



STATE OF NORTH CAROLINA

APPALACHIAN STATE UNIVERSITY

BOONE, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2010

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR

APPALACHIAN STATE UNIVERSITY

BOONE, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2010

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Beth A. Wood, CPA
State Auditor

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AUDITOR'S TRANSMITTAL

The Honorable Beverly E. Perdue, 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, 2010, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

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

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

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

Beth A. Wood, CPA
State Auditor

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Appalachian State University
Boone, North Carolina

We have audited the accompanying financial statements of Appalachian State University, a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina, and its discretely presented component units, as of and for the year ended June 30, 2010, which collectively comprise the University's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Appalachian State University Foundation, Inc. or the Appalachian Student Housing Corporation, the University's discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for those entities, are based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of Appalachian State University Foundation, Inc. and the Appalachian Student Housing Corporation were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of Appalachian State University and its discretely presented component units as of June 30, 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

As discussed in Note 15 to the financial statements, the University implemented Governmental Accounting Standards Board Statement No. 51, *Accounting and Financial Reporting for Intangible Assets* and Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, during the year ended June 30, 2010.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 8, 2010 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis, as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



Beth A. Wood, CPA
State Auditor

December 8, 2010

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

Overview of the Financial Statement Information

Appalachian State University, a constituent institution of the multi-campus University of North Carolina System (UNC System), is pleased to present its financial statements for fiscal year 2010. These statements are prepared in accordance with standards issued by the Governmental Accounting Standard's Board (GASB). Statement No. 51, Accounting and Financial Reporting for Intangible Assets, and Statement No. 53, Accounting and Financial Reporting for Derivative Instruments, were implemented in fiscal year 2009-2010 and this requirement is disclosed in Note 15 within the Notes to the Financial Statements.

Statement of Net Assets

The Statement of Net Assets (condensed, comparative table presented within this discussion and analysis) presents the assets, liabilities, and net assets of the University as of the end of the fiscal year. It provides readers with information on the assets available to continue operations, and the amounts owed to vendors, investors, and lending institutions. The change in net assets (assets minus liabilities) from year to year is an indicator of the financial condition of the institution. Restricted nonexpendable net assets consist of loan funds, research funds, and endowment gifts with specific restrictions on spending the principal. Restricted expendable net assets consist of income from endowment funds, gifts and pledges with specific restrictions, unexpended bond proceeds and grants from third party agencies with expenditure restrictions.

Prominent changes in the Statement of Net Assets include an increase of \$43,784,786.42 in Total Assets, representing a 7.8% increase. This net increase was due to three factors; an increase of \$20,074,452.14 in Current Assets, an increase of \$2,940,030.72 in Noncurrent Assets - Restricted Cash, and an overall increase in Capital Assets of \$18,895,181.73. The increase in Current Assets was due to an increase of \$16,138,531.70 in Cash and Cash Equivalents and \$3,410,503.77 in Restricted Cash and Cash Equivalents. In the current fiscal year, Current Unrestricted Cash of \$730,423.72 was borrowed by restricted capital projects cash accounts to cover deficit cash balances as compared to \$21,086,716.81 in the fiscal year 2009. The previous year's deficit cash balances were caused principally by construction costs associated with the Athletic Enhancement Building Campaign and the renovations of Frank Residence Hall. Bonds were issued for both of these projects in July 2009, increasing cash in the current fiscal year. The effect of this interfund borrowing is required to be disclosed in the financial statements at year end by GASB.

The overall increase in Capital Assets is due to the capitalization of costs in excess of amounts added to Construction in Progress. The increase in Capital Assets - Depreciable is primarily due to the following amounts being moved from Construction in Progress (Nondepreciable) to Capital Assets - Buildings, Depreciable this year; the Athletics Field House Complex, \$46,323,802.88, Frank Hall renovation, \$7,748,734.98, and the Central

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Dining Facility, \$3,262,706.50. The net effect of these deletions to Construction in Progress and the current year's additions resulted in a decrease of \$28,844,907.23 in Capital Assets - Nondepreciable. The current year additions to Construction in Progress included the construction of the College of Education Building, Athletic Facilities, Cone Residence Hall renovations, Wellborn Cafeteria renovations, and ongoing upgrades to the steam distribution system.

Total Liabilities increased \$26,807,316.93 from the previous year. This increase was primarily due to the increase in Long-Term Liabilities of \$28,225,888.05. The University issued new debt (bonds and note) for a total of \$42,615,596.00 and reduced outstanding debt with total debt service payments of \$15,736,393.09.

The increase in Restricted Nonexpendable Net Assets of \$985,134.18 was due to the addition of the John Blackburn Endowed Professorship of \$1,000,000.00. The decrease in Restricted Expendable Net Assets of \$4,282,327.95 was due to a decrease in Debt Service of \$3,382,256.60 due to an overall debt increase to the University, and an increase in Expendable - Endowed Professorship of \$1,149,979.47 due to favorable earnings. The increase in Unrestricted Net Assets of \$23,469,541.16 resulted from the cash used in the prior year for Capital Projects as explained previously. Overall, Appalachian had an increase of \$16,977,469.49 in total Net Assets.

Condensed Statement of Net Assets - Restated

	Fiscal Year 2010	Fiscal Year 2009	\$ Change	% Change
Assets				
Current Assets	\$ 88,186,880.68	\$ 68,112,428.54	\$ 20,074,452.14	29.5
Noncurrent Assets				
Restricted Cash and Cash Equivalents	4,508,872.77	1,568,842.05	2,940,030.72	187.4
Restricted Due From Primary Government	105,311.72	105,311.72		
Capital Assets - Nondepreciable	53,361,205.04	82,206,112.27	(28,844,907.23)	(35.1)
Capital Assets - Depreciable	438,851,287.03	391,111,198.07	47,740,088.96	12.2
Other	<u>20,177,842.87</u>	<u>18,302,721.04</u>	<u>1,875,121.83</u>	10.2
Total Assets	605,191,400.11	561,406,613.69	43,784,786.42	7.8
Liabilities				
Current Liabilities	34,167,554.24	35,499,215.37	(1,331,661.13)	(3.8)
Funds Held Others	93,553.11	97,378.29	(3,825.18)	(3.9)
Long-Term Liabilities	202,636,987.76	174,411,099.71	28,225,888.05	16.2
Other Noncurrent Liabilities	<u>3,968,228.91</u>	<u>4,051,313.72</u>	<u>(83,084.81)</u>	(2.1)
Total Liabilities	240,866,324.02	214,059,007.09	26,807,316.93	12.5
Net Assets				
Invested in Capital Assets - Net of Related Debt	298,462,127.00	301,657,004.90	(3,194,877.90)	(1.1)
Restricted				
Nonexpendable	9,911,986.47	8,926,852.29	985,134.18	11.0
Expendable	8,692,592.38	12,974,920.33	(4,282,327.95)	(33.0)
Unrestricted	<u>47,258,370.24</u>	<u>23,788,829.08</u>	<u>23,469,541.16</u>	98.7
Total Net Assets	<u>\$ 364,325,076.09</u>	<u>\$ 347,347,606.60</u>	<u>\$ 16,977,469.49</u>	4.9

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Statement of Revenues, Expenses, and Changes in Net Assets

The Statement of Revenues, Expenses, and Changes in Net Assets (condensed, comparative table presented on the next page) depicts operating and nonoperating revenues and expenses. Note that State appropriations are considered nonoperating revenues.

Total Operating Revenues increased slightly from \$143,970,992.34 in 2009 to \$144,277,722.80 in 2010 representing a 0.2% increase.

Operating Expenses increased by \$19,410,052.43 representing an overall increase of 6.3%. These operating increases result from increases in student population, expansion of services, an increase in State Appropriations over the previous year, and other normal business activity for a continually growing University. Salaries and Benefits increased \$7,262,391.71 or 3.7% due to the hiring of teaching positions made possible by enrollment growth funding. Supplies and Materials expenses increased \$4,525,064.47, or 13.2% due to an increase in cash flow and less budget constraints. Services increased \$4,419,463.32 or 13.5% primarily due to increases in Other Services, Other Fixed Charges and Travel. Finally, Scholarships and Fellowships increased \$3,002,996.96 or 16.2% due to an increase in Federal Pell Awards.

In Nonoperating Revenues, Appalachian State experienced an increase in State Appropriations of \$12,985,821.29 for an 11.3% increase due primarily to enrollment growth funding, and increases in medical insurance and retirement rates. Also, the University received \$9,447,003.00 in State Aid from the Federal American Recovery Act, representing an increase of \$3,225,290.00 from 2009. Other Nonoperating Revenues increased \$8,970,446.10 or 23.4%. This increase is the result of increased funding for Federal Student Financial Aid and an increase in Investment Income due to better returns on Investment in 2010 than was achieved in 2009. This increase in return of Investment Income over 2009 may be signs of a slow and anticipated economic recovery.

