

STATE OF NORTH CAROLINA

THE UNIVERSITY OF NORTH CAROLINA AT ASHEVILLE

ASHEVILLE, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2014

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR



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 Pat McCrory, Governor
The General Assembly of North Carolina
Board of Trustees, The University of North Carolina at Asheville

We have completed a financial statement audit of The University of North Carolina at Asheville for the year ended June 30, 2014, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

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

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

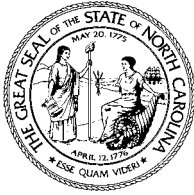
A handwritten signature in cursive script that reads "Beth A. Wood".

Beth A. Wood, CPA
State Auditor

TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITOR’S REPORT	1
MANAGEMENT’S DISCUSSION AND ANALYSIS	5
BASIC FINANCIAL STATEMENTS	
University Exhibits	
A-1 Statement of Net Position	14
A-2 Statement of Revenues, Expenses, and Changes in Net Position.....	16
A-3 Statement of Cash Flows	17
Component Unit Exhibits	
B-1 Consolidated Statement of Financial Position	19
B-2 Consolidated Statement of Activities.....	20
Notes to the Financial Statements	21
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</i> <i>AUDITING STANDARDS</i>	43
ORDERING INFORMATION	45

Office of the State Auditor



Beth A. Wood, CPA
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
The University of North Carolina at Asheville
Asheville, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of The University of North Carolina at Asheville, 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 unit, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

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

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

Opinions

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of The University of North Carolina at Asheville and its discretely presented component unit as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

During the year ended June 30, 2014, The University of North Carolina at Asheville adopted Governmental Accounting Standards Board (GASB) Statement No. 65 – Items Previously Reported as Assets and Liabilities. See Note 16 in the accompanying financial statements for an explanation of the standard and the impact of the University's implementation. Our opinion is not modified with respect to this matter.

Other Matters – Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 22, 2014 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.



Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

October 22, 2014

[This Page Left Blank Intentionally]

**THE UNIVERSITY OF NORTH CAROLINA AT ASHEVILLE
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

Overview of the Financial Statement Information

The University of North Carolina at Asheville (UNC Asheville) provides this overview and management discussion and analysis to assist in understanding the statements and notes to the financial statements presented herewith. These statements are prepared in accordance with pronouncements issued by the Governmental Accounting Standards Board (GASB) and include the Statement of Net Position, the Statement of Revenues, Expenses, and Changes in Net Position, the Statement of Cash Flows, Notes to the Financial Statements, component unit Consolidated Statement of Financial Position, and Consolidated Statement of Activities. Comparative information for the prior fiscal year is also presented in the condensed financial statements. The following discussion and analysis provides an overview of the financial position and activities only for The University of North Carolina at Asheville (the University) for the years ended June 30, 2014 and 2013 and not its component unit.

The *Statement of Net Position* presents assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position as of the date of the fiscal year-end (June 30). This statement assists in the determination of the financial condition of the University. As part of the implementation of GASB 65 in fiscal year 2014, the deferred losses and gains on refundings have been classified as Deferred Outflows and Inflows of Resources, respectively. Prior year amounts in the condensed *Statement of Net Position* have been restated to reflect this change in accounting standards, although there was no change in overall net position.

Condensed Statement of Net Position

	2014 Fiscal Year	2013 Fiscal Year (as restated)	\$ Change	% Change
Current Assets	\$ 24,773,165.39	\$ 24,954,324.28	\$ (181,158.89)	-0.73%
Capital Assets	189,801,278.58	187,328,255.08	2,473,023.50	1.32%
Other Noncurrent Assets	14,588,697.34	16,408,681.69	(1,819,984.35)	-11.09%
Total Assets	229,163,141.31	228,691,261.05	471,880.26	0.21%
Deferred Outflows of Resources	494,048.39	545,772.32	(51,723.93)	-9.48%
Current Liabilities	6,347,936.53	6,223,223.29	124,713.24	2.00%
Long-Term Liabilities, Net	46,200,915.15	47,583,976.92	(1,383,061.77)	-2.91%
Other Noncurrent Liabilities	1,596,267.82	1,530,905.31	65,362.51	4.27%
Total Liabilities	54,145,119.50	55,338,105.52	(1,192,986.02)	-2.16%
Deferred Inflows of Resources	162,664.59	175,257.98	(12,593.39)	-7.19%
Net Investment in Capital Assets	144,822,572.69	145,582,069.79	(759,497.10)	-0.52%
Restricted - Nonexpendable	8,210,700.07	8,195,657.96	15,042.11	0.18%
Restricted - Expendable	8,504,276.85	5,475,572.55	3,028,704.30	55.31%
Unrestricted	13,811,856.00	13,729,340.89	82,515.11	0.60%
Total Net Position	\$ 175,349,405.61	\$ 172,982,641.19	\$ 2,366,764.42	1.37%

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

The total assets of the University increased this year by just under \$0.5 million. The increase in total assets includes a decrease in current assets of \$0.1 million, an increase in net capital assets of \$2.4 million, and a decrease in other noncurrent assets of \$1.8 million.

The decrease of \$0.1 million in current assets represents changes in cash classification, netting to an overall \$0.3 million increase in cash, a decrease in current receivables of \$0.1 million, and a decrease in other assets of \$0.3 million. The net increase in cash is due to an increase in unrestricted cash and cash equivalents in the amount of \$1.0 million and a decrease in restricted cash and cash equivalents in the amount of \$0.7 million, as well as an increase in other various unrestricted funds of \$0.3 million. The change in cash classification between unrestricted and restricted is a result of the University meeting obligations during the current year allowing the release of the restriction. The decrease in other assets for \$0.3 million consists of prepaid medical insurance paid in the fiscal year 2013 and current receivables decreased \$0.1 million.

The increase in net capital assets of \$2.4 million is primarily due to the purchase and capitalization of 118 W.T. Weaver Boulevard, Asheville, N.C. 28804. For more details, see Note 5 of the Notes to the Financial Statements.

Other noncurrent assets decreased \$1.8 million. This decrease of \$1.8 million was primarily due to a decrease in noncurrent restricted cash of \$3.6 million, an increase in endowment investments of \$1.6 million, and an increase in notes receivable, net, in the amount of \$0.2 million. The decrease in noncurrent restricted cash of \$3.6 million was primarily due to the purchase of real property located at 118 W.T. Weaver Boulevard, Asheville, N.C. 28804 with bond proceeds held at June 30, 2013. The increase in endowment investments for \$1.6 million was due to a general increase in the overall endowment market value. The increase in notes receivable, net, for \$0.2 million is primarily due to an increase in Perkins loans issued to students.

Total liabilities decreased almost \$1.2 million which consists of an increase in current liabilities and other noncurrent liabilities of \$0.1 million and a decrease of \$1.3 million in long term liabilities. The increase in current liabilities and other noncurrent liabilities of \$0.1 million primarily consists of an increase in the current portion of long term liabilities and an increase in deposits payable. The decrease of \$1.3 million in long term liabilities is due to payments made to bonds payable during the fiscal year 2014.

Net position represents residual interest in the University's assets and deferred outflows of resources after all liabilities and deferred inflows of resources are deducted. For reporting purposes, they are divided into four major components:

"Net Investment in Capital Assets" represents the University's investment in capital assets such as movable equipment, buildings, land, infrastructure, and improvements, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets. Additionally, deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of capital assets or related debt are also included in this

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

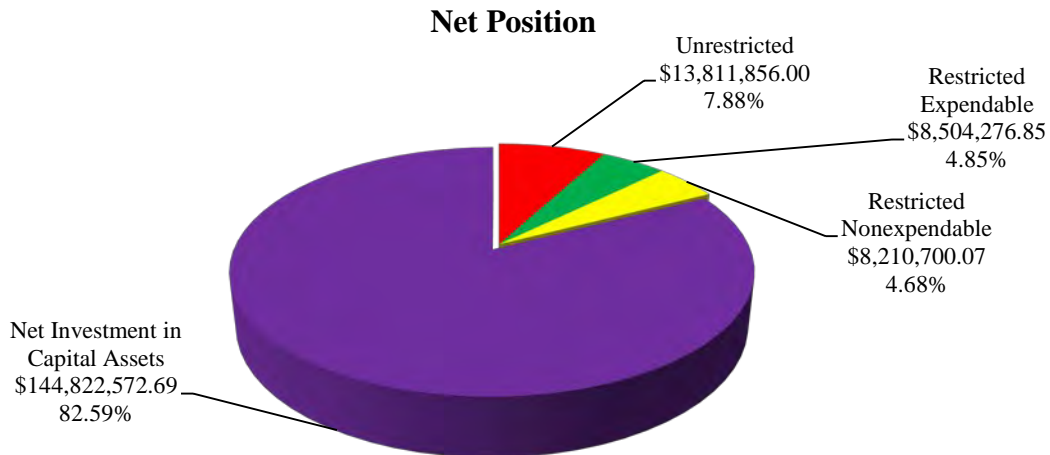
component of net position. At June 30, 2014, \$144.8 million (82.59%) of the \$175.3 million in net position was attributable to the University's net investment in capital assets.

