

# STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

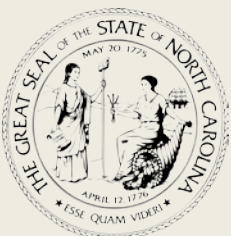
BETH A. WOOD, CPA



## THE UNIVERSITY OF NORTH CAROLINA AT ASHEVILLE

ASHEVILLE, NORTH CAROLINA  
FINANCIAL STATEMENT AUDIT REPORT  
FOR THE YEAR ENDED JUNE 30, 2015

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



**NCOSA**  
The Taxpayers' Watchdog

STATE OF NORTH CAROLINA  
**Office of the State Auditor**



**Beth A. Wood, CPA**  
State Auditor

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

---

## AUDITOR'S TRANSMITTAL

---

The Honorable Pat McCrory, Governor  
The General Assembly of North Carolina  
Board of Trustees, 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, 2015, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

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

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

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

Beth A. Wood, CPA  
State Auditor



Beth A. Wood, CPA  
State Auditor

## TABLE OF CONTENTS

---

	PAGE
INDEPENDENT AUDITOR’S REPORT .....	1
MANAGEMENT’S DISCUSSION AND ANALYSIS .....	4
BASIC FINANCIAL STATEMENTS	
UNIVERSITY EXHIBITS	
A-1 Statement of Net Position .....	16
A-2 Statement of Revenues, Expenses, and Changes in Net Position .....	18
A-3 Statement of Cash Flows .....	19
COMPONENT UNIT EXHIBITS	
B-1 Consolidated Statement of Financial Position .....	21
B-2 Consolidated Statement of Activities .....	22
NOTES TO THE FINANCIAL STATEMENTS .....	23
REQUIRED SUPPLEMENTARY INFORMATION	
C-1 Schedule of the Proportionate Net Pension Liability (Teachers’ and State Employees’ Retirement System) .....	48
C-2 Schedule of University Contributions (Teachers’ and State Employees’ Retirement System) .....	49
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION (TEACHERS’ AND STATE EMPLOYEES’ RETIREMENT SYSTEM) .....	50
INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i> .....	51
ORDERING INFORMATION .....	53

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



# INDEPENDENT AUDITOR'S REPORT

STATE OF NORTH CAROLINA  
**Office of the State Auditor**



**Beth A. Wood, CPA**  
State Auditor

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

## **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, 2015, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the 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.

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, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### Emphasis of Matter

As discussed in Note 15 to the financial statements, during the year ended June 30, 2015, The University of North Carolina at Asheville adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 68 – *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27 and Statement No. 71 – Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*. Our opinion is not modified with respect to this matter.

### Other Matters – Required Supplementary Information

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

### Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 27, 2015 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe

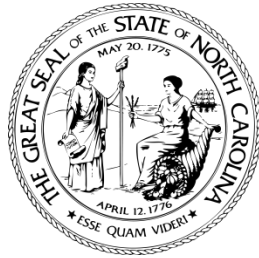
the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.



Beth A. Wood, CPA  
State Auditor

Raleigh, North Carolina

October 27, 2015



# **MANAGEMENT'S DISCUSSION AND ANALYSIS**





## Introduction

This section of The University of North Carolina at Asheville's (University) financial report provides an overview of the financial position and activities for the year ended June 30, 2015. This discussion has been prepared by management along with the financial statements and related notes to the financial statements and should be read in conjunction with the financial statements and the notes thereto, which follow this section. This discussion and analysis only reflects the activity of the University for the fiscal years ended June 30, 2015 and 2014 and not its component unit. It is designed to focus on current activities, resulting change, and current known facts.

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 component unit Consolidated Statement of Activities. Comparative information for the prior fiscal year is also presented in the condensed financial statements in this section.

## Financial Highlights

### Statement of Net Position

The *Statement of Net Position* presents assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position (the difference between assets and deferred outflows of resources from liabilities and deferred inflows of resources) as of the date of the fiscal year-end (June 30). This statement assists in the determination of the financial condition of the University. Comparative, condensed versions for fiscal year 2015 and fiscal year 2014 as restated are as follows:

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## Condensed Statement of Net Position

	Fiscal Year 2015	Fiscal Year 2014 (as restated)	\$ Change	% Change
Current Assets	\$ 21,767,389.27	\$ 24,773,165.39	\$ (3,005,776.12)	-12.13%
Capital Assets	192,320,878.85	189,801,278.58	2,519,600.27	1.33%
Other Noncurrent Assets	16,312,671.34	14,588,697.34	1,723,974.00	11.82%
<b>Total Assets</b>	<b>230,400,939.46</b>	<b>229,163,141.31</b>	<b>1,237,798.15</b>	<b>0.54%</b>
Deferred Loss On Refunding	442,324.46	494,048.39	(51,723.93)	-10.47%
Deferred Outflows Related to Pensions	2,096,581.00	1,602,833.00	493,748.00	30.80%
<b>Total Deferred Outflows of Resources</b>	<b>2,538,905.46</b>	<b>2,096,881.39</b>	<b>442,024.07</b>	<b>21.08%</b>
Current Liabilities	6,634,985.07	6,347,936.53	287,048.54	4.52%
Long-Term Liabilities	49,345,594.17	52,951,888.15	(3,606,293.98)	-6.81%
Other Noncurrent Liabilities	1,661,093.57	1,596,267.82	64,825.75	4.06%
<b>Total Liabilities</b>	<b>57,641,672.81</b>	<b>60,896,092.50</b>	<b>(3,254,419.69)</b>	<b>-5.34%</b>
Deferred Gain On Refunding	150,071.20	162,664.59	(12,593.39)	-7.74%
Deferred Inflows Related to Pensions	5,019,537.00		5,019,537.00	100.00%
<b>Total Deferred Inflows of Resources</b>	<b>5,169,608.20</b>	<b>162,664.59</b>	<b>5,006,943.61</b>	<b>3,078.08%</b>
Net Investment in Capital Assets	146,084,328.65	144,822,572.69	1,261,755.96	0.87%
Restricted - Nonexpendable	8,214,652.78	8,210,700.07	3,952.71	0.05%
Restricted - Expendable	6,604,146.06	8,504,276.85	(1,900,130.79)	-22.34%
Unrestricted	9,225,436.42	8,663,716.00	561,720.42	6.48%
<b>Total Net Position</b>	<b>\$ 170,128,563.91</b>	<b>\$ 170,201,265.61</b>	<b>\$ (72,701.70)</b>	<b>-0.04%</b>

### 2014 Fiscal Net Position Restatement and GASB Statement No. 68 Implementation

In fiscal year 2015, the GASB implemented a significant statement, GASB 68 – *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*. Additionally GASB Statement No. 68 was amended by GASB Statement No. 71 – *Pension Transition for Contributions Made Subsequent to the Measurement Date*. The University's fiscal year 2014 net position has been restated due to this implementation. The following is a brief discussion of the standard's objectives, financial reporting requirements, process for the University, and impact on the University's financial statements as presented here. Additional information is provided in Note 11 to the financial statements and in the Required Supplementary Information.

The provisions of GASB Statement No. 68 apply to the financial statements of all state and local governmental employers whose employees are provided with pensions through pension plans that are administered through trusts. The requirements apply whether the government's financial statements are presented in stand-alone financial reports or are included in the financial reports of another government.

As part of the GASB Statement No. 68 implementation, the University, along with other component units and proprietary funds of the State of North Carolina, was required to record its proportionate share of the collective Teachers' and State Employees' Retirement System (TSERS) net pension liability, pension expense, deferred outflows of resources, and deferred inflows of resources. TSERS is a cost-sharing, multiple employer, defined benefit pension plan established by the State to provide pension benefits for general employees and law

enforcement officers (LEOs) of the State, general employees and LEOs of its component units, and employees of Local Education Agencies and charter schools not in the reporting entity.

The net pension liability for TSERS was measured as of June 30, 2013 and June 30, 2014 (Note: GASB Statement No. 68 requires the net pension liability to be measured as of a date no earlier than the end of the employer's prior fiscal year). The underlying financial information used to prepare the pension schedules is based on the TSERS financial statements. The North Carolina Office of the State Auditor (OSA) has completed a financial audit of the TSERS Schedule of Employer Allocations for the year ended June 30, 2014 and June 30, 2013 and the Schedule of Pension Amounts by Employer for the year ended June 30, 2014. The OSA's audit report, *Teachers and State Employees Retirement System - Financial Audit of Schedules* can found on their website at [www.ncauditor.net](http://www.ncauditor.net).

GASB Statement No. 68 illustrates the fair value of assets held compared to the present value of benefits owed. Pension expense is tied to the period in which the benefit is earned rather than when it is paid out.

The implementation of GASB Statement No. 68 relates to accounting and financial reporting issues only — how pension costs and obligations are measured and reported in audited external financial reports. The new guidance establishes a decided shift from the funding-based approach to an accounting-based approach.

Several things in the University's financial reports have changed. The University recorded its proportionate share of the net pension liability on its full accrual financial statements. Pension expense on these statements was calculated differently as well, and includes the recognition of any change to the pension benefit that relates to retirees and past service of current employees. The note disclosures regarding the pension benefit have changed to include a discussion of both the net pension liability and pension expense. Finally, as part of required supplemental information, the University has included certain schedules of data that have not previously been required.

The new standards better aligns the recognition of pension expense with the period in which the related benefits are earned. Considered in total, the changes set forth by this GASB standard have accelerated expense recognition. Under the new standards, several causes of change in the net pension liability have been factored into the calculation of pension expense including:

- Benefits earned each year
- Interest on the total pension liability
- Changes in benefit terms
- Projected earnings on plan investments
- Changes in plan net position from other than investments

The effects on the total pension liability of (a) changes in assumptions and (b) differences between assumptions and actual experience were recognized initially as deferred outflows of resources and deferred inflows of resources and then introduced into the expense calculation systematically and rationally over the average remaining years of employment of employees (active employees and inactive employees, including retirees).

