

# STATE OF NORTH CAROLINA

**THE UNIVERSITY OF NORTH CAROLINA AT ASHEVILLE**

**ASHEVILLE, NORTH CAROLINA**

**FINANCIAL STATEMENT AUDIT REPORT**

**FOR THE YEAR ENDED JUNE 30, 2012**

**OFFICE OF THE STATE AUDITOR**

**BETH A. WOOD, CPA**

**STATE AUDITOR**

**THE UNIVERSITY OF NORTH CAROLINA AT ASHEVILLE**

**ASHEVILLE, NORTH CAROLINA**

**FINANCIAL STATEMENT AUDIT REPORT**

**FOR THE YEAR ENDED JUNE 30, 2012**

**BOARD OF GOVERNORS**

**THE UNIVERSITY OF NORTH CAROLINA**

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

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

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**AUDITOR'S TRANSMITTAL**

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The Honorable Beverly E. Perdue, Governor  
The General Assembly of North Carolina  
Board of Trustees, The University of North Carolina at Asheville

We have completed a financial statement audit of The University of North Carolina at Asheville for the year ended June 30, 2012, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

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

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

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

Beth A. Wood, CPA  
State Auditor

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**INDEPENDENT AUDITOR'S REPORT**

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Board of Trustees  
The University of North Carolina at Asheville  
Asheville, North Carolina

We have audited the accompanying financial statements of The University of North Carolina at Asheville, a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the state of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 2012, which collectively comprise the University's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of The University of North Carolina at Asheville Foundation, Inc., the University's discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinions, insofar as they relate to the amounts included for that entity, are based on the report of the other auditors.

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

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of The University of North Carolina at Asheville and its discretely presented component unit as of June 30, 2012, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

## INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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In accordance with *Government Auditing Standards*, we have also issued our report dated October 8, 2012 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis be presented to supplement the basic financial statements. Such information, although not 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 the audit of the basic financial statements. However, 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.



Beth A. Wood, CPA  
State Auditor

October 8, 2012

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

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**Overview of the Financial Statement Information**

The University of North Carolina at Asheville (UNC Asheville) provides this overview and management discussion and analysis to assist in understanding the statements and notes to the financial statements presented herewith. These statements are prepared in accordance with pronouncements issued by the Governmental Accounting Standards Board (GASB) and include the Statement of Net Assets, the Statement of Revenues, Expenses, and Changes in Net Assets, the Statement of Cash Flows, Notes to the Financial Statements, component unit Statement of Financial Position, and Statement of Activities. Comparative information for the prior fiscal year is also presented in the condensed financial statements.

The *Statement of Net Assets* presents assets, liabilities, and net assets (the difference between assets and liabilities) as of the date of the fiscal year end (June 30). This statement assists in the determination of the financial condition of the University.

**Condensed Statement of Net Assets**

	2012 Fiscal Year	2011 Fiscal Year (as restated)	\$ Change	% Change
Current Assets	\$ 26,372,317.49	\$ 25,463,431.51	\$ 908,885.98	3.45%
Capital Assets	188,678,157.11	169,733,208.70	18,944,948.41	10.04%
Other Noncurrent Assets	11,450,552.88	29,873,328.75	(18,422,775.87)	-160.89%
<b>Total Assets</b>	<b>226,501,027.48</b>	<b>225,069,968.96</b>	<b>1,431,058.52</b>	<b>0.64%</b>
Current Liabilities	8,039,438.57	8,887,503.72	(848,065.15)	-10.55%
Noncurrent Liabilities	46,464,480.21	48,644,216.93	(2,179,736.72)	-4.69%
<b>Total Liabilities</b>	<b>54,503,918.78</b>	<b>57,531,720.65</b>	<b>(3,027,801.87)</b>	<b>-5.26%</b>
Invested in Capital Assets, Net of Related Debt	146,917,086.51	145,212,284.59	1,704,801.92	1.16%
Restricted - Nonexpendable	7,100,647.07	6,112,691.09	987,955.98	13.91%
Restricted - Expendable	3,776,397.95	4,450,747.92	(674,349.97)	-17.86%
Unrestricted	14,202,977.17	11,762,524.71	2,440,452.46	17.18%
<b>Total Net Assets</b>	<b>\$ 171,997,108.70</b>	<b>\$ 167,538,248.31</b>	<b>\$ 4,458,860.39</b>	<b>2.66%</b>

Effective July 1, 2011, the General Assembly ratified House Bill 200 stating that pursuant to G.S. 116-242, administration and state appropriations for The North Carolina Arboretum would move from The University of North Carolina at Asheville to Western Carolina University. Prior year net assets have been restated to reflect the move representing a decrease in net assets of \$14.7 million.

