



STATE OF NORTH CAROLINA

APPALACHIAN STATE UNIVERSITY

BOONE, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2011

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, 2011

BOARD OF GOVERNORS

THE UNIVERSITY OF NORTH CAROLINA

THOMAS W. ROSS, PRESIDENT

BOARD OF TRUSTEES

JEANNINE UNDERDOWN COLLINS, CHAIRMAN

ADMINISTRATIVE OFFICERS

DR. KENNETH E. PEACOCK, CHANCELLOR

GREGORY M. LOVINS, INTERIM VICE CHANCELLOR FOR BUSINESS AFFAIRS



Beth A. Wood, CPA
State Auditor

STATE OF NORTH CAROLINA
Office of the State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601
Telephone: (919) 807-7500
Fax: (919) 807-7647
Internet
<http://www.ncauditor.net>

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, 2011, 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

TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITOR’S REPORT	1
MANAGEMENT’S DISCUSSION AND ANALYSIS	3
BASIC FINANCIAL STATEMENTS	
University Exhibits	
A-1 Statement of Net Assets	9
A-2 Statement of Revenues, Expenses, and Changes in Net Assets	11
A-3 Statement of Cash Flows	12
Component Unit Exhibits	
B-1 Appalachian State University Foundation, Inc., Statement of Financial Position	14
B-2 Appalachian State University Foundation, Inc., Statement of Activities	15
B-3.....Appalachian Student Housing Corporation, Statement of Financial Position.....	16
B-4 Appalachian Student Housing Corporation, Statement of Activities	17
Notes to the Financial Statements	19
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 <i>GOVERNMENT AUDITING STANDARDS</i>	47
ORDERING INFORMATION	49



Beth A. Wood, CPA
State Auditor

STATE OF NORTH CAROLINA
Office of the State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601
Telephone: (919) 807-7500
Fax: (919) 807-7647
Internet
<http://www.ncauditor.net>

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, 2011, 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, which represent 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.

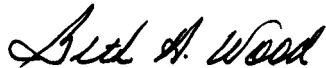
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the 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, 2011, 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)

In accordance with *Government Auditing Standards*, we have also issued our report dated November 8, 2011 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

November 8, 2011

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 2011. These statements are prepared in accordance with standards issued by the Governmental Accounting Standard's Board (GASB).

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 \$67,659,546.66 in Total Assets, representing an 11.2% increase. This net increase was due primarily to two factors; an increase of \$45,063,711.24 in Noncurrent Assets-Restricted Cash, and an overall increase in Capital Assets of \$18,151,460.25. The increase in Noncurrent Assets-Restricted Cash was created by the remaining unexpended proceeds of the \$60,435,000.00 bond issue in 2011 which totaled \$48,898,865.70 at June 30, 2011.

The overall increase in Capital Assets is due to the capitalization 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 and Infrastructure (Depreciable) this year: \$18,677,238.21 for the new College of Education building, \$9,271,341.59 for renovation of residence halls, \$6,014,739.97 for the steam distribution/return system, and \$2,698,397.15 for Central Dining improvements. Additionally, there was a net increase of \$3,468,593.19 in Machinery and Equipment (Depreciable). These additions less total depreciation of \$16,024,656.76 account for the majority of the overall increase. The net effect of the aforementioned deletions to Construction in Progress and the current year's additions resulted in a decrease of \$8,013,820.66 in Capital Assets-Nondepreciable. The current year additions to Construction in Progress included the addition of the Student Leadership Annex, addition to the Plemmons Student Union, and the renovation of the Beasley Broadcast Studio.

Total Liabilities increased \$50,936,068.10 or 21.1% from the previous year. This increase was primarily due to the increase in Long-Term Liabilities of \$51,067,458.96. In 2011, the University issued new bond debt totaling \$60,435,000.00 and reduced outstanding debt with total principal debt service payments of \$7,971,400.89.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Overall, Appalachian had an increase of \$16,723,478.56 in total Net Assets, primarily due to the increase in Capital Assets, Net of Related Debt of \$11,551,173.98 as explained in the increase of Capital Assets previously and the increase in Unrestricted Net Assets of \$3,473,556.23. The increase in Unrestricted Net Assets is primarily due to an overall increase in receipt supported fund balances. Additionally, the increase in Restricted Nonexpendable Net Assets of \$1,007,655.26 was due to the establishment of the Daniel German Endowed Professorship in Political Science of \$1,000,000.00.

Condensed Statement of Net Assets

	Fiscal Year 2011	Fiscal Year 2010	\$ Change	% Change
Assets				
Current Assets	\$ 88,683,808.91	\$ 88,186,880.68	\$ 496,928.23	0.6
Noncurrent Assets				
Restricted Cash and Cash Equivalents	49,572,584.01	4,508,872.77	45,063,711.24	999.4
Restricted Due From Primary Government		105,311.72	(105,311.72)	(100.0)
Capital Assets - Nondepreciable	45,347,384.38	53,361,205.04	(8,013,820.66)	(15.0)
Capital Assets - Depreciable	465,016,567.94	438,851,287.03	26,165,280.91	6.0
Other	24,230,601.53	20,177,842.87	4,052,758.66	20.1
Total Assets	672,850,946.77	605,191,400.11	67,659,546.66	11.2
Liabilities				
Current Liabilities	34,052,184.80	34,167,554.24	(115,369.44)	(0.3)
Funds Held Others	95,088.05	93,553.11	1,534.94	1.6
Long-Term Liabilities	253,704,446.72	202,636,987.76	51,067,458.96	25.2
Other Noncurrent Liabilities	3,950,672.55	3,968,228.91	(17,556.36)	(0.4)
Total Liabilities	291,802,392.12	240,866,324.02	50,936,068.10	21.1
Net Assets				
Invested in Capital Assets -Net of Related Debt	310,013,300.98	298,462,127.00	11,551,173.98	3.9
Restricted				
Nonexpendable	10,919,641.73	9,911,986.47	1,007,655.26	10.2
Expendable	9,383,685.47	8,692,592.38	691,093.09	8.0
Unrestricted	50,731,926.47	47,258,370.24	3,473,556.23	7.4
Total Net Assets	\$ 381,048,554.65	\$ 364,325,076.09	\$ 16,723,478.56	4.6

Statement of Revenues, Expenses, and Changes in Net Assets

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

Total Operating Revenues increased from \$144,277,722.80 in 2010 to \$160,341,551.46 in 2011 representing an 11.1% overall increase. This is primarily due to a 16.3% or \$11,931,466.56 increase in Tuition and Fees revenue. This increase is due to a slight increase in FTE enrollment and an increase in tuition and fees of \$769.74 per undergraduate resident full time student.