An illustration of the impact of these items for the University's fiscal years 2014 and 2015 Statements of Net Position is as follows:

Statement of Net Position - Effect of Pension Related Items				
	Fiscal Year 2015	Fiscal Year 2014 (as restated)	\$ Change	% Change
Deferred Outflows Related to Pensions	\$ 2,096,581.00	\$ 1,602,833.00	\$ 493,748.00	30.80%
Less: Net Pension Liability	(1,389,788.00)	(6,750,973.00)	5,361,185.00	-79.41%
Less: Deferred Inflows Related to Pensions	(5,019,537.00)	-	(5,019,537.00)	100.00%
Net Position effect from GASB 68 Implementation	<u>\$ (4,312,744.00)</u>	<u>\$ (5,148,140.00)</u>	<u>\$ 835,396.00</u>	<u>16.23%</u>

As seen above, total net position for fiscal year 2014, as reported in the prior year financial statements, declined by \$5.15 million as a result of the implementation of GASB Statement No. 68. The components of this restatement are a deferred outflow related to pensions of \$1.60 million and a related net pension liability of \$6.75 million. The 2014 deferred outflow of Resources represents the University's contributions to TSERS in that year. The changes to the components from fiscal year 2014 of pension items for fiscal year 2015 are primarily due to the TSERS plan's investment performance in fiscal 2014 being higher than projections. As such, the net pension liability of \$1.39 million was recorded in fiscal year 2015 representing a decline of \$5.36 million or 79.41%. Under GASB 68 and described above, the effect of this difference between assumptions and actual experience is recorded as a deferred inflow of resources in fiscal year 2015 of \$5.02 million which will be amortized into pension expense over approximately 5 years beginning in 2015. Finally, net position for 2015 as compared to 2014 improved by \$0.83 million due to the current year's amortization of the favorable investment performance.

The comparison of salaries and benefits for fiscal year 2015 relative to fiscal year 2014 is somewhat difficult due to the implementation of GASB 68. Prior to the implementation of GASB Statement No. 68, the University's employer portion of pension costs was equal to the amount contributed in the current year. The pension expense recognized for fiscal year 2015 was \$0.73 million versus the employer contributions of \$1.57 million (recorded as part of the deferred outflow for fiscal year 2015 shown above) resulting in a \$0.83 million decrease to salaries and benefits. In future years, the salaries and benefits analysis for both years will include the GASB Statement No. 68 pension expense amount. Variances in it will result from the University's portion of the collective pension expense and amortization of deferred inflows and outflows of resources.

One important measure of a pension plan's financial strength is its net position as a percentage of its total pension liability. For the TSERS plan, the net position as a percentage of the total pension liability was 90.60% and 98.24% for fiscal years 2013 and 2014, respectively.

#### *General Discussion of Other Changes in Statement of Net Position*

The University's total assets increased this year by \$1.24 million or 0.54%. Current Assets declined by \$3.00 million while Capital Assets and Noncurrent Assets increased by \$2.52 million and \$1.72 million, respectively.

The decrease of \$3.00 million in current assets primarily represents a decrease of \$2.91 million in restricted cash and cash equivalents as cash reserved in 2014 for capital projects was utilized.

Updating, upgrading, and maintaining its significant position in capital assets is of utmost importance to the ongoing vitality and viability of the University. During fiscal year 2015, cash of \$7.49 million was utilized on the acquisition and construction of capital assets, contributing to the net increase of \$2.5 million in capital assets. Two of the major projects and acquisitions included the following:

- \$2.93 million for the fiscal year 2015 portion of The University's participation in a \$26.57 million University of North Carolina (UNC) system wide guaranteed energy savings project.
- \$2.00 million purchase of two land holdings for future growth from The University of North Carolina at Asheville (UNCA) Foundation.

The University is participating in a system-wide guaranteed energy savings project to provide energy savings lighting referred to as the UNC ESCO project. The UNC ESCO project Installment Financing Agreement is for \$26.57 million and was entered into on September 16, 2014 by and among the Board of Governors of The University of North Carolina, Banc of America Public Capital Corp (the "Lender"), and U.S. Bank National Association (the "Fiscal Agent"). The financing agreement is subject to security provisions and is a tax-exempt borrowing, subject to the Security Agreement and Tax Certificate documents executed as part of the required legal documents for the financing. The University's portion of the debt is \$3.17 million with debt service payments to begin in May 2016 and matures in February 2023.

An Energy Services Agreement was executed that includes, among other things, an Energy Savings Guaranty whereby the ESCO provider has guaranteed to the Board of Governors (and therefore, to the University), that the University's participation will result in a specified level of energy cost savings. Based on the projected cash flow analysis, the University is projected to realize enough utility and operational savings to offset its debt service over the term of the loan.

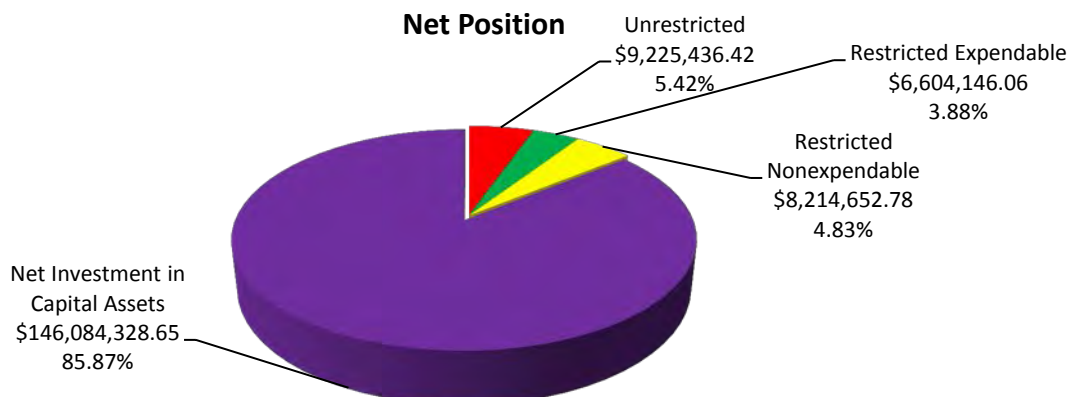
Other noncurrent assets increased \$1.72 million. This is primarily due to \$1.25 million in noncurrent restricted cash designated for capital projects compared to \$0.49 million in fiscal 2014, a \$0.71 million increase. The bulk of the \$1.25 million is approximately \$1.04 million related to a Series 2014 General Revenue Bond issuance for completion of the Karl Straus Track Building and improvements to the Student Recreation Center. In addition, there was an increase in the University's Endowment of \$0.74 million due to the investment performance by the UNC Investment Fund.

Total liabilities, as restated, decreased \$3.25 million primarily due to the decrease in the University's net pension liability, the substance of which is discussed above.

Other changes in liabilities, both current and long-term, occurred primarily due to payables associated with construction projects. These are reflected in the \$0.14 million increase in accounts payables, the \$3.17 million debt associated with ESCO project and the additional \$1.04 million Series 2014 General Revenue Bond Issuance discussed above.



The components of net position are shown in the graph below.



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. At June 30, 2015, \$146.08 million or 85.87% of the \$170.13 million in net position was attributable to the University's net investment in capital assets as compared to \$144.82 million and 85.09% for the fiscal year 2014. This \$1.26 million or 0.87% increase over the prior year is primarily due to the additions in nondepreciable assets such as the \$2.93 million ESCO project in progress at year end and the \$2.00 million purchase of two land holdings from the UNCA Foundation. Most of the new capital investments were financed through debt thus, resulting in marginal effect on net position.

"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. These funds represent 4.83% of the University's Net Position and saw an increase of \$4,000 over fiscal year 2014.

"Restricted – Expendable" net position is income from endowed funds, grants from others, and gifts with specific restrictions on spending. Restricted – expendable net position comprises 3.88% of the University's Net Position. This component saw a decrease of \$1.90 million primarily due to a \$2.79 million decline in the portion attributable to capital projects that went from \$3.08 million to \$0.29 million, consistent with the change in restricted cash noted above. This decline was offset by a \$0.76 million increase in expendable scholarships and fellowships and endowed professorships as a result of increased market value for their portion of the University's endowment fund.

"Unrestricted" net position is not subject to externally imposed restrictions and substantially all of the School's unrestricted net position has been designated for various programs and

initiatives. Unrestricted Net Position is impacted by the GASB Statement No. 68 implementation as discussed and illustrated above. In fiscal year 2015, the unrestricted net position represented 5.42% of total net position compared to 5.09% for fiscal year 2014 as restated. The slight increase is primarily attributable to the improved net effect of pension recognition.

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

Following is a condensed, comparative review of the Statement of Revenues Expenses and Changes in Net Position:

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

	2015 Fiscal Year	2014 Fiscal Year *	\$ Change	% Change
Tuition and Fees, Net	\$ 22,704,340.31	\$ 21,992,081.85	\$ 712,258.46	3.24%
Grants and Contracts	2,233,662.68	2,351,166.31	(117,503.63)	-5.00%
Sales and Services, Net	11,396,367.93	10,659,305.75	737,062.18	6.91%
Other Operating Revenues	1,499,086.54	1,519,536.46	(20,449.92)	-1.35%
<b>Total Operating Revenues</b>	<b>37,833,457.46</b>	<b>36,522,090.37</b>	<b>1,311,367.09</b>	<b>3.59%</b>
Salaries and Benefits	55,189,774.34	53,259,269.40	1,930,504.94	3.62%
Supplies and Materials	5,200,169.92	6,523,492.66	(1,323,322.74)	-20.29%
Services	13,501,850.96	12,456,862.85	1,044,988.11	8.39%
Scholarships and Fellowships	5,524,936.83	5,985,525.06	(460,588.23)	-7.70%
Utilities	2,735,218.22	2,930,167.26	(194,949.04)	-6.65%
Depreciation	5,079,555.19	5,333,499.34	(253,944.15)	-4.76%
<b>Total Operating Expenses</b>	<b>87,231,505.46</b>	<b>86,488,816.57</b>	<b>742,688.89</b>	<b>0.86%</b>
<b>Operating Loss</b>	<b>(49,398,048.00)</b>	<b>(49,966,726.20)</b>	<b>568,678.20</b>	<b>1.14%</b>
State Appropriations	37,977,520.34	36,828,518.69	1,149,001.65	3.12%
Noncapital Grants	9,108,008.41	9,103,330.26	4,678.15	0.05%
Noncapital Gifts	2,352,715.94	2,415,936.02	(63,220.08)	-2.62%
Investment Income (Including Investment Expense)	1,291,670.28	1,899,557.93	(607,887.65)	-32.00%
Interest and Fees on Debt	(2,287,965.58)	(2,276,294.95)	(11,670.63)	-0.51%
Federal Interest Subsidy on Debt	520,872.18	526,779.25	(5,907.07)	-1.12%
Other Nonoperating Revenues	(8,473.35)	(256,115.89)	247,642.54	96.69%
<b>Total Nonoperating Revenues</b>	<b>48,954,348.22</b>	<b>48,241,711.31</b>	<b>712,636.91</b>	<b>1.48%</b>
Loss Before Other Revenues	(443,699.78)	(1,725,014.89)	1,281,315.11	74.28%
Capital Grants & Appropriations	370,998.08	4,091,779.31	(3,720,781.23)	-90.93%
<b>Increase (Decrease) in Net Position</b>	<b>(72,701.70)</b>	<b>2,366,764.42</b>	<b>(2,439,466.12)</b>	<b>-103.07%</b>
Net Position, Beginning of Year	170,201,265.61	172,982,641.19	(2,781,375.58)	-1.61%
Net Position, End of Year Prior to Restatement	170,128,563.91	175,349,405.61	(5,220,841.70)	-2.98%
Restatement to record the University's net pension liability and pension related deferred outflows of resources per GASB Statement No. 68 requirements		(5,148,140.00)	5,148,140.00	100.00%
<b>Net Position and Net Position as Restated</b>	<b>\$ 170,128,563.91</b>	<b>\$ 170,201,265.61</b>	<b>\$ (72,701.70)</b>	<b>-0.04%</b>
<b>Reconciliation of Change in Net Position</b>				
Total Revenues	89,455,242.69	91,387,991.83	(1,932,749.14)	-2.11%
Less: Total Expenses	89,527,944.39	89,021,227.41	506,716.98	0.57%
<b>Increase (Decrease) in Net Position</b>	<b>\$ (72,701.70)</b>	<b>\$ 2,366,764.42</b>	<b>\$ (2,439,466.12)</b>	<b>-103.07%</b>

\* Note: The year ended June 30, 2014 column is not presented "as restated" above because actuarial calculations performed relative to the implementation of GASB 68 do not provide sufficient information to restate these amounts.

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. Therefore, net nonoperating revenues and expenses are integral components in determining the increase or decrease in net position and in analyzing the core performance of the University as a whole.

The University's loss before other revenues improved by \$1.28 million or 74.28% from fiscal year 2014 to fiscal year 2015. The primary driver of the improvement was a significant decline in repair and maintenance costs reflected in supplies and materials of \$1.32 million or 20.29%. This is due to the large repair and renovation projects that occurred in 2014 such as the \$0.32 million roof for the Justice Center, the Founders Hall \$0.30 million renovation, and Rhoades Hall renovation work of \$0.34 million.

The other major factor behind the loss improvement was the pension expense recognition resulting in an \$.84 million decrease in salaries and benefits relative to the actual costs incurred. The overall increase in salaries and benefits was due to Board of Governors approved salaries increases, recruitment and retention, as well as some one-time items. Actual salaries and benefits paid out in fiscal year 2015 were \$56.03 million or \$2.76 million higher than fiscal year 2014. The bulk of this increase was funded through the net increase in state appropriation of \$1.15 million and the \$0.71 million increase in tuition and fees.

The \$0.71 million tuition and fee increase was part of an overall total operating revenue increase of \$1.31 million. The driving factors for this net increase are the combination of enrollment growth, a 6.00% tuition increase for out-of-state students, a 6.15% increase in required general fees, and increased housing and dining fees and service revenues.

Other changes within operating expenses which were notable included services which increased by 8.39% and is largely attributable to an increase in the costs associated with a renewed agreement for the campus food service provider and coincided with the provider's funding of improvements to the Brown Dining Hall. These additional costs were primarily offset by increases in sales and services revenues.

Net investment income decreased by \$0.61 million due to lower returns on the University's Endowment of \$1.08 million in fiscal year 2015 versus \$1.77 million in fiscal year 2014. However, our investment returns exceeded benchmarks and the lower year over year returns are indicative of general investment market declines.

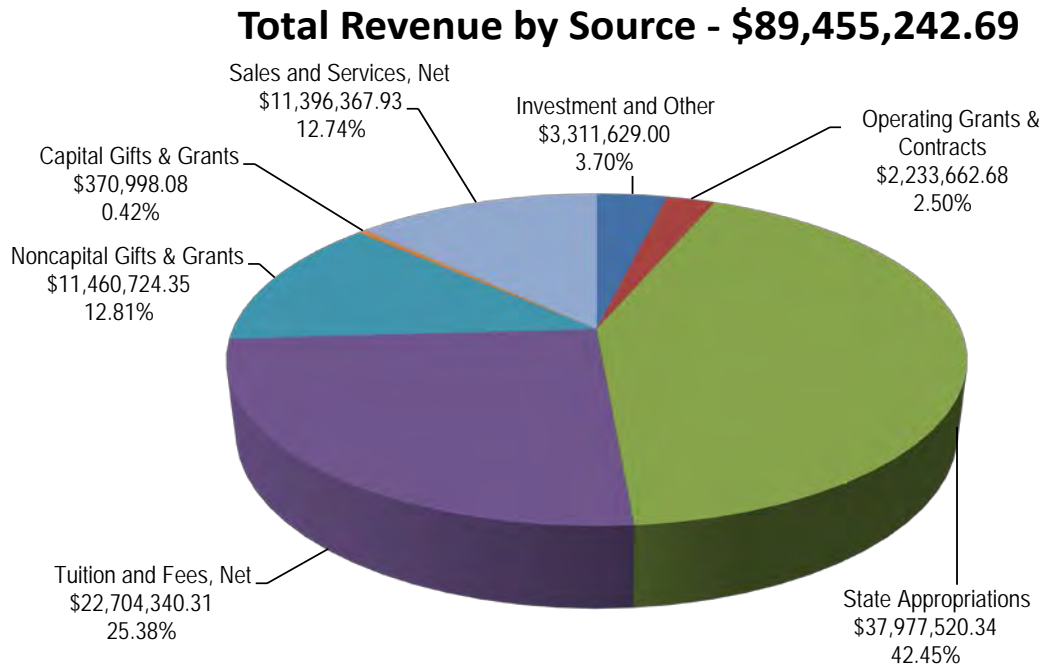
Capital grants and appropriations are considered neither operating nor nonoperating revenues and are reported after "Loss Before Other Revenues."

In fiscal year 2014, there were significant capital appropriations consisting primarily of state appropriations for a land purchase and other repairs and renovations, hence the significant decline in capital grants and appropriations. Capital grants for both years consist primarily of state aid in the form of COPS (Certificates of Participation) and General Obligation Bonds provided to UNC Asheville for repairs and renovations and showed minor fluctuations.