The total assets of the University increased this year by \$1.4 million. This amount is exclusive of the Arboretum move which is represented in the 2011 restatement of net assets. The \$1.4 million increase includes an increase in current assets of \$0.9 million, an increase in net capital assets of \$18.9 million, and a decrease in other noncurrent assets of \$18.4 million.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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The increase of \$0.9 million in current assets primarily consist of an increase in unrestricted cash of \$2.7 million, a decrease in current restricted cash of \$0.9 million, a decrease in receivables of \$0.4 million, and a decrease in inventories/other assets of \$0.6 million. The increase in unrestricted cash of \$2.7 million is primarily due to an increase of cash carried forward to next fiscal year allowed by the Office of State Budget and Management (OSBM) in the amount of \$1.6 million for an additional summer session and an increase of \$1.1 million in various institutional trust funds primarily to be spent upon the completion of Overlook Residence Hall. The decrease in current restricted cash of \$0.9 million represents a decrease in capital projects and retainage payables. The current receivables change of \$0.4 million represents a prior year receivable from the UNC Eshelman School of Pharmacy at The University of North Carolina at Chapel Hill (ESOP) for renovations. The decrease in inventories/other assets of \$0.6 million primarily represents bookstore inventories that were transferred to Follett as part of the outsourcing of the bookstore to Follett.

The increase in net capital assets of \$18.9 million represents an increase in capital assets of \$64.2 million, net of accumulated depreciation, and decreases in construction in progress of \$45.3 million. The increase of \$64.2 million include an increase in construction in progress for Overlook Residence Hall and renovations to the Rhoades/Robinson Hall not yet completed of \$22.1 million, the capitalization of Governor's Village and the Wilma Sherrill Center for \$44.6 million, a net increase of \$.4 million for machinery and equipment and other and a decrease for net accumulated depreciation of \$2.9 million. The decrease in construction in progress for is primarily due to the capitalization of Governor's Village and the Wilma Sherrill Center.

Other noncurrent assets decreased in the amount of \$18.4 million. This decrease of \$18.4 million was primarily due to a decrease in noncurrent restricted cash of \$19.3 million and an increase in endowment investments of \$0.8 million. The decrease in noncurrent restricted cash of \$19.3 million was primarily due to the use of bond proceeds for the construction of the Overlook Residence Hall and the renovations of Governor's Village, and the use of contributions for the construction of the Wilma Sherrill Center. The increase in endowment investments was primarily due to the Thomas M. Howerton professorship.

Total liabilities decreased \$3.0 million which consists of a decrease in current liabilities of \$0.8 million and a decrease in noncurrent liabilities of \$2.2 million. The decrease in current liabilities of \$0.8 million primarily consists of a decrease in accounts payable of \$1.2 million and an increase in unearned revenue of \$0.4 million. The decrease in accounts payable of \$1.2 million primarily consists of a prior year ESOP payable for classroom renovations in the amount of \$0.4 million and a decrease in capital projects and retainage payables for \$0.8 million. The increase of unearned revenue primarily relates to summer school receipts carried forward. The decrease of \$2.2 million in noncurrent liabilities primarily consists of a decrease in bonds payable of \$1.6 million and a decrease of \$0.4 million in notes payable.

Net assets represent residual interest in the University's assets after all liabilities are deducted. For reporting purposes, they are divided into four major components:

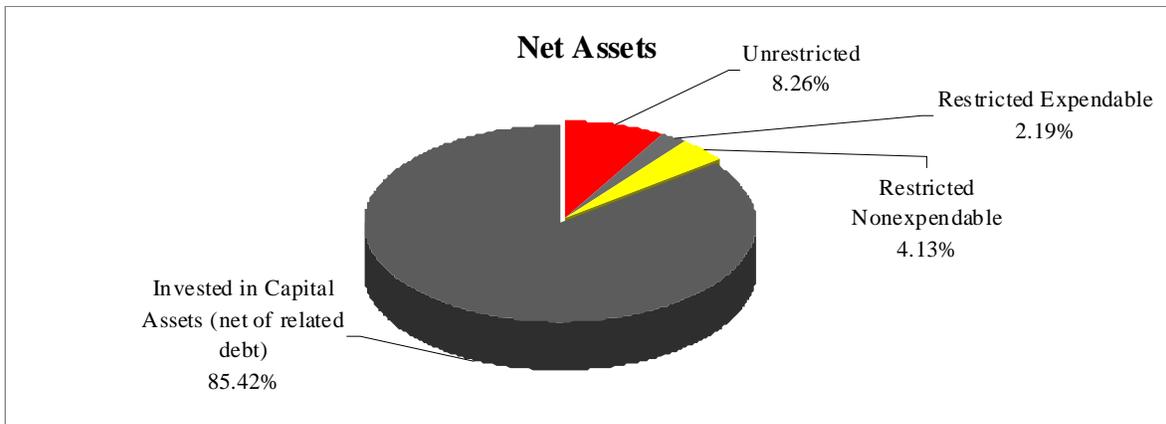
## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