Operating Expenses grew by \$19,616,760.68 in fiscal year 2011 representing an overall increase of 6%. These operating increases result from increases in student population, expansion of services, and other normal business activity for a continually growing University. Salaries and Benefits increased from \$202,233,576.76 to \$210,860,975.13

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

or 4.3%. Teaching salaries and benefits increased due primarily to the establishment and staffing of the new College of Health Sciences and by limited enrollment growth funding. Subsequently, benefits increased due to higher pay base and increase in retirement and medical insurance rates. Additionally, severance wages and vacation payout wage expenditures increased due to the closing of the Appalachian Family Innovations unit. Supplies and Materials expenses totaled \$44,067,091.30 this year as compared to \$38,717,982.56 for the previous year, an increase of \$5,349,108.74, or 13.8%, a similar percentage increase from the previous year. This increase was primarily due to an increase in cost of goods sold. Services totaled \$38,883,829.58 in 2011 compared to \$37,164,537.37 in 2010, an increase of 4.6%, primarily due to increases in Contracted Personal Services and Travel. Scholarships and Fellowships increased \$4,097,040.64 or 19% due to an increase in Federal Pell awards, UNC Need Based grants, and an increase in institutional scholarship funding. Utilities decreased by \$817,792.77 or 6.4% due to moderation in fuel prices and the University's commitment to conserving energy usage and reducing demand for energy consumption. Energy usage and conservation are intimately tied to both our infrastructure and activities. By 2015, Appalachian is required to reduce their total energy consumption by 30% for state-funded buildings. Improvements to infrastructure, reduction in demand, renewable and alternative energies, awareness and education will all play an integral part of achieving this goal. Finally, Depreciation increased from \$15,382,943.27 to \$16,024,656.76 or 4.2% as additional Construction in Progress projects were completed and assets placed in service.

In Nonoperating Revenues, Appalachian State experienced a decrease in State Appropriations of \$2,454,444.93 or 1.9%. This decrease is due to statewide budget cuts enacted by the Legislature and General Assembly. Also, the University received \$9,197,529.00 in State Aid from the Federal American Recovery Act, representing a decrease of \$249,474.00 from 2010. Other Nonoperating Revenues increased \$9,250,721.03 or 19.5%. This increase is the result of increased funding for Federal student financial aid, an increase in investment income due to a higher base and better returns on investments, and a bond premium awarded on the 2011 bond issue.

The Other Revenues section consists of Capital Grants, Capital Gifts, and Additions to Endowments. Other Revenues decreased by a total of \$3,247,861.01. This decrease was primarily due to the Capital Grants decrease of \$2,771,848.71 brought about by less funding needed by the North Carolina General Assembly to finish the new College of Education building which will be placed in to service in August 2011. Additions to Endowments reflects the establishment of the Daniel German Endowed Professorship in Political Science of \$1,000,000.00.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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

	<u>Fiscal Year 2011</u>	<u>Fiscal Year 2010</u>	<u>\$ Change</u>	<u>% Change</u>
Operating Revenues				
Tuition and Fees, Net	\$ 85,122,866.65	\$ 73,191,400.09	\$ 11,931,466.56	16.3
Nongovernmental Grants and Contracts	1,227,720.10	789,608.24	438,111.86	55.5
Sales and Services, Net	72,705,853.42	69,443,633.21	3,262,220.21	4.7
Interest Earnings on Loans	22,508.45	21,784.04	724.41	3.3
Other Operating Revenues	1,262,602.84	831,297.22	431,305.62	51.9
Total Operating Revenues	160,341,551.46	144,277,722.80	16,063,828.66	11.1
Salaries and Benefits	210,860,975.13	202,233,576.76	8,627,398.37	4.3
Supplies and Materials	44,067,091.30	38,717,982.56	5,349,108.74	13.8
Services	38,883,829.58	37,164,537.37	1,719,292.21	4.6
Scholarships and Fellowships	25,675,836.35	21,578,795.71	4,097,040.64	19.0
Utilities	12,019,161.37	12,836,954.14	(817,792.77)	(6.4)
Depreciation / Amortization	16,024,656.76	15,382,943.27	641,713.49	4.2
Operating Expenses	347,531,550.49	327,914,789.81	19,616,760.68	6.0
Operating Loss	(187,189,999.03)	(183,637,067.01)	(3,552,932.02)	(1.9)
Nonoperating Revenues				
State Appropriations	125,742,612.07	128,197,057.00	(2,454,444.93)	(1.9)
State Aid - Federal Recovery Funds	9,197,529.00	9,447,003.00	(249,474.00)	(2.6)
Other Nonoperating Revenues	56,593,783.24	47,343,062.21	9,250,721.03	19.5
Net Nonoperating Revenues	191,533,924.31	184,987,122.21	6,546,802.10	3.5
Income Before Other Revenues	4,343,925.28	1,350,055.20	2,993,870.08	221.8
Capital Grants	11,094,045.04	13,865,893.75	(2,771,848.71)	(20.0)
Capital Gifts	285,508.24	761,520.54	(476,012.30)	(62.5)
Additions to Endowments	1,000,000.00	1,000,000.00		
Total Other Revenues	12,379,553.28	15,627,414.29	(3,247,861.01)	(20.8)
Total Increase in Net Assets	16,723,478.56	16,977,469.49	(253,990.93)	(1.5)
Net Assets				
Net Assets at Beginning of Year	364,325,076.09	347,347,606.60	16,977,469.49	4.9
Net Assets at End of Year	<u>\$ 381,048,554.65</u>	<u>\$ 364,325,076.09</u>	<u>\$ 16,723,478.56</u>	4.6

Economic Outlook

The University will see a \$22.8 million Management Flexibility Budget Reduction for fiscal year 2011-2012. Although this reduction is significant, our financial condition remains stable. The Chancellor and Cabinet are implementing and will continue to implement efficiencies to allocate limited resources that will preserve the quality academic experience for our students and support our faculty and staff. Since the end of the Great Recession in 2010, economic growth has been sluggish. The slow growth trend that re-emerged during the summer of 2011 is now expected to stay with us the rest of 2011. The Fiscal Research Division of the North Carolina General Assembly economic outlook reports that the economy continues to be affected by the housing recession, tighter lending by financial markets, and an erosion of consumer confidence. Most economic forecasts now anticipate below average growth

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

through the first two quarters of 2012, heightening the prospects for another economic downturn.

Capital Asset and Debt Administration

Capitalized assets placed into service consisted of the following: \$18,677,238.21 for the new College of Education building, \$9,271,341.59 for the renovation of residence facilities, \$6,014,739.97 for the Steam Distribution and Return System, \$2,698,397.15 for Central Dining Facility improvements, \$224,012.39 for renovated Athletics Facilities, \$202,753.89 for renovation of Rankin West (Science Building), \$176,431.00 for relocation of the lift and stairs at the University Bookstore, \$84,193.05 for the Central Dining Facility and \$21,328.64 for the College of Education roundabout.