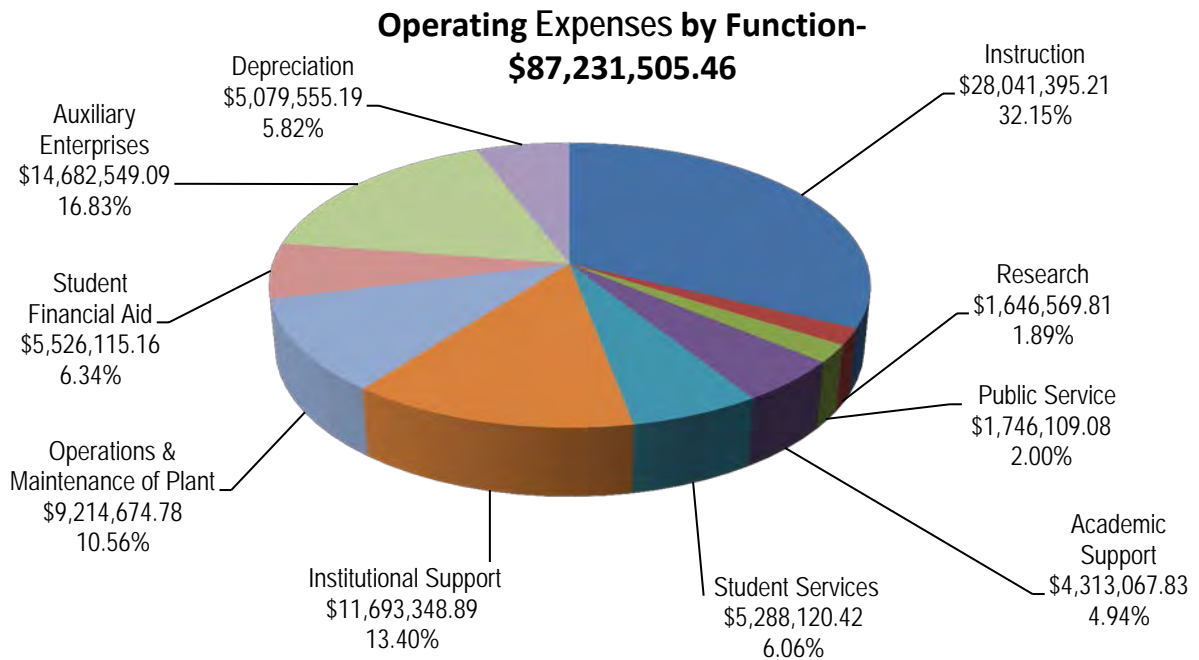


**Additional summary information**

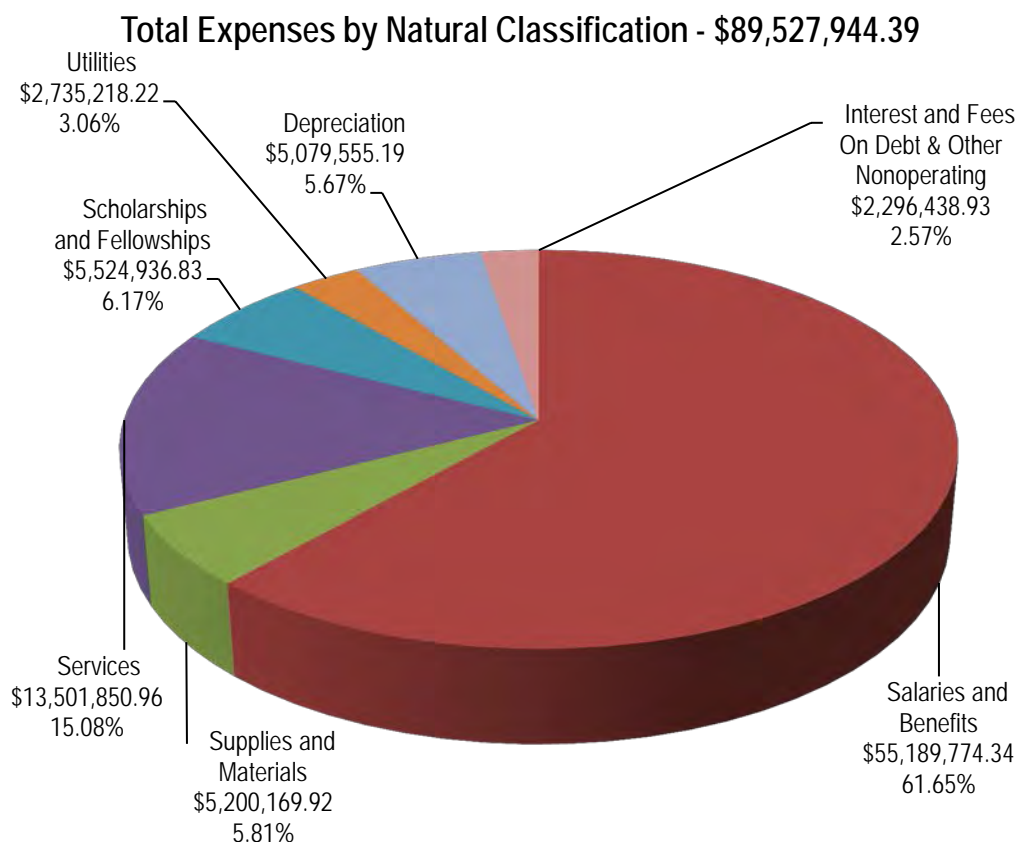
A summary of the University's fiscal year 2015 total of all revenues by source is as follows:



The operating expenses by functional area and for fiscal year 2015 is shown in the graph below.



Total of all expenses by natural classification for fiscal year 2015 is shown below:



**Debt Administration, Major Capital Projects in Progress, and Debt Rating Update**

On September 1, 2014, the University issued The University of North Carolina at Asheville General Revenue Bond, Series 2014 for \$1.04 million to provide funds for completion of the Karl Straus Track Building and improvements to the Student Recreation Center. Financing was provided at an average fixed coupon rate of 2.89%. In addition, the University recorded \$3.17 million for its portion of the ESCO project discussed previously here. For additional debt information see Note 7 of the Notes to the Financial Statements.

Aside from the \$2.93 million ESCO costs incurred in fiscal year 2015, other capital projects in process at year end include the Student Recreation Center floor replacement, Weizenblatt renovations for Campus Police/Public Safety offices, and the Karl Straus Track Building completion and improvements.

Moody's Investor Service affirmed the University's A1 debt rating with a stable outlook on April 15, 2015. An excerpt from the release is as follows:

"The A1 rating reflects the university's niche position as the designated liberal arts institution within the University of North Carolina system, stable student demand, and substantial financial support from the State of North Carolina (Aaa stable).

The stable outlook reflects the expectation that the university's enrollment management and market position will translate into adequate earned revenue growth. The stable outlook also

incorporates expectations that management will improve operating performance and slowly build liquidity over the next few years.”

**Economic Outlook**

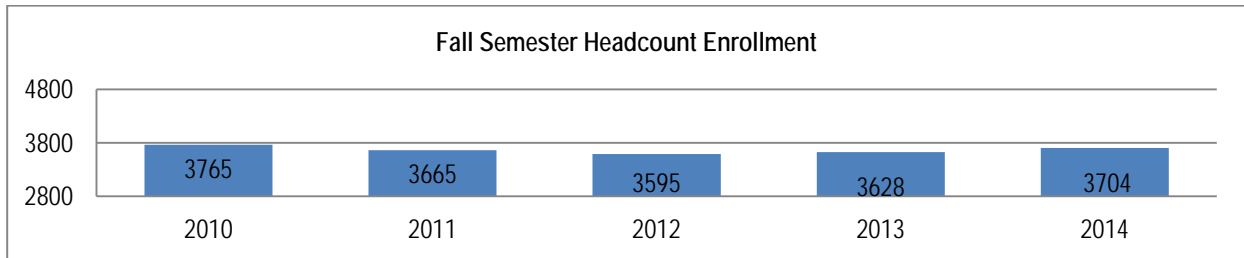
Management believes that the University is well positioned to continue its level of excellence of service to students, the community, and governmental agencies. As the only dedicated liberal arts institution in the University of North Carolina system, UNC Asheville kindles learning by offering students an intellectually rigorous education that builds critical thinking and workforce skills to last a lifetime. Small class size, award-winning faculty, and a nationally acclaimed undergraduate research program foster innovation as well as recognition.

UNC Asheville’s ongoing efforts toward maximizing the State’s resources with efficiency and effectiveness measures should enable it to provide the necessary resources to support this level of excellence.

The University’s management team led by its new Chancellor, Mary K. Grant, continues to abide by the strategic priorities for the University, and remains accredited by Southern Association of Colleges and Schools.

The University maintains 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 is consistently recognized for academic quality, excellent teaching, quality of life, and great value. Highlights from recent rankings and distinctions include:

- UNC Asheville ranks eighth in the nation among public liberal arts colleges. - U.S. News & World Report’s “2016 Best Colleges” (September 2015)
- UNC Asheville is once again named a “Best Buy,” along with UNC-Chapel Hill and N.C. State University - the only North Carolina public universities to earn a place on this international ranking list reflecting academic quality and affordability. For 12 consecutive years, UNC Asheville’s Environmental Studies Program has been named to the list of pre-professional programs with unusual strength in preparing students for careers. - The Fiske Guide to Colleges, 2016 Edition (July 2015)
- UNC Asheville is one of the nation’s best values in public colleges, with the sixth lowest total cost of attending for in-state students, and the 10th lowest average debt among graduates. - Kiplinger’s “Best Values in Public Colleges” (online, December 2014)

- Asheville was once again named one of “America’s Best College Towns,” moving into seventh place in the national ranking from Travel + Leisure magazine (November 2014)

Looking ahead, 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.

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.

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 future economic uncertainties.



# FINANCIAL STATEMENTS

**The University of North Carolina at Asheville**  
**Statement of Net Position**  
**June 30, 2015**

**Exhibit A-1**  
**Page 1 of 2**

**ASSETS**

Current Assets:

Cash and Cash Equivalents	\$ 18,916,624.88
Restricted Cash and Cash Equivalents	518,695.68
Restricted Short-Term Investments	418,076.45
Receivables, Net (Note 4)	1,069,521.42
Inventories	295,469.96
Notes Receivable, Net (Note 4)	549,000.88

Total Current Assets	21,767,389.27
----------------------	---------------

Noncurrent Assets:

Restricted Cash and Cash Equivalents	1,453,948.12
Endowment Investments	14,141,085.22
Restricted Investments	171,968.50
Notes Receivable, Net (Note 4)	545,669.50
Capital Assets - Nondepreciable (Note 5)	12,591,838.06
Capital Assets - Depreciable, Net (Note 5)	179,729,040.79

Total Noncurrent Assets	208,633,550.19
-------------------------	----------------

Total Assets	230,400,939.46
--------------	----------------

**DEFERRED OUTFLOWS OF RESOURCES**

Deferred Loss on Refunding	442,324.46
Deferred Outflows Related to Pensions	2,096,581.00

Total Deferred Outflows of Resources	2,538,905.46
--------------------------------------	--------------

**LIABILITIES**

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 6)	2,128,220.35
Due to Primary Government	12,840.86
Funds Held for Others	4,710.22
Unearned Revenue	1,378,651.79
Interest Payable	258,764.10
Long-Term Liabilities - Current Portion (Note 7)	2,851,797.75

Total Current Liabilities	6,634,985.07
---------------------------	--------------

Noncurrent Liabilities:

Deposits Payable	291,037.10
Funds Held for Others	205,975.90
U. S. Government Grants Refundable	1,164,080.57
Long-Term Liabilities, Net (Note 7)	49,345,594.17

Total Noncurrent Liabilities	51,006,687.74
------------------------------	---------------

Total Liabilities	57,641,672.81
-------------------	---------------

**DEFERRED INFLOWS OF RESOURCES**

Deferred Gain on Refunding	150,071.20
Deferred Inflows Related to Pensions	5,019,537.00

Total Deferred Inflows of Resources	5,169,608.20
-------------------------------------	--------------

**The University of North Carolina at Asheville**  
**Statement of Net Position**  
**June 30, 2015**

**Exhibit A-1**  
**Page 2 of 2**

**NET POSITION**

Net Investment in Capital Assets	146,084,328.65
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	688,098.33
Endowed Professorships	7,336,500.00
Loans	190,054.45
Expendable:	
Scholarships and Fellowships	1,944,064.38
Research	232,410.87
Endowed Professorships	3,833,711.98
Departmental Uses	118,044.29
Capital Projects	287,611.93
Other	188,302.61
Unrestricted	<u>9,225,436.42</u>
Total Net Position	<u><u>\$ 170,128,563.91</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, 2015**

**Exhibit A-2**

**REVENUES**

Operating Revenues:

Student Tuition and Fees, Net (Note 9)	\$ 22,704,340.31
Federal Grants and Contracts	1,076,642.95
State and Local Grants and Contracts	1,045,134.95
Nongovernmental Grants and Contracts	111,884.78
Sales and Services, Net (Note 9)	11,396,367.93
Interest Earnings on Loans	5,151.45
Other Operating Revenues	1,493,935.09
	<hr/>
Total Operating Revenues	37,833,457.46

