STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

APPALACHIAN STATE UNIVERSITY

BOONE, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2017

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

THE GREAT SEAL OF THE STATE OF NORTH CAROLINA

MAY 20, 1775

APRIL 12, 1776

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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 Roy Cooper, Governor
The General Assembly of North Carolina
Board of Trustees, Appalachian State University

We have completed a financial statement audit of Appalachian State University for the year ended June 30, 2017, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

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

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

Beth A. Wood

Beth A. Wood, CPA
State Auditor

Beth A. Wood, CPA
State Auditor

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

INDEPENDENT AUDITOR'S REPORT

STATE OF NORTH CAROLINA
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State Auditor

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20601 Mail Service Center
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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Appalachian State University
Boone, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of Appalachian State University (University), a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina, and its discretely presented component units, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of Appalachian State University, and its discretely presented component units, as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters – Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 4, 2017 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

Beth A. Wood

Raleigh, North Carolina

December 4, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

Overview of the Financial Statement Information

The management's discussion and analysis summarizes information from the financial statements and the notes to the financial statements. It provides an analytical overview of activities that have occurred during the year which affect the fiscal year end financial position. The following discussion and analysis provides an overview of the activities and financial position only for Appalachian State University (University) for the fiscal years ended June 30, 2017 and 2016.

The University is a constituent institution of the multi-campus University of North Carolina System (UNC System), which is a component unit of the State of North Carolina. These statements are prepared in accordance with standards issued by the Governmental Accounting Standards Board (GASB) and include the Statement of Net Position, the Statement of Revenues, Expenses, and Changes in Net Position, the Statement of Cash Flows, and Notes to the Financial Statements. The notes provide additional information that is essential to understanding the financial statements.

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

Adoption of New Accounting Standards

GASB Statement No. 80, *Blending Requirements for Certain Component Units*, became effective for the fiscal year ended June 30, 2017. This statement amends GASB Statement No. 14, *The Financial Reporting Entity*, by adding an additional requirement that would require presentation of component unit financial information blended into the financial statements of the University when the University is the sole corporate member of the component unit. The University evaluated its relationships with the Foundation and the Corporation and confirmed that blending was not required under the new pronouncement.

GASB Statement No. 82, *Pension Issues – An amendment of GASB Statement No. 67, No. 68, and No. 73* became effective for the fiscal year ended June 30, 2017. This statement addresses certain issues with respect to Statements No. 67, *Financial Reporting for Pension Plans,* No. 68, *Accounting and Financial Reporting for Pensions,* and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68.* Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. As a result of implementation, the University has updated its presentation of payroll-related measures presented in the Required Supplementary Information.

Statement of Net Position

The Condensed Statement of Net Position below presents:

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

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

Condensed Statement of Net Position

	Fiscal Year 2017	Fiscal Year 2016	$ Change	% Change
Assets				
Current Assets	$ 102,137,259	$ 99,389,955	$ 2,747,304	2.8
Capital Assets, Net	605,908,436	590,807,137	15,101,299	2.6
Other Noncurrent Assets	63,375,447	37,788,836	25,586,611	67.7
Total Assets	771,421,142	727,985,928	43,435,214	6.0
Deferred Outflows of Resources	47,178,185	17,479,081	29,699,104	169.9
Liabilities				
Current Liabilities	42,122,387	36,547,178	5,575,209	15.3
Long-Term Liabilities, Net	315,292,196	266,672,966	48,619,230	18.2
Other Noncurrent Liabilities	4,829,808	4,847,626	(17,818)	(0.4)
Total Liabilities	362,244,391	308,067,770	54,176,621	17.6
Deferred Inflows of Resources	2,605,634	4,739,484	(2,133,850)	(45.0)
Net Position				
Net Investment in Capital Assets	371,461,600	356,164,293	15,297,307	4.3
Restricted - Nonexpendable	15,819,292	14,305,122	1,514,170	10.6
Restricted - Expendable	13,688,945	10,542,418	3,146,527	29.8
Unrestricted	52,779,465	51,645,922	1,133,543	2.2
Total Net Position	$ 453,749,302	$ 432,657,755	$ 21,091,547	4.9

Overall, net position increased by 4.9%, an approximate $21.1 million increase over the prior fiscal year. This change will be discussed in an analysis of each component of the statement beginning with total assets followed by deferred outflows of resources, total liabilities, deferred inflows of resources, and lastly, net position.

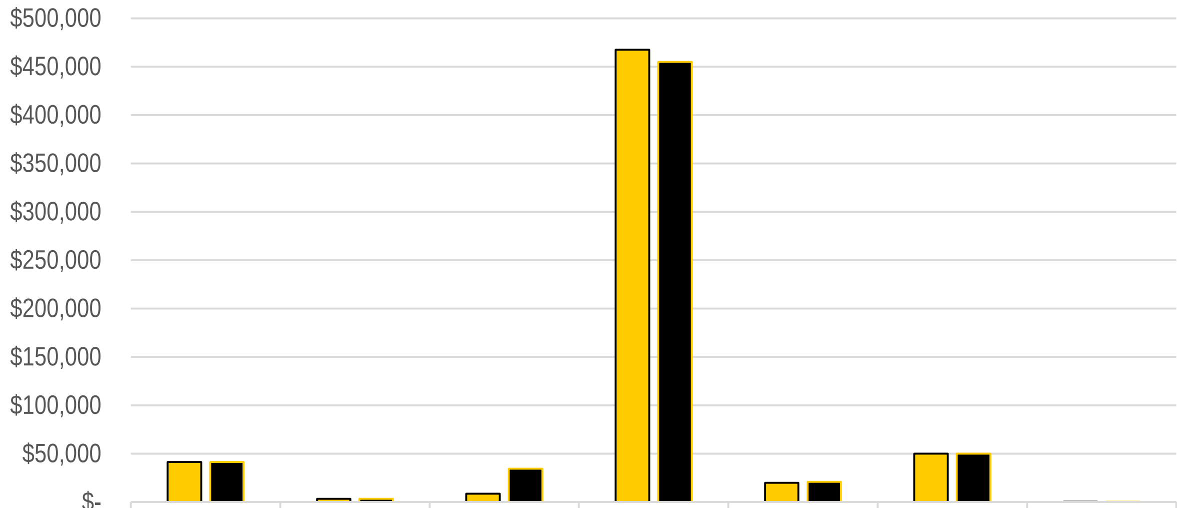
Total Assets

Total assets increased by 6.0% during fiscal year 2017, representing a $43.4 million increase over last fiscal year. The majority of the dollar increase resulted from increases in capital assets, net of depreciation, and other noncurrent assets of $15.1 million and $25.6 million, respectively, combined with a minor increase in current assets of $2.7 million.

As noted above, current assets increased $2.7 million, primarily related to an increase in intergovernmental receivables of $2.0 million. Of this increase, $1.5 million is attributable to the recovery of funds due from the United States Department of Justice in relation to an internet fraud perpetrated against the University. The total amount of the fraud was $2.0 million. The University, in coordination with other state agencies, is actively exploring methods to recover the remaining $500 thousand.

An analysis of changes in noncurrent assets shows increases in construction in progress and restricted cash and equivalents. Construction in progress increased by almost $25.9 million during fiscal year 2017. Most of the increase is related to $23.8 million added to construction in progress for a new academic building that will house the Beaver College of Health Sciences. This increase is offset by a $6.5 million decrease representing projects completed and moved to buildings and general infrastructure. The decrease in buildings, noted in Figure 1.0 below, primarily represents the recognition of depreciation expense on the University's buildings.

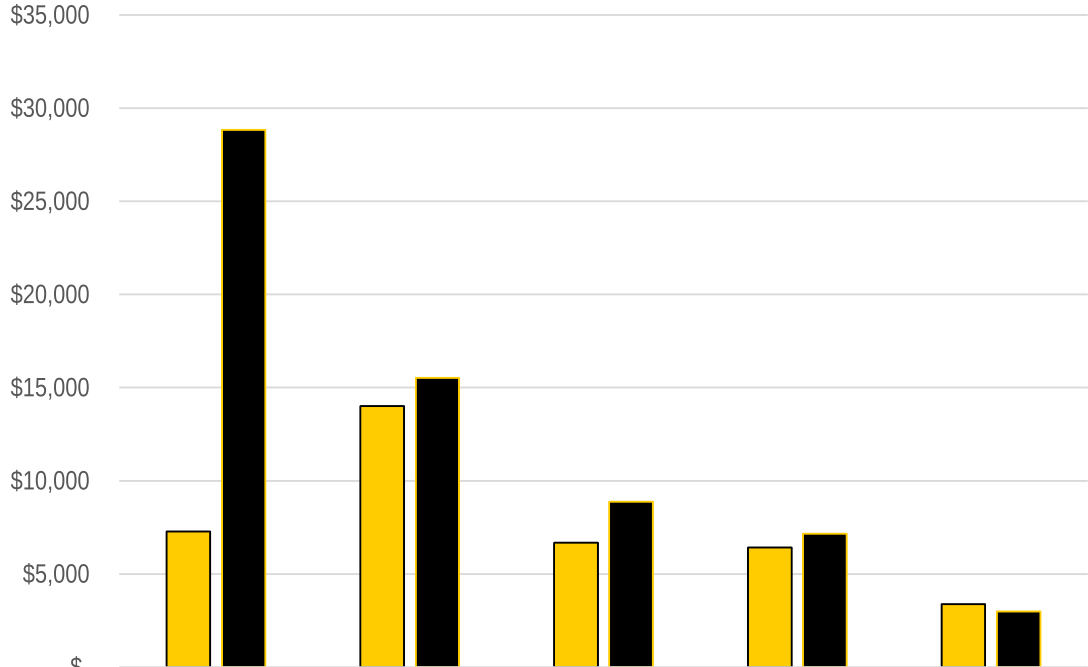
Figure 1.0
Analysis of Capital Assets
(Dollars in Thousands)



	Land	Art, Literature, and Artifacts	Construction in Progress	Buildings	Machinery and Equipment	General Infrastructure	Computer Software
FY2016	$41,278	$3,375	$8,652	$467,347	$19,750	$49,941	$464
FY2017	$41,401	$3,516	$34,547	$454,819	$21,047	$50,155	$424

The majority of the increase in restricted cash and cash equivalents is a result of the sale of $26.5 million in Appalachian State University General Revenue Bonds, Series 2016C issued during the fiscal year for the replacement of Winkler Residence Hall (Figure 1.1 below). The balance of unspent proceeds at June 30, 2017 totaled almost $25.6 million. Additional information related to capital projects can be found in the Capital Assets and Debt Administration discussion section that follows the discussion of the Statement of Revenues, Expenses, and Changes in Net Position.

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



	Restricted Cash and Cash Equivalents	Endowment Investments	Restricted Investments	Other Investments	Notes Receivable
FY2016	$7,284	$14,013	$6,678	$6,429	$3,384
FY2017	$28,838	$15,515	$8,877	$7,160	$2,985

Deferred Outflows of Resources

Deferred outflows of resources for fiscal year 2017 increased significantly by approximately $29.7 million, or 169.9%. Of this change, $29.3 million is related to deferred outflows for pensions. Employees of the University may participate in the Teacher's and State Employees' Retirement System (TSERS), which is an employer cost sharing pension program. For fiscal year 2017 reporting, total plan liabilities exceeded total plan assets creating a net liability at the measurement date of June 30, 2016. All employer participants recognize their proportionate share of the plan's net pension liability.

Some of the changes in the University's share of the TSERS net pension liability and the differences between the University's contributions and its proportionate share of total contributions to TSERS during the measurement period are recognized as pension expense (see discussion on changes related to operating expenses that follows). The amount of changes not recognized as pension expense are reported as deferred outflows of resources or deferred inflows of resources related to pensions in the Statement of Net Position.

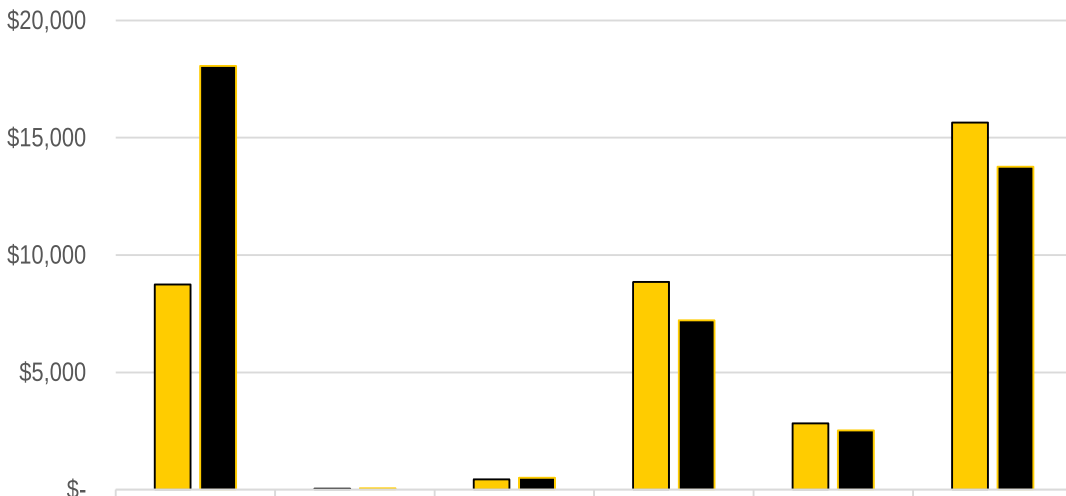
The majority of the increase in deferred outflows for pensions is attributable to two factors. First, there was an approximate $19.7 million difference between actual and projected investment performance of the plan's assets. Investment market returns during the measurement period ended June 30, 2016 were weaker than expected, creating an increase in the overall net pension liability. Secondly, an $8.1 million adjustment was made for changes in actuarial assumptions related to plan participants. These increases represent the amounts deferred to a future period(s) that are not recognized as pension expense in the current period.