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

- The Women's softball field improvement project is currently under construction. This project is scheduled to be completed by fall of 2011. This project includes a new softball field house, new turf and replacement of dugout facilities. The total project has an estimated cost of \$817,000.00.
- The new Student Leadership Annex project is currently under construction. This project will construct two new buildings - a 105,000 square foot 333 bed residence hall with a 20,000 square foot annex wing, which will expand the adjacent Student Union by adding a 51,000 square-foot addition. The new residence hall and new annex wing together will provide a living-learning environment that enhances the student learning experience by linking classrooms and faculty offices with the traditional residence hall setting. The Student Union addition will provide additional student activity and meeting space to support the new complex and the campus. This project is estimated to cost \$56,258,000.00. The anticipated completion date is fall of 2012.
- The expansion of the Beasley Broadcasting Center is currently in the early construction 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 \$4,255,000.00. Projected end date is summer 2012.
- The renovation and expansion of Trivette Dining Hall project is currently being designed. This project will include adding an estimated 1,000 square feet that expands the kitchen area as well as site work, site utilities, interior finish modifications, replacement of kitchen equipment and hoods, replacement furniture, and upgrades to building systems. The project will comply with the requirements for Sustainable, Energy Efficient Buildings. This project, to be completed by April 2014, is estimated to cost \$5,000,000.00 and will be funded with dining receipts.
- The \$11,805,000.00 renovation of Winkler residence hall is in the early design stage. This renovation will convert on-campus apartment type housing back to conventional suite style rooms, increasing the number of available beds in this hall by 50%. This

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

- project also includes renovation of HVAC systems and the addition of sprinkler systems. This project has anticipated start date of May 2013 and will be completed July 2014.
- The \$6,655,000.00 renovation of Belk residence hall project has begun with solicitation of interest from architects. A final selection should be made by the end of fall 2011. This project has a projected construction start date of January 2014, with a projected completion date of April 2015.

The University will enter into a capital lease agreement with Mountaineer Hall, LLC, a division of the Appalachian Student Housing Corporation, in the amount of \$16,500,000.00 in fall 2011, which will increase on-campus student housing by 460 beds.

Total annual debt service payments were \$18,224,462.34 in 2011 compared to \$24,914,718.49 in 2010. The previous year's payments included \$5,370,000.00 for refunding of Series 2001 Bookstore Bonds. These payments include bond and note principal and interest and fees on debt.

For several years, Appalachian's bond sales have been made through the negotiated sales method. At the advice of Appalachian's Financial Advisors, Davenport & Company, LLC, Appalachian used the competitive bid process for the issuance of the General Revenue Bonds, Series 2011. Hutchinson, Shockey, Erley & Co. won the bid on May 17, 2011 with a true interest cost rate of 4.072233% with a 25 year amortization. This was a savings of \$630,449.00 over the next lowest bidder and a savings of \$3,555,422.00 over the eighth place bidder. The 2011 bonds, in the amount of \$60,435,000.00, were issued to provide funds to pay the costs of constructing and equipping capital improvements on the University campus.

Appalachian State University
Statement of Net Assets
June 30, 2011

Exhibit A-1
Page 1 of 2

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 60,673,506.43
Restricted Cash and Cash Equivalents	8,360,045.10
Receivables, Net (Note 4)	8,679,922.95
Due from State of North Carolina Component Units	458,930.30
Inventories	9,909,965.90
Notes Receivable, Net (Note 4)	601,438.23
	<hr/>
Total Current Assets	88,683,808.91

Noncurrent Assets:

Restricted Cash and Cash Equivalents	49,572,584.01
Receivables (Note 4)	2,700.00
Endowment Investments	10,466,840.68
Other Investments	10,508,158.18
Notes Receivable, Net (Note 4)	3,252,902.67
Capital Assets - Nondepreciable (Note 5)	45,347,384.38
Capital Assets - Depreciable, Net (Note 5)	465,016,567.94
	<hr/>
Total Noncurrent Assets	584,167,137.86

Total Assets	<hr/> <hr/> 672,850,946.77
--------------	----------------------------

LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 6)	13,266,317.94
Due to Primary Government	117,651.47
Unearned Revenue	7,600,178.93
Interest Payable	2,803,276.39
Long-Term Liabilities - Current Portion (Note 7)	10,264,760.07
	<hr/>
Total Current Liabilities	34,052,184.80

Noncurrent Liabilities:

Deposits Payable	209,264.78
Funds Held for Others	95,088.05
U. S. Government Grants Refundable	3,741,407.77
Long-Term Liabilities (Note 7)	253,704,446.72
	<hr/>
Total Noncurrent Liabilities	257,750,207.32

Total Liabilities	<hr/> <hr/> 291,802,392.12
-------------------	----------------------------

Appalachian State University
Statement of Net Assets
June 30, 2011

Exhibit A-1
Page 2 of 2

NET ASSETS

Invested in Capital Assets, Net of Related Debt	310,013,300.98
Restricted for:	
Nonexpendable:	
Research	20,000.00
Endowed Professorships	10,433,745.46
Loans	465,896.27
Expendable:	
Scholarships and Fellowships	409,713.15
Research	21,147.14
Endowed Professorships	3,577,348.72
Debt Service	5,375,476.46
Unrestricted	<u>50,731,926.47</u>
Total Net Assets	<u><u>\$ 381,048,554.65</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, 2011

Exhibit A-2

REVENUES

Operating Revenues:	
Student Tuition and Fees, Net (Note 9)	\$ 85,122,866.65
Nongovernmental Grants and Contracts	1,227,720.10
Sales and Services, Net (Note 9)	72,705,853.42
Interest Earnings on Loans	22,508.45
Other Operating Revenues	1,262,602.84
	<hr/>
Total Operating Revenues	160,341,551.46
	<hr/>

EXPENSES

Operating Expenses:	
Salaries and Benefits	210,860,975.13
Supplies and Materials	44,067,091.30
Services	38,883,829.58
Scholarships and Fellowships	25,675,836.35
Utilities	12,019,161.37
Depreciation / Amortization	16,024,656.76
	<hr/>
Total Operating Expenses	347,531,550.49
	<hr/>
Operating Loss	(187,189,999.03)
	<hr/>

NONOPERATING REVENUES (EXPENSES)

State Appropriations	125,742,612.07
State Aid - Federal Recovery Funds	9,197,529.00
Noncapital Grants - Student Financial Aid	35,588,352.87
Other Noncapital Grants	15,169,441.11
Noncapital Gifts	9,161,370.59
Investment Income	4,415,321.36
Interest and Fees on Debt	(10,253,061.45)
Federal Interest Subsidy on Debt	68,497.85
Other Nonoperating Revenues	2,443,860.91
	<hr/>
Net Nonoperating Revenues	191,533,924.31
	<hr/>
Income Before Other Revenues and Expenses	4,343,925.28
	<hr/>
Capital Grants	11,094,045.04
Capital Gifts	285,508.24
Additions to Endowments	1,000,000.00
	<hr/>
Increase in Net Assets	16,723,478.56