**EXPENSES**

Operating Expenses:

Salaries and Benefits	55,189,774.34
Supplies and Materials	5,200,169.92
Services	13,501,850.96
Scholarships and Fellowships	5,524,936.83
Utilities	2,735,218.22
Depreciation	5,079,555.19
	<hr/>
Total Operating Expenses	87,231,505.46

Operating Loss	<hr/> <u>(49,398,048.00)</u>
----------------	------------------------------

**NONOPERATING REVENUES (EXPENSES)**

State Appropriations	37,977,520.34
Noncapital Grants - Student Financial Aid	8,812,104.40
Noncapital Grants	295,904.01
Noncapital Gifts	2,352,715.94
Investment Income (Net of Investment Expense of \$69,609.63)	1,291,670.28
Interest and Fees on Debt	(2,287,965.58)
Federal Interest Subsidy on Debt	520,872.18
Other Nonoperating Expenses	(8,473.35)
	<hr/>

Net Nonoperating Revenues	48,954,348.22
---------------------------	---------------

Loss Before Other Revenues	(443,699.78)
----------------------------	--------------

Capital Grants	<hr/> <u>370,998.08</u>
----------------	-------------------------

Decrease in Net Position	(72,701.70)
--------------------------	-------------

**NET POSITION**

Net Position - July 1, 2014, as Restated (Note 15)	<hr/> <u>170,201,265.61</u>
Net Position - June 30, 2015	<hr/> <u>\$ 170,128,563.91</u>

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, 2015**

**Exhibit A-3**  
**Page 1 of 2**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Received from Customers	\$ 37,426,876.74
Payments to Employees and Fringe Benefits	(55,801,181.62)
Payments to Vendors and Suppliers	(21,337,135.91)
Payments for Scholarships and Fellowships	(5,514,591.35)
Loans Issued	(179,441.00)
Collection of Loans	156,061.73
Interest Earned on Loans	5,151.45
Other Receipts	47,908.96
	<hr/>
Net Cash Used by Operating Activities	(45,196,351.00)

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

State Appropriations	37,977,520.34
Noncapital Grants - Student Financial Aid	8,812,104.40
Noncapital Grants	304,723.94
Noncapital Gifts	2,352,715.94
William D. Ford Direct Lending Receipts	14,130,423.00
William D. Ford Direct Lending Disbursements	(14,130,423.00)
	<hr/>
Net Cash Provided by Noncapital Financing Activities	49,447,064.62

**CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES**

Proceeds from Capital Debt	4,214,992.00
Capital Grants	371,921.97
Acquisition and Construction of Capital Assets	(7,495,451.19)
Principal Paid on Capital Debt	(2,326,286.79)
Interest and Fees Paid on Capital Debt	(2,336,505.91)
Federal Interest Subsidy on Debt Received	520,872.18
	<hr/>
Net Cash Used by Capital Financing and Related Financing Activities	(7,050,457.74)

**CASH FLOWS FROM INVESTING ACTIVITIES**

Proceeds from Sales and Maturities of Investments	3,104,139.70
Investment Income	106,407.64
Purchase of Investments and Related Fees	(3,245,101.63)
	<hr/>
Net Cash Used by Investing Activities	(34,554.29)
Net Decrease in Cash and Cash Equivalents	(2,834,298.41)
Cash and Cash Equivalents - July 1, 2014	23,723,567.09
	<hr/>
Cash and Cash Equivalents - June 30, 2015	\$ 20,889,268.68

**The University of North Carolina at Asheville**  
**Statement of Cash Flows**  
**For the Fiscal Year Ended June 30, 2015**

**Exhibit A-3**  
**Page 2 of 2**

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

Operating Loss	\$ (49,398,048.00)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	5,079,555.19
Allowances, Write-Offs, and Amortizations	5,359.38
Pension Expense	733,999.00
Nonoperating Other Expenses	(8,473.35)
Changes in Assets, Liabilities, and Deferred Outflows of Resources:	
Receivables, Net	(189,456.65)
Inventories	(18,795.18)
Notes Receivable, Net	(23,379.27)
Accounts Payable and Accrued Liabilities	71,741.89
Due to Primary Government	(11,656.80)
Funds Held for Others	(21,136.89)
Unearned Revenue	(215,310.25)
Deferred Outflows for Contributions Subsequent to the Measurement Date	(1,569,395.00)
US Government Grants Refundable	16,941.69
Compensated Absences	292,163.00
Deposits Payable	59,540.24
	<hr/>
Net Cash Used by Operating Activities	<u>\$ (45,196,351.00)</u>

**RECONCILIATION OF CASH AND CASH EQUIVALENTS**

Current Assets:	
Cash and Cash Equivalents	\$ 18,916,624.88
Restricted Cash and Cash Equivalents	518,695.68
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	1,453,948.12
	<hr/>
Total Cash and Cash Equivalents - June 30, 2015	<u>\$ 20,889,268.68</u>

**NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES**

Assets Acquired through the Assumption of a Liability	\$ 601,773.95
Change in Fair Value of Investments	1,084,900.51
Amortization of Bond Premiums/Discounts	45,235.53

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, 2015**

**Exhibit B-1**

<b>CURRENT ASSETS</b>	
Cash and Cash Equivalents	\$ 1,985,155.20
Sales Tax Receivable	7,769.13
Other Receivables	62,351.72
Promises to Give, Net	1,003,427.42
Prepaid Expenses	17,014.75
	<hr/>
Total Current Assets	3,075,718.22
	<hr/>
<b>PROPERTY AND EQUIPMENT, NET</b>	3,871,735.01
	<hr/>
<b>OTHER ASSETS</b>	
Investments	26,894,335.60
Promises to Give, Net	545,265.88
Real Estate Held for Resale	195,000.00
Beneficial Interest in Perpetual Trust	145,975.87
	<hr/>
Total Other Assets	27,780,577.35
	<hr/>
Total Assets	<u>\$ 34,728,030.58</u>
	<hr/>
<b>CURRENT LIABILITIES</b>	
Current Portion of Long Term Debt	\$ 1,200,000.00
Accounts Payable	99,870.17
Annuities Payable	69,161.56
Tenant Security Deposits	30,000.00
	<hr/>
Total Current Liabilities	1,399,031.73
	<hr/>
<b>NONCURRENT LIABILITIES</b>	
Annuities Payable	521,132.59
Notes Payable	1,200,000.00
	<hr/>
Total Noncurrent Liabilities	1,721,132.59
	<hr/>
Total Liabilities	3,120,164.32
	<hr/>
<b>NET ASSETS</b>	
Unrestricted	2,117,611.35
Temporarily Restricted	13,680,483.12
Permanently Restricted	15,809,771.79
	<hr/>
Total Net Assets	31,607,866.26
	<hr/>
Total Net Assets and Liabilities	<u>\$ 34,728,030.58</u>
	<hr/>

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, 2015**

**Exhibit B-2**

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
<b>OPERATING REVENUES AND PUBLIC SUPPORT</b>				
Contributions	\$ 295,511.73	\$ 2,363,152.79	\$ 740,090.21	\$ 3,398,754.73
Contributions-Gifts in Kind	0.00	158,122.96		158,122.96
Grant Revenues		5,600.00		5,600.00
Investment Income	253,405.74	2,018,043.06		2,271,448.80
Loss on Perpetual Trust			(7,645.31)	(7,645.31)
Family Business Forum		41,275.00		41,275.00
Special Events		168,140.50		168,140.50
Rental and Lease Income	110,000.00	13,168.95		123,168.95
Other Income	12.64	23,115.32		23,127.96
Net Assets Released from Restriction	2,907,956.32	(2,907,956.32)		
Total Operating Revenues, Gains, and Other Support	<u>3,566,886.43</u>	<u>1,882,662.26</u>	<u>732,444.90</u>	<u>6,181,993.59</u>
<b>OPERATING EXPENSES</b>				
Program Services	2,601,858.79			2,601,858.79
Supporting Services				
Management and General	306,647.16			306,647.16
Fundraising	175,693.22			175,693.22
Total Operating Expenses	<u>3,084,199.17</u>			<u>3,084,199.17</u>
Change in Net Assets from Operations	<u>482,687.26</u>	<u>1,882,662.26</u>	<u>732,444.90</u>	<u>3,097,794.42</u>
<b>OTHER CHANGES</b>				
Real Estate Held for Resale to the University				
Grant Revenues Designated for Improvements	169,180.46			169,180.46
Capital Contributions Designated for Improvements	84,398.67			84,398.67
Contributions - Gifts in Kind	200,000.00			200,000.00
Loss on Sale to University	(1,047,757.39)			(1,047,757.39)
Total Other Changes	<u>(594,178.26)</u>			<u>(594,178.26)</u>
Change in Net Assets	(111,491.00)	1,882,662.26	732,444.90	2,503,616.16
Net Assets at Beginning 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>
Net Assets at End of Year	<u>\$ 2,117,611.35</u>	<u>\$ 13,680,483.12</u>	<u>\$ 15,809,771.79</u>	<u>\$ 31,607,866.26</u>

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



# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

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

The accompanying financial statements present all funds belonging to the University and its component 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. See below for further discussion on the University's component unit.

**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 planning, designing, and 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 financial information in the University's financial reporting entity for these differences.

During the year ended June 30, 2015, the Foundation distributed \$1,684,786.14 to the University for both restricted and unrestricted purposes. Complete 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.

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 and 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.

**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 in the following manner:

<u>Asset Class</u>	<u>Estimated Useful Life</u>
Buildings	10-100 years
Machinery & Equipment	5-30 years
General Infrastructure	10-75 years



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; 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 10-25 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, net pension liability, notes 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.

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

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

accumulated vacation leave for each employee at June 30 equals the leave carried forward at the previous December 31 plus the leave earned, less the leave taken between January 1 and June 30.