The Other Revenues section consists of Capital Grants, Capital Gifts, and Additions to Endowments. Other Revenues increased by a total of \$10,953,137.85. Capital Grants increased by \$12,661,320.56 mainly due to funding provided by the North Carolina General Assembly for the new College of Education building which is currently under construction. Capital Gifts decreased by \$1,702,595.32 due to the completion and occupation of the Athletic Center Field House in the Fall of 2010.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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

	Fiscal Year 2010	Fiscal Year 2009	\$ Change	% Change
Operating Revenues				
Tuition and Fees, Net	\$ 73,191,400.09	\$ 72,463,672.03	\$ 727,728.06	1.0
Nongovernmental Grants and Contracts	789,608.24	1,798,256.80	(1,008,648.56)	(56.1)
Sales and Services, Net	69,443,633.21	68,821,444.44	622,188.77	0.9
Interest Earnings on Loans	21,784.04	192.16	21,591.88	11,236.4
Other Operating Revenues	831,297.22	887,426.91	(56,129.69)	(6.3)
Total Operating Revenues	144,277,722.80	143,970,992.34	306,730.46	0.2
Operating Expenses				
Salaries and Benefits	202,233,576.76	194,971,185.05	7,262,391.71	3.7
Supplies and Materials	38,717,982.56	34,192,918.09	4,525,064.47	13.2
Services	37,164,537.37	32,745,074.05	4,419,463.32	13.5
Scholarships and Fellowships	21,578,795.71	18,575,798.75	3,002,996.96	16.2
Utilities	12,836,954.14	14,828,983.01	(1,992,028.87)	(13.4)
Depreciation / Amortization	15,382,943.27	13,190,778.43	2,192,164.84	16.6
Operating Expenses	327,914,789.81	308,504,737.38	19,410,052.43	6.3
Operating Loss	(183,637,067.01)	(164,533,745.04)	(19,103,321.97)	(11.6)
Nonoperating Revenues				
State Appropriations	128,197,057.00	115,211,235.71	12,985,821.29	11.3
State Aid- Federal Recovery Funds	9,447,003.00	6,221,713.00	3,225,290.00	51.8
Other Nonoperating Revenues	47,343,062.21	38,372,616.11	8,970,446.10	23.4
Net Nonoperating Revenues	184,987,122.21	159,805,564.82	25,181,557.39	15.8
Income(Loss) Before Other Revenues	1,350,055.20	(4,728,180.22)	6,078,235.42	(128.6)
Other Revenues				
Capital Grants	13,865,893.75	1,204,573.19	12,661,320.56	1,051.1
Capital Gifts	761,520.54	2,464,115.86	(1,702,595.32)	(69.1)
Additions to Endowments	1,000,000.00	1,005,587.39	(5,587.39)	(0.6)
Total Other Revenues	15,627,414.29	4,674,276.44	10,953,137.85	234.3
Total Increase(Decrease) in Net Assets	16,977,469.49	(53,903.78)	17,031,373.27	(31,595.9)
Net Assets				
Net Assets at Beginning of Year, as Restated (Note 16)	347,347,606.60	347,401,510.38	(53,903.78)	(0.0)
Net Assets at End of Year	\$ 364,325,076.09	\$ 347,347,606.60	\$ 16,977,469.49	4.9

Economic Outlook

The nation is coming out of the longest, sustained period of economic contraction since the depression of the 1930's. However, the University's financial condition remains solid. Active steps continue to be made to review processes and programs to gain efficiencies, reduce or eliminate expenses while protecting the academic core and positions. The Fiscal Research Division of the North Carolina General Assembly economic outlook reports that due to the ongoing housing recession, cautious consumers, and tight credit conditions, we will see a slower, prolonged recovery phase. This has resulted in a revised downward revenue forecast for FY 2010-11 with a baseline growth declining from 3.3% to 2.7%. Fiscal Year 2009-2010 General Fund revenues were \$290 million below the \$18.8 billion budgeted

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

amount, which was 1.5% below the forecast. The latest expectations are that the stagnant, slow growth scenario that emerged during Summer 2010 will stay with us the rest of 2010. Most economic forecasts expect an uptick in the economic growth by mid-2011.

Capital Asset and Debt Administration

Capitalized assets placed into service consisted primarily of the following: \$498,613.57 for Convocation Center parking lot, \$7,748,734.98 for the renovation of Residence Facilities, \$47,436,162.22 for new and renovated Athletics Facilities, \$3,262,706.50 for the Central Dining Hall, \$155,195.98 for Town of Boone Interconnect Project, \$397,022.50 for the Carol Belk Library and Information Commons, \$97,379.50 for University Bookstore, and \$10,830.00 for the Student Union.

Other major capital projects to be completed in the near future:

- The Women's softball field improvement project is currently under design. Construction is scheduled to be completed by Spring of 2011. This project includes a new softball field house and replacement of dugout facilities. The total project has an estimated cost of \$800,000.00.
- The new Center for Student Leadership is currently in the early construction stage. This project will construct two new buildings: a 100,000 square foot 333 bed residence hall, a 22,000 square foot academic building and expand the adjacent Student Union by adding a 53,000 square-foot addition. The new residence hall and new academic building together will provide a living-learning environment that enhances the student learning experience by co-mingling classrooms, faculty offices, and a computer lab within the traditional residence hall setting. The new Student Union will provide additional student activity and academic space to support the new complex and the campus. This project is estimated to cost \$53,506,000.00. The anticipated completion date is to be ready for Fall of 2012.
- The new College of Education building is currently under construction and is projected to be completed Summer of 2011. This \$35,820,000.00 project will construct a 124,547 square foot building that will house classrooms, computer labs and office space.

Other major capital projects (not funded through the University wide bond issue) currently in the planning phase include:

- The expansion of the Beasley Broadcasting Center is currently in the construction document stage. This project will provide the Communication Department an additional 18,000 square feet. The final project will provide office space, classrooms, teaching labs, and studios for television and radio. This project is estimated to cost \$3,194,236.00. Projected start date is January 2011.
- Designs are currently underway for the renovation of Anne Belk Hall. This project will include the renovation of the third floor, addressing egress issues and the

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

installation of a sprinkler system. The renovation will provide office space, classrooms and teaching labs for the departments of Computer Science and Anthropology. The anticipated cost of the project is \$4,526,690.00 with anticipated start date of summer 2011.

Additional bonds are expected to be issued in late fall 2010 to fund the Center of Student Leadership project and expand the adjacent student union. As a result of the University entering into a lease agreement with the Mountaineer Hall, LLC, a division of the ASU Student Housing Corporation, the University will enter into a capital lease agreement in the amount of \$16,500,000 in fall 2011.

Total annual debt service payments were \$24,914,718.49 in 2010 compared to \$15,614,970.63 last year. These payments include bond principal and interest and fees on debt.

Appalachian State University
Statement of Net Assets
June 30, 2010

Exhibit A-1

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 54,591,780.16
Restricted Cash and Cash Equivalents	13,805,646.70
Receivables, Net (Note 4)	8,899,902.95
Due from State of North Carolina Component Units	561,534.53
Inventories	9,651,918.58
Notes Receivable, Net (Note 4)	676,097.76
	<hr/>
Total Current Assets	88,186,880.68

Noncurrent Assets:

Restricted Cash and Cash Equivalents	4,508,872.77
Restricted Due from Primary Government	105,311.72
Endowment Investments	9,453,745.46
Other Investments	7,491,655.22
Notes Receivable, Net (Note 4)	3,232,442.19
Capital Assets - Nondepreciable (Note 5)	53,361,205.04
Capital Assets - Depreciable, Net (Note 5)	438,851,287.03
	<hr/>
Total Noncurrent Assets	517,004,519.43

Total Assets	<hr/> <hr/> 605,191,400.11
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LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 6)	14,813,900.41
Due to Primary Government	290,361.43
Unearned Revenue	7,663,451.36
Interest Payable	2,685,565.42
Long-Term Liabilities - Current Portion (Note 7)	8,714,275.62
	<hr/>
Total Current Liabilities	34,167,554.24

Noncurrent Liabilities:

Deposits Payable	202,312.47
Funds Held for Others	93,553.11
U. S. Government Grants Refundable	3,765,916.44
Long-Term Liabilities (Note 7)	202,636,987.76
	<hr/>
Total Noncurrent Liabilities	206,698,769.78

Total Liabilities	<hr/> <hr/> 240,866,324.02
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Appalachian State University
Statement of Net Assets
June 30, 2010

Exhibit A-1
Page 2

NET ASSETS

Invested in Capital Assets, Net of Related Debt	298,462,127.00
Restricted for:	
Nonexpendable:	
Research	20,000.00
Endowed Professorships	9,433,745.46
Loans	458,241.01
Expendable:	
Scholarships and Fellowships	492,999.97
Research	14,035.21
Endowed Professorships	1,520,172.75
Debt Service	6,665,384.45
Unrestricted	<u>47,258,370.24</u>
Total Net Assets	<u><u>\$ 364,325,076.09</u></u>

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

Appalachian State University
Statement of Revenues, Expenses, and
Changes in Net Assets
For the Fiscal Year Ended June 30, 2010

Exhibit A-2

REVENUES

Operating Revenues:	
Student Tuition and Fees, Net (Note 9)	\$ 73,191,400.09
Nongovernmental Grants and Contracts	789,608.24
Sales and Services, Net (Note 9)	69,443,633.21
Interest Earnings on Loans	21,784.04
Other Operating Revenues	831,297.22
	<hr/>
Total Operating Revenues	144,277,722.80
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EXPENSES

Operating Expenses:	
Salaries and Benefits	202,233,576.76
Supplies and Materials	38,717,982.56
Services	37,164,537.37
Scholarships and Fellowships	21,578,795.71
Utilities	12,836,954.14
Depreciation / Amortization	15,382,943.27
	<hr/>
Total Operating Expenses	327,914,789.81
	<hr/>
Operating Loss	(183,637,067.01)
	<hr/>

NONOPERATING REVENUES (EXPENSES)