NET ASSETS

Net Assets - July 1, 2010	364,325,076.09
	<hr/>
Net Assets - June 30, 2011	\$ 381,048,554.65
	<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, 2011

Exhibit A-3

Page 1 of 2

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 159,322,796.95
Payments to Employees and Fringe Benefits	(210,864,079.17)
Payments to Vendors and Suppliers	(94,421,908.23)
Payments for Scholarships and Fellowships	(25,675,836.35)
Loans Issued	(615,682.00)
Collection of Loans	573,826.26
Interest Earned on Loans	4,798.52
Other Receipts	1,358,657.63
	<hr/>
Net Cash Used by Operating Activities	(170,317,426.39)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Appropriations	125,742,612.07
State Aid - Federal Recovery Funds	9,197,529.00
Noncapital Grants - Student Financial Aid	35,588,352.87
Noncapital Grants	15,420,611.90
Noncapital Gifts	7,943,815.02
Additions to Endowments	1,000,000.00
William D. Ford Direct Lending Receipts	94,577,555.00
William D. Ford Direct Lending Disbursements	(95,799,365.00)
Related Activity Agency Receipts	10,918.51
Related Activity Agency Disbursements	(9,383.57)
Other Payments	(524,739.22)
	<hr/>
Net Cash Provided by Noncapital Financing Activities	193,147,906.58

CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES

Proceeds from Capital Debt	62,858,870.78
Capital Grants	11,199,356.76
Proceeds from Sale of Capital Assets	66,238.56
Acquisition and Construction of Capital Assets	(34,222,521.64)
Principal Paid on Capital Debt	(7,971,400.89)
Interest and Fees Paid on Capital Debt	(9,499,406.98)
Federal Interest Subsidy on Debt Received	52,495.95
Other Payments	(267,815.20)
	<hr/>
Net Cash Provided by Capital Financing and Related Financing Activities	22,215,817.34

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from Sales and Maturities of Investments	18,116,620.09
Investment Income	1,084,050.58
Purchase of Investments and Related Fees	(18,547,132.29)
	<hr/>
Net Cash Provided by Investing Activities	653,538.38
	<hr/>
Net Increase in Cash and Cash Equivalents	45,699,835.91
Cash and Cash Equivalents - July 1, 2010	72,906,299.63
	<hr/>
Cash and Cash Equivalents - June 30, 2011	\$ 118,606,135.54

Appalachian State University
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2011

Exhibit A-3
Page 2 of 2

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

Operating Loss	\$ (187,189,999.03)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation / Amortization Expense	16,024,656.76
Allowances, Write-Offs, and Amortizations	239,673.13
Nonoperating Other Income	1,214,855.57
Changes in Assets and Liabilities:	
Receivables (Net)	58,744.40
Due from State of North Carolina Component Units	102,604.23
Inventories	(258,047.32)
Notes Receivable (Net)	(41,855.74)
Accounts Payable and Accrued Liabilities	(214,117.23)
Due to Primary Government	(172,709.96)
Unearned Revenue	(63,272.43)
Compensated Absences	(24,911.08)
Deposits Payable	6,952.31
	<hr/>
Net Cash Used by Operating Activities	<u><u>\$ (170,317,426.39)</u></u>

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	\$ 60,673,506.43
Restricted Cash and Cash Equivalents	8,360,045.10
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	49,572,584.01
	<hr/>
Total Cash and Cash Equivalents - June 30, 2011	<u><u>\$ 118,606,135.54</u></u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through the Assumption of a Liability	\$ 331,912.87
Assets Acquired through a Gift	285,508.24
Change in Fair Value of Investments	741,825.23
Reinvested Distributions	258,724.74
Loss on Disposal of Capital Assets	436,697.99
Bond Issuance Cost Withheld	456,688.12

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, 2011

Exhibit B-1

ASSETS

Cash and Cash Equivalents	\$ 3,200,821
Contributions Receivable	8,854,847
Other Receivables	115,196
Prepaid Expenses	213,377
Investments	72,955,210
Real Estate Held for Investment	9,776,929
Notes Receivable	939,017
Beneficial Interests in Perpetual Trusts	1,376,004
Contributions Receivable from Trusts	1,391,855
Contributions Receivable from Irrevocable Bequests	124,432
Cash Surrender Value of Life Insurance	176,288
In-Kind Gifts	27,514
Property and Equipment, Net	<u>1,902,205</u>
Total Assets	<u><u>\$ 101,053,695</u></u>

LIABILITIES

Accounts Payable and Accrued Expenses	\$ 31,064
Deferred Revenues - Advance Royalties	579,510
Deposits Payable	4,398
Notes Payable	1,069,882
Grants Payable - Appalachian State University	32,480
Split Interest Agreement Obligations	<u>2,373,737</u>
Total Liabilities	<u>4,091,071</u>

NET ASSETS

Unrestricted	5,989,384
Temporarily Restricted	32,741,418
Permanently Restricted	<u>58,231,822</u>
Total Net Assets	<u>96,962,624</u>
Total Liabilities and Net Assets	<u><u>\$ 101,053,695</u></u>

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

Appalachian State University Foundation, Inc.
Statement of Activities
For the Fiscal Year Ended June 30, 2011

Exhibit B-2

	Unrestricted	Temporarily Unrestricted	Permanently Unrestricted	Total
REVENUES, GAINS, LOSSES AND OTHER SUPPORT				
Contributions	\$ 641,860	\$ 10,171,147	\$ 2,387,691	\$ 13,200,698
Investment Income	787,008	323,517	43,184	1,153,709
Auxiliary income	215,405	106,152		321,557
Net Realized and Unrealized Gains on Investments	1,655,686	6,308,488	140,683	8,104,857
Net Change in Beneficial Interests in Perpetual Trusts, Contributions Receivable from Trusts and Split Interest Agreement Obligations		(22,620)	392,549	369,929
Other Income (Losses)	12,084	(6,608)		5,476
Net Assets Released from Restrictions	<u>8,456,734</u>	<u>(8,456,734)</u>		
Total Revenues, Gains, Losses, and Other Support	<u>11,768,777</u>	<u>8,423,342</u>	<u>2,964,107</u>	<u>23,156,226</u>
EXPENSES				
Program Services:				
General University Support	5,906,049			5,906,049
Student Financial Aid	3,636,178			3,636,178
Alumni Affairs	113,972			113,972
Other	<u>387,608</u>			<u>387,608</u>
Total Program Services	<u>10,043,807</u>			<u>10,043,807</u>
Supporting Services:				
General and Administrative	131,007			131,007
Fundraising	<u>1,051,871</u>			<u>1,051,871</u>
Total Supporting Services	<u>1,182,878</u>			<u>1,182,878</u>
Total Expenses	<u>11,226,685</u>			<u>11,226,685</u>
Net Increase in Allowance for Doubtful Contributions Receivable		<u>(354,979)</u>	<u>(23,008)</u>	<u>(377,987)</u>
Increase in Net Assets	<u>542,092</u>	<u>8,068,363</u>	<u>2,941,099</u>	<u>11,551,554</u>
NET ASSETS				
Net Assets, Beginning	<u>5,447,292</u>	<u>24,673,055</u>	<u>55,290,723</u>	<u>85,411,070</u>
Net Assets, Ending	<u>\$ 5,989,384</u>	<u>\$ 32,741,418</u>	<u>\$ 58,231,822</u>	<u>\$ 96,962,624</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, 2011