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

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

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

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

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

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

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

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

- M. Scholarship Discounts** - Student tuition and fees revenues and certain other revenues from University charges are reported net of scholarship discounts in the accompanying Statement of Revenues, Expenses, and Changes in Net Position. The scholarship discount is the difference between the actual charge for goods and services provided by the University and the amount that is paid by students or by third parties on the students' behalf. Student financial assistance grants, such as Pell grants, and other federal, state, or nongovernmental programs, are recorded as nonoperating revenues in the accompanying Statement of Revenues, Expenses, and Changes in Net Position. To the extent that revenues from these programs are used to satisfy tuition, fees, and other charges, the University has recorded a scholarship discount.
- N. Revenue and Expense Recognition** - The University classifies its revenues and expenses as operating or nonoperating in the accompanying Statement of Revenues, Expenses, and Changes in Net Position. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the University's principal ongoing operations. Operating revenues include activities that have characteristics of exchange transactions, such as (1) student tuition and fees, (2) sales and services of auxiliary enterprises, (3) certain federal, state, and local grants and contracts that are essentially contracts for services, and (4) interest earned on loans. Operating expenses are all expense transactions incurred other than those related to capital and noncapital financing or investing activities as defined by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*.
- Nonoperating revenues include activities that have the characteristics of nonexchange transactions. Revenues from nonexchange transactions that represent subsidies or gifts to the University, as well as investment income, are considered nonoperating since these are either investing, capital, or noncapital financing activities. Capital contributions are presented separately after nonoperating revenues and expenses.
- O. Internal Sales Activities** - Certain institutional auxiliary operations provide goods and services to University departments, as well as to its customers. These institutional auxiliary operations include activities such as central stores, 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, 2015, the amount shown on the Statement of Net Position as cash and cash equivalents includes \$20,845,829.48 which represents the University's equity position in the State Treasurer's STIF. The STIF (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission or subject to any other regulatory oversight and does not have a credit rating) had a weighted average maturity of 1.5 years as of June 30, 2015. Assets and shares of the STIF are valued at amortized cost, which approximates fair value. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's STIF) are included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.nc.gov/> and clicking on "Reports" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

Cash on hand at June 30, 2015 was \$26,858.98. The carrying amount of the University's deposits not with the State Treasurer was \$16,580.22 and the bank balance was \$16,408.33. Custodial credit risk is the risk that in the event of a bank failure, the University's deposits may not be returned to it. The University does not have a deposit policy for custodial credit risk. As of June 30, 2015, the University's bank balance was 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.

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 purchased 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, 2015, the University's investments include \$14,141,085.22 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’s non-pooled investments subject to interest rate risk at June 30, 2015 was \$590,044.95. These investments were held in money market mutual funds with maturities of less than 1 year. The credit rating of the money market mutual funds was Aaa as rated by Moody’s Investors Service.

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

Investment Type	Fair Value
Debt Securities	
Money Market Mutual Funds	\$ 590,044.95
Other Securities	
UNC Investment Fund	14,141,085.22
Total Investments	\$ 14,731,130.17

**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 non-profit 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, 2015 are summarized as follows:

	2015		
	Cost	Fair Value	Cumulative Unrealized Gains
Membership Interest in UNC Investment Fund, LLC	\$ 13,399,091.79	\$ 25,940,882.65	\$ 12,541,790.86
Fixed Income Funds	267,268.19	260,952.09	(6,316.10)
Equities	471,197.27	502,271.44	31,074.17
Complementary Strategies	91,141.66	93,110.06	1,968.40
Real Estate Funds	102,716.30	97,119.36	(5,596.94)
	<u>\$ 14,331,415.21</u>	<u>\$ 26,894,335.60</u>	<u>\$ 12,562,920.39</u>

The following schedule summarizes investment return and its classification in the Statement of Activities for the year ended June 30, 2015:

	2015
Interest and Dividends	\$ 42,946.12
Realized Gains	56,614.32
Unrealized Gains	2,171,888.36
	<u>\$ 2,271,448.80</u>

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

Cash on Hand	\$ 26,858.98
Amount of Deposits with Private Financial Institutions	16,580.22
Deposits in the Short-Term Investment Fund	20,845,829.48
Investments in the UNC Investment Fund	14,141,085.22
Non-Pooled Investments	590,044.95
<b>Total Deposits and Investments</b>	<u>\$ 35,620,398.85</u>
Deposits	
Current:	
Cash and Cash Equivalents	\$ 18,916,624.88
Restricted Cash and Cash Equivalents	518,695.68
Noncurrent:	
Restricted Cash and Cash Equivalents	1,453,948.12
<b>Total Deposits</b>	<u>20,889,268.68</u>
Investments	
Current:	
Restricted Short-Term Investments	418,076.45
Noncurrent:	
Endowment Investments	14,141,085.22
Restricted Investments	171,968.50
<b>Total Investments</b>	<u>14,731,130.17</u>
<b>Total Deposits and Investments</b>	<u>\$ 35,620,398.85</u>



**NOTE 3 - ENDOWMENT INVESTMENTS**

Investments of the University's endowment funds are pooled, unless required to be separately invested by the donor. If a donor has not provided specific instructions, state law permits the Board of Trustees to authorize for expenditure the net appreciation, realized and unrealized, of the investments of the endowment funds. Under the "Uniform Prudent Management of Institutional Funds Act" (UPMIFA), authorized by the North Carolina General Assembly on March 19, 2009, the Board may also appropriate expenditures from eligible nonexpendable balances if deemed prudent and necessary to meet program outcomes and for which such spending is not specifically prohibited 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, 2015, net appreciation of \$5,294,149.72 was available to be spent, of which \$5,028,444.81 was classified in net position as restricted to 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, 2015, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
<b>Current Receivables:</b>			
Students	\$ 578,636.43	\$ 118,119.82	\$ 460,516.61
Student Sponsors	10,896.70		10,896.70
Accounts	274,814.77		274,814.77
Intergovernmental	110,316.51		110,316.51
Interest on Loans	103,039.18		103,039.18
Federal Interest Subsidy on Debt	43,722.05		43,722.05
Other	66,215.60		66,215.60
<b>Total Current Receivables</b>	<b>\$ 1,187,641.24</b>	<b>\$ 118,119.82</b>	<b>\$ 1,069,521.42</b>
<b>Notes Receivable:</b>			
<b>Notes Receivable - Current:</b>			
Federal Loan Programs	\$ 710,538.78	\$ 161,537.90	\$ 549,000.88
<b>Notes Receivable - Noncurrent:</b>			
Federal Loan Programs	\$ 706,205.76	\$ 160,536.26	\$ 545,669.50

**NOTE 5 - CAPITAL ASSETS**

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

	Balance July 1, 2014	Increases	Decreases	Balance June 30, 2015
<b>Capital Assets, Nondepreciable:</b>				
Land	\$ 7,039,723.18	\$ 1,996,050.00	\$ 0.00	\$ 9,035,773.18
Art, Literature, and Artifacts	207,300.00			207,300.00
Construction in Progress	641,778.37	5,346,063.01	2,639,076.50	3,348,764.88
<b>Total Capital Assets, Nondepreciable</b>	<b>7,888,801.55</b>	<b>7,342,113.01</b>	<b>2,639,076.50</b>	<b>12,591,838.06</b>
<b>Capital Assets, Depreciable:</b>				
Buildings	231,853,195.03	2,076,132.35		233,929,327.38
Machinery and Equipment	7,452,572.65	250,342.43	151,112.89	7,551,802.19
Art, Literature, and Artifacts	201,500.00			201,500.00
General Infrastructure	17,060,695.16	569,644.17		17,630,339.33
<b>Total Capital Assets, Depreciable</b>	<b>256,567,962.84</b>	<b>2,896,118.95</b>	<b>151,112.89</b>	<b>259,312,968.90</b>
<b>Less Accumulated Depreciation for:</b>				
Buildings	60,151,882.17	4,231,296.29		64,383,178.46
Machinery and Equipment	3,671,589.53	472,823.99	151,112.89	3,993,300.63
Art, Literature, and Artifacts	153,070.00	17,099.16		170,169.16
General Infrastructure	10,678,944.11	358,335.75		11,037,279.86
<b>Total Accumulated Depreciation</b>	<b>74,655,485.81</b>	<b>5,079,555.19</b>	<b>151,112.89</b>	<b>79,583,928.11</b>
<b>Total Capital Assets, Depreciable, Net</b>	<b>181,912,477.03</b>	<b>(2,183,436.24)</b>		<b>179,729,040.79</b>
<b>Capital Assets, Net</b>	<b>\$ 189,801,278.58</b>	<b>\$ 5,158,676.77</b>	<b>\$ 2,639,076.50</b>	<b>\$ 192,320,878.85</b>

During the year ended June 30, 2015, the University incurred \$2,216,594.74 in interest costs related to the acquisition and construction of capital assets. Of this total, \$2,176,495.38 was charged in interest expense and \$40,099.36 was capitalized.

The University has pledged the energy savings improvements installed in its buildings and other structures financed through the UNC System Guaranteed Energy Savings Installment Financing Agreement (Agreement) dated September 1, 2014. The value of the energy savings improvement assets capitalized as Construction-in-Progress associated with the Agreement as of June 30, 2015 is \$2,928,269.48 and is subject to security provisions in the Agreement to ensure timely debt service payments. Additional information regarding the Agreement can be found in Note 7.

**NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

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

	Amount
Current Accounts Payable and Accrued Liabilities	
Accounts Payable	\$ 1,583,071.23
Accrued Payroll	373,182.48
Contract Retainage	154,219.01
Other	17,747.63
	<hr/>
Total Current Accounts Payable and Accrued Liabilities	\$ 2,128,220.35

**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, 2015, is presented as follows:

	Balance July 1, 2014 (As Restated)	Additions	Reductions	Balance June 30, 2015	Current Portion
Revenue Bonds Payable	\$ 44,672,800.00	\$ 1,039,500.00	\$ 2,014,300.00	\$ 43,698,000.00	\$ 2,144,100.00
Plus: Unamortized Premium	474,608.99		46,303.32	428,305.67	
Less: Unamortized Discount	10,944.89		1,067.79	9,877.10	
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total Revenue Bonds, Net	45,136,464.10	1,039,500.00	2,059,535.53	44,116,428.57	2,144,100.00
Net Pension Liability	6,750,973.00		5,361,185.00	1,389,788.00	
Notes Payable	607,174.15	3,175,492.00	305,881.80	3,476,784.35	401,366.35
Compensated Absences	2,922,228.00	2,336,956.00	2,044,793.00	3,214,391.00	306,331.40
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<b>Total Long-Term Liabilities, Net</b>	<b>\$ 55,416,839.25</b>	<b>\$ 6,551,948.00</b>	<b>\$ 9,771,395.33</b>	<b>\$ 52,197,391.92</b>	<b>\$ 2,851,797.75</b>

Additional information regarding the net pension liability is included in Note 11.