"Restricted - Nonexpendable" net position primarily includes the University's permanent endowment funds received from donors for the purpose of creating present and future income. These funds, according to donor restrictions, must be held in perpetuity or for a specified period of time.

"Restricted - Expendable" net position is income from endowed funds, grants from others, and gifts with specific restrictions on spending. Restricted - expendable net position increased \$3.0 million primarily due to an increase of \$1.1 million in market value appreciation in the University's expendable professorships endowment pool, and an increase of \$1.9 million held in residual restricted cash, net of liabilities, for capital projects and debt service.

"Unrestricted" net position is not subject to externally imposed restrictions, although management may designate these funds for various academic and research programs and initiatives, as well as capital projects. This year, unrestricted net position totaling \$13.8 million represents 7.88% of the total net position.

Net position is shown in the graph below:



The *Statement of Revenues, Expenses, and Changes in Net Position* presents the revenues earned and the expenses incurred during the year. Activities are reported as either operating or nonoperating. Given a public university's dependency on revenues such as state appropriations, gifts, and investment income, which are prescribed by GASB as nonoperating revenues, operating expenses will exceed operating revenues, resulting in an operating loss. Net nonoperating revenues and expenses are integral components in determining the increase or decrease in net position.

Generally speaking, operating revenues are generated through the provision of goods and services, and include tuition and fees, certain contract and grant revenue, interest earnings on

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

student loans, and sales and service revenue generated by student housing, the bookstore, and other enterprises. Operating expenses are the costs incurred to acquire or produce the goods and services provided and to conduct the affairs of the institution.

Nonoperating revenues are revenues received for which goods and services are not provided. For example, state appropriations, while budgeted for operations, are reported as nonoperating revenue because they are provided by the state legislature without the legislature directly receiving commensurate goods and services in return for those revenues. Capital gifts and grants are considered neither operating nor nonoperating revenues and are reported after "Loss Before Other Revenues."

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

	2014 Fiscal Year	2013 Fiscal Year	\$ Change	% Change
Tuition and Fees	\$ 21,992,081.85	\$ 20,372,368.41	\$ 1,619,713.44	7.95%
Grants and Contracts	2,351,166.31	2,312,813.01	38,353.30	1.66%
Sales and Services	10,659,305.75	9,829,612.24	829,693.51	8.44%
Other Operating Revenues	1,519,536.46	1,241,424.18	278,112.28	22.40%
Total Operating Revenues	36,522,090.37	33,756,217.84	2,765,872.53	8.19%
Salaries and Benefits	53,259,269.40	50,781,353.13	2,477,916.27	4.88%
Supplies and Materials	6,523,492.66	7,306,072.01	(782,579.35)	-10.71%
Services	12,456,862.85	12,365,014.65	91,848.20	0.74%
Scholarships and Fellowships	5,985,525.06	5,795,799.92	189,725.14	3.27%
Utilities	2,930,167.26	2,605,368.59	324,798.67	12.47%
Depreciation	5,333,499.34	4,953,525.61	379,973.73	7.67%
Total Operating Expenses	86,488,816.57	83,807,133.91	2,681,682.66	3.20%
Operating Loss	(49,966,726.20)	(50,050,916.07)	84,189.87	0.17%
State Appropriations	36,828,518.69	37,588,311.73	(759,793.04)	-2.02%
Noncapital Grants	9,103,330.26	8,836,593.04	266,737.22	3.02%
Noncapital Gifts	2,415,936.02	2,411,039.11	4,896.91	0.20%
Investment Income (Including Investment Expense)	1,899,557.93	1,303,710.20	595,847.73	45.70%
Interest and Fees on Debt	(2,276,294.95)	(2,103,426.17)	(172,868.78)	8.22%
Federal Interest Subsidy on Debt	526,779.25	544,533.76	(17,754.51)	3.26%
Other Nonoperating Revenues (Expenses)	(256,115.89)	147,033.43	(403,149.32)	-274.19%
Total Nonoperating Revenues	48,241,711.31	48,727,795.10	(486,083.79)	-1.00%
Loss Before Other Revenues	(1,725,014.89)	(1,323,120.97)	(401,893.92)	30.37%
Capital Grants & Appropriations	4,091,779.31	1,257,653.46	2,834,125.85	225.35%
Capital Gifts		301,000.00	(301,000.00)	-100.00%
Additions to Permanent Endowments		750,000.00	(750,000.00)	100.00%
Increase in Net Position	2,366,764.42	985,532.49	1,381,231.93	140.15%
Net Position, Beginning of Year	172,982,641.19	171,997,108.70	985,532.49	0.57%
Net Position, End of Year	\$ 175,349,405.61	\$ 172,982,641.19	\$ 2,366,764.42	1.37%
Reconciliation of Change in Net Position				
Total Revenues	91,387,991.83	86,896,092.57	4,491,899.26	5.17%
Less: Total Expenses	89,021,227.41	85,910,560.08	3,110,667.33	3.62%
Increase in Net Position	\$ 2,366,764.42	\$ 985,532.49	\$ 1,381,231.93	140.15%

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Total operating revenues increased \$2.7 million or 8.19%. The major components of this were a Board approved rate increase in tuition and fees resulting in a \$1.6 million increase, an increase in state and local grants and contracts in the amount of \$0.5 million primarily due to an athletic field lighting grant, a decrease of \$0.4 million in nongovernmental grants and contracts, an increase in sales and services of \$0.8 million primarily due to an increase in housing and dining plans with a newly opened residence hall, and an increase in other operating revenues of \$0.2 million consisting primarily of \$0.1 million in fees for Leadership Asheville and \$0.1 million in rent revenue for University Enterprises and Dean of Students.

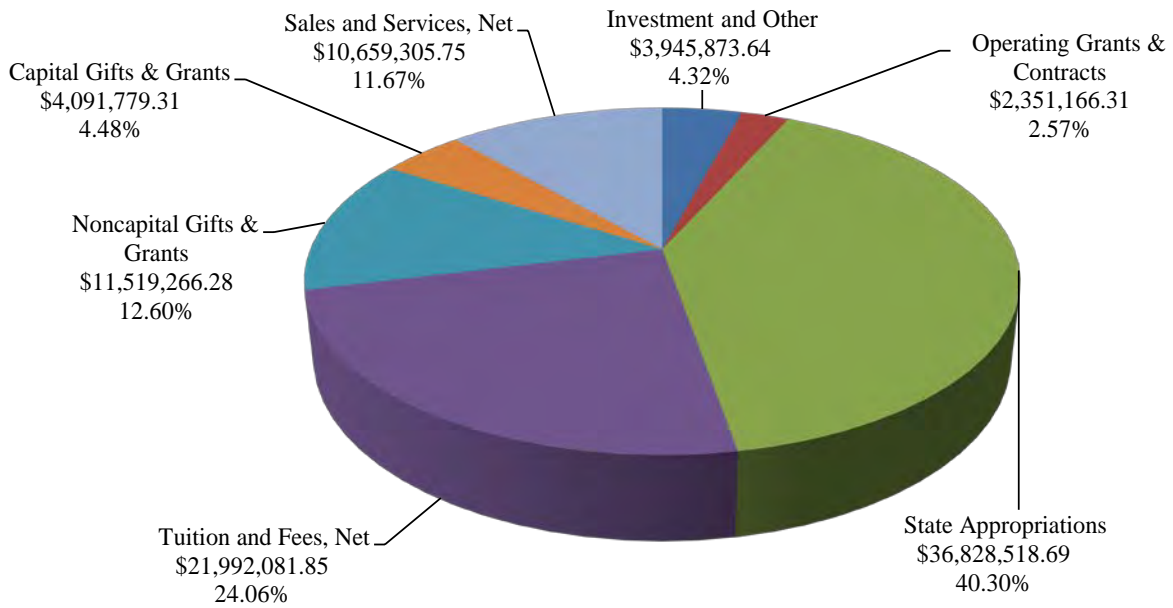
Total operating expenses increased \$2.6 million or 3.20%. The major components of this change were an increase in salaries and benefits, a decrease in supplies and materials, an increase in services, an increase in utilities, and an increase in depreciation. Salaries and benefits increased \$2.4 million primarily due to benefits rate increases and faculty equity increases. Supplies and materials decreased \$0.7 million primarily due to a reduction in the purchases of residential furniture, educational equipment and computer software. Scholarships and fellowships increased nearly \$0.2 million primarily with an increase in Pell grants. There was an increase in utilities of \$0.3 million and an increase in depreciation of almost \$0.4 million.