Exhibit B-3

ASSETS

Current Assets:	
Cash and Cash Equivalents	\$ 2,347,679
Accounts Receivables, Net	1,910
Sales Tax Refund Receivable	182,927
Prepaid Expenses	90,731
	<hr/>
Total Current Assets	2,623,247
	<hr/>
Property and Equipment, Net	36,304,120
	<hr/>
Other Assets:	
Deferred Financing Cost, Net	61,292
Assets Limited as to Use by Bond Order	5,207,490
	<hr/>
Total Other Assets	5,268,782
	<hr/>
Total Assets	<u>\$ 44,196,149</u>

LIABILITIES

Current:	
Current Portion of Long-Term Debt	\$ 11,080,000
Accounts Payable	212,831
Accrued Expenses	59,634
Accrued Interest	11,607
Deferred Income	90,161
	<hr/>
Total Current Liabilities	11,454,233
	<hr/>
Long-Term Debt, Less Current Portion	20,655,000
	<hr/>
Total Liabilities	32,109,233

NET ASSETS

Unrestricted	<hr/> 12,086,916
Total Liabilities and Net Assets	<u>\$ 44,196,149</u>

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

Appalachian Student Housing Corporation
Statement of Activities
For the Fiscal Year Ended June 30, 2011

Exhibit B-4

REVENUES AND OTHER SUPPORT

Net Rental Income	\$ 4,252,668
Other Operating Revenues	92,468
Donated Property	2,200,000
Donated Services	10,000
	<hr/>
Total Revenues and Other Support	6,555,136
	<hr/>

EXPENSES

Salaries and Benefits	363,207
Purchased Services	129,903
Communications and Service Contracts	5,725
Professional Fees	18,604
Building	144,407
Utilities	552,838
Letter of Credit	201,860
Licenses and Fees	11,210
Insurance	88,975
Renovation	336,256
Depreciation	535,601
Amortization	67,834
Interest	341,172
Bond Remarketing Fees	13,585
Taxes	119,268
Advertising	10,678
Other	257,449
	<hr/>
Total Expenses	3,198,572
	<hr/>
Other Interest Income	25,016
	<hr/>
Increase in Unrestricted Net Assets	3,381,580
	<hr/>

NET ASSETS

Beginning of Year	8,705,336
	<hr/>
End of Year	\$ 12,086,916
	<hr/> <hr/>

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

[This Page Left Blank Intentionally]

APPALACHIAN STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

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 and four ex officio non-voting 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. Because these restricted resources held by the

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 2011, the Foundation distributed \$9,542,227.62 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 Student Housing 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 Public Colleges and Universities*, the full scope of the University's activities is considered to be a single business-type activity and

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- 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, 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 internally generated software which is capitalized when the value or cost is \$1,000,000 or greater and other intangible assets which are capitalized when the value or cost is \$100,000 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.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- 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 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 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*.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

At June 30, 2011, the amount shown on the Statement of Net Assets as cash and cash equivalents includes \$117,527,922.57 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 1.9 years as of June 30, 2011. Assets and shares of the Short-Term Investment Fund are

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 2011 was \$65,624.75. The carrying amount of the University's deposits not with the State Treasurer was \$1,012,588.22 and the bank balance was \$1,229,608.65. 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, 2011, the University's bank balance was exposed to custodial credit risk as follows:

Uninsured and Uncollateralized	<u>\$ 923,454.32</u>
--------------------------------	----------------------

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 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

investment managers, is based on the directives of the University's Endowment Board. At year-end, the pooled investments were all with the UNC Investment Fund, LLC.

UNC Investment Fund, LLC - At June 30, 2011, the University's investments include \$18,214,507.85 which represents the University's equity position in the UNC Investment Fund, LLC (UNC Investment Fund). The UNC Investment Fund is an external investment pool that is not registered with the Securities and Exchange Commission and does not have a credit rating. Asset and ownership interests of the UNC Investment Fund are determined on a market unit valuation basis each month. Investment risks associated with the UNC Investment Fund are included in audited financial statements of the UNC Investment Fund, LLC which may be obtained from UNC Management Company, Inc., 1400 Environ Way, Chapel Hill, NC 27517.

Non-Pooled Investments - The following table presents the fair value of investments by type and investments subject to interest rate risk at June 30, 2011, for the University's non-pooled investments.

Non-Pooled Investments

Investment Type	<u>Fair Value</u>	<u>Investment Maturities (in Years) Less Than 1</u>
Debt Securities		
Money Market Mutual Funds	\$ 2,672,198.20	<u>\$ 2,672,198.20</u>
Other Securities		
Equity Mutual Funds	11,806.74	
Domestic Stocks	56,956.47	
Foreign Stocks	18,529.60	
Guaranty Capital - Medical Mutual Ins.	<u>1,000.00</u>	
Total Non-Pooled Investments	<u>\$ 2,760,491.01</u>	

At June 30, 2011, the University's non-pooled investments included \$2,672,198.20 in money market mutual funds with credit exposure for which Standard and Poors' credit quality distribution was AAAM.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

At June 30, 2011, 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	\$ 56,956.47
Foreign Stocks	18,529.60
Total	\$ 75,486.07

Foreign Currency Risk: At June 30, 2011, the University's exposure to foreign currency risk is as follows:

Investment	Currency	Fair Value (U.S. Dollars)
ABB Ltd.	Swiss Franc	\$ 5,190.00
Goldcorp, Inc.	Canadian Dollar	4,102.95
Novartis	Swiss Franc	3,361.05
Rio Tinto	British Pound	3,616.00
Transocean, Inc.	Swiss Franc	2,259.60
Total		\$ 18,529.60

Total Investments - The following table presents the fair value of the total investments at June 30, 2011:

Investment Type	Fair Value
Debt Securities	
Money Market Mutual Funds	\$ 2,672,198.20
Other Securities	
UNC Investment Fund	18,214,507.85
Equity Mutual Funds	11,806.74
Domestic Stocks Held by Counterparty	56,956.47
Foreign Stocks Held by Counterparty	18,529.60
Guaranty Capital - Medical Mutual Insurance	1,000.00
Total Investments	\$ 20,974,998.86

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

the FASB reporting model, disclosures of the various investment risks are not required. The following is an analysis of investments by type:

Short-Term Investment Fund	\$	18,370,439
Money Market Funds		3,000,845
Equity Investments		23,332,529
Fixed Income Investments		13,637,171
Alternative Investments		<u>14,614,226</u>
		72,955,210
Real Estate Held for Investment		<u>9,776,929</u>
Total Investments	\$	<u><u>82,732,139</u></u>

C. Reconciliation of Deposits and Investment - A reconciliation of deposits and investments for the University of June 30, 2011, is as follows:

Cash on Hand	\$	65,624.75
Amount of Deposits with Private Financial Institutions		1,012,588.22
Deposits in the Short-Term Investment Fund		117,527,922.57
Investments in the UNC Investment Fund		18,214,507.85
Non-Pooled Investments		<u>2,760,491.01</u>
Total Deposits and Investments	\$	<u><u>139,581,134.40</u></u>
Deposits		
Current:		
Cash and Cash Equivalents	\$	60,673,506.43
Restricted Cash and Cash Equivalents		8,360,045.10
Noncurrent:		
Restricted Cash and Cash Equivalents		<u>49,572,584.01</u>
Total Deposits	\$	<u><u>118,606,135.54</u></u>
Investments		
Noncurrent:		
Endowment Investments	\$	10,466,840.68
Other Investments		<u>10,508,158.18</u>
Total Investments	\$	<u><u>20,974,998.86</u></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 program outcomes and for which such spending is not specifically prohibited

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 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, 2011, net appreciation was \$2,969,646.48, of which \$640,433.40 was available to be spent and was restricted to specific purposes.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2011, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	\$ 4,661,595.25	\$ 1,253,296.43	\$ 3,408,298.82
Accounts	3,580,151.49	66,534.15	3,513,617.34
Intergovernmental	1,621,506.03		1,621,506.03
Interest on Loans	120,498.86		120,498.86
Federal Interest Subsidy on Debt	16,001.90		16,001.90
Total Current Receivables	<u>\$ 9,999,753.53</u>	<u>\$ 1,319,830.58</u>	<u>\$ 8,679,922.95</u>
Noncurrent Receivables:			
Accounts	<u>\$ 2,700.00</u>	<u>\$ 0.00</u>	<u>\$ 2,700.00</u>
Notes Receivable:			
Notes Receivable - Current:			
Federal Loan Programs	\$ 597,938.23	\$ 0.00	\$ 597,938.23
Institutional Student Loan Programs	4,849.00	1,349.00	3,500.00
Total Notes Receivable - Current	<u>\$ 602,787.23</u>	<u>\$ 1,349.00</u>	<u>\$ 601,438.23</u>
Notes Receivable - Noncurrent:			
Federal Loan Programs	<u>\$ 3,770,894.69</u>	<u>\$ 517,992.02</u>	<u>\$ 3,252,902.67</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2011, is presented as follows:

	Balance July 1, 2010	Increases	Decreases	Balance June 30, 2011
Capital Assets, Nondepreciable:				
Land	\$ 20,944,721.04	\$ 0.00	\$ 0.00	\$ 20,944,721.04
Art, Literature, and Artifacts	2,479,517.66	71,200.00		2,550,717.66
Construction in Progress	29,936,966.34	29,671,636.04	37,756,656.70	21,851,945.68
Total Capital Assets, Nondepreciable	53,361,205.04	29,742,836.04	37,756,656.70	45,347,384.38
Capital Assets, Depreciable:				
Buildings	502,812,209.38	28,580,115.13	1,450,435.45	529,941,889.06
Machinery and Equipment	42,296,307.19	4,593,950.37	1,125,357.18	45,764,900.38
General Infrastructure	60,886,387.53	9,542,799.38	105,939.80	70,323,247.11
Computer Software	301,242.00			301,242.00
Total Capital Assets, Depreciable	606,296,146.10	42,716,864.88	2,681,732.43	646,331,278.55
Less Accumulated Depreciation/Amortization for:				
Buildings	132,096,139.02	11,018,159.06	1,068,705.58	142,045,592.50
Machinery and Equipment	21,732,847.86	2,771,052.04	998,737.24	23,505,162.66
General Infrastructure	13,563,154.84	2,220,383.56	87,362.40	15,696,176.00
Computer Software	52,717.35	15,062.10		67,779.45
Total Accumulated Depreciation	167,444,859.07	16,024,656.76	2,154,805.22	181,314,710.61
Total Capital Assets, Depreciable, Net	438,851,287.03	26,692,208.12	526,927.21	465,016,567.94
Capital Assets, Net	\$ 492,212,492.07	\$ 56,435,044.16	\$ 38,283,583.91	\$ 510,363,952.32

The carrying amount of impaired capital assets idle at year end is \$436,082.14 for machinery and equipment.

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2011, were as follows:

	Amount
Accounts Payable	\$ 8,947,965.81
Accrued Payroll	3,186,666.90
Contract Retainage	1,112,953.30
Intergovernmental Payables	18,731.93
Total Accounts Payable and Accrued Liabilities	\$ 13,266,317.94

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, 2011, is presented as follows:

	Balance July 1, 2010	Additions	Reductions	Balance June 30, 2011	Current Portion
Revenue Bonds Payable	\$ 196,880,000.00	\$ 60,435,000.00	\$ 7,685,000.00	\$ 249,630,000.00	\$ 8,390,000.00
Deduct Deferred Charge on Refunding	(2,505,065.03)		(179,255.38)	(2,325,809.65)	
Total Revenue Bonds Payable	194,374,934.97	60,435,000.00	7,505,744.62	247,304,190.35	8,390,000.00
Notes Payable	6,466,996.89		286,400.89	6,180,596.00	438,406.94
Compensated Absences	10,509,331.52	6,928,549.12	6,953,460.20	10,484,420.44	1,436,353.13
Total Long-Term Liabilities	\$ 211,351,263.38	\$ 67,363,549.12	\$ 14,745,605.71	\$ 263,969,206.79	\$ 10,264,760.07