State Appropriations	128,197,057.00
State Aid - Federal Recovery Funds	9,447,003.00
Noncapital Grants - Student Financial Aid	32,203,142.80
Other Noncapital Grants	13,619,530.33
Noncapital Gifts	7,332,956.68
Investment Income	2,848,095.99
Interest and Fees on Debt	(9,178,325.40)
Other Nonoperating Revenues	517,661.81
	<hr/>
Net Nonoperating Revenues	184,987,122.21
	<hr/>
Income Before Other Revenues, Expenses, Gains, or Losses	1,350,055.20
Capital Grants	13,865,893.75
Capital Gifts	761,520.54
Additions to Endowments	1,000,000.00
	<hr/>
Increase in Net Assets	16,977,469.49

NET ASSETS

Net Assets - July 1, 2009, as Restated (Note 16)	347,347,606.60
	<hr/>
Net Assets - June 30, 2010	\$ 364,325,076.09
	<hr/> <hr/>

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, 2010

Exhibit A-3

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 143,831,943.30
Payments to Employees and Fringe Benefits	(201,894,081.25)
Payments to Vendors and Suppliers	(88,521,760.80)
Payments for Scholarships and Fellowships	(21,578,795.71)
Loans Issued	(659,081.95)
Collection of Loans	529,287.93
Interest Earned on Loans	4,616.40
Other Receipts	982,462.87
	<hr/>
Net Cash Used by Operating Activities	(167,305,409.21)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Appropriations	128,197,057.00
State Aid - Federal Recovery Funds	9,447,003.00
Noncapital Grants - Student Financial Aid	32,203,142.80
Other Noncapital Grants	13,008,416.96
Noncapital Gifts	5,958,390.57
Additions to Endowments	1,000,000.00
William D. Ford Direct Lending Receipts	3,146,257.00
William D. Ford Direct Lending Disbursements	(2,180,967.00)
Related Activity Agency Receipts	25,719.34
Related Activity Agency Disbursements	(29,544.52)
Proceeds from Notes Payable	5,757,611.55
	<hr/>
Net Cash Provided by Noncapital Financing Activities	196,533,086.70

CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES

Proceeds from Capital Debt	36,883,240.00
Capital Grants	13,865,893.75
Capital Gifts	742,569.61
Proceeds from Sale of Capital Assets	134,119.57
Acquisition and Construction of Capital Assets	(34,795,313.69)
Principal Paid on Capital Debt	(10,366,393.09)
Interest and Fees Paid on Capital Debt	(8,515,558.30)
Payment to Bond Escrow Agent	(5,671,760.00)
Other Receipts	287,954.26
	<hr/>
Net Cash Used by Capital Financing and Related Financing Activities	(7,435,247.89)

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from Sales and Maturities of Investments	443,269.92
Investment Income	988,539.62
Purchase of Investments and Related Fees	(735,172.95)
	<hr/>
Net Cash Provided by Investing Activities	696,636.59
	<hr/>
Net Increase in Cash and Cash Equivalents	22,489,066.19
Cash and Cash Equivalents - July 1, 2009	50,417,233.44
	<hr/>
Cash and Cash Equivalents - June 30, 2010	\$ 72,906,299.63

Appalachian State University
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2010

Exhibit A-3

Page 2

**RECONCILIATION OF NET OPERATING REVENUES (EXPENSES)
TO NET CASH USED BY OPERATING ACTIVITIES**

Operating Loss	\$ (183,637,067.01)
Adjustments to Reconcile Operating Loss to Net Cash Provided Used by Operating Activities:	
Depreciation / Amortization Expense	15,382,943.27
Allowances, Write-Offs, and Amortizations	461,490.55
Nonoperating Other Income	1,374,566.11
Changes in Assets and Liabilities:	
Receivables (Net)	190,353.19
Due from State of North Carolina Component Units	324,138.47
Inventories	(981,560.12)
Notes Receivable (Net)	(129,794.02)
Accounts Payable and Accrued Liabilities	1,085,209.12
Due to Primary Government	(1,050,289.00)
Unearned Revenue	(405,418.32)
Compensated Absences	109,282.67
Deposits Payable	(29,264.12)
	<hr/>
Net Cash Used by Operating Activities	<u><u>\$ (167,305,409.21)</u></u>

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	\$ 54,591,780.16
Restricted Cash and Cash Equivalents	13,805,646.70
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	4,508,872.77
	<hr/>
Total Cash and Cash Equivalents - June 30, 2010	<u><u>\$ 72,906,299.63</u></u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through the Assumption of a Liability	\$ 751,899.23
Assets Acquired through a Gift	234,710.54
Change in Fair Value of Investments	1,414,492.59
Reinvested Distributions	360,781.20
Loss on Disposal of Capital Assets	286,073.76
Bond Issuance Cost Withheld	326,051.28

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

Appalachian State University Foundation, Inc.
Statement of Financial Position
June 30, 2010

Exhibit B-1

ASSETS	
Cash	\$ 1,250,648
Contributions Receivable	9,084,153
Other Receivables	156,192
Prepaid Expenses	122,239
Investments	64,623,610
Real Estate Held for Investment	10,086,525
Notes Receivable	898,900
Beneficial Interests in Perpetual Trusts	1,186,966
Contributions Receivable from Trusts	1,116,716
Contributions Receivable from Irrevocable Bequests	124,432
Cash Surrender Value of Life Insurance	178,156
In-Kind Gifts	33,220
Property and Equipment, Net	1,907,345
	<hr/>
Total Assets	\$ 90,769,102
LIABILITIES	
Accounts Payable and Accrued Expenses	\$ 110,371
Deferred Revenues - Advance Royalties	86,011
Deposits Payable	726
Notes Payable	2,686,196
Grants Payable - Appalachian State University	1,943
Split Interest Agreement Obligations	2,472,785
	<hr/>
Total Liabilities	5,358,032
NET ASSETS	
Unrestricted	5,447,292
Temporarily Restricted	24,673,055
Permanently Restricted	55,290,723
	<hr/>
Total Net Assets	85,411,070
	<hr/>
Total Liabilities and Net Assets	\$ 90,769,102
	<hr/> <hr/>

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

Appalachian State University Foundation, Inc.
Statement of Activities
For the Fiscal Year Ended June 30, 2010

Exhibit B-2

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
REVENUES, GAINS, LOSSES AND OTHER SUPPORT				
Contributions	\$ 622,057	\$ 8,700,597	\$ 2,059,342	\$ 11,381,996
Investment Income	895,864	272,175	32,320	1,200,359
Auxiliary Income	229,175	85,185		314,360
Net Realized and Unrealized Gains on Investments	1,531,448	891,633	129,077	2,552,158
Net Change in Beneficial Interests in Perpetual Trusts, Contributions Receivable from Trusts and Split Interest Agreement Obligations		(83,721)	574	(83,147)
Other Income (Losses)	8,182	(10,197)		(2,015)
Net Assets Released from Restrictions	6,541,178	(6,541,178)		
Total Revenues, Gains, Losses and Other Support	9,827,904	3,314,494	2,221,313	15,363,711
EXPENSES				
Program Services:				
General University Support	5,250,733			5,250,733
Student Financial Aid	2,430,137			2,430,137
Alumni Affairs	95,021			95,021
Other	411,675			411,675
Total Program Services	8,187,566			8,187,566
Supporting Services:				
General and Administrative	108,170			108,170
Fundraising	803,458			803,458
Total Supporting Services	911,628			911,628
Total Expenses	9,099,194			9,099,194
Net Increase in Allowance for Doubtful Contributions Receivable		(344,748)	(40,910)	(385,658)
Increase in Net Assets	728,710	2,969,746	2,180,403	5,878,859
NET ASSETS				
Net Assets, Beginning	4,718,582	21,703,309	53,110,320	79,532,211
Net Assets, Ending	<u>\$ 5,447,292</u>	<u>\$ 24,673,055</u>	<u>\$ 55,290,723</u>	<u>\$ 85,411,070</u>

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

Appalachian Student Housing Corporation
Statement of Financial Position
June 30, 2010

Exhibit B-3

ASSETS

Current Assets:	
Cash and Cash Equivalents	\$ 2,154,970
Accounts Receivable, Net	6,135
Sales Tax Refund Receivable	17,410
Prepaid Expenses	87,594
	<hr/>
Total Current Assets	2,266,109
	<hr/>
Property and Equipment, Net	20,527,818
	<hr/>
Other Assets:	
Deferred Financing Cost, Net	82,745
Assets Limited as to Use by Bond Order	20,037,838
	<hr/>
Total Other Assets	20,120,583
	<hr/>
Total Assets	\$ 42,914,510
	<hr/> <hr/>

LIABILITIES

Current:	
Current Portion of Long-Term Debt	\$ 540,000
Accounts Payable	788,396
Accrued Expenses	59,634
Accrued Interest	15,405
Deferred Income	70,739
	<hr/>
Total Current Liabilities	1,474,174
	<hr/>
Long-Term Debt, Less Current Portion	32,735,000
	<hr/>
Total Liabilities	34,209,174
	<hr/>

NET ASSETS

Unrestricted	8,705,336
	<hr/>
Total Liabilities and Net Assets	\$ 42,914,510
	<hr/> <hr/>

Appalachian Student Housing Corporation
Statement of Activities
For the Fiscal Year Ended June 30, 2010

Exhibit B-4

REVENUES AND OTHER SUPPORT

Net Rental Income	\$ 4,258,472
Other Operating Revenue	101,763
	<hr/>
Total Revenues and Other Support	4,360,235
	<hr/>

EXPENSES

Salaries and Benefits	329,997
Purchased Services	125,915
Communications Service Contracts	58,179
Professional Fees	18,721
Building	319,456
Utilities	529,584
Letter of Credit	161,389
Licenses and Fees	10,815
Insurance	91,602
Renovation	76,800
Depreciation	559,232
Amortization	61,886
Interest	410,484
Bond Remarketing Fees	14,261
Taxes	119,268
Advertising	10,208
Other	190,163
	<hr/>
Total Expenses	3,087,960
	<hr/>
Other Interest Income	13,252
	<hr/>
Increase in Unrestricted Net Asset	1,285,527

NET ASSETS

Beginning of Year	7,419,809
	<hr/>
End of Year	\$ 8,705,336
	<hr/> <hr/>

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APPALACHIAN STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

- A. Financial Reporting Entity** - The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their constituents for their actions. As required by accounting principles generally accepted in the United States of America (GAAP), the financial reporting entity includes both the primary government and all of its component units. An organization other than a primary government serves as a nucleus for a reporting entity when it issues separate financial statements. Appalachian State University is a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina and an integral part of the State's *Comprehensive Annual Financial Report*.