Total Liabilities

Current and noncurrent liabilities increased by almost $5.6 million and $48.6 million, respectively. This represents a 17.6% increase over the prior year. The most significant change in current liabilities occurred in accounts payable and accrued liabilities, which increased $9.3 million, or 106.4% (Figure 1.2 below). The majority of the increase relates to accruals for a new College of Health Sciences building that is currently being constructed. These increases were offset by decreases in the current portion of long-term debt to be paid in the next fiscal year of $1.8 million and a $1.6 million decrease in unearned revenue. The University has a note payment for one of its energy savings contracts due on July 1st of each year until 2023. Due to the timing of the due date being on a weekend in fiscal year 2018, a $1.4 million payment for the note was made on June 30, 2017 and applied against the liability by the bank on the same day, effectively posting the payment to fiscal year 2017. The next payment is due in fiscal year 2019, therefore the University did not recognize a current liability due for this note.

The decrease in unearned revenue was primarily related to a later start date of the second summer school session and other programs that would not begin until fiscal year 2018. As a result, collections for the second summer school session and other programs by June 30, 2017 were lower than the prior fiscal year.

Figure 1.2
Analysis of Current Liabilities
(Dollars in Thousands)

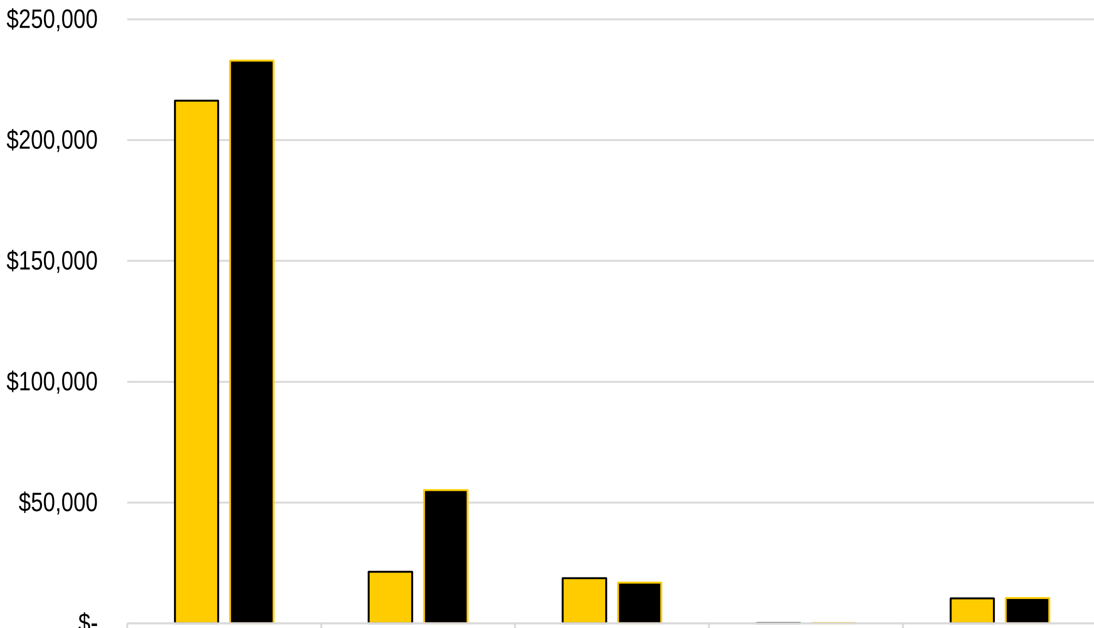


	Accounts Payable and Accrued Liabilities	Due to Primary Government	Funds Held for Others	Unearned Revenue	Interest Payable	Long-Term Liabilities - Current Portion
FY2016	$8,746	$46	$436	$8,856	$2,822	$15,641
FY2017	$18,055	$49	$507	$7,217	$2,527	$13,767

A review of long-term liabilities reveals that the most significant components of the $48.6 million increase resulted from increases in the net pension liability and net revenue bonds payable (Figure 1.3 below).

As discussed in the section for deferred outflows of resources, the net pension liability increase of approximately $33.8 million is related to the University's increase in proportionate share of the total pension liability for the TSERS program. A combination of a change in assumptions by the actuaries for plan participants in conjunction with weak performance the plan's investments generated approximately $27.8 million of the increase. In addition to changes in the net pension liability, the University issued Appalachian State University General Revenue Bonds, Series 2016C to provide funds to construct a residence hall. This increase in debt was offset by the payments made on existing debt resulting in an approximate $14.8 million net increase.

Figure 1.3
Analysis of Long-Term Liabilities
(Dollars in Thousands)



	Revenue Bonds Payable, Net	Net Pension Liability	Notes Payable	Capital Leases Payable	Compensated Absences
FY2016	$216,265	$21,345	$18,679	$31	$10,353
FY2017	$232,823	$55,132	$16,816	$16	$10,505

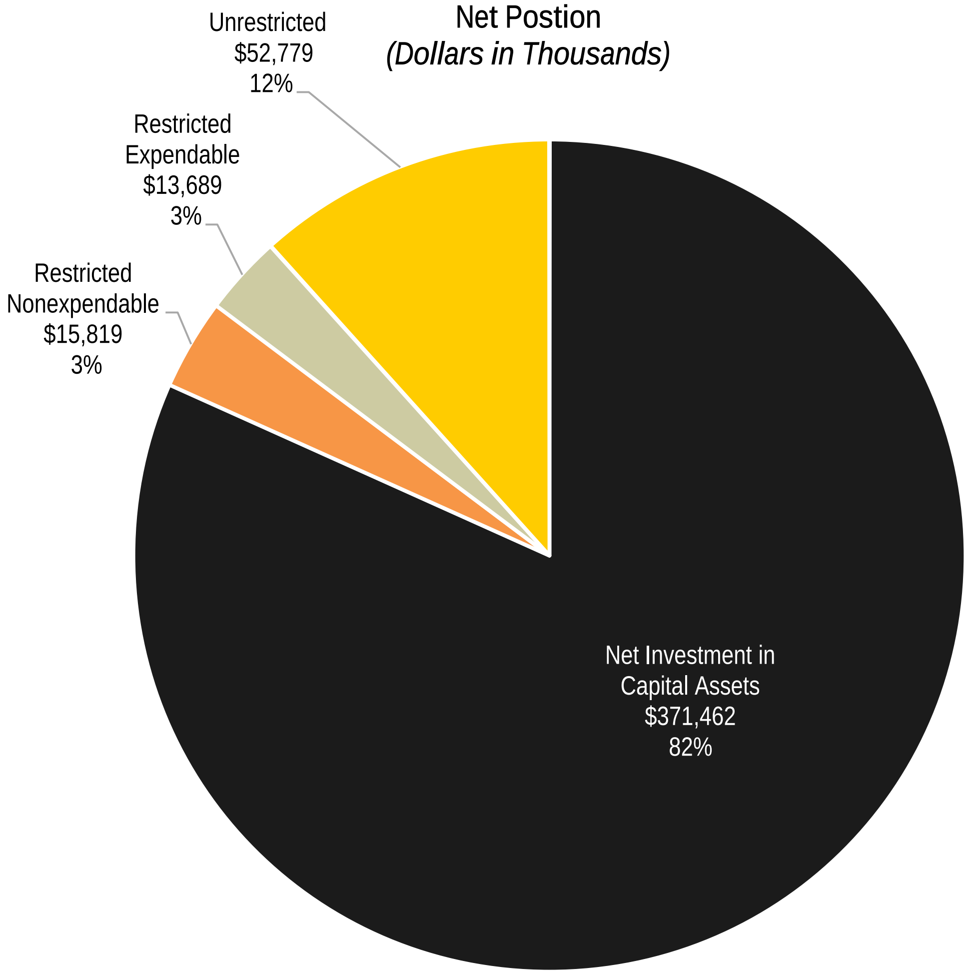
Deferred Inflows of Resources

Deferred inflows of resources decreased by 45.0%, representing a $2.1 million change. The decrease in deferred inflows related to pensions is related to the same factors that caused increases in deferred outflows related to pensions and the net pension liability as discussed previously. The difference records the results of differences between the expected and the actual experience of the TSERS plan.

Net Position

Net position represents the difference between the University's assets and deferred outflows of resources from liabilities and deferred inflows of resources. It is comprised of net investment in capital assets, restricted nonexpendable, restricted expendable, and unrestricted net position (Figure 1.4 below).

Figure 1.4
Net Postion
(Dollars in Thousands)



Net investment in capital assets represents the University's investment in assets such as buildings, land, general infrastructure, machinery and equipment, and other improvements net of accumulated depreciation/amortization, outstanding principal balances of capital-related debt, deferred loss on refunding, and other liabilities related to the construction or acquisition of capital assets.

Restricted nonexpendable net position consists of loan funds, research funds, and endowment gifts with specific restrictions on spending the principal balance. Restricted expendable net position consists of income from endowment funds, gifts and pledges with specific restrictions, funds restricted to specific university programs, either by legislation or other third party restrictions, unexpended capital project funds not related to debt proceeds, and grants from third-party agencies with expenditure restrictions.

Unrestricted net position is comprised of fund balances that are not subject to external restrictions on use. Management may designate use of these funds for various institutional, academic, and other initiatives to support the mission of the University.

Statement of Revenues, Expenses, and Changes in Net Position

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

The change in net position from year to year is an indicator of the financial condition of the institution.

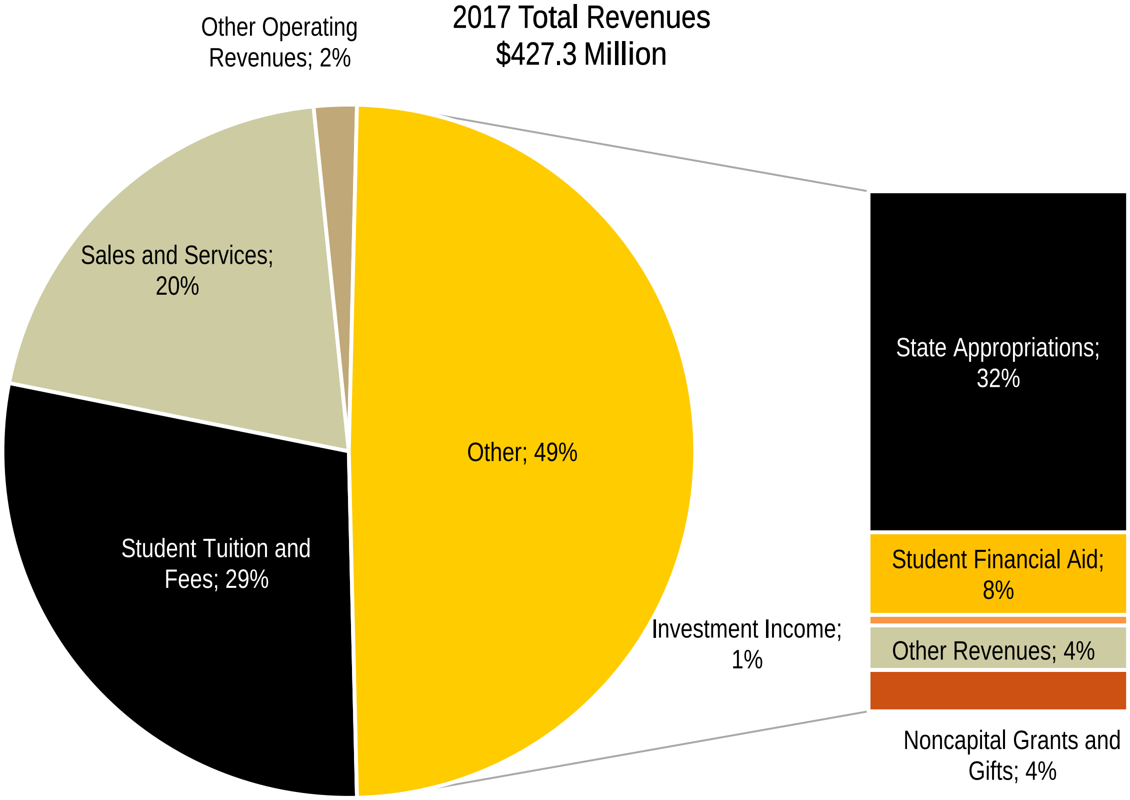
Condensed Statement of Revenues, Expenses, and Changes in Net Position

	Fiscal Year 2017	Fiscal Year 2016	$ Change	% Change
Operating Revenues				
Tuition and Fees, Net	$ 121,958,398	$ 114,819,207	$ 7,139,191	6.2
Grants and Contracts	6,782,077	7,187,409	(405,332)	(5.6)
Sales and Services, Net	86,425,143	80,758,600	5,666,543	7.0
Other Operating Revenues	1,834,947	1,864,717	(29,770)	(1.6)
Total Operating Revenues	217,000,565	204,629,933	12,370,632	6.0
Operating Expenses				
Salaries and Benefits	251,762,925	230,614,262	21,148,663	9.2
Supplies and Materials	44,712,939	40,915,818	3,797,121	9.3
Services	45,148,094	43,290,980	1,857,114	4.3
Scholarships and Fellowships	22,407,839	22,292,193	115,646	0.5
Utilities	10,473,494	10,482,173	(8,679)	(0.1)
Depreciation/Amortization	20,202,800	20,397,827	(195,027)	(1.0)
Total Operating Expenses	394,708,091	367,993,253	26,714,838	7.3
Operating Loss	(177,707,526)	(163,363,320)	(14,344,206)	8.8
Nonoperating Revenues (Expenses)				
State Appropriations	138,091,358	133,764,390	4,326,968	3.2
Other Nonoperating Revenues	55,613,839	51,270,863	4,342,976	8.5
Nonoperating Expenses	(11,550,453)	(11,190,940)	(359,513)	3.2
Net Nonoperating Revenues	182,154,744	173,844,313	8,310,431	4.8
Income Before Other Revenues	4,447,218	10,480,993	(6,033,775)	(57.6)
Capital Appropriations	14,510,191	2,782,121	11,728,070	421.6
Capital Gifts	627,519	7,456,580	(6,829,061)	(91.6)
Additions to Endowments	1,506,619	12,970	1,493,649	11,516.2
Total Other Revenues	16,644,329	10,251,671	6,392,658	62.4
Total Increase in Net Position	21,091,547	20,732,664	358,883	1.7
Net Position				
Net Position at Beginning of Year	432,657,755	411,925,091	20,732,664	5.0
Net Position at End of Year	$ 453,749,302	$ 432,657,755	$ 21,091,547	4.9
Reconciliation of Increase in Net Position				
Total Revenues	$ 427,350,091	$ 399,916,857	$ 27,433,234	6.9
Less: Total Expenses	406,258,544	379,184,193	27,074,351	7.1
Total Increase in Net Position	$ 21,091,547	$ 20,732,664	$ 358,883	1.7

Total Revenues

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

Figure 2.0
2017 Total Revenues
$427.3 Million



Operating Revenues

Operating revenues increased by 6.0% over fiscal year 2016, representing an approximate $12.4 million increase. Receipts of sales and services and student tuition and fees, net of discounts and allowances, accounted for the majority of the increases. Sales and services increased by approximately $5.7 million, a 7.0% change. The most significant change occurred in athletics operating receipts, which totaled $3.4 million. This is comprised primarily of the following increases: $1.7 million in Sunbelt Conference and NCAA distributions, $1.0 million in admissions sales, and $705 thousand in game guarantees. Other notable increases in sales and services revenues were generated in housing and residence life, $1.0 million; dining services, $677 thousand; university bookstore, $386 thousand; and the Appalachian Summer Festival, $306 thousand.