Nonoperating revenues decreased \$0.4 million. The major components of this decrease include a decrease in state aid/appropriations, an increase in noncapital grants (student financial aid), an increase in other noncapital grants, an increase in investment income, an increase in interest and fees on debt expense and a decrease in other nonoperating revenues. State aid/appropriations decreased \$0.7 million primarily due to the state appropriation holdback and efficiency and enrollment growth reductions. Noncapital grants had an increase of \$0.2 million. The portion of noncapital grants from federal and state financial aid increased \$0.1 million primarily due to an increase in Pell grant funding. Remaining components of noncapital grants increased \$0.1 million primarily due to an increase in NCAA support. Investment income increased almost \$0.6 million due to market value appreciation in the endowment pool with funds held at UNC Investment Fund, LLC. Interest and fees on debt expense increased \$0.1 million primarily due to a marginal net increase in debt obligations, and other nonoperating revenues decreased \$0.4 million primarily due to a loss on the disposition of capital assets, and insurance recoveries and bond issue proceeds received in the prior year.

Capital grants, capital gifts, and additions to endowments are considered neither operating nor nonoperating revenues and are reported on the statement after "Income Before Other Revenues."

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

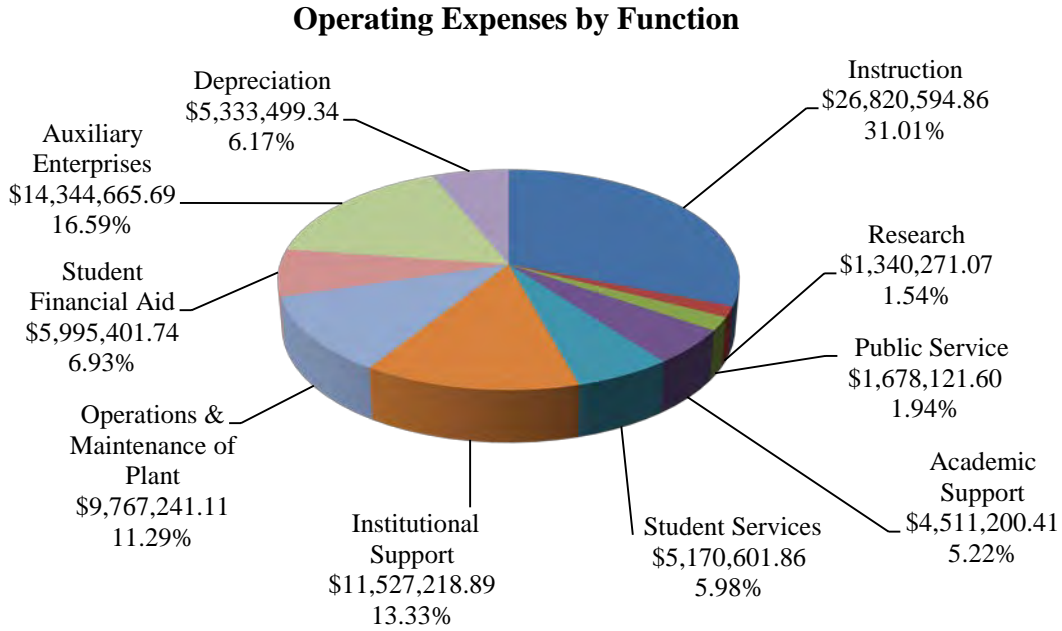
Total Revenue by Source



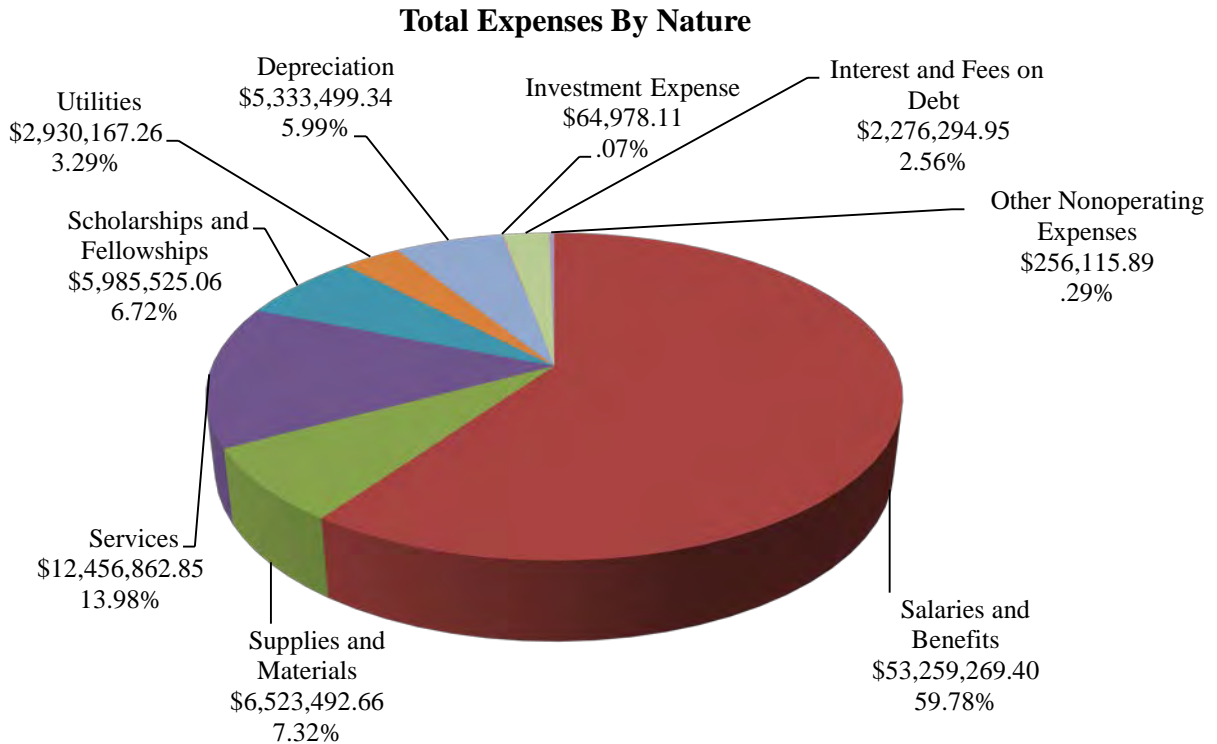
The capital appropriations increase of \$3.5 million consists primarily of state appropriations for land purchase and other repairs and renovations. Capital grants decreased \$0.6 million and consist primarily of state aid in the form of COPS (Certificates of Participation) and General Obligation Bonds provided to UNC Asheville in the prior year for the repairs and renovations. Capital gifts decreased \$0.3 million and additions to endowments decreased \$0.7 million.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

The operating expenses by function are shown in the graph below.



The University's primary areas of expense are instruction and auxiliary enterprises.



Debt Administration and Capital Assets

UNC Asheville has several capital projects in various stages of planning and construction. Current projects are funded through state provided operating allocations, state repair and renovation allocations, capital grants, private fundraising, and revenue bonds. Those projects include construction of Lookout Observatory, enhancements to the Phillips Hall Parking Lot to increase both ADA accessibility and pedestrian safety, upgrades to the campus wayfinding program, completion of the Karl Straus Track Building, and various repairs and renovations in several buildings.

On September 1, 2014, the University issued The University of North Carolina at Asheville General Revenue Bond, Series 2014 for \$1,039,500.00 to provide funds for completion of the Karl Straus Track Building and improvements to the Student Recreation Center. Financing will be provided by SunTrust Institutional and Government, Inc. at an average fixed coupon rate of 2.89%. For additional debt information see Note 7 of the Notes to the Financial Statements. For additional information on the subsequent debt, see Note 16 of the Notes to the Financial Statements.

The capital assets, net of accumulated depreciation, at June 30, 2014 were \$189.8 million. For more detailed information about asset holdings, see Note 5 of the Notes to the Financial Statements.

Economic Outlook

Management believes that the University is positioned to continue its level of excellence of service to students, the community, and governmental agencies. UNC Asheville's ongoing efforts toward maximizing the State's resources with efficiency and effectiveness measures will enable it to provide the necessary resources to support this level of excellence. However, reductions in state appropriations will continue to impact the ability of UNC Asheville to maintain resources to provide programs and services, including financial aid, to meet the growing demands of the State and its citizens.

The University's management team continues to abide by the strategic priorities for the University, and remains accredited by SACS (Southern Association of Colleges and Schools).

A crucial element to the University's future will continue to be the level of state funding as well as managing tuition and fees while staying competitive and providing an outstanding college education for our students. There is a direct relationship between the growth of state support and the University's ability to control tuition growth, as declines in state appropriations generally result in increased tuition levels.