The accompanying financial statements present all funds belonging to the University and its component units. While the Board of Governors of the University of North Carolina System has ultimate responsibility, the Chancellor, the Board of Trustees, and the Board of Trustees of the Endowment Fund have delegated responsibilities for financial accountability of the University's funds. The University's component units are discretely presented in the University's financial statements. Discretely presented component units' financial data are reported in separate financial statements because of their use of different GAAP reporting models and to emphasize their legal separateness.

Discretely Presented Component Units - The Appalachian State University Foundation, Inc. (Foundation) and the Appalachian Student Housing Corporation (Corporation) are legally separate not-for-profit corporations and are reported as discretely presented component units based on the nature and significance of their relationship to the University.

The Appalachian State University Foundation, Inc. is a legally separate, tax-exempt component unit of the University. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the University in support of its programs. The Foundation board consists of 30 self-perpetuating members of which four members are administrative officers of the University. Although the University does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, that the Foundation holds and invests, are restricted to the activities of the University by the donors.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

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

During the year ended June 30, 2010, the Foundation distributed \$7,680,870.47 to the University for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from the Vice Chancellor for University Advancement or the ASU Foundation President. The financial statements of the Corporation may be obtained from the Vice Chancellor for Student Development. The address is: Dougherty Administration Building, 438 Academy Street, Boone, North Carolina 28608.

- B. Basis of Presentation** - The accompanying financial statements are presented in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (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*

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the University does not apply Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless the GASB amends its pronouncements to specifically adopt FASB pronouncements issued after that date.

- C. Basis of Accounting** - The financial statements of the University have been prepared using the economic resource measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred, regardless of the timing of the cash flows.

Nonexchange transactions, in which the University receives (or gives) value without directly giving (or receiving) equal value in exchange includes State appropriations, certain grants, and donations. Revenues are recognized, net of estimated uncollectible amounts, as soon as all eligibility requirements imposed by the provider have been met, if probable of collection.

- D. Cash and Cash Equivalents** - This classification includes undeposited receipts, petty cash, cash on deposit with private bank accounts, cash on deposit with fiscal agents, and deposits held by the State Treasurer in the Short-Term Investment Fund. The Short-Term Investment Fund maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.
- E. Investments** - Investments generally are reported at fair value, as determined by quoted market prices or estimated amounts determined by management if quoted market prices are not available. Because of the inherent uncertainty in the use of estimates, values that are based on estimates may differ from the values that would have been used had a ready market existed for the investments. The net increase (decrease) in the fair value of investments is recognized as a component of investment income.

Other asset holdings are reported at cost, if purchased, or at fair value or appraised value at date of gift, if donated.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, along with any accumulated investment earnings on such amounts. Further, endowment investments also include amounts internally designated by the University for investment in an endowment capacity (i.e. quasi-endowments), along with accumulated investment earnings on such amounts.

- 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 that are verifiable, measurable, and expected to be collected and available for expenditures for which the resource provider's conditions have been satisfied. Receivables are recorded net of estimated uncollectible amounts.
- G. Inventories** - Inventories, consisting of expendable supplies, are valued at cost using first-in, first-out method. Merchandise for resale is valued using the retail inventory method. Rental textbooks are recorded at cost using first-in, first-out method.
- H. Capital Assets** - Capital assets are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. The value of assets constructed includes all material direct and indirect construction costs. Interest costs incurred are capitalized during the period of construction.

The University capitalizes assets that have a value or cost of \$5,000 or greater at the date of acquisition and an estimated useful life of more than one year except for intangible assets which are capitalized when the value or cost is \$100,000 or greater and internally generated software which is capitalized when the value or cost is \$1,000,000 or greater. Library books are generally not considered to have a useful life of more than one year unless part of a collection and are expensed in the year of acquisition.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 10 to 75 years for general infrastructure, 10 to 100 years for buildings, 2 to 30 years for equipment, and 2 to 30 years for computer software.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 or designated for the acquisition or construction of capital assets and resources legally segregated for the payment of principal and interest as required by debt covenants.

J. Noncurrent Long-Term Liabilities - Noncurrent long-term liabilities include principal amounts of bonds payable, notes payable, and compensated absences that will not be paid within the next fiscal year.

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

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

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

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

L. Net Assets - The University's net assets are classified as follows:

Invested in Capital Assets, Net of Related Debt - This represents the University's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.

Restricted Net Assets - Nonexpendable - Nonexpendable restricted net assets include endowments and similar type assets whose use is limited by donors or other outside sources, and, as a condition of the gift, the principal is to be maintained in perpetuity.

Restricted Net Assets - Expendable - Expendable restricted net assets include resources for which the University is legally or contractually obligated to spend in accordance with restrictions imposed by external parties.

Unrestricted Net Assets - Unrestricted net assets include resources derived from student tuition and fees, sales and services, unrestricted gifts, royalties, and interest income.

Restricted and unrestricted resources are tracked using a fund accounting system and are spent in accordance with established fund authorities. Fund authorities provide rules for the fund activity and are separately established for restricted and unrestricted activities. When both restricted and unrestricted funds are available for expenditure, the decision for funding is transactional based within the departmental management system in place at the University. For projects funded by tax-exempt debt proceeds and other sources, the debt proceeds are always used first.

- M. Scholarship Discounts** - Student tuition and fees revenues and certain other revenues from University charges are reported net of scholarship discounts in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. The scholarship discount is the difference between the actual charge for goods and services provided by the University and the amount that is paid by students or by third parties on the students' behalf. Student financial assistance grants, such as Pell grants, and other federal, State, or nongovernmental programs, are recorded as nonoperating revenues in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. To the extent that revenues from these programs are used to satisfy tuition, fees, and other charges, the University has recorded a scholarship discount.
- N. Revenue and Expense Recognition** - The University classifies its revenues and expenses as operating or nonoperating in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the University's principal ongoing operations. Operating revenues include activities that

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

have characteristics of exchange transactions, such as (1) student tuition and fees, (2) sales and services of auxiliary enterprises, (3) certain federal, State, and local grants and contracts that are essentially contracts for services, and (4) interest earned on loans. Operating expenses are all expense transactions incurred other than those related to capital and noncapital financing or investing activities as defined by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*.

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

- O. Internal Sales Activities** - Certain institutional auxiliary operations provide goods and services to University departments, as well as to its customers. These institutional auxiliary operations include activities such as central stores, copy centers, motor pool, postal services, steam plant, electric utility, and telecommunications. In addition, the University has other miscellaneous sales and service units that operated either on a reimbursement or charge basis. All internal sales activities to University departments from auxiliary operations and sales and service units have been eliminated in the accompanying financial statements. These eliminations are recorded by removing the revenue and expense in the auxiliary operations and sales and service units and, if significant, allocating any residual balances to those departments receiving the goods and services during the year.

NOTE 2 - DEPOSITS AND INVESTMENTS

- A. Deposits** - Unless specifically exempt, the University is required by *North Carolina General Statute 147-77* to deposit moneys received with the State Treasurer or with a depository institution in the name of the State Treasurer. In addition, the University of North Carolina Board of Governors, pursuant to G.S. 116-36.1, requires the University to deposit its institutional trust funds, except for funds received for services rendered by health care professionals, with the State Treasurer. Although specifically exempted, the University may voluntarily deposit endowment funds, special funds, revenue bond proceeds, debt service funds, and funds received for services rendered by health care professionals with the

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

State Treasurer. Special funds consist of moneys for intercollegiate athletics and agency funds held directly by the University.

At June 30, 2010, the amount shown on the Statement of Net Assets as cash and cash equivalents includes \$68,939,532.33 which represents the University's equity position in the State Treasurer's Short-Term Investment Fund. The Short-Term Investment Fund (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission and does not have a credit rating) had a weighted average maturity of 1.6 years as of June 30, 2010. Assets and shares of the Short-Term Investment Fund are valued at amortized cost, which approximates fair value. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's Short-Term Investment Fund) are 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 "Proceed directly to OSC's index page," then "Reports," or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

Cash on hand at June 30, 2010 was \$429,461.75. The carrying amount of the University's deposits not with the State Treasurer was \$3,537,305.55 and the bank balance was \$5,132,371.30. Custodial credit risk is the risk that in the event of a bank failure, the University's deposits may not be returned to it. Pursuant to G.S. 116-36.1, funds received for health care services not deposited with the State Treasurer shall be fully secured in the manner as prescribed by the State Treasurer for the security of public deposits. The University does not have a deposit policy for custodial credit risk. As of June 30, 2010, the University's bank balance was exposed to custodial credit risk as follows:

Uninsured and Uncollateralized	<u>\$ 4,125,848.46</u>
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B. Investments

University - The University is authorized by The University of North Carolina Board of Governors pursuant to G.S. 116-36.2 and Section 600.2.4 of the Policy Manual of the University of North Carolina to invest its special funds 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Treasurer to invest in the following: obligations of or fully guaranteed by the United States; obligations of certain federal agencies; repurchase agreements; obligations of the State of North Carolina; time deposits of specified institutions; prime quality commercial paper; and asset-backed securities with specified ratings. Also, G.S. 147-69.1(c) authorizes the following: specified bills of exchange or time drafts and corporate bonds and notes with specified ratings. G.S. 147-69.2 authorizes the following: general obligations of other states; general obligations of North Carolina local governments; and obligations of certain entities with specified ratings.