Student tuition and fees, net of scholarship discounts and allowances, increased 6.2%. The $7.1 million difference is related to increases in tuition and fee rates for fiscal year 2017. The table below highlights the changes in tuition and fee rates effective for the year ended June 30, 2017.

Table 1.0
Changes in Annual Tuition and Fees
as Approved by the UNC Board of Governors

Resident Tuition	2015-16	2016-17	$ Change	% Change
Undergraduate	$ 3,961	$ 4,159	$ 198	5.0%
Graduate	4,518	4,744	226	5.0%
Nonresident Tuition	2015-16	2016-17	$ Change	% Change
Undergraduate	$ 17,786	$ 18,675	$ 889	5.0%
Graduate	17,060	17,913	853	5.0%
Specialized Tuition	2015-16	2016-17	$ Change	% Change
MBA Resident	$ 8,118	$ 8,344	$ 226	2.8%
MBA Nonresident	20,660	21,513	853	4.1%
General & Debt Service Fees	All Students		All Students	
	2015-16	2016-17	$ Change	% Change
Athletics	$ 713	$ 738	$ 25	3.5%
Health Services	281	294	13	4.6%
Student Activity	635	645	10	1.6%
Education & Technology	520	546	26	5.0%
Campus Security	30	30		
Debt Service	579	579		

Nonoperating Revenues

Nonoperating revenues increased by $8.66 million over the prior year. State appropriations and investment income accounted for the majority of the increase. The increase in state appropriations totaled $4.3 million representing a 3.2% change. Notable changes included a $2.5 million legislative increase combined with a $1.8 million increase for enrollment growth that was offset by a management flexibility reduction of $2.4 million. With a management flexibility reduction, the University's leadership has the control over how the reduction is absorbed by the institution. Additional single occurrence appropriations were also provided. These include a $2.3 million appropriation for one-time employee bonuses, a $583 thousand allocation for veterans tuition waivers, and $411 thousand for retirement rate increases.

The other significant change in nonoperating revenues was a result of an approximate $4.3 million increase in investment income. The majority of the University's investments are held with UNC Management Company in the UNC Investment Fund, LLC (Fund). Performance of the Fund during fiscal year 2016 was weak in comparison to fiscal year 2017. Last year many endowment portfolios struggled in the market. This was especially true for funds with investments in global equities, hedge funds, and energy related investments. In contrast, the Fund's performance in 2017 was significantly stronger, which is reflected in a 12.1% return for the fiscal year. The Fund lagged behind the traditional Global 70/30 portfolio. However, it outperformed its primary benchmark, the Strategic Investment Policy Portfolio (SIPP), which posted returns of 11.8%.

Other Revenues

Other revenues for the University are comprised of capital appropriations, capital gifts, and additions to endowments. In total, other revenues increased by 62.4%. This was primarily due to an $11.7 million increase in capital appropriations and an approximate $1.5 million increase in additions to endowments. Capital appropriations for fiscal year 2017 totaled $14.5 million and is mostly attributable to the receipt of funds from the State for the construction of the Beaver College of Health Sciences building. This capital project is being funded by the Connect NC State bond issue. The University received funds for advanced planning in prior years and was appropriated $70 million in Connect NC funds for construction.

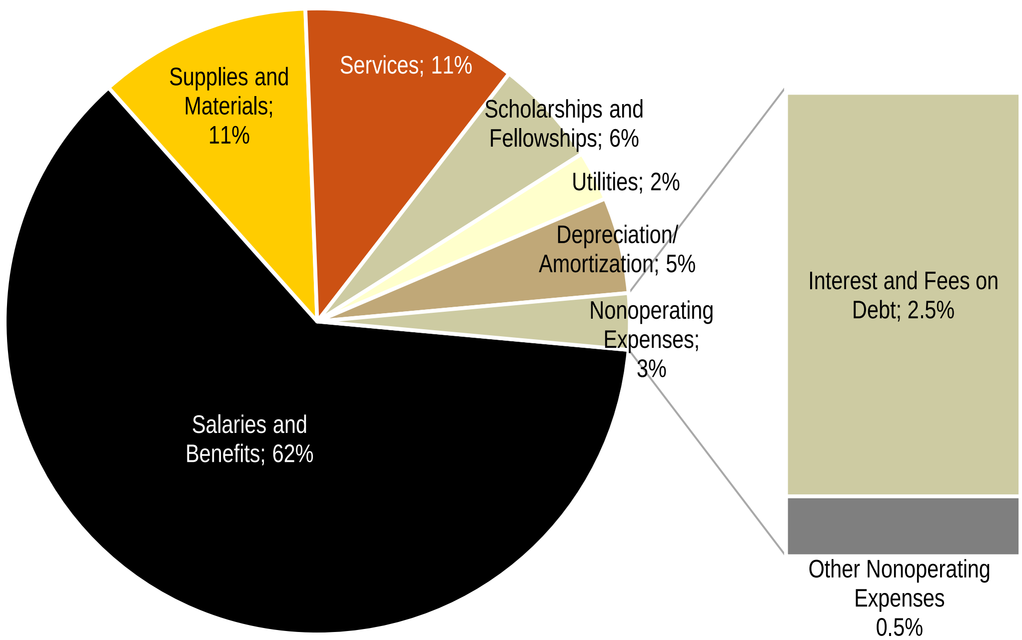
During the current fiscal year endowment principal balances increased by approximately $1.5 million. Three new endowed professorships were established totaling $500 thousand each. The University established the Blue Cross Blue Shield Public Health Professorship, the Blue Cross Blue Shield Communication Sciences & Disorders Professorship, and the Sykes Professorship in Music.

These changes were offset by a 91.6% decrease in capital gifts equating to a total decrease of $6.8 million. This significant difference from the prior year is related to a large donation received in the prior year. For the year ended June 30, 2016, the University recorded the donation of land totaling $7.0 million from the Appalachian Regional Health Care System. This property is the site of the Beaver College of Health Sciences currently under construction. Capital gifts received for fiscal year 2017 returned to more consistent levels.

Total Expenses

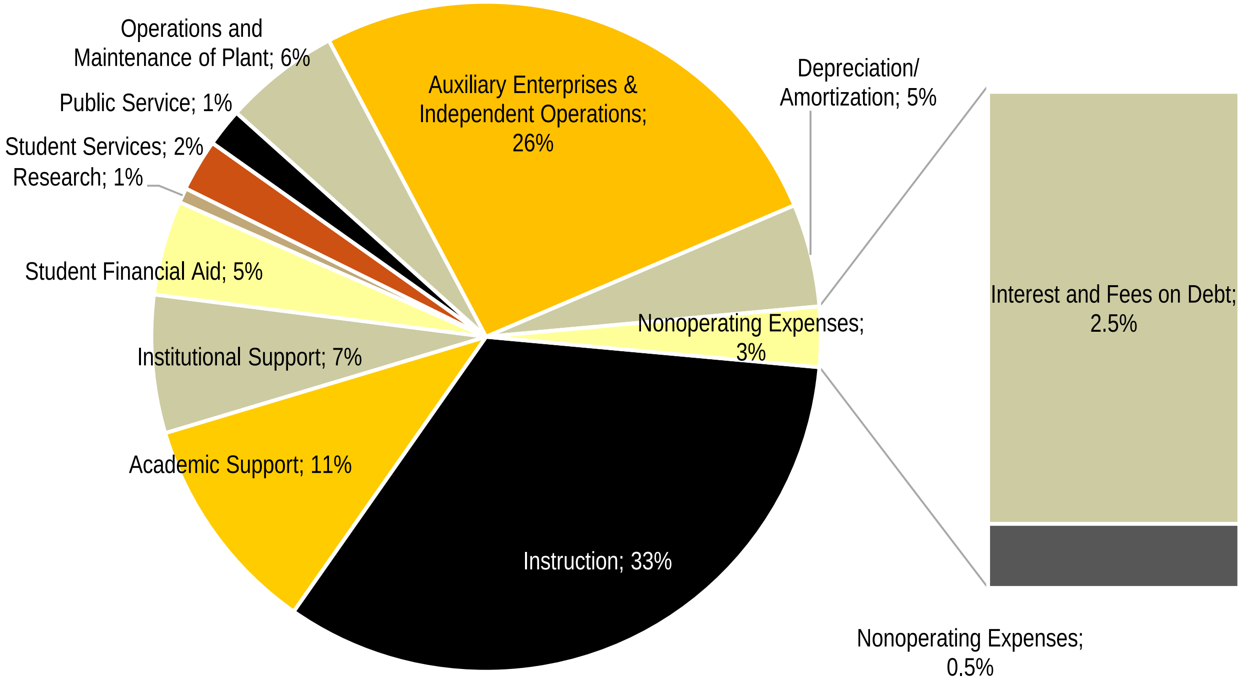
The Statement of Revenues, Expenses, and Changes in Net Position presents expense by natural classification. Figure 2.1 is a graphical representation of this natural classification and illustrates the types of activities that have generated expenses during the fiscal year ended June 30, 2017. As noted in the chart below salaries and benefits comprise a majority of the expenses for the instutuion and 62% of total expenses, which is indicative of the services the University provides in the form of instruction, academic, student, and institutional support.

Figure 2.1
2017 Total Expenses by Natural Classification
$406.3 Million



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

Figure 2.2
2017 Total Expenses by Function, $406.3 Million



Instruction and academic support comprise the largest proportion of expenses incurred. The next largest function in terms of percent of total expenses is auxiliary services, which also provide services and support to students. This function includes, but is not limited to housing and residence life, dining services, student union, recreational facilities, athletics, international programs, and the University bookstore.

Operating Expenses

Overall, operating expenses experienced a 7.3% increase totaling $26.7 million. The majority of this change is a $21.1 million increase for employee salaries and benefits. Significant increases in salary expenses include $6.4 million for administrative and faculty positions and $3.1 million for staff positions. For fiscal year 2017, the state legislature approved a 0.5% across the board bonus for all eligible employees. Additional merit bonuses for eligible employees were authorized.

In addition to legislative approved increases, the University funded market adjustments to certain job classes. Employees subject to the State Human Resources Act (SHRA) earning less than 85% of market averages had salary increases to bring them up to at least 85% of market rates as published by the North Carolina Office of Human Resource Services. Other groups of SHRA employees in pay bands ranging from $22 thousand to $51 thousand received increases to bring their annual salary up to either 90%, 95%, or 100% of market rates depending on their job class and family.

As discussed previously, changes in the University's share of the TSERS net pension liability and the differences between the University's contributions and its proportionate share of total contributions to TSERS during the measurement period is recognized as pension expense. The amount recognized for the year ended June 30, 2017 as pension expense totaled $11.2 million as compared to approximately $2.5 million expensed in the prior fiscal year representing an $8.7 million difference.

Nonoperating Expenses

Nonoperating expenses include interest and fees on debt and other nonoperating expenses. Total nonoperating expenses increased slightly from the previous year by 3.2%. This was a result of approximately $415 thousand less in interest expenses paid on bonds, notes, and capital leases than in the previous year. Over the past several fiscal years, the University has refinanced eligible general revenue bonds in addition to paying down one note for New River Light and Power and two capital leases. This decrease in expense was offset by increases in other nonoperating expenses related to the book value loss on the disposal of capital assets.

Capital Assets and Debt Administration

Capital assets placed into service from construction in progress primarily consisted of: $2.0 million for the electric utility system, $906 thousand for renovations to the New River Light and Power administration building, $807 thousand for Panhellenic Hall Fermentation Sciences, $609 thousand for Miles Annas renovation, $367 thousand for Belk Library renovation, $254 thousand for Belk Residence Hall, and $123 thousand for Anne Belk Hall.

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

- Residence halls, new construction: The University received bids on the project in excess of its $32 million authorization. Currently the University is evaluating a more comprehensive housing plan that includes additional buildings and sites in order to gain economies of scale and lower the costs of the project. The proceeds from the Appalachian State University General Revenue Bonds, Series 2016C issued for a replacement for Winkler Hall will be utilized as a part of this broader plan, and will still be used for construction of a residence hall to replace Winkler Hall. It is anticipated that the new residence hall will accommodate 352 students. Housing revenues will pay the debt service payments.