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

Purpose	Series	Interest Rate	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2015	Principal Outstanding June 30, 2015
<b>Revenue Bonds Payable</b>						
<b>Dormitory and Dining System</b>						
UNCA System Pool Revenue Bonds (A)	2005A	4.96% *	04/01/2020	\$ 7,575,000.00	\$ 6,310,000.00	\$ 1,265,000.00
UNCA System Pool Revenue Bonds (B), Series 2010C	2010C	5.00% *	10/01/2024	5,815,000.00	1,230,000.00	4,585,000.00
UNCA Revenue Bonds (Build America Bonds)** (C)	2010	3.37% *	06/01/2040	26,160,000.00	675,000.00	25,485,000.00
UNCA Revenue Refunding Bonds, Series 2012 (D)	2012	2.32%	06/01/2027	6,345,400.00	1,899,400.00	4,446,000.00
UNCA Revenue & Refunding Bonds, Series 2013A (E)	2013A	2.14%	04/01/2030	4,987,000.00	513,000.00	4,474,000.00
UNCA Revenue & Refunding Bonds, Series 2013B (E)	2013B	2.19%	04/01/2023	2,522,000.00	78,000.00	2,444,000.00
UNCA General Revenue Bonds, Series 2014 (F)	2014	2.89%	06/01/2029	1,039,500.00	40,500.00	999,000.00
<b>Total Revenue Bonds Payable (principal only)</b>				<b>\$ 54,443,900.00</b>	<b>\$ 10,745,900.00</b>	<b>43,698,000.00</b>
Plus: Unamortized Premium						428,305.67
Less: Unamortized Discount						9,877.10
<b>Total Revenue Bonds Payable, Net</b>						<b>\$ 44,116,428.57</b>

- (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 & Refunding Bonds, Series 2013 A&B
- (F) The University of North Carolina at Asheville General Revenue Bond, Series 2014

\* For variable rate debt, interest rates in effect at June 30, 2015 are included. For variable rate debt with interest rate swaps, the synthetic fixed rates 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.

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

Fiscal Year	Annual Requirements			
	Revenue Bonds Payable		Notes Payable	
	Principal	Interest	Principal	Interest
2016	\$ 2,144,100.00	\$ 2,156,777.86	\$ 401,366.24	\$ 17,466.45
2017	2,255,500.00	2,084,777.70	406,446.47	53,862.91
2018	2,380,300.00	1,995,481.58	421,006.19	46,282.12
2019	1,781,000.00	1,923,427.86	438,590.46	38,406.53
2020	1,888,500.00	1,853,745.72	456,695.53	30,203.43
2021-2025	10,092,200.00	8,129,660.95	1,352,679.46	37,970.24
2026-2030	8,656,400.00	6,098,443.82		
2031-2035	6,475,000.00	4,064,348.50		
2036-2040	8,025,000.00	1,676,590.50		
<b>Total Requirements</b>	<b>\$ 43,698,000.00</b>	<b>\$ 29,983,254.49</b>	<b>\$ 3,476,784.35</b>	<b>\$ 224,191.68</b>

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

Purpose	Financial Institution	Interest Rate	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2015	Principal Outstanding June 30, 2015
Equipment	TD Equipment Finance	1.88%	12/01/2015	\$ 1,500,000.00	\$ 1,198,707.65	\$ 301,292.35
UNC System Guaranteed Energy Savings Project	U.S. Bank	1.84%	02/14/2023	3,175,492.00		3,175,492.00
<b>Total Notes Payable</b>				<u>\$ 4,675,492.00</u>	<u>\$ 1,198,707.65</u>	<u>\$ 3,476,784.35</u>

\* Interest Compounded Monthly.

**NOTE 8 - LEASE OBLIGATIONS**

The University entered into operating leases for digital equipment, wireless equipment and software, computers, servers, and telephone equipment. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2015:

Fiscal Year	Amount
2016	\$ 1,112,848.60
2017	935,964.86
2018	759,376.78
2019	582,566.10
2020	451,644.30
2021	279,563.20
<b>Total Minimum Lease Payments</b>	<u>\$ 4,121,963.84</u>

Rental expense for all operating leases during the year was \$1,451,383.93.

**NOTE 9 - REVENUES**

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

	Gross Revenues	Internal Sales Eliminations	Less Scholarship Discounts	Less Allowance for Uncollectibles*	Net Revenues
<b>Operating Revenues:</b>					
Student Tuition and Fees, Net	<u>\$ 29,190,025.23</u>	<u>\$ 0.00</u>	<u>\$ 6,377,794.91</u>	<u>\$ 107,890.01</u>	<u>\$ 22,704,340.31</u>
<b>Sales and Services:</b>					
Sales and Services of Auxiliary Enterprises:					
Residential Life	\$ 6,977,995.14	\$ 0.00	\$ 1,583,883.38	\$ 0.00	\$ 5,394,111.76
Dining	5,148,459.00		1,166,781.84		3,981,677.16
Student Union Services	4,967.50				4,967.50
Health, Physical Education, and Recreation Services	107,266.73	12.00			107,254.73
Bookstore	167,418.40				167,418.40
Parking	690,195.16	106,827.97	58,798.46		524,568.73
Athletic	770,868.49	900.00			769,968.49
Other	500,576.19	460,693.24			39,882.95
Sales and Services of Education and Related Activities	428,208.66	21,690.45			406,518.21
<b>Total Sales and Services, Net</b>	<u>\$ 14,795,955.27</u>	<u>\$ 590,123.66</u>	<u>\$ 2,809,463.68</u>	<u>\$ 0.00</u>	<u>\$ 11,396,367.93</u>

**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	\$ 25,150,560.04	\$ 858,878.03	\$ 2,006,194.79	\$ 23,742.56	\$ 2,019.79	\$ 0.00	\$ 28,041,395.21
Research	1,150,997.07	116,283.19	379,289.55				1,646,569.81
Public Service	1,184,783.37	77,503.67	479,409.02	583.28	3,829.74		1,746,109.08
Academic Support	2,711,959.31	967,151.61	633,356.44		600.47		4,313,067.83
Student Services	3,764,434.55	188,177.90	1,335,507.97				5,288,120.42
Institutional Support	9,738,083.98	300,884.44	1,653,091.91	1,288.56			11,693,348.89
Operations and Maintenance of Plant	5,497,318.53	1,143,069.22	669,676.24		1,904,610.79		9,214,674.78
Student Financial Aid	28,568.41	992.43	6,231.89	5,490,322.43			5,526,115.16
Auxiliary Enterprises	5,963,069.08	1,547,229.43	6,339,093.15	9,000.00	824,157.43		14,682,549.09
Depreciation						5,079,555.19	5,079,555.19
<b>Total Operating Expenses</b>	<b>\$ 55,189,774.34</b>	<b>\$ 5,200,169.92</b>	<b>\$ 13,501,850.96</b>	<b>\$ 5,524,936.83</b>	<b>\$ 2,735,218.22</b>	<b>\$ 5,079,555.19</b>	<b>\$ 87,231,505.46</b>

**NOTE 11 - PENSION PLANS**

**A. Defined Benefit Plan**

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

*Benefits Provided:* TSERS provides retirement and survivor benefits. Retirement benefits are determined as 1.82% of the member's average final compensation times the member's years of creditable service. A member's average final compensation is calculated as the average of a member's four highest consecutive years of compensation. General employee plan members are eligible to retire with full retirement benefits at age 65 with five years of creditable service, at age 60 with 25 years of creditable service, or at any age with 30 years of creditable service. General employee plan members are eligible to retire with partial retirement benefits at age 50 with 20 years of creditable service or at age 60 with five years of creditable service. Survivor benefits are available to eligible beneficiaries of general members who die while in active service or within 180 days of their last day of service and who also have either completed 20 years of creditable service regardless of age, or have completed five years of service and have reached age 60. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit

for life or a return of the member's contributions. The plan does not provide for automatic post-retirement benefit increases. Increases are contingent upon actuarial gains of the plan.

*Contributions:* Contribution provisions are established by General Statute 135-8 and may be amended only by the North Carolina General Assembly. Employees are required to contribute 6% of their compensation. The contribution rate for employers is set each year by the NC General Assembly in the Appropriations Act based on the actuarially-determined rate recommended by the actuary. The University's contractually-required contribution rate for the year ended June 30, 2015 was 9.15% of covered payroll. The University's contributions to the pension plan were \$1,569,394.64, and employee contributions were \$1,029,111.24 for the year ended June 30, 2015.

The TSERS Plan's financial information, including all information about the plan's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fiduciary net position, is included in the State of North Carolina's fiscal year 2014 *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.nc.gov> and clicking on "Reports" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

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

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

*Net Pension Liability:* At June 30, 2015, the University reported a liability of \$1,389,788.00 for its proportionate share of the collective net pension liability. The net pension liability was measured as of June 30, 2014. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2013, and

update procedures were used to roll forward the total pension liability to June 30, 2014. The University's proportion of the net pension liability was based on the present value of future salaries for the University relative to the present value of future salaries for all participating employers, actuarially-determined. As of June 30, 2014, the University's proportion was 0.11854%, which was an increase of 0.00734% from its proportion measured as of June 30, 2013.

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

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

\* Salary increases include 3.5% inflation and productivity factor.

\*\* Investment rate of return is net of pension plan investment expense, including inflation.