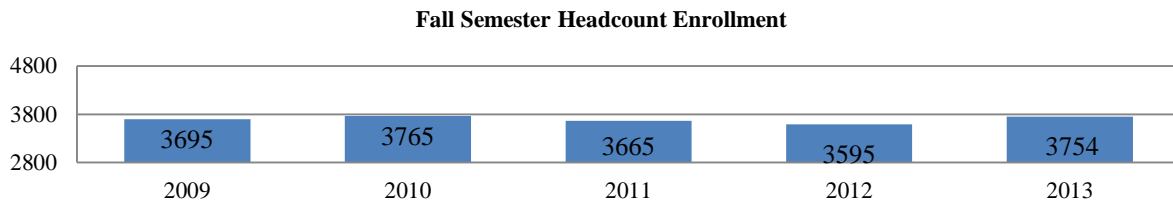
UNC Asheville will strategically seek alternative funding sources through contract and grant funding as well as private fundraising. The University will continue to employ its investment strategy to maximize total returns, at an appropriate level of risk, while utilizing a spending rate policy to insulate the University's operations from temporary market volatility. The University will also continue to control its spending to be in accordance with available revenue sources.

MANAGEMENT’S DISCUSSION AND ANALYSIS (CONCLUDED)

While it is not possible to predict the ultimate results, management believes that with cost reduction measures implemented and the continued support of the State of North Carolina and faithful donors, the University’s financial condition is strong enough to weather the current economic uncertainties.

The University has strong admission standards for incoming freshman as we continue to enhance our national profile. The overall enrollment stability reflects a strong demand for UNC Asheville’s nationally recognized, public liberal arts program.

The following table compares fall semester enrollment of students for the previous five years.



The University continues to receive high rankings in several national publications for its educational quality and value. UNC Asheville was recently ranked as the nation’s eighth best public liberal arts college in U.S. News & World Report’s new “Best Colleges 2015” rankings. U.S. News & World Report ranked 236 national liberal arts colleges, 212 private and 24 public, in its survey, using a weighted formula that includes academic reputation, graduation and retention rates, commitment to instruction and class size, student abilities and admissions selectivity, college financial resources and alumni financial support. UNC Asheville also is included on the U.S. News & World Report list of national liberal arts colleges, private and public, “where the faculty has an unusually strong commitment to undergraduate teaching.”

The Fiske Guide to Colleges named UNC Asheville a “Best Buy” among the nation’s top colleges, and for the 11th consecutive year. UNC Asheville’s Environmental Studies Program was highlighted as showing unusual strength in preparing students for careers. In the past year, UNC Asheville also was cited as a “best value” by The Princeton Review and by Kiplinger’s Personal Finance magazine.

The University of North Carolina at Asheville
Statement of Net Position
June 30, 2014

Exhibit A-1
Page 1 of 2

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 19,653,050.35
Restricted Cash and Cash Equivalents	3,429,182.88
Restricted Short-Term Investments	6.91
Receivables, Net (Note 4)	880,064.77
Inventories	276,674.78
Notes Receivable, Net (Note 4)	534,185.70

Total Current Assets	24,773,165.39
----------------------	---------------

Noncurrent Assets:

Restricted Cash and Cash Equivalents	641,333.86
Endowment Investments	13,404,898.69
Notes Receivable, Net (Note 4)	542,464.79
Capital Assets - Nondepreciable (Note 5)	7,888,801.55
Capital Assets - Depreciable, Net (Note 5)	181,912,477.03

Total Noncurrent Assets	204,389,975.92
-------------------------	----------------

Total Assets	229,163,141.31
--------------	----------------

DEFERRED OUTFLOWS OF RESOURCES

Deferred Loss on Refunding	494,048.39
----------------------------	------------

LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 6)	1,983,129.73
Due to Primary Government	24,497.66
Funds Held for Others	14,190.93
Unearned Revenue	1,593,962.04
Interest Payable	267,205.07
Long-Term Liabilities - Current Portion (Note 7)	2,464,951.10

Total Current Liabilities	6,347,936.53
---------------------------	--------------

Noncurrent Liabilities:

Deposits Payable	231,496.86
Funds Held for Others	217,632.08
U. S. Government Grants Refundable	1,147,138.88
Long-Term Liabilities, Net (Note 7)	46,200,915.15

Total Noncurrent Liabilities	47,797,182.97
------------------------------	---------------

DEFERRED INFLOWS OF RESOURCES

Deferred Gain on Refunding	162,664.59
----------------------------	------------

The University of North Carolina at Asheville
Statement of Net Position
June 30, 2014

Exhibit A-1
Page 2 of 2

NET POSITION

Net Investment in Capital Assets	144,822,572.69
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	688,098.33
Endowed Professorships	7,336,500.00
Loans	186,101.74
Expendable:	
Scholarships and Fellowships	1,792,951.79
Research	188,167.53
Endowed Professorships	3,229,707.58
Departmental Uses	115,641.83
Capital Projects	3,076,064.67
Other	101,743.45
Unrestricted	<u>13,811,856.00</u>
Total Net Position	<u><u>\$ 175,349,405.61</u></u>

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

***The University of North Carolina at Asheville
Statement of Revenues, Expenses, and
Changes in Net Position
For the Fiscal Year Ended June 30, 2014***

Exhibit A-2

REVENUES

Operating Revenues:

Student Tuition and Fees, Net (Note 9)	\$ 21,992,081.85
Federal Grants and Contracts	1,031,102.77
State and Local Grants and Contracts	1,189,853.64
Nongovernmental Grants and Contracts	130,209.90
Sales and Services, Net (Note 9)	10,659,305.75
Interest Earnings on Loans	5,300.51
Other Operating Revenues	1,514,235.95
	<hr/>
Total Operating Revenues	36,522,090.37
	<hr/>

EXPENSES

Operating Expenses:

Salaries and Benefits	53,259,269.40
Supplies and Materials	6,523,492.66
Services	12,456,862.85
Scholarships and Fellowships	5,985,525.06
Utilities	2,930,167.26
Depreciation	5,333,499.34
	<hr/>
Total Operating Expenses	86,488,816.57
	<hr/>

Operating Loss	(49,966,726.20)
	<hr/>

NONOPERATING REVENUES (EXPENSES)

State Appropriations	36,828,518.69
Noncapital Grants - Student Financial Aid	8,742,040.79
Noncapital Grants	361,289.47
Noncapital Gifts	2,415,936.02
Investment Income (Net of Investment Expense of \$64,978.11)	1,899,557.93
Interest and Fees on Debt	(2,276,294.95)
Federal Interest Subsidy on Debt	526,779.25
Other Nonoperating Expenses	(256,115.89)
	<hr/>

Net Nonoperating Revenues	48,241,711.31
	<hr/>

Loss Before Other Revenues	(1,725,014.89)
----------------------------	----------------

Capital Appropriations	3,788,627.00
Capital Grants	303,152.31
	<hr/>

Increase in Net Position	2,366,764.42
--------------------------	--------------

NET POSITION

Net Position - July 1, 2013	172,982,641.19
	<hr/>

Net Position - June 30, 2014	\$ 175,349,405.61
	<hr/>

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

The University of North Carolina at Asheville
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2014

Exhibit A-3
Page 1 of 2

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 36,501,757.86
Payments to Employees and Fringe Benefits	(53,182,052.95)
Payments to Vendors and Suppliers	(21,123,844.84)
Payments for Scholarships and Fellowships	(6,001,403.52)
Loans Issued	(368,685.00)
Collection of Loans	131,796.55
Interest Earned on Loans	5,300.51
Other Receipts	58,557.54
	<hr/>
Net Cash Used by Operating Activities	<u>(43,978,573.85)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Appropriations	36,828,518.69
Noncapital Grants - Student Financial Aid	8,742,040.79
Noncapital Grants	360,521.98
Noncapital Gifts	2,415,936.02
William D. Ford Direct Lending Receipts	1,359,774.00
William D. Ford Direct Lending Disbursements	(1,359,774.00)
Related Activity Agency Receipts	2,907.00
	<hr/>
Net Cash Provided by Noncapital Financing Activities	<u>48,349,924.48</u>

CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES

State Capital Appropriations	3,788,627.00
Capital Grants	302,302.64
Proceeds from Sale of Capital Assets	689.08
Acquisition and Construction of Capital Assets	(8,355,911.28)
Principal Paid on Capital Debt	(2,022,394.58)
Interest and Fees Paid on Capital Debt	(2,257,886.17)
Federal Interest Subsidy on Debt Received	526,779.25
	<hr/>
Net Cash Used by Capital Financing and Related Financing Activities	<u>(8,017,794.06)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from Sales and Maturities of Investments	388,131.42
Investment Income	93,180.27
Purchase of Investments and Related Fees	(159,978.11)
	<hr/>
Net Cash Provided by Investing Activities	<u>321,333.58</u>
Net Decrease in Cash and Cash Equivalents	(3,325,109.85)
Cash and Cash Equivalents - July 1, 2013	<u>27,048,676.94</u>
Cash and Cash Equivalents - June 30, 2014	<u>\$ 23,723,567.09</u>

The University of North Carolina at Asheville
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2014