- Beaver College of Health Sciences: Construction on the College of Health Sciences, a 203,000 gross square foot academic center for allied health programs, is approximately 33% complete as of June 30, 2017. Specialty simulation labs, classrooms, and support space will bring the various departments within the College to a central location. Construction began in July 2016, and the building is slated for fall 2018 occupancy. The estimated construction budget is $80 million. Of that amount, $5 million was appropriated for advanced planning, and $5 million is planned to be raised from private donations. The University was appropriated $70 million in funds from the Connect NC bond and began receiving these funds in September of 2016.

- Howard Street Hall: This project is a $2.7 million renovation and up-fit of vacant space in an existing building that was formally the First Presbyterian Church. The University acquired this property in fiscal year 2008, and it currently houses the Lucy Brock Child Development Center. The renovation on the remaining space will provide much needed faculty office space and two new classrooms. Construction on this project was completed in August 2017.

The favorable bond market over the past several years has provided the University opportunities to refinance existing debt in addition to issuing new debt for capital projects at historically low interest rates. In fiscal year 2017, the University issued Appalachian State University General Revenue Bonds, Series 2016B, 2016C, and 2016D. Moody's assigned an Aa3 rating to the bonds.

The first issuance, Appalachian State University General Revenue Bonds, Series 2016B, provided $7.7 million to refinance Appalachian State University General Revenue Bonds, Series 2006A, which had an interest rate of 4.167%. The refunding will reduce total debt service payments by $1.0 million over the next 11 years representing an $864 thousand economic gain. The interest rate on the Appalachian State University General Revenue Bonds, Series 2016B is 2.45%.

The Appalachian State University General Revenue Bonds Series 2016C were issued to provide funding for a replacement for Winkler Residence Hall, which was demolished in fiscal year 2014. Par amount of the bonds issued was approximately $26 million with an interest rate of 3.22%. Appalachian State University General Revenue Bonds, Series 2016C will be paid by housing revenues over the next 30 years.

The last issuance for 2017 was the Appalachian State University General Revenue Bonds Series 2016D, which refunded approximately $11.2 million in UNC System Pool Bonds, Series 2009B that had an interest rate of 4.65%. This advanced refunding, with an interest rate of 2.713%, was undertaken to reduce debt service payments by approximately $1.6 million over the next 19 years. The University will realize an approximate $1.2 million economic gain.

For fiscal year 2017, debt service payments included bonds and notes payable for $13.9 million and $1.2 million for capital leases. Approximately $19.7 in general revenue bonds were refunded during the fiscal year.

In 2015, the North Carolina General Assembly passed the *Current Operations and Capital Improvements Appropriations Act.* This legislation added Article 5 to NC G.S. 116D requiring each constituent institution of the UNC System to provide a report to the UNC Board of Governors on current and anticipated debt levels. These campus reports are included in an annual debt capacity study provided to UNC General Administration, the Office of State Budget and Management, the North Carolina State Treasurer, and the Joint Legislative Commission on Government Operations. Key ratios and an estimated debt capacity for the University are provided as follows:

Table 2.0

Fiscal Year	Debt to Obligated Resources [1]	5-Year Payout [2]	Expendable Resources to Debt [3]	Debt Service to Operating Expenses [4]	Debt Capacity [5]
2017	1.14	26%	0.66	5.51%	$ 74,439,267
2018	1.11	27%	0.68	5.05%	84,307,258
2019	1.03	30%	0.73	5.03%	102,993,315
2020	0.95	32%	0.78	5.18%	122,548,788
2021	0.88	35%	0.85	5.07%	142,823,111

1. Debt to Obligated Resources; Legislatively required ratio that compares total outstanding debt to funds legally available to service debt. A decreasing ratio indicates strength.

2. 5-Year Payout Ratio; Legislatively required ratio that measures the University's debt scheduled to be retired in the next 5 years. An increasing ratio indicates strength.

3. Expendable Resources to Debt; This ratio measures the number of times liquid and expendable net position covers total outstanding debt. An increasing ratio indicates strength.

4. Debt Service to Operating Expenses; This ratio measures the University's debt service as a percent of total operating expenses. A decreasing ratio indicates strength.

5. The debt capacity calculation provides a general indication of the University's ability to take on additional debt. It is important to note that "debt capacity" is not the same as "debt affordability". Debt affordability takes into account other factors, both qualitative and quantitative, like project revenues and expense, costs of funds, and strategic priorities. The effects of issuing debt from the perspective of credit ratings is also difficult to determine. This is because the financial ratios are only a part of the factors used by ratings agencies to evaluate debt.

Economic Outlook

In general, North Carolina's economy has made progress since the end of the last recession. While overall economic activity remains below average, steady moderate growth is projected for the State as employment and personal income measures have stabilized over the past year and are showing signs of improvement.[1] These trends in the State's economy are often a factor in the amount of the General Fund budget allocated to the University. Changes in the University's budget reflect some growth as the economy improves.

The State budget is allocated to the general fund and does not include University trust funds like the University bookstore, dining services, residence life, New River Light & Power, athletics, and other auxiliary trust funds. As noted in Table 3.0 below, the base budget for the

[1] Boardman, Barry. "General Fund Revenue Consensus Forecast," February 2017, North Carolina General Assembly Fiscal Research Division.

2017-2018 fiscal year is set for approximately $236.4 million, which is funded by almost $134.7 million in state appropriations and almost $101.7 million primarily from budgeted tuition receipts. Added to the base, is $3.2 million for enrollment growth and $4.6 million for increases in employee salaries and benefits. Of these amounts, $6.8 million are from appropriations and approximately $1.0 million from receipts. Campus-initiated tuition increases add an additional $1.0 million. Nonrecurring items from appropriations totaling $152 thousand are added for teacher recruitment and scholarships.

Table 3.0
2017-2018 General Fund Budget

	Appropriations	Budgeted Receipts	Total General Fund
Base Budget	$ 134,672,993	$ 101,690,074	$ 236,363,067
Campus Initiated Tuition Increases		1,017,337	1,017,337
Enrollment Growth Funding	2,304,997	928,204	3,233,201
Employee Salaries & Benefits Adjustments	4,526,248	75,271	4,601,519
Teacher Recruitment (Nonrecurring)	74,604		74,604
UNC Campus Scholarships (Nonrecurring)	77,760		77,760
2017-2018 Budget	$ 141,656,602	$ 103,710,886	$ 245,367,488

For the 2017-2018 academic year, North Carolina G.S. 116-143.9 required the University to implement a fixed tuition plan. As a result of the new legislation, campus-initiated tuition did not change for in-state undergraduate students, however it did increase 2.0% for all other students. The increase for employee salaries includes a flat $1,000 for eligible staff subject to the SHRA, and an average increase of $1,476 for eligible faculty and staff exempt from the SHRA. Employee benefits included a $210 increase in the state health plan rate and a 0.8% increase in the TSERS rate.

Total student fee increases are limited to 3.0% per academic year (NC G.S. 116-143.10). General fees for the academic year 2017-2018 will increase by $84 per year for undergraduate and graduate students. These increases were allocated as follows; $31 for health services, $30 for education and technology, $22 for athletics operations, and $1 for arts and cultural programs. Dining services increased meal plans by $54 per year and the University bookstore's textbook rental program increased by $8 per year. Similar to the 2016-2017 academic year, there were no increases to fees that support debt service.

Enrollment and growth at the University continues to steadily increase. For the fall semester 2016, enrollment was 18,295 compared to 17,932 for fall of 2015. Main campus enrollment for undergraduates was 15,962 and 1,102 for graduates. The University's first year class for fall of 2016 totaled 3,125 and is the most ethnically diverse class in school history. New student enrollment diversity increased by 24.5% over the prior year. Enrollment increased in distance education programs as well. Undergraduate enrollment was 633 and graduate enrollment was 598. Enrollment growth is anticipated to follow an upward trend in the future, reaching more than 19,000 by 2019. For the 2016 fall semester, admissions received 18,062 in applications for first time freshmen, new transfers, and new graduate students.

Retention and graduation rates are other indicators of the current and future outlook for the University. For the academic year beginning in the fall of 2016, the freshman to sophomore retention rate was 87.1%, up from 85.8%. Six-year graduation rates increased from 70.9% to 71.1%.

Taking these factors into consideration, the University anticipates maintaining slow and steady growth with a focus on diversity, inclusion, and sustainability. These values are reflected in the University's strategic plan, *The Appalachian Experience: Envisioning a Just and Sustainable Future.*[2]

As a result, the University has received several forms of recognition. Princeton Review included the University in its Guide to 361 Green Colleges: 2016 Edition[3], Sierra magazine ranked the University 25th out of 201 of the nation's "greenest" colleges and universities[4], and the University earned a Utility Savings Initiative Achievement award from the NC Division of Environmental Assistance and Customer Service for reduced energy use[5]. This focus on environmental sustainability is important to the students who enroll at the University. A majority of incoming students indicated that a commitment to sustainability influenced their decision to attend the University.

Another important initiative in the strategic plan includes preparing students to participate in the global community. The Institute of International Education ranked the University third among 20 master's degree granting institutions for participating in short-term study abroad programs[6].

Lastly, the University earned the 2017 Military Friendly School designation by Victory Media. This important designation means that the University is included among other colleges, universities, and trade schools in the US who are focusing on initiatives to provide significant services to ensure the success of the Country's military service members, veterans, and spouses as students.[7]

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[2] Appalachian State University, "The Appalachian Experience: Envisioning a Just and Sustainable Future." 2014-2019 http://www.appstate.edu/about/strategic-plan/

[3] Appalachian State University News, "Appalachian named one of Princeton Review's Guide to Green Colleges: 2016 Edition," December 2016, http://www.news.appstate.edu/2016/12/12/green-colleges-3/

[4] Appalachian State University News, "Appalachian included in Sierra magazine's 2016 list of greenest colleges and universities," November 2016, http://www.news.appstate.edu/2016/11/21/cool-schools-2016/

[5] Appalachian State University News, "Appalachian State University recognized for reduced energy use," December 2016, http://news.appstate.edu/2016/12/22/energy-use/

[6] Appalachian State University News, "Appalachian ranks 3rd among master's degree-granting institutions for study abroad participation," November 2016, http://www.news.appstate.edu/2016/11/18/open-doors-2/

[7] Appalachian State University News, "Appalachian State University named to Victory Media's 2017 Military Friendly Schools list," December 2016, http://www.news.appstate.edu/2016/12/20/military-friendly-school-3/

FINANCIAL STATEMENTS

Appalachian State University
Statement of Net Position
June 30, 2017

ASSETS		
Current Assets:		
Cash and Cash Equivalents	$	73,456,427
Restricted Cash and Cash Equivalents		4,866,344
Receivables, Net (Note 5)		9,807,200
Inventories		12,649,389
Notes Receivable, Net (Note 5)		683,977
Other Assets		673,922
Total Current Assets		102,137,259
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		28,838,466
Endowment Investments		15,515,176
Restricted Investments		8,876,675
Other Investments		7,160,465
Notes Receivable, Net (Note 5)		2,984,665
Capital Assets - Nondepreciable (Note 6)		79,463,673
Capital Assets - Depreciable, Net (Note 6)		526,444,763
Total Noncurrent Assets		669,283,883
Total Assets		771,421,142
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Loss on Refunding		8,669,891
Deferred Outflows Related to Pensions		38,508,294
Total Deferred Outflows of Resources		47,178,185
LIABILITIES		
Current Liabilities:		
Accounts Payable and Accrued Liabilities (Note 7)		18,055,275
Due to Primary Government		48,732
Funds Held for Others		507,192
Unearned Revenue		7,217,279
Interest Payable		2,527,170
Long-Term Liabilities - Current Portion (Note 8)		13,766,739
Total Current Liabilities		42,122,387
Noncurrent Liabilities:		
Accounts Payable and Accrued Liabilities (Note 7)		181,877
Deposits Payable		205,408
Funds Held for Others		405,179
U. S. Government Grants Refundable		4,037,344
Long-Term Liabilities, Net (Note 8)		315,292,196
Total Noncurrent Liabilities		320,122,004
Total Liabilities		362,244,391
DEFERRED INFLOWS OF RESOURCES		
Deferred Inflows Related to Pensions		2,605,634

NET POSITION

Net Investment in Capital Assets		371,461,600
Restricted for:		
Nonexpendable:		
Research		20,000
Endowed Professorships		15,251,450
Loans		547,842
Expendable:		
Scholarships and Fellowships		696,419
Research		40,248
Endowed Professorships		8,964,528
Departmental Uses		57,606
Capital Projects		3,676,733
Restricted for Specific Programs		253,411
Unrestricted		52,779,465
Total Net Position	$	453,749,302

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

Appalachian State University
Statement of Revenues, Expenses, and Changes in Net Position
For the Fiscal Year Ended June 30, 2017 — *Exhibit A-2*

REVENUES	
Operating Revenues:	
Student Tuition and Fees, Net (Note 10)	$ 121,958,398
Federal Grants and Contracts	5,618,881
State and Local Grants and Contracts	178,963
Nongovernmental Grants and Contracts	984,233
Sales and Services, Net (Note 10)	86,425,143
Interest Earnings on Loans	31,337
Other Operating Revenues	1,803,610
Total Operating Revenues	217,000,565
EXPENSES	
Operating Expenses:	
Salaries and Benefits	251,762,925
Supplies and Materials	44,712,939
Services	45,148,094
Scholarships and Fellowships	22,407,839
Utilities	10,473,494
Depreciation/Amortization	20,202,800
Total Operating Expenses	394,708,091
Operating Loss	(177,707,526)
NONOPERATING REVENUES (EXPENSES)	
State Appropriations	138,091,358
Noncapital Grants - Student Financial Aid	33,443,957
Noncapital Grants	7,768,582
Noncapital Gifts	10,231,780
Investment Income (Net of Investment Expense of $148,834)	4,169,520
Interest and Fees on Debt	(10,060,353)
Other Nonoperating Expenses	(1,490,100)
Net Nonoperating Revenues	182,154,744
Income Before Other Revenues	4,447,218
Capital Appropriations	14,510,191
Capital Gifts	627,519
Additions to Endowments	1,506,619
Increase in Net Position	21,091,547
NET POSITION	
Net Position - July 1, 2016	432,657,755
Net Position - June 30, 2017	$ 453,749,302