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

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

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

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

asset class included in the pension plan’s target asset allocation as of June 30, 2014 (the valuation date) are summarized in the following table:

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

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

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

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

<u>Net Pension Liability (Asset)</u>		
<u>1% Decrease (6.25%)</u>	<u>Current Discount Rate (7.25%)</u>	<u>1% Increase (8.25%)</u>
\$ 9,976,861.02	\$ 1,389,788.00	\$ (5,860,744.44)



*Deferred Inflows of Resources and Deferred Outflows of Resources Related to Pensions:* For the year ended June 30, 2015, the University recognized pension expense of \$733,999.00. At June 30, 2015, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Resources Related to Pensions by Classification:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Actual and Expected Experience	\$ 0.00	\$ 323,952.00
Changes of Assumptions		
Net Difference Between Projected and Actual Earnings on Pension Plan Investments		4,695,585.00
Change in Proportion and Differences Between Agency's Contributions and Proportionate Share of Contributions	527,186.00	
Contributions Subsequent to the Measurement Date	1,569,395.00	
Total	<u>\$ 2,096,581.00</u>	<u>\$ 5,019,537.00</u>

\$1,569,395.00 reported as deferred outflows of resources related to pensions will be included as a reduction of the net pension liability in the fiscal year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

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

Year ended June 30:	Amount
2016	\$ (1,120,274.00)
2017	(1,120,274.00)
2018	(1,120,274.00)
2019	<u>(1,131,529.00)</u>
Total	<u>\$ (4,492,351.00)</u>

- B. Defined Contribution Plan** - The Optional Retirement Program (Program) is a defined contribution pension plan that provides retirement benefits with options for payments to beneficiaries in the event of the participant's death. Administrators and eligible faculty of the University may join the Program instead of the TSERS. The Board of Governors of The University of North Carolina is responsible for the administration of

the Program and designates the companies authorized to offer investment products or the trustee responsible for the investment of contributions under the Program and approves the form and contents of the contracts and trust agreements.

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

Participant eligibility and contributory requirements are established by General Statute 135-5.1. Employer and member contribution rates are set each year by the North Carolina General Assembly. For the year ended June 30, 2015, these rates were set at 6.84% of covered payroll for employers and 6% of covered payroll for members. The University assumes no liability other than its contribution.

For the current fiscal year, the University had a total payroll of \$43,353,786.18, of which \$20,041,756.83 was covered under the Optional Retirement Program. Total employer and employee contributions for pension benefits for the year were \$1,370,856.17 and \$1,202,505.41, respectively. The amount of pension expense recognized in the current year related to ORP is equal to the employer contributions. At the end of the reporting period, the University had a liability of \$1,385.99. The amount of forfeitures reflected in pension expense recognized during the reporting period was \$61,101.09.

## NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS

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

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

By General Statute, a Retiree Health Benefit Fund (the Fund) has been established as a fund in which accumulated contributions from employers and any earnings on those contributions shall be used to provide health benefits to retired and disabled employees and applicable beneficiaries. By statute, the Fund is administered by the Board of Trustees of TSERS and contributions to the Fund are irrevocable. Also by law, Fund assets are dedicated to providing benefits to retired and disabled employees and

applicable beneficiaries and are not subject to the claims of creditors of the employers making contributions to the Fund. Contribution rates to the Fund, which are intended to finance benefits and administrative expenses on a pay-as-you-go basis, are established by the General Assembly.

For the current fiscal year the University contributed 5.49% of the covered payroll under TSERS and ORP to the Fund. Required contribution rates for the years ended June 30, 2014, and 2013, were 5.40% and 5.30%, respectively. The University made 100% of its annual required contributions to the Plan for the years ended June 30, 2015, 2014, and 2013, which were \$2,041,929.23, \$1,916,137.70, and \$1,821,471.46, 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 TSERS and ORP. Benefit and contribution provisions are established by Chapter 135, Article 6, of the General Statutes, and may be amended only by the North Carolina General Assembly. The Plan does not provide for automatic post-retirement benefit increases.

Disability income benefits are funded by actuarially determined employer contributions that are established by the General Assembly. For the fiscal year ended June 30, 2015, the University made a statutory contribution of .41% of covered payroll under TSERS and ORP to the DIPNC. Required contribution rates for the years ended June 30, 2014, and 2013, was .44% in both years. The University made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2015, 2014, and 2013, which were \$152,493.80, \$156,129.73, and \$151,216.50, respectively. The University assumes no liability for long-term disability benefits under the Plan other than its contribution.

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

#### NOTE 13 - RISK MANAGEMENT

The University is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These exposures to loss are handled via a

combination of methods, including participation in state-administered insurance programs, purchase of commercial insurance, and self-retention of certain risks. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

**A. Employee Benefit Plans**

**1. State Health Plan**

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

**2. Death Benefit Plan of North Carolina**

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

**B. Other Risk Management and Insurance Activities**

**1. Automobile, Fire, and Other Property Losses**

The University is required to maintain fire and lightning coverage on all state-owned buildings and contents through the State Property Fire Insurance Fund (Fund), an internal service fund of the State. Such coverage is provided at no cost to the University for operations supported by the State's General Fund. Other operations not supported by the State's General Fund are charged for the coverage. Losses covered by the Fund are subject to a \$5,000 per occurrence deductible. However, some agencies have chosen a higher deductible for a reduction in premium. Auxiliary buildings along with the building at 118 W.T. Weaver Blvd. have broad form 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 \$2,500 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.

## 2. Public Officers' and Employees' Liability Insurance

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

## 3. Employee Dishonesty and Computer Fraud

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

## 4. Statewide Workers' Compensation Program

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

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

### NOTE 14 - COMMITMENTS AND CONTINGENCIES

- A. Commitments** - The University has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were \$730,588.72 and on other purchases were \$2,648,801.38 at June 30, 2015.
- B. Pending Litigation and Claims** - The University is a party to litigation and claims in the ordinary course of its operations. Since it is not possible to predict the ultimate outcome of these matters, no provision for any liability has been made in the financial statements. University management is of the opinion that the liability, if any, for any of these matters will not have a material adverse effect on the financial position of the University.

**NOTE 15 - NET POSITION RESTATEMENT**

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

	<u>Amount</u>
July 1, 2014 Net Position as Previously Reported	\$ 175,349,405.61
Restatement:	
Record the University's Net Pension Liability and Pension Related Deferred Outflows of Resources Per GASB 68 Requirements.	<u>(5,148,140.00)</u>
<b>July 1, 2014 Net Position as Restated</b>	<b><u><u>\$ 170,201,265.61</u></u></b>



# **REQUIRED SUPPLEMENTARY INFORMATION**

**The University of North Carolina at Asheville**  
**Required Supplementary Information**  
**Schedule of the Proportionate Net Pension Liability**  
**Teachers' and State Employees' Retirement System**  
**Last Two Fiscal Years**

**Exhibit C-1**

	<u>2014</u>	<u>2013</u>
(1) Proportionate Share Percentage of Collective Net Pension Liability	0.11854%	0.11120%
(2) Proportionate Share of TSERS Collective Net Pension Liability	\$ 1,389,788.00	\$ 6,750,973.00
(3) Covered-Employee Payroll	\$ 16,663,714.36	\$ 17,355,567.16
(4) Net Pension Liability as a Percentage of Covered-Employee Payroll	8.34%	38.90%
(5) Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	98.24%	90.60%



**The University of North Carolina at Asheville**  
**Required Supplementary Information**  
**Schedule of University Contributions**  
**Teachers' and State Employees' Retirement System**  
**Last Ten Fiscal Years**

**Exhibit C-2**

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
(1) Contractually Required Contribution	\$ 1,569,394.64	\$ 1,448,076.78	\$ 1,445,718.74	\$ 1,291,698.83	\$ 969,176.50
(2) Contributions in Relation to the Contractually Determined Contribution	<u>1,569,394.64</u>	<u>1,448,076.78</u>	<u>1,445,718.74</u>	<u>1,291,698.83</u>	<u>969,176.50</u>
(3) Contribution Deficiency (Excess)	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>
(4) Covered-Employee Payroll	\$ 17,151,853.98	\$ 16,663,714.36	\$ 17,355,567.16	\$ 17,361,543.37	\$ 19,658,752.68
(5) Contributions as a Percentage of Covered-Employee Payroll	9.15%	8.69%	8.33%	7.44%	4.93%

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
(1) Contractually Required Contribution	\$ 691,531.92	\$ 671,077.96	\$ 562,936.52	\$ 448,637.89	\$ 366,983.16
(2) Contributions in Relation to the Contractually Determined Contribution	<u>691,531.92</u>	<u>671,077.96</u>	<u>562,636.52</u>	<u>448,637.89</u>	<u>366,983.16</u>
(3) Contribution Deficiency (Excess)	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 300.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>
(4) Covered-Employee Payroll	\$ 19,370,641.94	\$ 19,972,558.35	\$ 18,447,098.98	\$ 16,866,086.27	\$ 15,683,029.75
(5) Contributions as a Percentage of Covered-Employee Payroll	3.57%	3.36%	3.05%	2.66%	2.34%

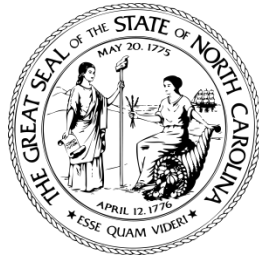
**The University of North Carolina at Asheville**  
**Notes to Required Supplementary Information**  
**Schedule of University Contributions**  
**Teachers' and State Employees' Retirement System**  
**For the Fiscal Year Ended June 30, 2015**

---

*Changes of Benefit Terms:*

<u>Cost of Living Increase</u>								
<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
N/A	1.00%	N/A	N/A	N/A	2.20%	2.20%	3.00%	2.00%

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



# INDEPENDENT AUDITOR'S REPORT

STATE OF NORTH CAROLINA  
**Office of the State Auditor**



**Beth A. Wood, CPA**  
State Auditor

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

**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, 2015, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated October 27, 2015. 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. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the University's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a

deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

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

Purpose of this Report

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



Beth A. Wood, CPA  
State Auditor

Raleigh, North Carolina

October 27, 2015

# ORDERING INFORMATION

---

COPIES OF THIS REPORT MAY BE OBTAINED BY CONTACTING:

Office of the State Auditor  
State of North Carolina  
2 South Salisbury Street  
20601 Mail Service Center  
Raleigh, North Carolina 27699-0600

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  
**919-807-7513**