In accordance with the bond resolutions, bond proceeds and debt service funds are invested in obligations that will by their terms mature on or before the date funds are expected to be required for expenditure or withdrawal.

G.S. 116-36(e) provides that the trustees of the Endowment Fund shall be responsible for the prudent investment of the Fund in the exercise of their sound discretion, without regard to any statute or rule of law relating to the investment of funds by fiduciaries but in compliance with any lawful condition placed by the donor upon that part of the Endowment Fund to be invested.

Investments of the University's component units, the Foundation and Student Housing Corporation, are subject to and restricted by G.S. 36E "Uniform Prudent Management of Institutional Funds Act" (UPMIFA) and any requirements placed on them by contract or donor agreements.

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

Investments are subject to the following risks.

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

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

Custodial Credit Risk: Custodial credit risk is the risk that, in the event of the failure of the counterparty, the University will not be able to recover the value of its investments or collateral securities that are in the

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

possession of an outside party. The University does not have a formal policy for custodial credit risk.

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

Long-Term Investment Pool - This is an internal investment pool that is utilized for the investment of the endowment funds. Fund ownership is measured using the percentage method. Under this method, each participating fund's investment balance is determined on percentage of original investment. The investment strategy, including the selection of investment managers, is based on the directives of the University's Endowment Board.

The following table presents the fair value of investments by type and investments subject to interest rate risk at June 30, 2010, for the Long-Term Investment Pool.

Long-Term Investment Pool

Investment Type	Fair Value	Investment Maturities (in Years)	
		1 to 5	6 to 10
Debt Securities			
Mutual Bond Funds	\$ 5,411,490.61	\$ 3,267,808.21	\$ 2,143,682.40
Other Securities			
International Mutual Funds	1,428,155.45		
Other Mutual Funds	7,644,497.40		
Total Long-Term Investment Pool	\$ 14,484,143.46		

At June 30, 2010, investments in the Long-Term Investment Pool included \$5,411,490.61 in Mutual Bond Funds with credit exposure for which Standard and Poors' credit quality distribution was AA.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Non-Pooled Investments - The following table presents the fair value of investments by type and investments subject to interest rate risk at June 30, 2010, for the University's non-pooled investments.

Non-Pooled Investments

Investment Type	Fair Value	Investment Maturity (in Years) Less Than 1
Debt Securities		
Money Market Mutual Funds	\$ 2,404,383.00	\$ 2,404,383.00
Other Securities		
Domestic Stocks	44,411.82	
Foreign Stocks	11,462.40	
Guaranty Capital - Medical Mutual Ins.	1,000.00	
Total Non-Pooled Investments	\$ 2,461,257.22	

At June 30, 2010, the University's non-pooled investments included \$2,404,383.00 in money market mutual funds with credit exposure for which Standard and Poors' credit quality distribution was AAAM.

At June 30, 2010, 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	\$ 44,411.82
Foreign Stocks	11,462.40
Total	\$ 55,874.22

Foreign Currency Risk: At June 30, 2010, the University's exposure to foreign currency risk is as follows:

Investment	Currency	Fair Value (U.S. Dollars)
Novartis	Swiss Franc	\$ 2,657.60
Transocean, LTD	Swiss Franc	1,621.55
ABB Ltd.	Swiss Franc	3,456.00
Goldcorp, Inc.	Canadian Dollar	3,727.25
Total		\$ 11,462.40

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Total Investments - The following table presents the fair value of the total investments at June 30, 2010:

Investment Type	<u>Fair Value</u>
Debt Securities	
Mutual Bond Funds	\$ 5,411,490.61
Money Market Mutual Funds	2,404,383.00
Other Securities	
International Mutual Funds	1,428,155.45
Other Mutual Funds	7,644,497.40
Domestic Stocks Held by Counterparty	44,411.82
Foreign Stocks Held by Counterparty	11,462.40
Guaranty Capital - Medical Mutual Insurance	<u>1,000.00</u>
Total Investments	<u>\$ 16,945,400.68</u>

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

Short-Term Investment Fund	\$ 17,637,647.00
Money Market Funds	336,811.00
Equity Investments	24,421,896.00
Fixed Income Investments	9,342,224.00
Alternative Investments	<u>12,885,032.00</u>
	64,623,610.00
Real Estate Held for Resale	<u>10,086,525.00</u>
Total Investments	<u>\$ 74,710,135.00</u>

NOTE 3 - ENDOWMENT INVESTMENTS

Investments of the University's endowment funds are pooled, unless required to be separately invested by the donor. If a donor has not provided specific instructions, State law permits the Board of Trustees to authorize for expenditure the net appreciation, realized and unrealized, of the investments of the endowment funds. Under the "Uniform Prudent Management of Institutional Funds Act" (UPMIFA), authorized by the North Carolina General Assembly on March 19, 2009, the Board may also appropriate expenditures from eligible nonexpendable balances if deemed prudent and necessary to meet

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

program outcomes and for which such spending is not specifically prohibited by the donor agreements. However, a majority of the University's endowment donor agreements prohibit spending of nonexpendable balances and therefore the related nonexpendable balances are not eligible for expenditure. During the year, the Board did not appropriate expenditures from eligible nonexpendable endowment funds.

Investment return of the University's endowment funds is predicated on the total return concept (yield plus appreciation). Annual payouts from the University's endowment funds are based on an adopted spending policy which limits spending to 5% of an individual endowment account's net asset value at the end of the previous year. An earnings reserve must be held in each 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 each fiscal year are eligible for pay out. Realized and unrealized net capital losses that invade the original corpus amounts are recovered from accumulated income before any spending budgets are calculated. Subject to these limitations, the budgeted spending amount will be based on the net asset value of each individual endowment fund. At June 30, 2010, net appreciation was \$1,048,986.82 of which \$326,548.12 was available to be spent and was restricted to specific purposes.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2010, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	\$ 4,751,781.77	\$ 1,077,154.73	\$ 3,674,627.04
Accounts	3,566,419.30	99,057.51	3,467,361.79
Intergovernmental	1,655,125.19		1,655,125.19
Interest on Loans	102,788.93		102,788.93
Total Current Receivables	\$ 10,076,115.19	\$ 1,176,212.24	\$ 8,899,902.95
Notes Receivable:			
Notes Receivable - Current:			
Federal Loan Programs	\$ 670,704.76	\$ 0.00	\$ 670,704.76
Institutional Student Loan Programs	7,046.00	1,653.00	5,393.00
Total Notes Receivable - Current	\$ 677,750.76	\$ 1,653.00	\$ 676,097.76
Notes Receivable - Noncurrent:			
Federal Loan Programs	\$ 3,696,712.27	\$ 464,270.08	\$ 3,232,442.19

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2010, is presented as follows:

	Balance July 1, 2009 (as restated)	Increases	Decreases	Balance June 30, 2010
Capital Assets, Nondepreciable:				
Land	\$ 20,954,753.46	\$ 0.00	\$ 10,032.42	\$ 20,944,721.04
Art, Literature, and Artifacts	2,344,517.66	135,000.00		2,479,517.66
Construction in Progress	58,906,841.15	30,943,784.03	59,913,658.84	29,936,966.34
Total Capital Assets, Nondepreciable	82,206,112.27	31,078,784.03	59,923,691.26	53,361,205.04
Capital Assets, Depreciable:				
Buildings	446,078,357.92	58,864,051.27	2,130,199.81	502,812,209.38
Machinery and Equipment	41,872,149.67	3,133,881.66	2,709,724.14	42,296,307.19
General Infrastructure	59,391,120.30	1,547,763.70	52,496.47	60,886,387.53
Computer Software	301,242.00			301,242.00
Total Capital Assets, Depreciable	547,642,869.89	63,545,696.63	4,892,420.42	606,296,146.10
Less Accumulated Depreciation/Amortization for:				
Buildings	123,949,357.12	9,963,783.94	1,817,002.04	132,096,139.02
Machinery and Equipment	21,010,407.37	3,328,011.02	2,605,570.53	21,732,847.86
General Infrastructure	11,534,252.08	2,076,086.21	47,183.45	13,563,154.84
Computer Software	37,655.25	15,062.10		52,717.35
Total Accumulated Depreciation	156,531,671.82	15,382,943.27	4,469,756.02	167,444,859.07
Total Capital Assets, Depreciable, Net	391,111,198.07	48,162,753.36	422,664.40	438,851,287.03
Capital Assets, Net	\$ 473,317,310.34	\$ 79,241,537.39	\$ 60,346,355.66	\$ 492,212,492.07

The carrying amount of impaired capital assets idle at year end is \$343,741.48 for machinery and equipment

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2010, were as follows:

	Amount
Accounts Payable	\$ 9,909,732.95
Accrued Payroll	3,164,859.86
Contract Retainage	1,681,607.30
Intergovernmental Payables	57,700.30
Total Accounts Payable and Accrued Liabilities	\$ 14,813,900.41

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 7 - LONG-TERM LIABILITIES

UNIVERSITY

A. Changes in Long-Term Liabilities - A summary of changes in the long-term liabilities for the year ended June 30, 2010, is presented as follows:

	Balance July 1, 2009	Additions	Reductions	Balance June 30, 2010	Current Portion
Revenue Bonds Payable	\$ 172,070,000.00	\$ 37,185,000.00	\$ 12,375,000.00	\$ 196,880,000.00	\$ 7,685,000.00
Deduct Deferred Charge on Refunding	(2,369,471.98)	(301,760.00)	(166,166.95)	(2,505,065.03)	
Total Revenue Bonds	169,700,528.02	36,883,240.00	12,208,833.05	194,374,934.97	7,685,000.00
Notes Payable	4,397,793.98	5,430,596.00	3,361,393.09	6,466,996.89	286,400.89
Compensated Absences	10,400,048.85	7,045,717.68	6,936,435.01	10,509,331.52	742,874.73
Total Long-Term Liabilities	\$ 184,498,370.85	\$ 49,359,553.68	\$ 22,506,661.15	\$ 211,351,263.38	\$ 8,714,275.62

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

Purpose	Series	Interest Rate/ Ranges	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2010	Principal Outstanding June 30, 2010	See Table Below
Revenue Bonds Payable							
Housing and Student Center System							
ASU Housing and Student Center System Revenue Refunding Bond	2002	4.30%	07/15/2015	\$ 13,240,000.00	\$ 6,005,000.00	\$ 7,235,000.00	3
Student Union System							
ASU Student Fee Revenue Refunding Bonds Student Union Building	1998	4.87%	05/15/2012	8,050,000.00	6,515,000.00	1,535,000.00	1
Utility System							
ASU Utility System Revenue Refunding Bonds	1998	5.29%	05/15/2024	27,535,000.00	25,320,000.00	2,215,000.00	2
The University of North Carolina System Pool Revenue Bonds							
Doughton Renovation	(A)	5.02%	04/01/2027	4,940,000.00	4,625,000.00	315,000.00	
Broyhill Inn	(B)	3.82%	10/01/2015	990,000.00	295,000.00	695,000.00	
Doughton Renovation	(B)	4.27%	10/01/2026	3,755,000.00	15,000.00	3,740,000.00	
Dining Hall	(B)	4.38%	05/01/2031	23,330,000.00	1,610,000.00	21,720,000.00	
Hoey Hall Renovation	(B)	4.25%	10/01/2026	6,980,000.00	690,000.00	6,290,000.00	
Student Recreation Center	(B)	4.13%	10/01/2021	7,680,000.00		7,680,000.00	
Utility System	(C)	4.28%	10/01/2023	19,230,000.00	20,000.00	19,210,000.00	
Cannon Hall	(C)	4.69%	10/01/2033	8,520,000.00	195,000.00	8,325,000.00	
Parking-Stadium	(C)	4.69%	10/01/2033	3,350,000.00	75,000.00	3,275,000.00	
New Field House Complex	(C)	4.69%	10/01/2033	20,600,000.00	465,000.00	20,135,000.00	
Stadium East Stands	(D)	4.65%	10/01/2034	8,370,000.00		8,370,000.00	
Frank Hall	(D)	4.65%	10/01/2034	7,060,000.00		7,060,000.00	
Cone Hall	(E)	4.35%	10/01/2035	8,880,000.00		8,880,000.00	
University Bookstore	(E)	3.76%	10/01/2027	5,000,000.00		5,000,000.00	
Stadium East Stands and Field House Complex	(E)	4.35%	10/01/2035	7,875,000.00		7,875,000.00	
Total The University of North Carolina System Pool Revenue Bonds				136,560,000.00	7,990,000.00	128,570,000.00	
ASU General Revenue Bonds							
ASU General Revenue Bonds-Student Recreation Center	2003A	4.48%	05/01/2028	25,635,000.00	12,555,000.00	13,080,000.00	
ASU General Revenue Bonds-Housing, Athletics, Parking	2005	4.54%	07/15/2030	50,915,000.00	6,670,000.00	44,245,000.00	
Total General Revenue Bonds				76,550,000.00	19,225,000.00	57,325,000.00	
Total Revenue Bonds Payable (principal only)				\$ 261,935,000.00	\$ 65,055,000.00	\$ 196,880,000.00	
Less: Unamortized Loss on Refunding						2,505,065.03	
Total Revenue Bonds Payable						\$ 194,374,934.97	

(A) The University of North Carolina System Pool Revenue Bonds, Series 2002A
(B) The University of North Carolina System Pool Revenue Bonds, Series 2006A
(C) The University of North Carolina System Pool Revenue Bonds, Series 2008A
(D) The University of North Carolina System Pool Revenue Bonds, Series 2009B
(E) The University of North Carolina System Pool Revenue Bonds, Series 2010B1

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

Ref	Revenue Source	Total Future Revenues Pledged	Current Year			Estimate of % of Revenues Pledged
			Revenues Net of Expenses	Principal	Interest	
1	Indebtedness Fee	\$ 1,651,250.00	\$ 1,208,597.78	\$ 705,000.00	\$ 112,000.00	67%
2	Steam Plant	2,382,500.00	6,328,142.73	1,000,000.00	160,750.00	11%
3	Housing Revenues	8,326,942.00	10,052,683.08	1,215,000.00	621,912.50	7%

C. Annual Requirements - The annual requirements to pay principal and interest on the long-term obligations at June 30, 2010, are as follows:

Fiscal Year	Annual Requirements			
	Revenue Bonds Payable		Notes Payable	
	Principal	Interest	Principal	Interest
2011	\$ 7,685,000.00	\$ 8,984,344.82	\$ 286,400.89	\$ 494,571.67
2012	8,390,000.00	8,661,613.78	438,406.94	349,440.31
2013	7,945,000.00	8,294,610.04	518,199.82	279,257.18
2014	8,250,000.00	7,977,022.54	454,886.82	255,436.30
2015	8,600,000.00	7,627,610.04	494,209.52	231,853.60
2016-2020	42,875,000.00	32,117,178.30	2,807,232.77	752,425.97
2021-2025	50,295,000.00	21,287,480.20	1,467,660.13	83,640.87
2026-2030	39,315,000.00	10,214,734.48		
2031-2035	22,435,000.00	2,501,565.66		
2036-2040	1,090,000.00	25,887.50		
Total Requirements	\$ 196,880,000.00	\$ 107,692,047.36	\$ 6,466,996.89	\$ 2,446,625.90

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

On March 31, 2010 the University issued \$5,000,000.00 in UNC System Pool Revenue Bonds, Series 2010B1 with an average interest rate of 4.30%. The bonds were issued to advance refund \$5,370,000.00 of outstanding ASU Housing & Student Center System Revenue Bonds, Series 2001 with an average interest rate of 5.05%. 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 Assets. This advance refunding was undertaken to reduce total debt service payments by \$988,469.77 over the next 17.5 years and resulted in an economic gain of \$306,645.00. At

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

June 30, 2010, the outstanding balance was \$5,370,000.00 for the defeased ASU Housing & Student Center System Bonds, Series 2001.

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, 2010, the outstanding balance of prior year defeased bonds was \$30,830,000.00.

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

Purpose	Financial Institution	Interest Rate/ Ranges	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2010	Principal Outstanding June 30, 2010
Electric Utility	RBC Centura	4.30%	03/15/2013	\$ 1,000,000.00	\$ 700,000.00	\$ 300,000.00
Electric Utility	BB & T	4.56%	10/12/2016	1,000,000.00	350,000.00	650,000.00
Presbyterian Church Property	Presbyterian Church	0.00%	06/30/2011	4,750,000.00	4,750,000.00	
Athletics old Scoreboard	First Bank & Trust	7.52%	10/01/2010	593,063.52	506,662.63	86,400.89
Energy Savings Project	Sun Trust Bank	5.10%	08/29/2022	5,430,596.00		5,430,596.00
Total Notes Payable				<u>\$ 12,773,659.52</u>	<u>\$ 6,306,662.63</u>	<u>\$ 6,466,996.89</u>

COMPONENT UNITS

A. ASU Foundation, Inc.

On January 5, 2007, the Foundation entered into a revolving line of credit agreement with RBC Bank for up to \$3.5 million. The agreement was amended on August 8, 2007 to increase the line of credit to \$5.0 million. The purpose of the agreement is to assist with costs related to the Athletics facilities enhancement project. The outstanding balance as of June 30, 2010 was \$2,330,000.00. The line of credit is collateralized by outstanding pledge commitments and the amount borrowed may not exceed 95% of the total unpaid pledges. The line of credit is due on January 5, 2012. The interest rate is equal to the 30-day LIBOR plus .49% (.84% at June 30, 2010).