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

Appalachian State University
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2017

CASH FLOWS FROM OPERATING ACTIVITIES		
Received from Customers	$	213,208,149
Payments to Employees and Fringe Benefits		(249,150,013)
Payments to Vendors and Suppliers		(98,367,037)
Payments for Scholarships and Fellowships		(22,407,839)
Loans Issued		(414,875)
Collection of Loans		734,839
Interest Earned on Loans		13,614
Student Deposits Received		5,168,182
Student Deposits Returned		(5,073,720)
Other Receipts		1,837,010
Net Cash Used by Operating Activities		(154,451,690)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State Appropriations		138,091,358
Noncapital Grants - Student Financial Aid		33,443,957
Noncapital Grants		6,245,875
Noncapital Gifts		9,238,828
Additions to Endowments		1,506,619
William D. Ford Direct Lending Receipts		92,074,859
William D. Ford Direct Lending Disbursements		(92,560,192)
Related Activity Agency Receipts		113,278
Related Activity Agency Disbursements		(97,243)
Other Disbursements		(117,930)
Net Cash Provided by Noncapital Financing Activities		187,939,409
CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES		
Proceeds from Capital Debt		26,324,356
Capital Appropriations		14,510,191
Proceeds from Sale of Capital Assets		11,526
Acquisition and Construction of Capital Assets		(27,403,347)
Principal Paid on Capital Debt and Leases		(11,257,471)
Interest and Fees Paid on Capital Debt and Leases		(8,729,738)
Net Cash Used by Capital Financing and Related Financing Activities		(6,544,483)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Sales and Maturities of Investments		500,613
Investment Income		910,283
Purchase of Investments and Related Fees		(6,796,162)
Net Cash Used by Investing Activities		(5,385,266)
Net Increase in Cash and Cash Equivalents		21,557,970
Cash and Cash Equivalents - July 1, 2016		85,603,267
Cash and Cash Equivalents - June 30, 2017	$	107,161,237

Appalachian State University
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2017

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

Operating Loss	$	(177,707,526)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation/Amortization Expense		20,202,800
Allowances and Write-Offs		(69,365)
Nonoperating Other Income		1,472,166
Changes in Assets and Deferred Outflows of Resources:		
Receivables, Net		(273,200)
Inventories		(295,492)
Notes Receivable, Net		319,964
Other Assets		(18,294)
Deferred Outflows for Pensions		(29,379,275)
Changes in Liabilities and Deferred Inflows of Resources:		
Accounts Payable and Accrued Liabilities		1,010,889
Due to Primary Government		3,346
Unearned Revenue		(1,639,061)
Net Pension Liability		33,787,376
Compensated Absences		189,896
Deposits Payable		(16,526)
Funds Held for Others		94,462
Deferred Inflows for Pensions		(2,133,850)
Net Cash Used by Operating Activities	$	(154,451,690)

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:		
Cash and Cash Equivalents	$	73,456,427
Restricted Cash and Cash Equivalents		4,866,344
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		28,838,466
Total Cash and Cash Equivalents - June 30, 2017	$	107,161,237

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through the Assumption of a Liability	$	10,408,871
Assets Acquired through a Gift		627,519
Change in Fair Value of Investments		3,254,875
Reinvested Distributions		(153,197)
Loss on Disposal of Capital Assets		(1,340,874)
Bond Issuance Cost Withheld		479,214
Amortization of Bond Premiums		(475,367)
Increase in Receivables Related to Nonoperating Income		2,008,041
Payments Made on Behalf of the University		(5,123,268)
Funds Escrowed to Decease Debt		21,170,195

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

Appalachian State University Discretely Presented Component Units
Statement of Financial Position
June 30, 2017 *Exhibit B-1*

	Appalachian State University Foundation, Inc.	Appalachian Student Housing Corporation
ASSETS		
Cash and Cash Equivalents	$ 2,495,459	$ 3,907,115
Contributions Receivable, Net	15,150,514	
Accounts Receivables, Net		2,815
Sales Tax Refund Receivable		2,633
Other Receivable	56,975	
Prepaid Expenses	3,631	82,378
Investments	100,627,077	
Real Estate Held for Investment	6,696,600	
Beneficial Interests in Perpetual Trusts	1,547,096	
Contributions Receivable from Trusts	2,184,457	
Contributions Receivable from Irrevocable Bequests	5,138,550	
Cash Surrender Value of Life Insurance	195,134	
In-Kind Gifts	8,004	
Property and Equipment, Net	3,217,748	19,543,792
Total Assets	$ 137,321,245	$ 23,538,733
LIABILITIES		
Accounts Payable and Accrued Expenses	$ 1,405,370	$ 398,012
Tenant Security Deposits		247,055
Deferred Income		87,355
Deferred Revenue	793	
Long-Term Debt	3,883,648	
Split Interest Agreement Obligations	1,822,552	
Total Liabilities	7,112,363	732,422
NET ASSETS		
Unrestricted	6,619,004	22,806,311
Temporarily Restricted	54,589,623	
Permanently Restricted	69,000,255	
Total Net Assets	130,208,882	22,806,311
Total Liabilities and Net Assets	$ 137,321,245	$ 23,538,733

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

Appalachian State University Discretely Presented Component Units
Statement of Activities
For the Fiscal Year Ended June 30, 2017

Exhibit B-2

	Appalachian State University Foundation, Inc.	Appalachian Student Housing Corporation
CHANGES IN UNRESTRICTED NET ASSETS		
Revenues and Gains:		
Contributions	$ 3,546,039	$ 0
Investment Income	1,209,431	
Net Rental income		4,512,503
Auxiliary Income	157,799	
Net Realized and Unrealized Gains on Investments	284,183	
Net Change in Beneficial Interests in Perpetual Trusts, Contributions Receivable from Trusts and Split Interest Agreement Obligations	(104,456)	
Other Income	14,282	85,298
Net Unrestricted Revenues and Gains	5,107,278	4,597,801
Net Assets Released from Restrictions:	11,282,273	
Net Unrestricted Revenues, Gains, and Other Support	16,389,551	4,597,801
Expenses:		
Program Services		
General University Support	7,324,246	
Student Financial Aid	4,076,373	
Alumni Affairs	151,091	
Housing Support		2,862,459
Other	351,242	
Support Services		
General and Administrative	733,625	
Fundraising	3,188,828	
Total Expenses	15,825,405	2,862,459
Other Income (Expenses)		
Interest Income		7,042
Loss on Disposal of Real Estate		(134,551)
Net Other Expenses		(127,509)
Increase in Unrestricted Net Assets	564,146	1,607,833
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS		
Revenues and Gains:		
Contributions	10,103,903	
Investment Loss	(1,192,327)	
Auxiliary Income	142,641	
Net Realized and Unrealized Gains on Investments	7,912,751	
Net Change in Beneficial Interests in Perpetual Trusts, Contributions Receivable from Trusts and Split Interest Agreement Obligations	102,393	
Other Income	9,390	
Net Temporarily Restricted Revenues and Gains	17,078,751	
Net Assets Released from Restrictions:	(11,282,273)	
Net Temporarily Restricted Revenues, Gains, and Other Support	5,796,478	
Net Decrease in Allowance for Doubtful Contributions Receivable	(924,377)	
Increase in Temporarily Restricted Net Assets	4,872,101	
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS		
Revenues and Gains:		
Contributions	1,358,325	
Investment Income	25,646	
Net Realized and Unrealized Gains on Investments	74,000	
Net Change in Beneficial Interests in Perpetual Trusts, Contributions Receivable from Trusts and Split Interest Agreement Obligations	222,295	
Total Permanently Restricted Revenues and Gains	1,680,266	
Net Decrease in Allowance for Doubtful Contributions Receivable	(29,494)	
Increase in Permanently Restricted Net Assets	1,650,772	
Increase in Net Assets	7,087,019	1,607,833
Net Assets at Beginning of Year	123,121,863	21,198,478
Net Assets at End of Year	$ 130,208,882	$ 22,806,311

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

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

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

The accompanying financial statements present all funds belonging to the University and its component units. While the Board of Governors of the University of North Carolina System has ultimate responsibility, the Chancellor, the Board of Trustees, and the Board of Trustees of the Endowment Fund have delegated responsibilities for financial accountability of the University's funds. The University's component units are discretely presented in the University's financial statements. See below for further discussion of the University's component units. Other related foundations and similar nonprofit corporations for which the University is not financially accountable are not part of the accompanying financial statements.

Discretely Presented Component Units – Appalachian State University Foundation, Inc. (Foundation) and Appalachian Student Housing Corporation (Corporation) are legally separate nonprofit corporations and are reported as discretely presented component units based on the nature and significance of their relationship to the University.

The Foundation acts primarily as a fundraising organization to supplement the resources that are available to the University in support of its programs. The Foundation board consists of 30 self-non-voting members, four ex officio voting members, and four ex officio non-voting members which are administrative officers of the University. Although the University does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, that the Foundation holds and invests are restricted to the activities of the University by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of the University, the Foundation is considered a component unit of the University and is reported in separate financial statements because of the difference in its reporting model, as described below.

The Corporation's primary function is to develop, finance, prepare, provide, and supervise residential housing facilities for students and employees of the University. The Corporation board consists of seven members of which three members are administrative officers of the University. Because the Corporation's sole purpose is to benefit the University, it is considered a component unit of the University and is reported in separate financial statements because of the difference in its reporting model, as described below. Included in the consolidated Statement of Activities are the operations of Mountaineer Hall, LLC, a 100 percent-owned limited liability company, formed April 21, 2010 to develop and construct a student housing facility on the campus of the University. On April 3, 2017, subsequent to the disbursement of all assets and payment of all obligations, Mountaineer Hall, LLC was dissolved.

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

During the year ended June 30, 2017, the Foundation distributed $11,407,219 to the University for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from the Vice Chancellor for University Advancement or the ASU Foundation President. The address is Dougherty Administration Building, 438 Academy Street, Boone, North Carolina 28608.

During the year ended June 30, 2017, the Corporation did not distribute any funds to the University. Complete financial statements for the Corporation can be obtained from the Vice Chancellor for Student Development at the same address listed above.

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

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

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

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

D. **Cash and Cash Equivalents** - This classification includes undeposited receipts, petty cash, cash on deposit with private bank accounts, cash on deposit with fiscal agents, and deposits held by the State Treasurer in the Short-Term Investment Fund (STIF). The STIF maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.

E. **Investments** – To the extent available, investments are recorded at fair value based on quoted market prices in active markets on a trade-date basis. Additional information regarding the fair value measurement of investments is disclosed in Note 3. Because of the inherent uncertainty in the use of estimates, values that are based on estimates may differ from the values that would have been used had a ready market existed for the investments. The net change in the value of investments is recognized as a component of investment income.

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

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

F. **Receivables** - Receivables consist of tuition and fees charged to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from the federal government, state and local governments, and private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants. Receivables are recorded net of estimated uncollectible amounts.

G. **Inventories** - Inventories, consisting of expendable supplies, are valued at cost using the first-in, first-out method. Merchandise for resale is valued using the retail inventory method. Rental textbooks are recorded at cost using specific identification (Serialized Rental Textbooks).

H. **Capital Assets** - Capital assets are stated at cost at date of acquisition or acquisition value at date of donation in the case of gifts. Donated capital assets acquired prior to July 1, 2015 are stated at fair value as of the date of donation. The value of assets constructed includes all material direct and indirect construction costs. Interest costs incurred are capitalized during the period of construction.

The University capitalizes assets that have a value or cost of $5,000 or greater at the date of acquisition and an estimated useful life of more than one year, except for other intangible assets which are capitalized when the value or cost is $100,000 or greater and electric utility assets which are capitalized in accordance with the guidelines from the North Carolina Utilities Commission.

Depreciation and amortization are computed using the straight-line method for the University and the composite rate method for the electric utility over the estimated useful lives of the assets in the following manner:

Asset Class	Estimated Useful Life
Buildings	10-100 years
Machinery and Equipment	2-30 years
General Infrastructure	10-75 years
Computer Software	2-30 years

The University's artwork and literary collections are capitalized at cost or acquisition value at the date of donation. Donated capital assets acquired prior to July 1, 2015 are stated at fair value as of the date of donation. These collections are considered inexhaustible and are therefore not depreciated.

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

J. **Noncurrent Long-Term Liabilities** - Noncurrent long-term liabilities include principal amounts of revenue bonds payable, net pension liability, notes payable, a capital lease obligation, and compensated absences that will not be paid within the next fiscal year.

Revenue bonds payable are reported net of unamortized premiums. The University amortizes bond premiums over the life of the bonds using the straight-line method that approximates the effective interest method. Deferred losses on refundings are amortized over the life of the old debt or new debt (whichever is shorter) using the straight-line method, and are aggregated as deferred outflows of resources on the Statement of Net Position. Issuance costs are expensed in the reporting period in which they are incurred.

The net pension liability represents the University's proportionate share of the collective net pension liability reported in the State of North Carolina's 2016 *Comprehensive Annual Financial Report.* This liability represents the University's portion of the collective total pension liability less the fiduciary net position of the Teachers' and State Employees' Retirement System. See Note 12 for further information regarding the University's policies for recognizing liabilities, expenses, and deferred outflows of resources and deferred inflows of resources 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. Deferred Outflows/Inflows of Resources – In addition to assets, the Statement of Net Position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The University has the following items that qualify for reporting in this category: deferred loss on refunding and deferred outflows related to pensions.