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

Purpose	Series	Interest Rate	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2011	Principal Outstanding June 30, 2011	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	\$ 7,080,000.00	\$ 6,160,000.00	3
Student Union System							
ASU Student Fee Revenue Refunding Bonds Student Union Building	1998	4.87%	05/15/2012	8,050,000.00	7,260,000.00	790,000.00	1
Utility System							
ASU Utility System Revenue Refunding Bonds	1998	5.29%	05/15/2024	27,535,000.00	26,400,000.00	1,135,000.00	2
The University of North Carolina System Pool Revenue Bonds							
Doughton Renovation	(A)	5.02%	04/01/2027	4,940,000.00	4,780,000.00	160,000.00	
Broyhill Inn	(B)	3.82%	10/15/2015	990,000.00	400,000.00	590,000.00	
Doughton Renovation	(B)	4.27%	10/01/2026	3,755,000.00	20,000.00	3,735,000.00	
Dining Hall	(B)	4.38%	05/01/2031	23,330,000.00	2,195,000.00	21,135,000.00	
Hoey Hall Renovation	(B)	4.25%	10/01/2026	6,980,000.00	940,000.00	6,040,000.00	
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	40,000.00	19,190,000.00	
Cannon Hall	(C)	4.69%	10/01/2033	8,520,000.00	395,000.00	8,125,000.00	
Parking - Stadium	(C)	4.69%	10/01/2033	3,350,000.00	155,000.00	3,195,000.00	
New Field House Complex	(C)	4.69%	10/01/2033	20,600,000.00	945,000.00	19,655,000.00	
Stadium East Stands	(D)	4.65%	10/01/2034	8,370,000.00	195,000.00	8,175,000.00	
Frank Hall	(D)	4.65%	10/01/2034	7,060,000.00	160,000.00	6,900,000.00	
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	190,000.00	4,810,000.00	
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	10,415,000.00	126,145,000.00	
ASU General Revenue Bonds							
ASU General Revenue Bonds-Student Recreation Center	2003A	4.48%	05/01/2028	25,635,000.00	13,335,000.00	12,300,000.00	
ASU General Revenue Bonds-Housing, Athletics, Parking	2005	4.54%	07/15/2030	50,915,000.00	8,250,000.00	42,665,000.00	
ASU General Revenue Bonds-Housing, Stud Un, Steam Tunnels	2011	4.07%	10/01/2036	60,435,000.00		60,435,000.00	
Total General Revenue Bonds				136,985,000.00	21,585,000.00	115,400,000.00	
Total Revenue Bonds Payable (principal only)				\$ 322,370,000.00	\$ 72,740,000.00	249,630,000.00	
Less: Unamortized Loss on Refunding						2,325,809.65	
Total Revenue Bonds Payable						\$ 247,304,190.35	

(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 and certificates of participation 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	\$ 829,500.00	\$ 2,707,825.36	\$ 745,000.00	\$ 76,750.00	30%
2	Steam Plant	1,191,750.00	3,201,544.50	1,080,000.00	110,750.00	17%
3	Housing Revenues	6,941,297.50	9,146,027.08	1,075,000.00	310,645.00	6%
	Federal Interest Subsidy on Debt**	82,863.48	68,497.85		68,497.85	100%

**Federal Interest Subsidy on Debt is pledged to pay 35% of the interest incurred on the Build America Bonds. The amount pledged does not include any principal payments.

C. Annual Requirements - The annual requirements to pay principal and interest on the long-term obligations at June 30, 2011, are as follows:

Fiscal Year	Annual Requirements			
	Revenue Bonds Payable		Notes Payable	
	Principal	Interest	Principal	Interest
2012	\$ 8,390,000.00	\$ 10,836,620.76	\$ 438,406.94	\$ 349,440.31
2013	8,805,000.00	10,904,747.54	518,199.82	279,257.18
2014	9,710,000.00	10,563,960.04	454,886.82	255,436.30
2015	10,085,000.00	10,185,097.54	494,209.52	231,853.60
2016	10,535,000.00	9,727,847.54	535,691.44	206,224.18
2017-2021	52,125,000.00	41,545,857.67	2,962,663.42	605,179.70
2022-2026	61,775,000.00	27,995,759.57	776,538.04	24,662.96
2027-2031	50,335,000.00	14,622,228.21		
2032-2036	33,925,000.00	4,400,546.90		
2037-2041	3,945,000.00	88,762.50		
Total Requirements	\$ 249,630,000.00	\$ 140,871,428.27	\$ 6,180,596.00	\$ 1,952,054.23

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

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, 2011, the outstanding balance of prior year defeased bonds was \$11,325,000.00.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 2011	Principal Outstanding June 30, 2011
Electric Utility	RBC Centura	4.30%	03/15/2013	\$ 1,000,000.00	\$ 800,000.00	\$ 200,000.00
Electric Utility	BB & T	4.56%	10/12/2016	1,000,000.00	450,000.00	550,000.00
Athletics old Scoreboard	First Bank & Trust	7.52%	10/01/2010	593,063.52	593,063.52	
Energy Savings Project	Sun Trust Bank	5.10%	08/29/2022	5,430,596.00		5,430,596.00
Total Notes Payable				<u>\$ 8,023,659.52</u>	<u>\$ 1,843,063.52</u>	<u>\$ 6,180,596.00</u>

Component Units

A. Appalachian State University 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, 2011 was \$826,000.00. 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% (.68% at June 30, 2011).

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, 2011 was \$243,882.00. The note is payable in annual payments including principal and interest at an interest rate of 5.83%.

Aggregate maturities required on notes payable as of June 30, 2011 are due in future years as follows:

Fiscal Years Ending June 30,	Amount
2012	\$ 944,605.00
2013	125,277.00
	<u>\$ 1,069,882.00</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

B. Appalachian Student Housing Corporation

Long-term debt at June 30, 2011 consists of the following:

Student Housing Variable Rate Revenue Bonds; Dated September 19, 2000; Original Amount of \$9,935,000; Interest at Variable Rate Calculated Weekly Due Serially from July 1, 2003 to July 1, 2031	\$ 6,415,000.00
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.	5,870,000.00
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.	2,950,000.00
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	<u>16,500,000.00</u>
Total Long-Term Debt	31,735,000.00
Less Current Portions	<u>11,080,000.00</u>
Long-Term Debt, Less Current Portions	<u><u>\$ 20,655,000.00</u></u>

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

2012	\$ 11,080,000.00
2013	1,815,000.00
2014	1,845,000.00
2015	1,885,000.00
2016	1,920,000.00
Thereafter	<u>13,190,000.00</u>
	<u><u>\$ 31,735,000.00</u></u>

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 2011:

<u>Fiscal Year</u>	<u>Amount</u>
2012	\$ 776,616.69
2013	645,273.01
2014	469,938.83
2015	377,821.01
2016	367,022.48
2017-2021	1,561,415.40
2022-2026	1,561,415.40
2027-2031	702,636.93
Total Minimum Lease Payments	<u><u>\$ 6,462,139.75</u></u>

Rental expense for all operating leases during the year was \$2,174,963.05.