The Foundation entered into a loan agreement with RBC Bank on November 15, 2008 for \$470,500.00 to finance the purchase of a new scoreboard at Kidd Brewer Stadium and scorers tables for the Holmes Convocation Center. The Foundation assigned the rights to marketing revenues to RBC Bank as security for the loan. The outstanding balance as of June 30, 2010 was \$356,196.00. The note is payable in annual payments including principal and interest at an interest rate of 5.83%.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Aggregate maturities required on notes payable as of June 30, 2010 are due in future years as follows:

Fiscal Years Ending June 30,	Amount
2011	\$ 112,314.00
2012	2,448,605.00
2013	125,277.00
	\$ 2,686,196.00

B. ASU Student Housing Corporation

Long term debt at June 30, 2010 consists of the following:

Student Housing variable rate revenue bonds; dated September 19, 2000; original amount of \$9,935,000; interest variable rate calculated weekly due serially from	\$ 6,605,000.00
Student Housing variable rate revenue bonds; dated September 19, 2000; original amount of \$10,000,000; interest at variable rate calculated weekly due serially from July 1, 2002 to July 1, 2031.	6,080,000.00
Student Housing variable rate revenue bonds; dated September 19, 2000; original amount of \$7,000,000; interest at variable rate calculated weekly due serially from July 1, 2003 to July 1, 2031.	4,090,000.00
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, 2011 to October 1, 2016	16,500,000.00
Total Long-Term Debt	33,275,000.00
Less Current Portions	540,000.00
Long-Term Debt, Less Current Portions	\$ 32,735,000.00

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

2011	\$ 540,000.00
2012	11,080,000.00
2013	1,815,000.00
2014	1,845,000.00
2015	1,885,000.00
Thereafter	16,110,000.00
	\$ 33,275,000.00

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The Student Housing Variable Rate Revenue Bonds Series 2000 are secured by a Trust Estate, a letter of credit issued by Wachovia Bank, and a deed of trust and security agreement. Under the terms of the Bond Order, the Corporation is required to make annual principal and interest payments to a trustee, with the principal payments being either for current bond maturities or pursuant to a sinking fund requirement for noncurrent maturities, as set forth in the Bond Order. The trustee will then make principal and interest payments to bondholders when due. Such payments to the trustee are included in assets whose use is limited in the financial statements. The Bond Order requires that the Corporation satisfy certain measures of financial performance as long as the bonds are outstanding.

On September 1, 2003, the Corporation elected to adjust the interest mode on the bonds from the fixed rates of the long mode to a variable rate under the weekly mode. Under the weekly mode, the variable rate is recalculated each week as the rate which would enable the bonds to be remarketed at par.

Additionally, on March 1, 2008 the Corporation entered into an interest rate swap contract with Wachovia Bank that effectively converts the interest rate on the outstanding bonds to a fixed rate of 2.38%. Under the swap contract, the Corporation pays interest at 2.38% and receives interest at the USD-SIFMA Municipal Swap Index rate each month. The swap is designed to hedge the risk of changes in the variable interest payments on the bonds caused by the change to the weekly interest mode. The swap, which terminates on March 1, 2013, was issued at market terms so that it had no fair value at its inception.

The Certificates of Participation/Build America Bonds Series 2010 are secured by a leasehold deed of trust, the assignment of rents and leases due the Corporation under a lease and use agreement with Appalachian State University and a security agreement. Under the terms of the Bond Indenture, the Corporation is required to make monthly principal and interest payments to a trustee. The trustee will then make principal and interest payments to bondholders when due. Such payments to the trustee are included in assets whose use is limited in the financial statements.

The Corporation organized Mountaineer Hall, LLC (the “Company”) on April 21, 2010 as a wholly owned limited liability company under the laws of the State of North Carolina for the purpose of developing and constructing an on campus student housing facility at Appalachian State University (“ASU”). In order to finance the construction of the facility, on May 17, 2010 the Company issued \$16,500,000 of Certificates of Participation (Appalachian State University Student Housing Project), Series 2010 (Build America Bonds) (the “Bonds”). Coincident with the

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

bond issuance, the Company entered into a thirty year ground lease with ASU providing the Company with the use of the site to construct the housing facility for \$1, and a building lease whereby ASU will lease the housing facility for a period of thirty years. The base rents due to the Company under the building lease will be used to repay the principal and interest on the Bonds. The lease provides ASU with an option to purchase the facility for \$1 once the bonds have been repaid in full.

NOTE 8 - LEASE OBLIGATIONS

The University entered into operating leases for equipment, office space, and parking facilities. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2010:

<u>Fiscal Year</u>	<u>Amount</u>
2011	\$ 757,154.49
2012	535,093.56
2013	382,724.79
2014	314,568.29
2015	312,283.08
2016-2020	1,561,415.40
2021-2025	1,561,415.40
2026-2030	1,014,920.01
Total Minimum Lease Payments	<u>\$ 6,439,575.02</u>

Rental expense for all operating leases during the year was \$2,201,411.41.

NOTE 9 - REVENUES

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

	<u>Gross Revenues</u>	<u>Internal Sales Eliminations</u>	<u>Less Scholarship Discounts</u>	<u>Less Allowance for Uncollectibles</u>	<u>Net Revenues</u>
Operating Revenues:					
Student Tuition and Fees	<u>\$ 89,140,765.95</u>	<u>\$ 0.00</u>	<u>\$ 15,687,172.99</u>	<u>\$ 262,192.87</u>	<u>\$ 73,191,400.09</u>
Sales and Services:					
Sales and Services of Auxiliary Enterprises:					
Residential Life	\$ 19,913,715.35	\$ 21,064.26	\$ 3,265,752.87	\$ 45,848.93	\$ 16,581,049.29
Dining	18,099,995.15	1,427,871.51	1,901,426.71	20,086.02	14,750,610.91
Student Union Services	156,053.04	39,092.00		1,514.80	115,446.24
Health, Physical Education, and Recreation Services	1,353,593.62	54,153.96		5,424.97	1,294,014.69
Bookstore	10,486,061.72	962,066.69	509,418.74	9,714.70	9,004,861.59
Parking	2,867,196.02	44,040.00		3,915.96	2,819,240.06
Camp Programs	2,377,108.42	216,206.18			2,160,902.24
Steam Utility System	10,227,645.44	10,227,645.44			
Athletic	4,864,538.18	2,429.00		4,964.09	4,857,145.09
Other	9,300,171.11	3,565,275.52	502,588.44	12,759.89	5,219,547.26
Sales and Services of Education and Related Activities	1,979,356.24	1,166,084.94			813,271.30
New River Light and Power	16,059,652.37	4,200,931.84		31,175.99	11,827,544.54
Total Sales and Services	<u>\$ 97,685,086.66</u>	<u>\$ 21,926,861.34</u>	<u>\$ 6,179,186.76</u>	<u>\$ 135,405.35</u>	<u>\$ 69,443,633.21</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 10 - OPERATING EXPENSES BY FUNCTION

The University's operating expenses by functional classification are presented as follows:

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	\$ 101,404,231.34	\$ 4,623,564.21	\$ 5,031,064.56	\$ 132,423.82	\$ 32.16	\$ 0.00	\$ 111,191,316.09
Research	1,217,658.39	268,697.44	629,722.21	3,000.00	2,055.00		2,121,133.04
Public Service	6,526,045.15	352,616.72	1,672,148.39	1,114,788.39	11,175.93		9,676,774.58
Academic Support	24,125,287.97	7,346,061.46	5,084,650.22	57,915.58	1,602.90		36,615,518.13
Student Services	6,199,679.94	465,297.96	704,044.17	63,913.25			7,432,935.32
Institutional Support	15,548,594.38	1,223,992.20	5,855,511.34	62,993.88	3,673.23		22,694,765.03
Operations and Maintenance of Plant	13,186,226.61	622,524.87	1,659,012.12		6,099,963.31		21,567,726.91
Student Financial Aid	99,589.31	10,821.98	77,911.05	18,439,537.03			18,627,859.37
Auxiliary Enterprises	32,896,250.62	16,914,702.57	15,376,121.89	1,704,223.76	6,718,451.61		73,609,750.45
New River Light and Power	1,030,013.05	6,889,703.15	1,074,351.42				8,994,067.62
Depreciation						15,382,943.27	15,382,943.27
Total Operating Expenses	\$ 202,233,576.76	\$ 38,717,982.56	\$ 37,164,537.37	\$ 21,578,795.71	\$ 12,836,954.14	\$ 15,382,943.27	\$ 327,914,789.81

NOTE 11 - PENSION PLANS

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

The Teachers' and State Employees' Retirement System is a cost-sharing multiple-employer defined benefit pension plan established by the State to provide pension benefits for employees of the State, its component units, and local boards of education. The plan is administered by the North Carolina State Treasurer.

Benefit and contribution provisions for the Teachers' and State Employees' Retirement System are established by *North Carolina General Statutes* 135-5 and 135-8 and may be amended only by the North Carolina General Assembly. Employer and member contribution rates are set each year by the North Carolina General Assembly based on annual actuarial valuations. For the year ended June 30, 2010, these rates were set at 3.57% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the University had a total payroll of \$167,014,435.31, of which \$79,382,153.87 was covered under the Teachers' and State Employees' Retirement System. Total employer and

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

employee contributions for pension benefits for the year were \$2,838,460.76 and \$4,762,929.24, respectively.

Required employer contribution rates for the years ended June 30, 2009, and 2008, were 3.36% and 3.05%, respectively, while employee contributions were 6% each year. The University made 100% of its annual required contributions for the years ended June 30, 2010, 2009, and 2008, which were \$2,838,460.76, \$2,621,772.65, and \$2,163,331.14, respectively.

The Teachers' and State Employees' Retirement System's financial information is included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.nc.gov/> and clicking on "Proceed directly to OSC's index page," then "Reports," or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

The Optional Retirement Program (Program) is a defined contribution retirement plan that provides retirement benefits with options for payments to beneficiaries in the event of the participant's death. Administrators and eligible faculty of the University may join the Program instead of the Teachers' and State Employees' Retirement System. The Board of Governors of The University of North Carolina is responsible for the administration of the Program and designates the companies authorized to offer investment products or the trustee responsible for the investment of contributions under the Program and approves the form and contents of the contracts and trust agreements.