In addition to liabilities, the Statement of Net Position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until then. The University has deferred inflows related to pensions that qualifies in this category.

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

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

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

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

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

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

N. **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.

O. **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.

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

NOTE 2 - DEPOSITS AND INVESTMENTS

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

Cash on hand at June 30, 2017 was $303,210. The carrying amount of the University's deposits not with the State Treasurer was $360,585, and the bank balance was $418,667. 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, 2017, the University's bank balance was exposed to custodial credit risk as follows:

Uninsured and Uncollateralized	$ 79,979

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 as defined by GASB Statement No. 40, *Deposit and Investment Risk Disclosures – An Amendment of GASB Statement No. 3.*

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

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

Custodial Credit Risk: Custodial credit risk is the risk that, in the event of the failure of the counterparty, the University will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The University does not have a formal policy for custodial credit risk.

Short-Term Investment Fund - At June 30, 2017, the amount shown on the Statement of Net Position as cash and cash equivalents includes $106,497,442, which represents the University's equity position in the State Treasurer's Short-Term Investment Fund (STIF). The STIF (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission or subject to any other regulatory oversight and does not have a credit rating) had a weighted average maturity of 1.6 years as of June 30, 2017. Assets and shares of the STIF are valued at fair value. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's STIF) are included in the North Carolina Department of State Treasurer Investment Programs' separately issued audit report. This separately issued report can be obtained from the Department of State Treasurer, 3200 Atlantic Avenue, Raleigh, NC 27604 or can be accessed from the Department of State Treasurer's website at https://www.nctreasurer.com/ in the Audited Financial Statements section.

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

UNC Investment Fund, LLC - At June 30, 2017, the University's investments include $31,409,982 which represents the University's equity position in the UNC Investment Fund, LLC (UNC Investment Fund). The UNC Investment Fund is an external investment pool that is not registered with the Securities and Exchange Commission, does not have a credit rating, and is not subject to any regulatory oversight. Investment risks associated with the UNC Investment Fund are included in audited financial statements of the UNC Investment Fund, LLC which may be obtained from UNC Management Company, Inc., 1400 Environ Way, Chapel Hill, NC 27517.

Non-Pooled Investments - The following table presents investments by type and investments subject to interest rate risk at June 30, 2017, for the University's non-pooled investments.

Non-Pooled Investments

	Amount	Investment Maturity Less Than 1 Year
Investment Type		
Debt Securities		
Money Market Mutual Funds	$ 2,409	$ 2,409
Other Securities		
International Mutual Funds	6,881	
Equity Mutual Funds	32,819	
Domestic Stocks	82,717	
Foreign Stocks (denominated in US dollars)	17,508	
Total Non-Pooled Investments	$ 142,334	

At June 30, 2017, the University's non-pooled investments included $2,409 in money market mutual funds with credit exposure for which Standard and Poor's credit quality distribution rating was AAAm.

At June 30, 2017, the University's non-pooled investments were exposed to custodial credit risk as follows:

Investment Type	Held by Counterparty's Trust Dept or Agent not in University's Name
Domestic Stocks	$ 82,717
Foreign Stocks (denominated in US dollars)	17,508
Total	$ 100,225

Total Investments - The following table presents the total investments at June 30, 2017:

	Amount
Investment Type	
Debt Securities	
Money Market Mutual Funds	$ 2,409
Other Securities	
UNC Investment Fund	31,409,982
International Mutual Funds	6,881
Equity Mutual Funds	32,819
Domestic Stocks	82,717
Foreign Stocks (denominated in US dollars)	17,508
Total Investments	$ 31,552,316

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

	Amount
Short-Term Investment Fund	$ 25,212,822
Money Market Funds	254,022
Equity Investments	1,100,010
Fixed Income Investments	461,397
Alternative Investments	73,598,826
Total Investments	100,627,077
Real Estate Held for Investment	6,696,600
Total Investments and Real Estate Held for Investment	$ 107,323,677

C. Reconciliation of Deposits and Investments - A reconciliation of deposits and investments for the University as of June 30, 2017, is as follows:

Cash on Hand	$ 303,210
Amount of Deposits with Private Financial Institutions	360,585
Deposits in the Short-Term Investment Fund	106,497,442
Investments in the UNC Investment Fund	31,409,982
Non-Pooled Investments	142,334
Total Deposits and Investments	$ 138,713,553
Deposits	
Current:	
Cash and Cash Equivalents	$ 73,456,427
Restricted Cash and Cash Equivalents	4,866,344
Noncurrent:	
Restricted Cash and Cash Equivalents	28,838,466
Total Deposits	107,161,237
Investments	
Noncurrent:	
Endowment Investments	15,515,176
Restricted Investments	8,876,675
Other Investments	7,160,465
Total Investments	31,552,316
Total Deposits and Investments	$ 138,713,553

NOTE 3 - FAIR VALUE MEASUREMENTS

University - To the extent available, the University's investments are recorded at fair value as of June 30, 2017. GASB Statement No. 72, *Fair Value Measurement and Application*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Inputs are used in applying the various valuation techniques and take into account the assumptions that market participants use to make valuation decisions. Inputs may include price information, credit data, interest and yield curve data, and other factors specific to the financial instrument. Observable inputs reflect market data obtained from independent sources. In contrast, unobservable inputs reflect the entity's assumptions about how market participants would value the financial instrument. Valuation techniques should maximize the use of observable inputs to the extent available.

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

Level 1 — Investments whose values are based on quoted prices (unadjusted) for identical assets in active markets that a government can access at the measurement date.

Level 2 — Investments with inputs – other than quoted prices included within Level 1 – that are observable for an asset, either directly or indirectly.

Level 3 — Investments classified as Level 3 have unobservable inputs for an asset and may require a degree of professional judgment.

The following table summarizes the University's investments, including the Short-Term Investment Fund, within the fair value hierarchy at June 30, 2017:

		Fair Value Measurements Using		
	Fair Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Investments by Fair Value Level				
Short-Term Investment Fund	$ 106,497,442	$ 0	$ 106,497,442	$ 0
UNC Investment Fund	31,409,982			31,409,982
International Mutual Funds	6,881	6,881		
Equity Mutual Funds	32,819	32,819		
Domestic Stocks	82,717	82,717		
Foreign Stocks (denominated in US dollars)	17,508	17,508		
Total Investments Measured at Fair Value	$ 138,047,349	$ 139,925	$ 106,497,442	$ 31,409,982

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

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

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

Component Unit - The carrying value of the Foundation's receivables and accounts payable approximate the fair value of these financial instruments at June 30, 2017, due to the short maturities of these instruments. The carrying value of the revolving line of credit approximates the fair value due to the variable rate associated with the revolver. The carrying value of the fixed rate long-term debt is believed to approximate fair value as the terms were recently negotiated.

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

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

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

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

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

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

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

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

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

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

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

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

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

The following table summarizes significant assets and liabilities measured at fair value on a recurring basis as of June 30, 2017, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

	Fair Value Measurements at June 30, 2017 Using:			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Investments				
Short-Term Investments	$ 25,212,822	$ 0	$ 0	$ 25,212,822
Money Market Funds	254,022			254,022
Equities	1,100,010			1,100,010
Fixed Income	461,397			461,397
Alternative Investments (a)				
Strategic Investments				72,795,828
Alternative Income Fund				147,833
Private Equity - Real Estate				655,165
Total Alternative Investments				73,598,826
Total Financial Assets	$ 27,028,251	$ 0	$ 0	$ 100,627,077
Beneficial Interests in Perpetual Trusts	$ 0	$ 0	$ 1,547,096	$ 1,547,096
Contributions Receivable from Trusts	$ 0	$ 0	$ 2,184,457	$ 2,184,457
Receivable from Irrevocable Bequests	$ 0	$ 0	$ 5,138,550	$ 5,138,550
Split Interest Agreement Obligations	$ 0	$ 0	$ 1,822,552	$ 1,822,552

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

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

	Beneficial Interests in Perpetual Trusts	Contributions Receivable from Trusts	Contributions Receivable from Irrevocable Bequests	Split Interest Agreement Obligations	Total
Balance at July 1, 2016	$ 1,461,153	$ 1,950,207	$ 5,053,735	$ 1,969,850	$ 10,434,945
Contributions		71,540			71,540
Unrealized and Realized Gains	85,943	162,710			248,653
Payments on Split Interest Agreement Obligations				(260,533)	(260,533)
Net Change in Present Value			84,815	113,235	198,050
Balance at June 30, 2017	$ 1,547,096	$ 2,184,457	$ 5,138,550	$ 1,822,552	$ 10,692,655

The following table presents qualitative information about contributions receivable from trusts as of June 30, 2017:

	Fair Value	Technique	Discount Rate	Life Expectancy
Beneficial Interest in Charitable Remainder Trust	$ 2,184,457	Income approach	2.40%	3 - 16 years

Assets Measured at Fair Value on a Nonrecurring Basis:

The following table summarizes nonfinancial assets measured at fair value on a nonrecurring basis by classification within the fair value hierarchy as of June 30, 2017.

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Unrealized Gains
Assets				
Real Estate Held for Investment	$ 0	$ 0	$ 6,696,600	$ 0

The Foundation holds interests in donated and acquired real estate with an estimated fair value of $6,696,600. The amounts reported in the accompanying Statement of Financial Position include management's estimates of fair market value. Such estimates involve an analysis of various real estate market information, including the availability of contemporaneous appraisals. The changes in real estate during the fiscal year are summarized as follows:

	Amount
Balance at July 1, 2016	$ 6,250,000
Gifts of Real Estate	446,600
Balance at June 30, 2017	$ 6,696,600

The following table for June 30, 2017, sets forth a summary of the Foundation's investments with a reported net asset value.

Fair Value Estimated Using Net Asset Value per Share
June 30, 2017

Investment	Fair Value *	Unfunded Commitment	Redemption Frequency	Other Redemption Restrictions	Redemption Notice Period
Fund of Funds					
All Weather Fund (a)	$ 60,679	$ 0	Quarterly	Investor withdrawal requests on hold as fund is winding down.	90-day notice
Strategic Investment Fund (b)	72,735,149		Monthly and Quarterly	Spending distributions up to 7% of the beginning market value in any given fiscal year; withdrawals up to a cumulative amount of $10 million in a quarter; capital withdrawals > $10 million paid quarterly in $50 million increments until redemption is completed; withdrawal requests in excess of $200 million are paid out over a maximum of 8 quarters; complete withdrawals are subject to a 5% holdback pending completion of the fiscal year audit.	30-day notice, prior to the first day of the month (spending distributions and withdrawals < $10 million) 90-day notice, prior to the first day of the quarter (capital withdrawals > $10 million)
Alternative Income Fund (c)	147,833		Semi-annual	Initial lock-up of 2 years.	Written notice at least 95 days prior to redemption
Private Equity					
Private Real Estate Fund (d)	655,165	417,500	Quarterly	Initial lock-up of 10 years.	Written notice at least 45 days prior to redemption
Total	$ 73,598,826	$ 417,500			

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

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

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

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

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

NOTE 4 - ENDOWMENT INVESTMENTS

Investments of the University's endowment funds are pooled, unless required to be separately invested by the donor. If a donor has not provided specific instructions, state law permits the Board of Trustees to authorize for expenditure the net appreciation, realized and unrealized, of the investments of the endowment funds. Under the "Uniform Prudent Management of Institutional Funds Act" (UPMIFA), authorized by the North Carolina General Assembly on March 19, 2009, the Board may also appropriate expenditures from eligible nonexpendable balances if deemed prudent and necessary to meet program outcomes and for which such spending is not specifically prohibited by the donor agreements. However, a majority of the University's endowment donor agreements prohibit spending of nonexpendable balances and therefore the related nonexpendable balances are not eligible for expenditure. During the year, the Board did not appropriate expenditures from eligible nonexpendable endowment funds.

Investment return of the University's endowment funds is predicated on the total return concept (yield plus appreciation). Annual payouts from the University's endowment funds are based on an adopted spending policy which limits spending to 5% of a three-year rolling average of an individual endowment account's net position value at the end of the previous year. An earnings reserve must be held in each endowment account in an account equal to 5% of the original contribution. Earnings in excess of the reserve amount as calculated at the end of the fiscal year are eligible for pay out. Realized and unrealized net capital losses that invade the original corpus amounts are recovered from accumulated income before any spending budgets are calculated. Subject to these limitations, the budged spending amount will be based on the net position value of each individual endowment fund. At June 30, 2017, net appreciation of $8,723,410 was available to be spent, which was classified in net position as restricted expendable for endowed professorships as it is restricted for specific purposes.