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	\$ 104,032,679.19	\$ 0.00	\$ 18,728,290.05	\$ 181,522.49	\$ 85,122,866.65
Sales and Services:					
Sales and Services of Auxiliary Enterprises:					
Residential Life	\$ 21,073,447.39	\$ 88,343.38	\$ 3,636,684.05	\$ 34,874.69	\$ 17,313,545.27
Dining	18,295,557.18	1,329,960.76	2,039,707.95	7,308.57	14,918,579.90
Student Union Services	157,911.19	41,931.10		5,248.96	110,731.13
Health, Physical Education, and Recreation Services	1,481,342.81	90,952.04		10,775.22	1,379,615.55
Bookstore	10,966,568.06	1,402,560.36	595,764.88	10,729.70	8,957,513.12
Parking	3,214,609.25	23,061.00		7,117.17	3,184,431.08
Camp Programs	3,035,161.38	281,770.12			2,753,391.26
Steam Utility System	6,863,257.07	6,863,257.07			0.00
Athletic	5,893,391.94	1,340.00		18,455.64	5,873,596.30
Other	8,425,511.75	3,153,899.16	1,075,712.05	12,856.87	4,183,043.67
Sales and Services of Education and Related Activities	1,912,789.53	1,070,468.11			842,321.42
New River Light and Power	17,683,683.07	4,493,980.65		617.70	13,189,084.72
Total Sales and Services	<u><u>\$ 99,003,230.62</u></u>	<u><u>\$ 18,841,523.75</u></u>	<u><u>\$ 7,347,868.93</u></u>	<u><u>\$ 107,984.52</u></u>	<u><u>\$ 72,705,853.42</u></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	\$ 105,597,482.32	\$ 5,134,417.48	\$ 5,657,008.88	\$ 271,429.96	\$ 0.00	\$ 0.00	\$ 116,660,338.64
Research	1,617,829.63	357,648.27	833,590.99	4,720.00			2,813,788.89
Public Service	6,443,877.77	462,213.82	2,081,536.63	1,022,081.21	8,784.89		10,018,494.32
Academic Support	26,065,645.05	7,846,426.95	5,105,684.56	122,647.96	4,201.70		39,144,606.22
Student Services	6,655,977.13	498,582.29	864,351.89	4,091.50			8,023,002.81
Institutional Support	16,378,883.90	1,080,505.34	7,664,860.66		6,876.36		25,131,126.26
Operations and Maintenance of Plant	13,632,014.70	854,034.59	2,741,259.22		6,339,992.03		23,567,300.54
Student Financial Aid	63,914.81	2,330.62	63,231.98	22,077,435.50			22,206,912.91
Auxiliary Enterprises	33,357,823.99	19,395,330.21	12,676,331.09	2,173,430.22	5,659,306.39		73,262,221.90
New River Light and Power	1,047,525.83	8,435,601.73	1,195,973.68				10,679,101.24
Depreciation						16,024,656.76	16,024,656.76
Total Operating Expenses	\$ 210,860,975.13	\$ 44,067,091.30	\$ 38,883,829.58	\$ 25,675,836.35	\$ 12,019,161.37	\$ 16,024,656.76	\$ 347,531,550.49

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, 2011, these rates were set at 4.93% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the University had a total payroll of \$172,253,394.53, of which \$80,790,098.65 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 \$3,982,951.86 and \$4,847,405.92, respectively.

Required employer contribution rates for the years ended June 30, 2010, and 2009, were 3.57% and 3.36%, respectively, while employee contributions were 6% each year. The University made 100% of its annual required contributions for the years ended June 30, 2011, 2010, and 2009, which were \$3,982,951.86, \$2,838,460.76, and \$2,621,722.65, respectively.

The Teachers' and State Employees' Retirement System's financial information is included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.nc.gov/> and clicking on "Reports," or by calling the State Controller's Financial Reporting Section at (919) 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, 2011, these rates were set at 6.84% of covered payroll for employers and 6% of covered payroll for members. The University assumes no liability other than its contribution.

For the current fiscal year, the University had a total payroll of \$172,253,394.53, of which \$68,340,125.12 was covered under the Optional Retirement Program. Total employer and employee contributions for pension benefits for the year were \$4,674,464.56 and \$4,100,407.51, 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 \$152,988.00 for the year ended June 30, 2011.

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, 2011, were \$62,184.88. The voluntary contributions by employees amounted to \$785,016.35 for the year ended June 30, 2011.

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 \$1,706,542.81 for the year ended June 30, 2011.

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 4.9% of the covered payroll under the Teachers' and State Employees' Retirement System and the Optional Retirement Program to the Fund. Required contribution rates for the years ended June 30, 2010, and 2009, were 4.5% and 4.1%, respectively. The University made 100% of its annual required contributions to the Plan for the years ended June 30, 2011, 2010, and 2009, which were \$7,307,380.96, \$6,567,504.65, and \$5,804,854.24, 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.ncosc.net/> and clicking on “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, 2011, 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. Required contribution rates for the years ended June 30, 2010, and 2009, were .52% for both years. The University made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2011, 2010, and 2009, which were \$775,477.17, \$757,917.06, and \$736,225.41, 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.

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

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 \$150,000 for the International Students participants and dependents with a \$100 medical deductible per injury or sickness.

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 \$50,321,206.36 and on other purchases were \$3,858,170.45 at June 30, 2011.
- B. Pending Litigation and Claims** - The University is a party to litigation and claims in the ordinary course of its operations. Since it is not possible to predict the ultimate outcome of these matters, no provision for any liability has been made in the financial statements. University management is of the opinion that the liability, if any, for any of these matters will not have a material adverse effect on the financial position of the University.
- C. Other Contingent Receivables** - The University has received notification of other gifts and grants for which funds have not been disbursed by the resource provider and for which conditions attached to the gift or grant have not been satisfied or, in the case of permanent endowments, cannot begin to be satisfied. In accordance with accounting principles generally accepted in the United States of America, these amounts have not been recorded on the accompanying financial statements. The purpose and amount of other contingent receivables at year-end is as follows:

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

Purpose	Amount
Independent Insurance Agents of NC Distinguished Professorship	\$ 500,000.00
Stanley R. Aeschleman Distinguished Professorship in Psychology	1,000,000.00
Blackburn Vannoy Foundation	<u>1,732,611.35</u>
	<u>\$ 3,232,611.35</u>

NOTE 15 - SUBSEQUENT EVENTS

On May 17, 2010, the University entered into lease agreements with Mountaineer Hall, LLC, a division of the ASU Student Housing Corporation, for the site of the old Mountaineer apartment buildings. Mountaineer Hall, LLC constructed a 460 bed residence hall for which the University entered into a capital lease agreement for the project in the amount of \$16,500,000.00 that was effective August 1, 2011.



Beth A. Wood, CPA
State Auditor

STATE OF NORTH CAROLINA
Office of the State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601
Telephone: (919) 807-7500
Fax: (919) 807-7647
Internet
<http://www.ncauditor.net>

**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, 2011, which collectively comprise the University's basic financial statements and have issued our report thereon dated November 8, 2011. Our report includes a reference to 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. 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 opinions 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.

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.

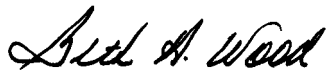
**INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS (CONCLUDED)**

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

November 8, 2011

ORDERING INFORMATION

Audit reports issued by the Office of the State Auditor can be obtained from the web site at www.ncauditor.net. Also, parties may register on the web site to receive automatic email notification whenever reports of interest are issued. Otherwise, copies of audit reports may be obtained by contacting the:

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

Telephone: 919/807-7500

Facsimile: 919/807-7647