Exhibit A-3

Page 2 of 2

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

Operating Loss	\$ (49,966,726.20)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	5,333,499.34
Allowances, Write-Offs, and Amortizations	(9,363.74)
Nonoperating Other Expenses	(6,804.97)
Changes in Assets and Liabilities:	
Receivables, Net	144,497.61
Inventories	(13,941.27)
Prepaid items	361,601.48
Notes Receivable, Net	(228,536.34)
Accounts Payable and Accrued Liabilities	421,926.87
Due to Primary Government	18,411.24
Funds Held for Others	(91,283.59)
Unearned Revenue	(167,394.09)
US Government Grants Refundable	23,672.22
Compensated Absences	63,409.00
Deposits Payable	138,458.59
	<hr/>
Net Cash Used by Operating Activities	<u>\$ (43,978,573.85)</u>

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	\$ 19,653,050.35
Restricted Cash and Cash Equivalents	3,429,182.88
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	641,333.86
	<hr/>
Total Cash and Cash Equivalents - June 30, 2014	<u>\$ 23,723,567.09</u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through the Assumption of a Liability	\$ 538,169.04
Change in Fair Value of Investments	1,773,726.74
Loss on Disposal of Capital Assets	(250,000.00)

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

***The University of North Carolina at Asheville
Foundation, Inc.
Consolidated Statement of Financial Position
June 30, 2014***

Exhibit B-1

CURRENT ASSETS

Cash and Cash Equivalents	\$ 3,042,458.23
Sales Tax Receivable	19,214.50
Student Loans Receivable, Net	200.00
Other Receivables	28,130.93
Promises to Give, Net	129,324.54
Prepaid Expenses	14,444.66
Real Estate Held for Resale	1,319,094.79

Total Current Assets 4,552,867.65

PROPERTY AND EQUIPMENT, NET

3,470,547.37

OTHER ASSETS

Investments	24,787,190.39
Promises to Give, Net	127,190.38
Real Estate Held for Resale	406,000.00
Beneficial Interest in Perpetual Trust	153,621.18

Total Other Assets 25,474,001.95

Total Assets \$ 33,497,416.97

CURRENT LIABILITIES

Current Portion of Long Term Debt	\$ 1,179,088.27
Accounts Payable	178,435.10
Annuities Payable	66,611.56

Total Current Liabilities 1,424,134.93

NONCURRENT LIABILITIES

Annuities Payable	569,031.94
Notes Payable	2,400,000.00

Total Noncurrent Liabilities 2,969,031.94

Total Liabilities 4,393,166.87

NET ASSETS

Unrestricted	2,229,102.35
Temporarily Restricted	11,797,820.86
Permanently Restricted	15,077,326.89

Total Net Assets 29,104,250.10

Total Net Assets and Liabilities \$ 33,497,416.97

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

The University of North Carolina at Asheville Foundation, Inc.
Consolidated Statement of Activities
For the Fiscal Year Ended June 30, 2014

Exhibit B-2

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES				
Investment Income	\$ 399,226.69	\$ 3,020,440.99	\$ 0.00	\$ 3,419,667.68
Family Business Forum		54,325.00		54,325.00
Special Events		189,040.97		189,040.97
Gain on Perpetual Trust			12,559.23	12,559.23
Other Income	90.60	121,548.93		121,639.53
Total Revenues	<u>399,317.29</u>	<u>3,385,355.89</u>	<u>12,559.23</u>	<u>3,797,232.41</u>
PUBLIC SUPPORT				
Contributions	482,371.81	758,787.52	602,913.60	1,844,072.93
Grant Revenues		105,819.54		105,819.54
Contributions-Gift in Kind		117,439.69		117,439.69
Net Assets Released from Restriction	2,067,965.91	(2,067,965.91)		
Total Revenues, Gains, and Other Support	<u>2,949,655.01</u>	<u>2,299,436.73</u>	<u>615,472.83</u>	<u>5,864,564.57</u>
EXPENSES				
Program Services	2,286,847.97			2,286,847.97
Supporting Services:				
Management and General	266,503.07			266,503.07
Fund Raising	201,040.78			201,040.78
Total Expenses	<u>2,754,391.82</u>			<u>2,754,391.82</u>
Change in Net Assets	<u>195,263.19</u>	<u>2,299,436.73</u>	<u>615,472.83</u>	<u>3,110,172.75</u>
Net Assets at Beginning of Year	<u>2,033,839.16</u>	<u>9,498,384.13</u>	<u>14,461,854.06</u>	<u>25,994,077.35</u>
Net Assets at End of Year	<u>\$ 2,229,102.35</u>	<u>\$ 11,797,820.86</u>	<u>\$ 15,077,326.89</u>	<u>\$ 29,104,250.10</u>

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

THE UNIVERSITY OF NORTH CAROLINA AT ASHEVILLE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

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. The University of North Carolina at Asheville 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 unit. 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 unit is discretely presented in the University's financial statements.

Discretely Presented Component Unit – The University of North Carolina at Asheville Foundation, Inc. (Foundation) is a legally separate nonprofit corporation and is reported as a discretely presented component unit based on the nature and significance of its relationship to the University. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the University in support of its programs. The Foundation board consists of 25 to 36 elected directors. Although the University does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, that the Foundation holds and invests are restricted to the activities of the University by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of the University, the Foundation is considered a component unit of the University and is reported in separate consolidated financial statements because of the difference in its reporting model, as described below.

In September 2013, the Foundation formed a wholly owned subsidiary, UNC Asheville Baseball Stadium, LLC. Its purpose is to further and support the charitable and other exempt purpose of the Foundation by

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

planning, designing, constructing and completing the expansion and renovation of the existing baseball stadium and associated construction areas on the campus of the University, and such activities as are necessary, incidental or appropriate in connection therewith.

In December 2013, the Foundation formed a wholly owned subsidiary, UNC Asheville Real Estate, LLC. Its purpose is to further and support the charitable, educational and other exempt purposes of the Foundation by acquiring, owning, developing, leasing, managing, operating, and selling real property for the benefit of the University, and such activities as are necessary, incidental or appropriate in connection therewith.

The Foundation is a private nonprofit organization that reports its financial results under the Financial Accounting Standards Board (FASB) Codification. As such, certain revenue recognition criteria and presentation features are different from the Governmental Accounting Standards Board (GASB) revenue recognition criteria and presentation features. No modifications have been made to the Foundation's consolidated financial information in the University's financial reporting entity for these differences.

During the year ended June 30, 2014, the Foundation distributed \$1,737,812.29 to the University for both restricted and unrestricted purposes. Complete consolidated financial statements for the Foundation can be obtained from the University Controller's Office, 207 Phillips Hall, One University Heights, Asheville, NC 28804 or by calling 828-232-5109.

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

Pursuant to the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended by GASB Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities*, the full scope of the University's activities is considered to be a single business-type activity and accordingly, is reported within a single column in the basic financial statements.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

Endowment investments include the principal amount of gifts and bequests that, according to donor restrictions, must be held in perpetuity or for a specified period of time, along with any accumulated investment earnings on such amounts. Further, endowment investments also include amounts internally designated by the University for investment in an endowment capacity (i.e. quasi-endowments), along with accumulated investment earnings on such amounts.

- F. Receivables** - Receivables consist of tuition and fees charged to students, charges for auxiliary enterprises' sales and services, and interest. Receivables also include amounts due from the federal government, state and local governments, and private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants. Receivables are recorded net of estimated uncollectible amounts.
- G. Inventories** - Inventories, consisting of expendable supplies, are valued at cost using the last invoice cost method.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- 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.

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, and 5 to 30 years for equipment.

The University does not capitalize collections considered to be inexhaustible or the general collections available for use in the Ramsey Library or in other campus locations. These collections adhere to the University's policy to maintain for public exhibition, education, or research and to protect, keep unencumbered, care for, and preserve. Accounting principles generally accepted in the United States of America permit collections maintained in this manner to be charged to operations at time of purchase rather than be capitalized.

Certain other collections are capitalized at cost or fair value at the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the collections, which is generally 10 to 25 years.

- I. Restricted Assets** - Certain resources are reported as restricted assets because restrictions on asset use change the nature or normal understanding of the availability of the asset. Resources that are not available for current operations and are reported as restricted include resources restricted for the acquisition or construction of capital assets, unspent debt proceeds, and endowment and other restricted investments.
- J. Noncurrent Long-Term Liabilities** - Noncurrent long-term liabilities include principal amounts of revenue bonds payable, a note payable, and compensated absences that will not be paid within the next fiscal year.

Revenue bonds payable are reported net of unamortized premiums or discounts. The University amortizes bond premiums/discounts over the life of the bonds using the straight-line method. Deferred charges on refundings are amortized over the life of the new debt using the straight-line method, and are included as Deferred Outflows or Deferred Inflows of Resources on the Statement of Net Position. Issuance costs are expensed.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

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

- L. Net Position** - The University's net position is classified as follows:

Net Investment in Capital Assets - This represents the University's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of Net Investment in Capital Assets. Additionally, deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of capital assets or related debt are also included in this component of net position.

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Unrestricted Net Position - Unrestricted net position includes resources derived from student tuition and fees, sales and services, unrestricted gifts, royalties, and interest income.

