Net Pension Liability	0.57921%	0.56360%	0.55660%
Proportionate Share of TSERS Collective Net Pension Liability	$ 21,345,035	$ 6,607,765	$ 33,791,292
Covered-Employee Payroll	$ 83,116,332	$ 79,589,512	$ 79,073,247
Net Pension Liability as a Percentage of Covered-Employee Payroll	25.68%	8.30%	42.73%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	94.64%	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

	2016	2015	2014	2013	2012
Contractually Required Contribution	$ 7,811,944	$ 7,605,144	$ 6,916,329	$ 6,586,802	$ 5,756,472
Contributions in Relation to the Contractually Determined Contribution	7,811,944	7,605,144	6,916,329	6,586,802	5,756,472
Contribution Deficiency (Excess)	$ 0	$ 0	$ 0	$ 0	$ 0
Covered-Employee Payroll	$ 85,376,440	$ 83,116,332	$ 79,589,512	$ 79,073,247	$ 77,371,931
Contributions as a Percentage of Covered-Employee Payroll	9.15%	9.15%	8.69%	8.33%	7.44%

	2011	2010	2009	2008	2007
Contractually Required Contribution	$ 3,982,952	$ 2,838,461	$ 2,621,773	$ 2,163,331	$ 1,707,518
Contributions in Relation to the Contractually Determined Contribution	3,982,952	2,838,461	2,621,773	2,163,331	1,707,518
Contribution Deficiency (Excess)	$ 0	$ 0	$ 0	$ 0	$ 0
Covered-Employee Payroll	$ 80,790,099	$ 79,382,154	$ 78,023,010	$ 70,718,284	$ 64,192,413
Contributions as a Percentage of Covered-Employee Payroll	4.93%	3.58%	3.36%	3.06%	2.66%

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

Changes of Benefit Terms:

Cost of Living Increase

2015*	2014	2013	2012	2011	2010	2009	2008	2007	2006
1.00%	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.

*Per the 2015 State of North Carolina *Comprehensive Annual Financial Report*, the 1.00% cost of living adjustment applies to retirees whose retirement began on or before July 1, 2013.

INDEPENDENT AUDITOR’S REPORT

STATE OF NORTH CAROLINA
Office of the State Auditor

Beth A. Wood, CPA
State Auditor

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

Board of Trustees
Appalachian State University
Boone, North Carolina

We have audited, 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 (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, 2016, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated December 6, 2016. 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

December 6, 2016

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NCOSA
The Taxpayers' Watchdog

This audit required 726 hours at an approximate cost of $74,778.