Participants in the Program are immediately vested in the value of employee contributions. The value of employer contributions is vested after five years of participation in the Program. Participants become eligible to receive distributions when they terminate employment or retire.

Participant eligibility and contributory requirements are established by General Statute 135-5.1. Employer and member contribution rates are set each year by the North Carolina General Assembly. For the year ended June 30, 2010, 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 \$167,014,435.31, of which \$66,371,128.55 was covered under the Optional Retirement Program. Total employer and employee

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

contributions for pension benefits for the year were \$4,539,785.19 and \$3,982,267.71, respectively.

- B. Deferred Compensation and Supplemental Retirement Income Plans** - IRC Section 457 Plan - The State of North Carolina offers its permanent employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 through the North Carolina Public Employee Deferred Compensation Plan (the Plan). The Plan permits each participating employee to defer a portion of his or her salary until future years. The deferred compensation is available to employees upon separation from service, death, disability, retirement, or financial hardships if approved by the Board of Trustees of the Plan. The Board, a part of the North Carolina Department of Administration, maintains a separate fund for the exclusive benefit of the participating employees and their beneficiaries, *the North Carolina Public Employee Deferred Compensation Trust Fund*. The Board also contracts with an external third party to perform certain administrative requirements and to manage the trust fund's assets. All costs of administering and funding the Plan are the responsibility of the Plan participants. No costs are incurred by the University. The voluntary contributions by employees amounted to \$156,139.96 for the year ended June 30, 2010.

IRC Section 401(k) Plan - All members of the Teachers' and State Employees' Retirement System and the Optional Retirement Program are eligible to enroll in the Supplemental Retirement Income Plan, a defined contribution plan, created under Internal Revenue Code Section 401(k). All costs of administering the Plan are the responsibility of the Plan participants. No costs are incurred by the University except for a 5% employer contribution for the University's law enforcement officers, which is mandated under General Statute 143-166.30(e). Total employer contributions on behalf of University law enforcement officers for the year ended June 30, 2010, were \$63,689.42. The voluntary contributions by employees amounted to \$849,681.90 for the year ended June 30, 2010.

IRC Section 403(b) and 403(b)(7) Plans - Eligible University employees can participate in tax sheltered annuity plans created under Internal Revenue Code Sections 403(b) and 403(b)(7). The employee's eligible contributions, made through salary reduction agreements, are exempt from federal and State income taxes until the annuity is received or the contributions are withdrawn. These plans are exclusively for employees of universities and certain charitable and other nonprofit institutions. All costs of administering and funding these plans are the responsibility of the Plan participants. No costs are incurred by the University. The voluntary contributions by employees amounted to \$1,655,376.34 for the year ended June 30, 2010.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS

- A. **Health Benefits** - The University participates in the Comprehensive Major Medical Plan (the Plan), a cost-sharing, multiple-employer defined benefit health care plan that provides postemployment health insurance to eligible former employees. Eligible former employees include long-term disability beneficiaries of the Disability Income Plan of North Carolina and retirees of the Teachers' and State Employees' Retirement System or the Optional Retirement Program. Coverage eligibility varies depending on years of contributory membership service in their retirement system prior to disability or retirement.

The Plan's benefit and contribution provisions are established by *North Carolina General Statute 135-7* and Chapter 135, Article 3A, of the General Statutes and may be amended only by the North Carolina General Assembly. The Plan does not provide for automatic post-retirement benefit increases.

By General Statute, a Retiree Health Benefit Fund (the Fund) has been established as a fund in which accumulated contributions from employers and any earnings on those contributions shall be used to provide health benefits to retired and disabled employees and applicable beneficiaries. By statute, the Fund is administered by the Board of Trustees of the Teachers' and State Employees' Retirement System and contributions to the fund are irrevocable. Also by law, Fund assets are dedicated to providing benefits to retired and disabled employees and applicable beneficiaries and are not subject to the claims of creditors of the employers making contributions to the Fund. Contribution rates to the Fund, which are intended to finance benefits and administrative expenses on a pay-as-you-go basis, are determined by the General Assembly.

For the current fiscal year the University contributed 4.5% of the covered payroll under the Teachers' and State Employees' Retirement System and the Optional Retirement Program to the Fund. The required contribution rate for the years ended June 30, 2009, and 2008, was 4.1% for both years. The University made 100% of its annual required contributions to the Plan for the years ended June 30, 2010, 2009, and 2008, which were \$6,567,504.65, \$5,804,854.24, and \$5,322,128.91, 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

<http://www.osc.nc.gov/> and clicking on “Proceed directly to OSC’s index page,” then “Reports,” or by calling the State Controller’s Financial Reporting Section at (919) 981-5454.

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

Disability income benefits are funded by actuarially determined employer contributions that are established by the General Assembly. For the fiscal year ended June 30, 2010, the University made a statutory contribution of .52% of covered payroll under the Teachers’ and State Employees’ Retirement System and the Optional Retirement Program to the DIPNC. The required contribution rate for the years ended June 30, 2009, and 2008, was .52% for both years. The University made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2010, 2009, and 2008, which were \$757,917.06, \$736,225.41, and \$674,421.86, respectively. The University assumes no liability for long-term disability benefits under the Plan other than its contribution.

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

NOTE 13 - RISK MANAGEMENT

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

Tort claims of up to \$1,000,000 are 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The University is required to maintain fire and lightning coverage on all State-owned buildings and contents through the State Property Fire Insurance Fund (Fund), an internal service fund of the State. Such coverage is provided at no cost to the University for operations supported by the State's General Fund. Other operations not supported by the State's General Fund are charged for the coverage. Losses covered by the Fund are subject to a \$5,000 per occurrence deductible. However, some agencies have chosen a higher deductible for a reduction in premium. The University also purchased through the Fund extended coverage for sprinkler leakage, business interruption, vandalism, theft, flood, and "all risks" for buildings and contents.

All State-owned vehicles are covered by liability insurance through a private insurance company and handled by the North Carolina Department of Insurance. The liability limits for losses are \$1,000,000 per claim and \$10,000,000 per occurrence. The University pays premiums to the North Carolina Department of Insurance for the coverage.

The University is protected for losses from employee dishonesty and computer fraud. This coverage is with a private insurance company and is handled by the North Carolina Department of Insurance. Universities are charged a premium by the private insurance company. Coverage limit is \$5,000,000 per occurrence. The private insurance company pays 90% of each loss less a \$75,000 deductible.

The University purchased other authorized coverage from private insurance companies through the North Carolina Department of Insurance. Health care coverage is provided to participants in international educational programs through the Preferred Health Plan for the University of North Carolina System for participants engaged in international educational activities. All exchange students and visitors are required to have medical insurance in effect for themselves and any accompanying spouse and dependents. The maximum coverage for sickness or injury is \$100,000 for the Study Abroad participants and dependents with no medical deductible per injury or sickness. The maximum coverage for sickness or injury is \$150,000 for the International Students participants and dependents with a \$100 medical deductible per injury or sickness.

The University also purchased health care and life insurance for participants in the University camp programs with coverage of \$5,000 for accidental death and dismemberment and \$500 for sickness medical expense benefit. These plans are funded by individual contributions and the coverage were effected and placed by the North Carolina Department of Insurance through the State's agent of record.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

University employees and retirees are provided comprehensive major medical care benefits. Coverage is funded by contributions to the State Health Plan (Plan), a pension and other employee benefit trust fund of the State of North Carolina. The Plan has contracted with third parties to process claims.

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

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

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

NOTE 14 - COMMITMENTS AND CONTINGENCIES

- A. Commitments** - The University has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were \$15,547,594.06 and on other purchases were \$5,061,821.99 at June 30, 2010.
- 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.

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

NOTE 15 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2010, the University implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*.

GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*.

GASB Statement No. 51, requires reporting certain intangible assets as capital assets.

GASB Statement No. 53, requires reporting certain derivative instruments at fair value.

NOTE 16 - NET ASSET RESTATEMENTS

As of July 1, 2009, net assets as previously reported, was restated as follows:

	<u>Amount</u>
July 1, 2009 Net Assets as Previously Reported	\$ 340,536,580.64
Restatements:	
Error in Establishing Useful Lives of Capital Assets	6,372,693.75
Correct Error in Classification of Inexhaustible Art & Artifacts	118,195.46
Correct Accumulated Depreciation & Capital Assets Acquired 2009	56,550.00
Capitalize Software per GASB Statement No. 51	<u>263,586.75</u>
July 1, 2009 Net Assets as Restated	<u><u>\$ 347,347,606.60</u></u>



Beth A. Wood, CPA
State Auditor

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

Board of Trustees
Appalachian State University
Boone, North Carolina

We have audited the financial statements of Appalachian State University, a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina, and its discretely presented component units, as of and for the year ended June 30, 2010, which collectively comprise the University's basic financial statements and have issued our report thereon dated December 8, 2010. Our report includes a reference to other auditors.

As discussed in Note 15 to the financial statements, the University implemented Governmental Accounting Standards Board Statement No. 51, *Accounting and Financial Reporting for Intangible Assets* and Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, during the year ended June 30, 2010.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the discretely presented component units, as described in our report on the University's financial statements. The financial statements of the discretely presented component units were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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

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.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

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



Beth A. Wood, CPA
State Auditor

December 8, 2010

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