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

- M. Scholarship Discounts** - Student tuition and fees revenues and certain other revenues from University charges are reported net of scholarship discounts in the accompanying Statement of Revenues, Expenses, and Changes in Net Position. The scholarship discount is the difference between the actual charge for goods and services provided by the University and the amount that is paid by students or by third parties on the students' behalf. Student financial assistance grants, such as Pell grants, and other federal, state, or nongovernmental programs, are recorded as nonoperating revenues in the accompanying Statement of Revenues, Expenses, and Changes in Net Position. To the extent that revenues from these programs are used to satisfy tuition, fees, and other charges, the University has recorded a scholarship discount.
- N. Revenue and Expense Recognition** - The University classifies its revenues and expenses as operating or nonoperating in the accompanying Statement of Revenues, Expenses, and Changes in Net Position. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the University's principal ongoing operations. Operating revenues include activities that have characteristics of exchange transactions, such as (1) student tuition and fees, (2) sales and services of auxiliary enterprises, (3) certain federal, state, and local grants and contracts that are essentially contracts for services, and (4) interest earned on loans. Operating expenses are all expense transactions incurred other than those related to capital and noncapital financing or investing activities as defined by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*.

Nonoperating revenues include activities that have the characteristics of nonexchange transactions. Revenues from nonexchange transactions that represent subsidies or gifts to the University, as well as investment

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, printing services and telecommunications. In addition, the University has other miscellaneous sales and service units that operated either on a reimbursement or charge basis. All internal sales activities to University departments from auxiliary operations and sales and service units have been eliminated in the accompanying financial statements. These eliminations are recorded by removing the revenue and expense in the auxiliary operations and sales and service units and, if significant, allocating any residual balances to those departments receiving the goods and services during the year.

NOTE 2 - DEPOSITS AND INVESTMENTS

- A. Deposits** - Unless specifically exempt, the University is required by *North Carolina General Statute 147-77* to deposit moneys received with the State Treasurer or with a depository institution in the name of the State Treasurer. However, the University of North Carolina Board of Governors, pursuant to G.S. 116-36.1, may authorize the University to deposit its institutional trust funds in interest-bearing accounts and other investments authorized by the Board of Governors, without regard to any statute or rule of law relating to the investment of funds by fiduciaries. Although specifically exempted, the University may voluntarily deposit institutional trust funds, endowment funds, special funds, revenue bond proceeds, debt service funds, and funds received for services rendered by health care professionals with the State Treasurer. Special funds consist of moneys for intercollegiate athletics and agency funds held directly by the University.

At June 30, 2014, the amount shown on the Statement of Net Position as cash and cash equivalents includes \$23,662,881.05 which represents the University's equity position in the State Treasurer's STIF. The STIF (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission and does not have a credit rating) had a weighted average maturity of 1.3 years as of June 30, 2014. Assets and shares of the STIF are valued at amortized cost, which approximates fair value. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's STIF) are included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.nc.gov/> and clicking on "Reports" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

Cash on hand at June 30, 2014 was \$14,039.98. The carrying amount of the University's deposits not with the State Treasurer was \$46,646.06 and the bank balance was \$44,788.49. Custodial credit risk is the risk that in the event of a bank failure, the University's deposits may not be returned to it. The University does not have a deposit policy for custodial credit risk. As of June 30, 2014, the University's bank balance was not exposed to custodial credit risk.

B. Investments

University - The University is authorized by The University of North Carolina Board of Governors pursuant to G.S. 116-36.2 and Section 600.2.4 of the Policy Manual of the University of North Carolina to invest its special funds and funds received for services rendered by health care professionals in the same manner as the State Treasurer is required to invest, as discussed below.

G.S. 147-69.1(c), applicable to the State's General Fund, and G.S. 147-69.2, applicable to institutional trust funds, authorize the State Treasurer to invest in the following: obligations of or fully guaranteed by the United States; obligations of certain federal agencies; repurchase agreements; obligations of the State of North Carolina; certificates of deposit and other deposit accounts of specified financial institutions; prime quality commercial paper; asset-backed securities with specified ratings, specified bills of exchange or time drafts, and corporate bonds/notes with specified ratings; general obligations of other states; general obligations of North Carolina local governments; and obligations of certain entities with specified ratings.

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

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 unit method. Under this method, each participating fund's investment balance is determined on the basis of the number of units purchases less sales multiplied by the current unit market value. The investment strategy, including the selection of investment managers, is based on the directives of the University's Endowment Board. At year-end, the pooled investments were all with the UNC Investment Fund, LLC.

UNC Investment Fund, LLC - At June 30, 2014, the University's investments include \$13,404,898.69 which represents the University's equity position in the UNC Investment Fund, LLC (UNC Investment Fund). The UNC Investment Fund is an external investment pool that is not registered with the Securities and Exchange Commission, does not have a credit rating, and is not subject to any regulatory oversight. Asset and ownership interests of the UNC Investment Fund are determined on a market unit valuation basis each month. Investment risks associated with the UNC Investment Fund are included in audited financial statements of the UNC Investment Fund, LLC which may be obtained from UNC Management Company, Inc., 1400 Environ Way, Chapel Hill, NC 27517.

Non-Pooled Investments - The fair value of investments of the University non-pooled investments subject to interest rate risk at June 30, 2014 was \$6.91. These investments were held in money market mutual funds with maturities of less than one year. The credit rating of the money market mutual funds was Aaa as rated by Moody's Investors Service.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

Investment Type	<u>Fair Value</u>
Debt Securities	
Money Market Mutual Funds	\$ 6.91
Other Securities	
UNC Investment Fund	<u>13,404,898.69</u>
Total Investments	<u><u>\$ 13,404,905.60</u></u>

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

The Foundation owns membership interest in the UNC Investment Fund, LLC (a North Carolina limited liability company). The Fund is managed by the UNC Management Company, Inc. (a North Carolina nonprofit corporation). The Foundation also has investments in marketable securities with fair values based upon active markets.

The Foundation’s investments stated at fair value at June 30 are summarized as follows:

	2014		
	Cost	Fair Value	Cumulative Unrealized Gains
Membership Interest in UNC Investment Fund, LLC	\$ 13,466,169.34	\$ 23,811,269.29	\$ 10,345,099.95
Fixed Income Funds	280,940.00	285,622.12	4,682.12
Equities	452,610.14	484,258.69	31,648.55
Complementary Strategies	91,071.12	91,519.25	448.13
Real Estate Funds	<u>105,337.76</u>	<u>114,521.04</u>	<u>9,183.28</u>
	<u><u>\$ 14,396,128.36</u></u>	<u><u>\$ 24,787,190.39</u></u>	<u><u>\$ 10,391,062.03</u></u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The following schedule summarizes investment return and its classification in the Statement of Activities for the year ended June 30:

	2014
Interest and Dividends	\$ 24,878.21
Realized Gains	625,726.19
Unrealized Gains	2,769,063.28
	\$ 3,419,667.68

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

Cash on Hand	\$ 14,039.98
Amount of Deposits with Private Financial Institutions	46,646.06
Deposits in the Short-Term Investment Fund	23,662,881.05
Investments in the UNC Investment Fund	13,404,898.69
Non-Pooled Investments	6.91
Total Deposits and Investments	\$ 37,128,472.69
Deposits	
Current:	
Cash and Cash Equivalents	\$ 19,653,050.35
Restricted Cash and Cash Equivalents	3,429,182.88
Noncurrent:	
Restricted Cash and Cash Equivalents	641,333.86
Total Deposits	23,723,567.09
Investments	
Current:	
Restricted Short-Term Investments	6.91
Noncurrent:	
Endowment Investments	13,404,898.69
Total Investments	13,404,905.60
Total Deposits and Investments	\$ 37,128,472.69

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

Investment return of the University's endowment funds is predicated on the total return concept (yield plus appreciation). Annual payouts from the University's endowment funds are based on an adopted spending policy which limits spending to 5% of the average of the endowment principal's three-year trailing market value. Under this policy, the spending policy is agreed upon prior to the beginning of the University's fiscal year and is maintained at that level unless altered by Board action. To the extent that the total return for the current year exceeds the payout, the excess is added to the appreciation of the principal. If current year earnings do not meet the payout requirements, the University uses accumulated income and appreciation from restricted, expendable net position endowment balances to make up the difference. At June 30, 2014, net appreciation of \$4,557,963.19 was available to be spent, of which \$4,309,638.85 was classified in net position as restricted for specific purposes (e.g. scholarships, fellowships, and professorships). The remaining portion of net appreciation available to be spent is classified as unrestricted net position.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2014, were as follows:

	<u>Gross Receivables</u>	<u>Less Allowance for Doubtful Accounts</u>	<u>Net Receivables</u>
Current Receivables:			
Students	\$ 490,874.64	\$ 105,247.54	\$ 385,627.10
Student Sponsors	21,242.18		21,242.18
Accounts	177,751.87		177,751.87
Intergovernmental	102,222.07		102,222.07
Interest on Loans	94,595.74		94,595.74
Federal Interest Subsidy on Debt	47,130.59		47,130.59
Other	51,495.22		51,495.22
Total Current Receivables	<u>\$ 985,312.31</u>	<u>\$ 105,247.54</u>	<u>\$ 880,064.77</u>
Notes Receivable:			
Notes Receivables - Current:			
Federal Loan Programs	<u>\$ 692,756.74</u>	<u>\$ 158,571.04</u>	<u>\$ 534,185.70</u>
Notes Receivable - Noncurrent:			
Federal Loan Programs	<u>\$ 703,494.84</u>	<u>\$ 161,030.05</u>	<u>\$ 542,464.79</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, 2014, is presented as follows:

	Balance July 1, 2013	Increases	Decreases	Balance June 30, 2014
Capital Assets, Nondepreciable:				
Land	\$ 6,642,162.58	\$ 397,560.60	\$ 0.00	\$ 7,039,723.18
Art, Literature, and Artifacts	457,300.00		250,000.00	207,300.00
Construction in Progress	704,474.50	7,828,932.38	7,891,628.51	641,778.37
Total Capital Assets, Nondepreciable	7,803,937.08	8,226,492.98	8,141,628.51	7,888,801.55
Capital Assets, Depreciable:				
Buildings	225,051,547.34	6,801,647.69		231,853,195.03
Machinery and Equipment	7,467,104.65	348,279.52	362,811.52	7,452,572.65
Art, Literature, and Artifacts	201,500.00			201,500.00
General Infrastructure	16,658,211.04	692,420.22	289,936.10	17,060,695.16
Total Capital Assets, Depreciable	249,378,363.03	7,842,347.43	652,747.62	256,567,962.84
Less Accumulated Depreciation for:				
Buildings	56,017,322.01	4,134,560.16		60,151,882.17
Machinery and Equipment	3,505,320.10	529,080.95	362,811.52	3,671,589.53
Art, Literature, and Artifacts	135,380.08	17,689.92		153,070.00
General Infrastructure	10,196,022.84	652,168.31	169,247.04	10,678,944.11
Total Accumulated Depreciation	69,854,045.03	5,333,499.34	532,058.56	74,655,485.81
Total Capital Assets, Depreciable, Net	179,524,318.00	2,508,848.09	120,689.06	181,912,477.03
Capital Assets, Net	\$ 187,328,255.08	\$ 10,735,341.07	\$ 8,262,317.57	\$ 189,801,278.58

During the year ended June 30, 2014, the University incurred \$2,259,763.61 in interest expense related to the acquisition and construction of capital assets.

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	Amount
Current Accounts Payable and Accrued Liabilities	
Accounts Payable	\$ 1,168,096.98
Accrued Payroll	441,356.76
Contract Retainage	356,852.25
Other	16,823.74
Total Current Accounts Payable and Accrued Liabilities	\$ 1,983,129.73

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 7 - LONG-TERM LIABILITIES

A. Changes in Long-Term Liabilities - A summary of changes in the long-term liabilities for the year ended June 30, 2014, is presented as follows:

	Balance July 1, 2013 (As Restated)	Additions	Reductions	Balance June 30, 2014	Current Portion
Revenue Bonds Payable	\$ 46,594,800.00	\$ 0.00	\$ 1,922,000.00	\$ 44,672,800.00	\$ 1,973,800.00
Plus: Unamortized Premium	520,912.31		46,303.32	474,608.99	
Less: Unamortized Discount	(12,012.68)		(1,067.79)	(10,944.89)	
Total Revenue Bonds	47,103,699.63		1,967,235.53	45,136,464.10	1,973,800.00
Note Payable	701,463.74		94,289.59	607,174.15	305,881.80
Compensated Absences	2,858,819.00	1,843,972.00	1,780,563.00	2,922,228.00	185,269.30
Total Long-Term Liabilities	\$ 50,663,982.37	\$ 1,843,972.00	\$ 3,842,088.12	\$ 48,665,866.25	\$ 2,464,951.10

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

Purpose	Series	Interest Rate	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2014	Principal Outstanding June 30, 2014
Revenue Bonds Payable						
Dormitory and Dining System						
UNCA Systems Pool Revenue Bonds (A)	2005A	4.89% *	04/01/2020	\$ 7,575,000.00	\$ 5,960,000.00	\$ 1,615,000.00
UNCA Systems Pool Revenue Bonds (B), Servies 2010 (C)	2010C	5.00% *	10/01/2024	5,815,000.00	610,000.00	5,205,000.00
UNCA Revenue Bonds (Build America Bonds)**(C)	2010	2.92% *	06/01/2040	26,160,000.00	410,000.00	25,750,000.00
UNCA Revenue Refunding Bonds, Series 2012(D)	2012	2.32%	06/01/2027	6,345,400.00	1,446,600.00	4,898,800.00
UNCA Revenue & Refunding Bonds, Series 2013A (E)	2013	2.14%	04/01/2030	4,987,000.00	262,000.00	4,725,000.00
UNCA Revenue & Refunding Bonds, Series 2013B (E)	2013	2.19%	04/01/2023	2,522,000.00	43,000.00	2,479,000.00
Total Dormitory and Dining System				53,404,400.00	8,731,600.00	44,672,800.00
Total Revenue Bonds Payable (principal only)				\$ 53,404,400.00	\$ 8,731,600.00	44,672,800.00
Less: Unamortized Discount						(10,944.89)
Plus: Unamortized Premium						474,608.99
Total Revenue Bonds Payable, Net						\$ 45,136,464.10

(A) The University of North Carolina System Pool Revenue Bonds, Series 2005A

(B) The University of North Carolina System Pool Revenue Bonds, Series 2010C

(C) The University of North Carolina at Asheville Taxable Revenue Bonds, Series 2010

(D) The University of North Carolina at Asheville Revenue Refunding Bond, Series 2012

(E) The University of North Carolina at Asheville Revenue and Refunding Bonds, Series 2013A&B

* For variable rate debt, interest rates in effect at June 30, 2014 are included.

** The University has elected to treat these bonds as federally taxable "Build America Bonds" for the purposes of the American Recovery and Reinvestment Act and to receive a cash subsidy from the U.S. Treasury equal to 32% of the interest payable on these bonds. For these bonds, the interest rate included is the taxable rate, which does not factor in the cash subsidy from the U.S. Treasury.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

Fiscal Year	Annual Requirements			
	Revenue Bonds Payable		Note Payable	
	Principal	Interest	Principal	Interest
2015	\$ 1,973,800.00	\$ 2,202,586.80	\$ 305,881.80	\$ 8,573.08
2016	2,085,100.00	2,127,906.76	301,292.35	2,843.31
2017	2,194,500.00	2,057,611.70		
2018	2,318,300.00	1,970,078.48		
2019	1,717,000.00	1,899,816.56		
2020-2024	9,701,900.00	8,425,895.51		
2025-2029	8,698,200.00	6,474,324.08		
2030-2034	6,549,000.00	4,482,468.60		
2035-2039	7,690,000.00	2,197,203.50		
2040	1,745,000.00	118,136.50		
Total Requirements	\$ 44,672,800.00	\$ 31,956,028.49	\$ 607,174.15	\$ 11,416.39

D. Prior Year Defeasances - During prior years, the University defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the University's financial statements. At June 30, 2014, the outstanding balance of prior year defeased bonds was \$2,285,000.00.

E. Note Payable - The University was indebted for a note payable for the purposes shown in the following table:

Purpose	Financial Institution	Interest Rate	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2014	Principal Outstanding June 30, 2014
Equipment	TD Equipment Finance	1.89%	* 12/01/2015	<u>\$ 1,500,000.00</u>	<u>\$ 892,825.85</u>	<u>\$ 607,174.15</u>

* Interest Compounded Monthly

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 8 - LEASE OBLIGATIONS

The University entered into operating leases for digital equipment, wireless equipment and software, computer servers, and telephone equipment. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2014:

<u>Fiscal Year</u>	<u>Amount</u>
2015	\$ 943,194.57
2016	931,077.56
2017	652,517.67
2018	575,975.38
2019	506,259.00
2020-2021	<u>719,900.00</u>
Total Minimum Lease Payments	<u>\$ 4,328,924.18</u>

Rental expense for all operating leases during the year was \$1,234,409.84.