NOTE 5 - RECEIVABLES

Receivables at June 30, 2017, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	$ 3,320,450	$ 767,920	$ 2,552,530
Student Sponsors	7,611		7,611
Accounts	2,902,759	80,976	2,821,783
Intergovernmental	4,187,503		4,187,503
Interest on Loans	237,773		237,773
Total Current Receivables	$ 10,656,096	$ 848,896	$ 9,807,200
Notes Receivable:			
Notes Receivable - Current:			
Federal Loan Programs	$ 672,083	$ 0	$ 672,083
Institutional Student Loan Programs	12,169	275	11,894
Total Notes Receivable - Current	$ 684,252	$ 275	$ 683,977
Notes Receivable - Noncurrent:			
Federal Loan Programs	$ 3,641,167	$ 656,502	$ 2,984,665

NOTE 6 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2017, is presented as follows:

	Balance July 1, 2016	Increases	Decreases	Balance June 30, 2017
Capital Assets, Nondepreciable:				
Land	$ 41,278,111	$ 122,683	$ 0	$ 41,400,794
Art, Literature, and Artifacts	3,375,303	140,903		3,516,206
Construction in Progress	8,652,336	32,441,880	6,547,543	34,546,673
Total Capital Assets, Nondepreciable	53,305,750	32,705,466	6,547,543	79,463,673
Capital Assets, Depreciable:				
Buildings	675,218,366	4,163,267	5,933,387	673,448,246
Machinery and Equipment	50,256,859	4,116,674	1,679,913	52,693,620
General Infrastructure	78,337,132	2,477,573	1,229,058	79,585,647
Computer Software	659,617			659,617
Total Capital Assets, Depreciable	804,471,974	10,757,514	8,842,358	806,387,130
Less Accumulated Depreciation/Amortization for:				
Buildings	207,871,461	15,396,822	4,638,830	218,629,453
Machinery and Equipment	30,506,727	2,503,443	1,363,415	31,646,755
General Infrastructure	28,396,539	2,262,156	1,228,775	29,429,920
Computer Software	195,860	40,379		236,239
Total Accumulated Depreciation/Amortization	266,970,587	20,202,800	7,231,020	279,942,367
Total Capital Assets, Depreciable, Net	537,501,387	(9,445,286)	1,611,338	526,444,763
Capital Assets, Net	$ 590,807,137	$ 23,260,180	$ 8,158,881	$ 605,908,436

During the year ended June 30, 2017, the University incurred $10,400,923 in interest costs related to the acquisition and construction of capital assets. Of this total, $9,992,292 was charged in interest expense, and $408,631 was capitalized.

The University has pledged the energy savings improvements installed in its buildings and other structures financed through the UNC System Guaranteed Energy Savings Installment Financing Agreement (Agreement) dated September 1, 2014. The carrying value of the energy savings improvement assets associated with the Agreement is $1,153,842 and is subject to security provisions in the Agreement to ensure timely debt service payments. Additional information regarding the Agreement can be found in Note 8.

NOTE 7 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2017, were as follows:

	Amount
Current Accounts Payable and Accrued Liabilities	
Accounts Payable	$ 12,573,977
Accrued Payroll	3,760,044
Contract Retainage	1,619,720
Intergovernmental Payables	101,534
Total Current Accounts Payable and Accrued Liabilities	$ 18,055,275
Noncurrent Accounts Payable and Accrued Liabilities	
Accounts Payable	$ 181,877

NOTE 8 - LONG-TERM LIABILITIES

University

A. Changes in Long-Term Liabilities - A summary of changes in the long-term liabilities for the year ended June 30, 2017, is presented as follows:

	Balance July 1, 2016	Additions	Reductions	Balance June 30, 2017	Current Portion
Revenue Bonds Payable	$ 221,520,000	$ 44,440,000	$ 30,350,000	$ 235,610,000	$ 11,070,000
Plus: Unamortized Premium	5,399,718	3,359,058	475,367	8,283,409	
Total Revenue Bonds Payable, Net	226,919,718	47,799,058	30,825,367	243,893,409	11,070,000
Net Pension Liability	21,345,035	33,787,376		55,132,411	
Notes Payable	20,535,527		2,984,478	17,551,049	735,553
Capital Leases Payable	1,253,091		1,221,861	31,230	15,215
Compensated Absences	12,260,940	9,204,587	9,014,691	12,450,836	1,945,971
Total Long-Term Liabilities, Net	$ 282,314,311	$ 90,791,021	$ 44,046,397	$ 329,058,935	$ 13,766,739

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

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

Purpose	Series	Interest Rate	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2017	Principal Outstanding June 30, 2017	See Table Below
Revenue Bonds Payable							
Utility System							
ASU Utility System Revenue Bonds	2011	3.14%	12/20/2021	$ 2,700,000	$ 1,485,000	$ 1,215,000	
ASU Utility System Revenue Bonds	2016	2.23%	05/05/2026	3,650,000	365,000	3,285,000	
Total Utility System				6,350,000	1,850,000	4,500,000	(1)
The University of North Carolina System Pool Revenue Bonds							
Utility System	(A)	4.28%	10/01/2023	19,230,000	6,790,000	12,440,000	
Cannon Hall Renovation	(A)	4.69%	10/01/2018	8,520,000	7,975,000	545,000	
Stadium Parking	(A)	4.69%	10/01/2018	3,350,000	3,135,000	215,000	
New Field House Complex	(A)	4.69%	10/01/2018	20,600,000	19,290,000	1,310,000	
Stadium East Stands	(B)	4.65%	10/01/2019	8,370,000	7,575,000	795,000	
Frank Hall Renovation	(B)	4.65%	10/01/2019	7,060,000	6,390,000	670,000	
Cone Residence Hall	(C)	4.35%	10/01/2035	8,880,000	1,355,000	7,525,000	
Bookstore Bonds	(C)	3.76%	10/01/2027	5,000,000	1,525,000	3,475,000	
East Stands and Field House	(C)	4.35%	10/01/2035	7,875,000	1,205,000	6,670,000	
Total The University of North Carolina System Pool Revenue Bonds				88,885,000	55,240,000	33,645,000	
ASU General Revenue Bonds							
ASU General Revenue Bonds - Housing, Athletics, Parking	2005	4.54%	07/15/2018	50,915,000	48,915,000	2,000,000	
ASU General Revenue Bonds - Housing, Student Union, Steam Tunnels	2011	4.07%	10/01/2036	60,435,000	6,925,000	53,510,000	
ASU General Revenue Bonds - Housing, Athletics, Student Recreation Center	2012	2.84%	05/01/2028	26,495,000	5,885,000	20,610,000	
ASU General Revenue Bonds - Housing, Athletics, Parking	2014A	3.35%	07/15/2039	22,540,000	2,305,000	20,235,000	
ASU General Revenue Taxable Bonds - Housing, Athletics, Parking	2014B	2.95%	07/15/2025	12,965,000	1,400,000	11,565,000	
ASU General Revenue Bonds - Housing, Dining	2014C	2.77%	10/01/2031	21,210,000	70,000	21,140,000	
ASU General Revenue Bonds - Housing, Athletics, Parking	2016A	2.45%	10/01/2033	23,965,000		23,965,000	
ASU General Revenue Bonds - Housing, Student Recreation Center	2016B	2.45%	10/01/2026	7,700,000		7,700,000	
ASU General Revenue Bonds - Housing	2016C	3.22%	10/01/2046	25,845,000		25,845,000	
ASU General Revenue Bonds - Housing, Athletics	2016D	2.71%	10/01/2034	10,895,000		10,895,000	
Total General Revenue Bonds				262,965,000	65,500,000	197,465,000	
Total Revenue Bonds Payable (principal only)				$ 358,200,000	$ 122,590,000	235,610,000	
Plus: Unamortized Premium						8,283,409	
Total Revenue Bonds Payable, Net						$ 243,893,409	

(A) The University of North Carolina System Pool Revenue Bonds, Series 2008A
(B) The University of North Carolina System Pool Revenue Bonds, Series 2009B
(C) The University of North Carolina System Pool Revenue Bonds, Series 2010B-1

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

			Current Year		
Ref	Revenue Source	Total Future Revenues Pledged	Revenues Net of Expenses	Principal	Interest
(1)	Electric Utilities	$ 4,957,081	$ 1,069,408	$ 635,000	$ 110,012

C. Annual Requirements - The annual requirements to pay principal and interest on the long-term obligations at June 30, 2017, are as follows:

	Annual Requirements			
	Revenue Bonds Payable		Notes Payable	
Fiscal Year	Principal	Interest	Principal	Interest
2018	$ 11,070,000	$ 9,291,168	$ 735,553	$ 77,845
2019	11,530,000	8,806,249	1,922,859	332,602
2020	12,255,000	8,330,818	1,983,792	292,865
2021	12,795,000	7,783,842	1,990,443	249,462
2022	13,265,000	7,206,567	2,067,104	212,152
2023-2027	66,605,000	27,060,072	7,289,147	591,730
2028-2032	53,280,000	15,042,553	1,562,151	31,149
2033-2037	37,165,000	6,247,313		
2038-2042	8,945,000	2,036,497		
2043-2047	8,700,000	721,069		
Total Requirements	$ 235,610,000	$ 92,526,148	$ 17,551,049	$ 1,787,805

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

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

On July 5, 2016, the University issued $7,700,000 in Appalachian State University General Revenue Bonds, Series 2016B with an average interest rate of 1.905%. The bonds were issued for a current refunding of $8,520,000 of outstanding UNC System Pool Revenue Bonds, Series 2006A with an average interest rate of 4.167%. The refunding was undertaken to reduce total debt service payments by $992,023 over the next 11 years and resulted in an economic gain of $864,121.

On November 16, 2016, the University issued $10,895,000 in Appalachian State University General Revenue Bonds, Series 2016D with an average interest rate of 2.713%. The bonds were issued to advance refund $11,175,000 of outstanding UNC System Pool Revenue Bonds, Series 2009B with an average interest rate of 4.646%. The net proceeds of the refunding bonds (along with other resources) were used to purchase U.S. government securities. These securities were deposited into an irrevocable trust to provide for all future debt service payments on the refunded bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the University's Statement of Net Position. This advance refunding was undertaken to reduce total debt service payments by $1,577,355 over the next 19 years and resulted in an economic gain of $1,199,455. At June 30, 2017, the outstanding balance was $11,175,000 for the defeased UNC Pooled Revenue Bonds, Series 2009B.

Prior Year Defeasances - During prior years, the University defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the University's financial statements. At June 30, 2017, the outstanding balance of prior year defeased bonds was $23,735,000.

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

Purpose	Financial Institution	Interest Rate	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2017	Principal Outstanding June 30, 2017
Energy Savings Project	Sun Trust Bank	2.27%	04/29/2022	$ 5,263,401	$ 2,550,147	$ 2,713,254
Energy Savings Project	T D Bank	1.99%	07/01/2027	16,499,917	2,919,455	13,580,462
UNC System Guaranteed Energy Savings Project	Banc of America Public Capital Corp	1.84%	02/14/2023	1,495,951	238,618	1,257,333
Total Notes Payable				$ 23,259,269	$ 5,708,220	$ 17,551,049

Component Unit - Effective March 6, 2015, the Appalachian State University Foundation, Inc. (Foundation) entered into a revolving line of credit agreement with a financial institution for up to $2,000,000 that expires and is payable on March 6, 2020. The line bears interest at a variable interest rate of LIBOR plus 1.25%, and is collateralized by outstanding pledge commitments. As of June 30, 2017, $92,459 was borrowed against the revolving line of credit. The interest rate as of June 30, 2017 was 2.34%.

The Foundation entered into a future advance loan agreement with a financial institution on March 5, 2012, to finance the renovation of The Schaefer Center for the Performing Arts. The Foundation assigned donor pledges made for purposes of the renovation to the bank as collateral for the loan. The outstanding balance as of June 30, 2017, was $3,791,189. The note is payable in annual installments of $487,585 including principal and interest due January 15 of each year with all remaining principal and interest due January 15, 2027. The loan carries an interest rate of 4.10%.

The Foundation entered into a loan agreement with a financial institution on February 8, 2017 for up to $4,000,000 to finance a video boards project. The loan is repayable in monthly installments beginning in October 2017 and ending in September 2022. The loan carries an interest rate of 2.76%. As of June 30, 2017, the Foundation has not borrowed any funds for this project.

Aggregate maturities required on notes payable as of June 30, 2017 are due in future years as follows:

Years	Amount
2018	$ 329,987
2019	343,705
2020	450,451
2021	372,560
2022	388,361
Thereafter	1,998,584
	$ 3,883,648

NOTE 9 - LEASE OBLIGATIONS

A. Capital Lease Obligation – A capital lease obligation relating to equipment is recorded at the present value of the minimum lease payments. Future minimum lease payments under the capital lease obligation consist of the following at June 30, 2017:

Fiscal Year	Amount
2018	$ 16,855
2019	16,855
Total Minimum Lease Payments	33,710
Amount Representing Interest (7.11% Rate of Interest)	2,480
Present Value of Future Lease Payments	$ 31,230

Equipment acquired under the capital lease amounted to $76,726 at June 30, 2017. Depreciation for the capital assets associated with the capital lease is included in depreciation expense, and accumulated depreciation for assets acquired under the capital lease totaled $19,069 at June 30, 2017.

B. Operating Lease Obligations - The University entered into operating leases for equipment, office space, and other facilities. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2017:

Fiscal Year		Amount
2018	$	1,101,729
2019		471,887
2020		379,619
2021		312,283
2022		312,283
2023-2027		1,561,415
2028-2029		390,354
Total Minimum Lease Payments	$	4,529,570

Rental expense for all operating leases during the year was $1,978,941.

NOTE 10 - REVENUES

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

	Gross Revenues	Internal Sales Eliminations	Less Scholarship Discounts	Less Allowance for Uncollectibles	Net Revenues
Operating Revenues:					
Student Tuition and Fees, Net	$ 148,623,057	$ 0	$ 26,593,408	$ 71,251	$ 121,958,398
Sales and Services:					
Sales and Services of Auxiliary Enterprises:					
Residential Life	$ 27,849,448	$ 833,511	$ 4,717,841	$ 0	$ 22,298,096
Dining	20,336,576	1,176,662	2,770,014		16,389,900
Student Union Services	1,400,706	72,747			1,327,959
Health, Physical Education, and Recreation Services	1,127,314	29,905		18,653	1,078,756
Bookstore	10,815,928	976,153	795,802	6,550	9,037,423
Parking	4,488,382	74,458			4,413,924
Camp Programs	3,546,882	44,099			3,502,783
Steam Utility System	5,736,410	5,736,410			
Athletic	10,922,944	10,178			10,912,766
Other	4,132,384	2,509,733	859,066	77,613	685,972
Sales and Services of Education and Related Activities	6,501,098	1,167,836	574,079		4,759,183
New River Light and Power	16,267,121	4,229,054		19,686	12,018,381
Total Sales and Services, Net	$ 113,125,193	$ 16,860,746	$ 9,716,802	$ 122,502	$ 86,425,143

NOTE 11 - OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation/ Amortization	Total
Instruction	$ 126,294,912	$ 3,773,562	$ 4,605,210	$ 592,656	$ 171	$ 0	$ 135,266,511
Research	1,402,550	328,168	1,162,401	5,730	448		2,899,297
Public Service	3,477,852	158,384	3,383,034	446,053	2,678		7,468,001
Academic Support	30,441,316	6,269,733	6,147,138	378,318	9,019		43,245,524
Student Services	8,479,375	501,822	1,052,409	141,590			10,175,196
Institutional Support	21,074,405	1,262,299	4,686,773		19,189		27,042,666
Operations and Maintenance of Plant	14,083,613	526,392	2,875,882		5,284,824		22,770,711
Student Financial Aid	454,024		78,370	18,020,184			18,552,578
Auxiliary Enterprises	44,409,307	22,803,937	20,372,225	2,823,308	5,157,165		95,565,942
New River Light and Power	1,645,571	9,088,642	784,652				11,518,865
Depreciation/Amortization						20,202,800	20,202,800
Total Operating Expenses	$ 251,762,925	$ 44,712,939	$ 45,148,094	$ 22,407,839	$ 10,473,494	$ 20,202,800	$ 394,708,091

NOTE 12 - PENSION PLANS

A. Defined Benefit Plan

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

Benefits Provided: TSERS provides retirement and survivor benefits. Retirement benefits are determined as 1.82% of the member's average final compensation times the member's years of creditable service. A member's average final compensation is calculated as the average of a member's four highest consecutive years of compensation. General employee plan members are eligible to retire with full retirement benefits at age 65 with five years of creditable service, at age 60 with 25 years of creditable service, or at any age with 30 years of creditable service. General employee plan members are eligible to retire with partial retirement benefits at age 50 with 20 years of creditable service or at age 60 with five years of creditable service. Survivor benefits are available to eligible beneficiaries of general members who die while in active service or within 180 days of their last day of service and who also have either completed 20 years of creditable service regardless of age, or have completed five years of service and have reached age 60. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions. The plan does not provide for automatic post-retirement benefit increases. Increases are contingent upon actuarial gains of the plan.

Contributions: Contribution provisions are established by General Statute 135-8 and may be amended only by the North Carolina General Assembly. Employees are required to contribute 6% of their annual pay. The contribution rate for employers is set each year by the North Carolina 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, 2017 was 9.98% of covered payroll. Employee contributions to the pension plan were $5,384,234, and the University's contributions were $8,955,776 for the year ended June 30, 2017.

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 2016 *Comprehensive Annual Financial*

Report. An electronic version of this report is available on the North Carolina Office of the State Controller's website at http://www.osc.nc.gov/ 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 Fixed Income Asset Class includes the Long-Term Investment and External Fixed Income Investment Portfolios. The Global Equity Asset Class includes the Equity Investment Portfolio. 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 2016 *Comprehensive Annual Financial Report*.

Net Pension Liability: At June 30, 2017, the University reported a liability of $55,132,411 for its proportionate share of the collective net pension liability. The net pension liability was measured as of June 30, 2016. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2015, and update procedures were used to roll forward the total pension liability to June 30, 2016. 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, 2016, the University's proportion was 0.59985%, which was an increase of 0.02064 from its proportion measured as of June 30, 2015.

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	12/31/2015
Inflation	3%
Salary Increases*	3.50% - 8.10%
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, 2015 valuations were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014.

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, 2016 (the valuation date) are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return
Fixed Income	1.4%
Global Equity	5.3%
Real Estate	4.3%
Alternatives	8.9%
Credit	6.0%
Inflation Protection	4.0%

The information in the preceding table is based on 30-year expectations developed with the consulting actuary and is part of the asset, liability, and investment policy of 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 3.05%. Return projections do not include any excess return expectations over benchmark averages. 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 at June 30, 2016 calculated using the discount rate of 7.25%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.25%) or 1-percentage point higher (8.25%) than the current rate:

Net Pension Liability		
1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
$ 103,693,412	$ 55,132,411	$ 14,299,266

Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions: For the year ended June 30, 2017, the University recognized pension expense of $11,204,684. At June 30, 2017, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Employer Balances of Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions by Classification:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Actual and Expected Experience	$ 0	$ 2,605,634
Changes of Assumptions	8,130,691	
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	19,661,985	
Change in Proportion and Differences Between Agency's Contributions and Proportionate Share of Contributions	1,759,842	
Contributions Subsequent to the Measurement Date	8,955,776	
Total	$ 38,508,294	$ 2,605,634

The amount of $8,955,776 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, 2018. 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
2018	$ 4,832,717
2019	4,890,619
2020	11,094,820
2021	6,128,728
Total	$ 26,946,884

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

Participants in the ORP are immediately vested in the value of employee contributions. The value of employer contributions is vested after five years of participation in the ORP. 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, 2017, 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 $195,799,024, of which $82,820,473 was covered under the Optional Retirement Program. Total employer and employee contributions for pension benefits for the year were $5,664,920 and $4,969,228, respectively. The amount of expense recognized in the current year related to ORP is equal to the employer contributions. The amount of forfeitures reflected in pension expense was $156,684 and the amount of liability for ORP was $33,570.

NOTE 13 - OTHER POSTEMPLOYMENT BENEFITS

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

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

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

For the period July 1, 2016 through December 31, 2016, the University contributed 5.60% of the covered payroll under TSERS and ORP to the Fund, and for the period January 1, 2017 through June 30, 2017, the University contributed 6.02% of the covered payroll under TSERS and ORP to the Fund. Required contribution rates for the years ended June 30, 2016, and 2015, were 5.60% and 5.49%, respectively. The University made 100% of its annual required contributions to the Plan for the years ended June 30, 2017, 2016, and 2015, which were $10,025,603, $9,210,050, and $8,743,687, 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 on the North Carolina Office of the State Controller's website at http://www.osc.nc.gov/ 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, 2017, the University made a statutory contribution of .38% of covered payroll under TSERS and ORP to the DIPNC. Required contribution rates for the years ended June 30, 2016, and 2015, were .41% in both years. The University made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2017, 2016, and 2015, which were $655,719, $674,307, and $652,989, respectively. The University assumes no liability for long-term disability benefits under the Plan other than its contribution.

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

NOTE 14 - RISK MANAGEMENT

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

A. Employee Benefit Plans

1. State Health Plan

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

2. Death Benefit Plan of North Carolina

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

B. Other Risk Management and Insurance Activities

1. Automobile, Fire, and Other Property Losses

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

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

2. Public Officers' and Employees' Liability Insurance

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

University pays the premium, based on a composite rate, directly to the private insurer.

3. Employee Dishonesty and Computer Fraud

The University is protected for losses from employee dishonesty and computer fraud. This coverage is with a private insurance company and is handled by the North Carolina Department of Insurance. Universities are charged a premium by the private insurance company. Coverage limit is $5,000,000 per occurrence. The private insurance company pays 90% of each loss less a $100,000 deductible.

4. Statewide Workers' Compensation Program

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

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

5. Other Insurance Held by the University

The University retained the following risks as of June 30, 2017:

The University purchased other authorized coverage from private insurance companies through the North Carolina Department of Insurance. Health care coverage is provided to participants in international educational and study abroad programs through the Preferred Health Plan for the University of North Carolina System for participants engaged in the programs. All exchange students and visitors are required to have medical insurance in effect for themselves and any accompanying spouse and/or dependents. The maximum coverage for sickness or injury is $150,000 for the international student participants and any accompanying spouse and/or dependents and $350,000 for the study abroad participants and any accompanying souse and/or dependents. The period of coverage deductible per injury or sickness is $100 and $0, respectively.

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

NOTE 15 - COMMITMENTS AND CONTINGENCIES

A. Commitments - The University has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were $46,886,355 and on other purchases were $3,354,708 at June 30, 2017.

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

C. Other Contingent Receivables - The University has received notification of other gifts and grants for which funds have not been disbursed by the resource provider and for which conditions attached to the gift or grant have not been satisfied or, in the case of permanent endowments, cannot begin to be satisfied. In accordance with accounting principles generally accepted in the United States of America, these amounts have not been recorded on the accompanying financial statements. The purpose and amount of other contingent receivables at year-end are as follows:

Purpose	Amount
David A. Thompson Professorship in Applied Investments	$ 284,102
Harry M. Davis Distinguished Professorship in Banking	358,709
Total	$ 642,811

NOTE 16 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2017, the University implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 80, *Blending Requirements for Certain Component Units – An Amendment of GASB Statement No. 14*

GASB Statement No. 82, *Pension Issues – An amendment of GASB Statement No. 67, No. 68, and No. 73*

GASB Statement No. 80 clarifies the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, *The Financial Reporting Entity,* as amended. This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units.*

GASB Statement No. 82 addresses certain issues with respect to Statements No. 67, *Financial Reporting for Pension Plans* , No. 68, *Accounting and Financial Reporting for Pensions,* and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68.* Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

NOTE 17 - SUBSEQUENT EVENT

On October 1, 2017, the Board of Trustees of the Endowment Fund (Endowment Board) entered into a $15,475,000 zero percent interest note payable with the County to acquire 70 acres that was the former site of Watauga High School. At closing, the Endowment Board transferred title to 3.22 acres of land and a building to the County that is planned to be the future site of recreational facilities for Watauga County Parks and Recreation. Payments on the note of $800,000 will begin on July 1, 2022 and will end on July 1, 2039 with a final payment of $1,075,000 due on July 1, 2040. The University is currently developing a comprehensive plan for the use of the land acquired.

Required Supplementary Information

Appalachian State University
Required Supplementary Information
Schedule of the Proportionate Net Pension Liability
Teachers' and State Employees' Retirement System
Last Four Fiscal Years — *Exhibit C-1*

	2016	2015	2014	2013
Proportionate Share Percentage of Collective Net Pension Liability	0.59985%	0.57921%	0.56360%	0.55660%
Proportionate Share of TSERS Collective Net Pension Liability	$ 55,132,411	$ 21,345,035	$ 6,607,765	$ 33,791,292
Covered Payroll	$ 85,376,440	$ 83,116,332	$ 79,589,512	$ 79,073,247
Net Pension Liability as a Percentage of Covered Payroll	64.58%	25.68%	8.30%	42.73%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	87.32%	94.64%	98.24%	90.60%

Appalachian State University
Required Supplementary Information
Schedule of University Contributions
Teachers' and State Employees' Retirement System
Last Ten Fiscal Years — *Exhibit C-2*

	2017	2016	2015	2014	2013
Contractually Required Contribution	$ 8,955,776	$ 7,811,944	$ 7,605,144	$ 6,916,329	$ 6,586,802
Contributions in Relation to the Contractually Determined Contribution	8,955,776	7,811,944	7,605,144	6,916,329	6,586,802
Contribution Deficiency (Excess)	$ 0	$ 0	$ 0	$ 0	$ 0
Covered Payroll	$ 89,737,238	$ 85,376,440	$ 83,116,332	$ 79,589,512	$ 79,073,247
Contributions as a Percentage of Covered Payroll	9.98%	9.15%	9.15%	8.69%	8.33%

	2012	2011	2010	2009	2008
Contractually Required Contribution	$ 5,756,472	$ 3,982,952	$ 2,838,461	$ 2,621,773	$ 2,163,331
Contributions in Relation to the Contractually Determined Contribution	5,756,472	3,982,952	2,838,461	2,621,773	2,163,331
Contribution Deficiency (Excess)	$ 0	$ 0	$ 0	$ 0	$ 0
Covered Payroll	$ 77,371,931	$ 80,790,099	$ 79,382,154	$ 78,023,010	$ 70,718,284
Contributions as a Percentage of Covered Payroll	7.44%	4.93%	3.57%	3.36%	3.06%

Note: Changes in benefit terms, methods, and assumptions are presented in the Notes to Required Supplementary Information (RSI) schedule following the pension RSI tables.

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

Changes of Benefit Terms:

Cost of Living Increase

2015	**2014**	**2013**	**2012**	**2011**	**2010**	**2009**	**2008**	**2007**	**2006**
N/A	N/A	1.00%	N/A	N/A	N/A	2.20%	2.20%	3.00%	2.00%

Changes of assumptions. In 2008, 2012, and 2015, the actuarial assumptions were updated to more closely reflect actual experience. In 2015, the North Carolina Retirement Systems' consulting actuaries performed the quinquennial investigation of each retirement systems' actual demographic and economic experience (known as the "Experience Review"). The Experience Review provides the basis for selecting the actuarial assumptions and methods used to determine plan liabilities and funding requirements. The most recent Experience Review examined each plan's experience during the period between January 1, 2010, and December 31, 2014. Based on the findings, the Board of Trustees of the Teachers' and State Employees' Retirement System adopted a number of new actuarial assumptions and methods. The most notable changes to the assumptions include updates to the mortality tables and the mortality improvement projection scales to reflect reduced rates of mortality and significant increases in mortality improvements. These assumptions were adjusted to reflect the mortality projection scale MP-2015, released by the Society of Actuaries in 2015. In addition, the assumed rates of retirement, salary increases, and rates of termination from active employment were reduced to more closely reflect actual experience.

The Notes to Required Supplementary Information reflect the most recent available information included in the State of North Carolina's 2016 *Comprehensive Annual Financial Report* .

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
Appalachian State University
Boone, North Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Appalachian State University (University), a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina, and its discretely presented component units, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated December 4, 2017. Our report includes a reference to other auditors who audited the financial statements of Appalachian State University Foundation, Inc. and Appalachian Student Housing Corporation, as described in our report on the University's financial statements. The financial statements of those entities were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with those entities.

<u>Internal Control Over Financial Reporting</u>

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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we do not express an opinion on the effectiveness of the University's internal control.

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Beth A. Wood

Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

December 4, 2017

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For additional information contact:
Brad Young
Director of External Affairs
919-807-7513

This audit required 629 hours at an approximate cost of $64,787.