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	\$ 28,209,761.97	\$ 0.00	\$ 6,108,290.16	\$ 109,389.96	\$ 21,992,081.85
Sales and Services:					
Sales and Services of Auxiliary Enterprises:					
Residential Life	\$ 6,615,333.16	\$ 460.00	\$ 1,492,460.35	\$ 0.00	\$ 5,122,412.81
Dining	4,665,611.05		1,050,120.87		3,615,490.18
Student Union Services	16,265.00				16,265.00
Health, Physical Education, and Recreation Services	68,857.50				68,857.50
Bookstore	169,677.02				169,677.02
Parking	641,095.40	73,399.75	56,598.55		511,097.10
Athletic	613,844.62	2,426.00			611,418.62
Other	476,544.93	442,598.75			33,946.18
Sales and Services of Education and Related Activities	<u>528,383.21</u>	<u>18,241.87</u>			<u>510,141.34</u>
Total Sales and Services	<u>\$ 13,795,611.89</u>	<u>\$ 537,126.37</u>	<u>\$ 2,599,179.77</u>	<u>\$ 0.00</u>	<u>\$ 10,659,305.75</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	\$ 24,129,708.85	\$ 851,762.45	\$ 1,815,059.26	\$ 17,403.68	\$ 6,660.62	\$ 0.00	\$ 26,820,594.86
Research	1,048,555.35	59,814.80	231,900.92				1,340,271.07
Public Service	1,227,947.08	49,104.00	398,810.42	1,558.97	701.13		1,678,121.60
Academic Support	2,759,933.34	1,080,865.97	670,401.10				4,511,200.41
Student Services	3,580,537.51	158,609.16	1,428,356.19	3,099.00			5,170,601.86
Institutional Support	9,319,321.45	347,430.49	1,858,563.27	1,903.68			11,527,218.89
Operations and Maintenance of Plant	5,516,144.61	1,529,078.32	542,073.43		2,179,944.75		9,767,241.11
Student Financial Aid	30,751.08	2,265.18	900.75	5,961,484.73			5,995,401.74
Auxiliary Enterprises	5,646,370.13	2,444,562.29	5,510,797.51	75.00	742,860.76		14,344,665.69
Depreciation						5,333,499.34	5,333,499.34
Total Operating Expenses	\$ 53,259,269.40	\$ 6,523,492.66	\$ 12,456,862.85	\$ 5,985,525.06	\$ 2,930,167.26	\$ 5,333,499.34	\$ 86,488,816.57

NOTE 11 - PENSION PLANS

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

The Teachers' and State Employees' Retirement System (TSERS) is a cost-sharing multiple-employer defined benefit pension plan established by the State to provide pension benefits for employees of the State, its component units, and local boards of education. TSERS is administered by a 14-member Board of Trustees, with the State Treasurer serving as Chairman of the Board.

Benefit and contribution provisions for the TSERS are established by *North Carolina General Statutes* 135-5 and 135-8 and may be amended only by the North Carolina General Assembly. Employer and member contribution rates are set each year by the North Carolina General Assembly based on annual actuarial valuations. For the year ended June 30, 2014, these rates were set at 8.69% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the University had a total payroll of \$41,153,426.60, of which \$16,663,714.36 was covered under the TSERS. Total employer and employee contributions for pension benefits for the year were \$1,448,076.78 and \$999,822.86, respectively.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Required employer contribution rates for the years ended June 30, 2013, and 2012, were 8.33% and 7.44%, respectively, while employee contributions were 6% each year. The University made 100% of its annual required contributions for the years ended June 30, 2014, 2013, and 2012, which were \$1,448,076.78, \$1,445,718.74, and \$1,291,698.83, respectively.

The Teachers' and State Employees' Retirement System's financial information is included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.nc.gov/> and clicking on "Reports" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

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

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

Participant eligibility and contributory requirements are established by General Statute 135-5.1. Employer and member contribution rates are set each year by the North Carolina General Assembly. For the year ended June 30, 2014, these rates were set at 6.84% of covered payroll for employers and 6% of covered payroll for members. The University assumes no liability other than its contribution.

For the current fiscal year, the University had a total payroll of \$41,153,426.60, of which \$18,820,317.03 was covered under the Optional Retirement Program. Total employer and employee contributions for pension benefits for the year were \$1,287,309.68 and \$1,129,219.02, respectively.

NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS

A. Health Benefits - The University participates in the Comprehensive Major Medical Plan (the Plan), a cost-sharing, multiple-employer defined benefit health care plan that provides postemployment health insurance to eligible former employees. Eligible former employees include long-term

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

disability beneficiaries of the Disability Income Plan of North Carolina and retirees of the Teachers' and State Employees' Retirement System or the Optional Retirement Program. Coverage eligibility varies depending on years of contributory membership service in their retirement system prior to disability or retirement.

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

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

For the current fiscal year the University contributed 5.40% of the covered payroll under the Teachers' and State Employees' Retirement System and the Optional Retirement Program to the Fund. Required contribution rates for the years ended June 30, 2013, and 2012, were 5.30% and 5.0%, respectively. The University made 100% of its annual required contributions to the Plan for the years ended June 30, 2014, 2013, and 2012, which were \$1,916,137.70, \$1,821,471.46, and \$1,655,420.46, respectively. The University assumes no liability for retiree health care benefits provided by the programs other than its required contribution.

Additional detailed information about these programs can be located in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.nc.gov/> and clicking on "Reports" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

- B. Disability Income** - The University participates in the Disability Income Plan of North Carolina (DIPNC), a cost-sharing, multiple-employer defined benefit plan, to provide short-term and long-term disability benefits to eligible members of the Teachers' and State Employees'

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Retirement System and the Optional Retirement Program. Benefit and contribution provisions are established by Chapter 135, Article 6, of the General Statutes, and may be amended only by the North Carolina General Assembly. The Plan does not provide for automatic post-retirement benefit increases.

Disability income benefits are funded by actuarially determined employer contributions that are established by the General Assembly. For the fiscal year ended June 30, 2014, the University made a statutory contribution of .44% of covered payroll under the Teachers' and State Employees' Retirement System and the Optional Retirement Program to the DIPNC. Required contribution rates for the years ended June 30, 2013, and 2012, were .44% and .52%, respectively. The University made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2014, 2013, and 2012, which were \$156,129.73, \$151,216.50, and \$172,163.73, respectively. The University assumes no liability for long-term disability benefits under the Plan other than its contribution.

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

NOTE 13 - RISK MANAGEMENT

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

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

The University is required to maintain fire and lightning coverage on all state-owned buildings and contents through the State Property Fire Insurance Fund (Fund), an internal service fund of the State. Such coverage is provided at no cost to the University for operations supported by the State's General Fund. Other operations not supported by the State's General Fund are charged for the coverage. Losses covered by the Fund are subject to a \$5,000 per occurrence deductible. However, some agencies have chosen a higher deductible for a reduction in premium. Auxiliary buildings along with 118 W.T. Weaver have

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

broad coverage for buildings and contents in addition to the fire coverage with the same \$5,000 deductible. The Janice W. Brumit Pisgah House and the Wilma M. Sherrill Center have all risk special form coverage with a \$5,000 deductible. The University has also purchased extended coverage for boiler and machinery components with a \$5,000 deductible, and fine arts coverage for artwork that has a \$5,000 deductible, through the Fund.

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.

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

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

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

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

NOTE 14 - COMMITMENTS AND CONTINGENCIES

A. Commitments - The University has established an encumbrance system to track its outstanding commitments on construction projects and other

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

purchases. Outstanding commitments on construction contracts were \$1,456,525.13 and on other purchases were \$3,125,473.79 at June 30, 2014.

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

NOTE 15 - RELATED PARTIES

There are two separately incorporated nonprofit entities associated with the University. These entities are The University Botanical Gardens at Asheville, Inc. and The Center for Diversity Education, Inc.

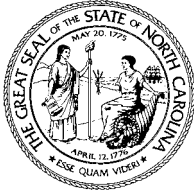
These entities are in existence to support the individual programs of the University. The University's financial statements do not include the assets, liabilities, net position, or operational transactions of the entities, except for support from each organization to the University. The support provided to the University from these nonprofit corporations is not considered significant for the year ending June 30, 2014. Further information, including audit reports, may be obtained directly from these entities.

NOTE 16 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

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

NOTE 17 - SUBSEQUENT EVENT

On September 1, 2014, the University issued The University of North Carolina at Asheville General Revenue Bond, Series 2014 for \$1,039,500.00 to provide funds for completion of the Karl Straus Track Building and improvements to the Student Recreation Center.

Office of the State Auditor

Beth A. Wood, CPA
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
The University of North Carolina at Asheville
Asheville, North Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of The University of North Carolina at Asheville, 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 unit, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated October 22, 2014. Our report includes a reference to other auditors who audited the financial statements of The University of North Carolina at Asheville Foundation, Inc., as described in our report on the University's financial statements. The consolidated financial statements of The University of North Carolina at Asheville Foundation, Inc. were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with The University of North Carolina at Asheville Foundation, Inc.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable

**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)**

possibility that a material misstatement of the University's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the University's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

October 22, 2014

ORDERING INFORMATION

Copies of this report 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

Internet: <http://www.ncauditor.net>

To report alleged incidents of fraud, waste or abuse in state government contact the:

Office of the State Auditor Fraud Hotline: 1-800-730-8477

or download our free app



<https://play.google.com/store/apps/details?id=net.ncauditor.ncauditor>



<https://itunes.apple.com/us/app/nc-state-auditor-hotline/id567315745>

For additional information contact:

Bill Holmes

Director of External Affairs