“Invested in Capital Assets, Net of Related Debt” represents the University’s investment in capital assets such as movable equipment, buildings, land, infrastructure, and improvements, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets and the unspent debt proceeds restricted to capital purchases. At June 30, 2012, \$146.9 million (85.42%) of the \$172.0 million in net assets was attributable to the University’s investment in capital assets, net of related debt.

“Restricted - Nonexpendable” net assets primarily include the University’s permanent endowment funds received from donors for the purpose of creating present and future income. These funds, according to donor restrictions, must be held in perpetuity or for a specified period of time. The increase in restricted - nonexpendable net assets is primarily due to the addition of the Thomas M. Howerton Professorship.

“Restricted - Expendable” net assets are income from endowed funds, grants from others, and gifts with specific restrictions on spending. Restricted – expendable net assets decreased \$0.7 million due to a decrease in residual cash held for debt service in the amount of \$0.5 million and \$0.2 million due to greater spending of endowed funds compressed by a largely flat equities market.

“Unrestricted” net assets are not subject to externally imposed restrictions, although management may designate these funds for various academic and research programs and initiatives, as well as capital projects. This year, unrestricted net assets totaling \$14.2 million represents 8.26% of total net assets. Unrestricted net assets increased by \$2.4 million primarily due to increase of cash carried forward to next fiscal year in the amount of \$1.6 million and an increase of \$1.1 million in various institutional trust funds.



Net assets are shown in the graph below.

The *Statement of Revenues, Expenses, and Changes in Net Assets* presents the revenues earned and the expenses incurred during the year. Activities are reported as either operating or nonoperating. Given a public university’s dependency on revenues such as state

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

appropriations, gifts, and investment income, which are prescribed by GASB as nonoperating revenues, operating expenses will exceed operating revenues, resulting in an operating loss. Net nonoperating revenues and expenses are integral components in determining the increase or decrease in net assets.

Generally speaking, operating revenues are generated through the provision of goods and services, and include tuition and fees, contract and grant revenue, interest earnings on student loans, and sales and service revenue generated by student housing, the bookstore, and other enterprises. Operating expenses are the costs incurred to acquire or produce the goods and services provided and to conduct the affairs of the institution.

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

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

	2012 Fiscal Year	2011 Fiscal Year	\$ Change	% Change
Tuition and Fees	\$ 19,456,333.11	\$ 17,311,412.44	\$ 2,144,920.67	12.39%
Grants and Contracts	2,787,304.03	3,997,173.25	(1,209,869.22)	-30.27%
Sales and Services	9,883,373.08	9,583,282.07	300,091.01	3.13%
Other Operating Revenues	1,096,497.25	921,709.73	174,787.52	18.96%
<b>Total Operating Revenues</b>	<b>33,223,507.47</b>	<b>31,813,577.49</b>	<b>1,409,929.98</b>	<b>4.43%</b>
Salaries and Benefits	48,131,282.58	51,572,630.84	(3,441,348.26)	-6.67%
Supplies and Materials	7,935,439.15	6,835,711.40	1,099,727.75	16.09%
Services	11,194,944.70	9,957,707.19	1,237,237.51	12.42%
Scholarships and Fellowships	5,857,190.53	6,738,173.23	(880,982.70)	-13.07%
Utilities	2,354,716.45	2,544,038.88	(189,322.43)	-7.44%
Depreciation	4,231,634.51	4,380,507.15	(148,872.64)	-3.40%
<b>Total Operating Expenses</b>	<b>79,705,207.92</b>	<b>82,028,768.69</b>	<b>(2,323,560.77)</b>	<b>-2.83%</b>
<b>Operating Loss</b>	<b>(46,481,700.45)</b>	<b>(50,215,191.20)</b>	<b>3,733,490.75</b>	<b>7.43%</b>
State Appropriations	35,659,695.05	36,189,481.99	(529,786.94)	-1.46%
State Aid - Federal Recovery Funds	0.00	2,334,610.00	(2,334,610.00)	-100.00%
Noncapital Grants	8,584,733.39	9,938,498.70	(1,353,765.31)	-13.62%
Noncapital Gifts	2,846,503.82	1,136,579.73	1,709,924.09	150.44%
Investment Income (Including Investment Expense)	455,065.22	1,525,322.14	(1,070,256.92)	-70.17%
Interest and Fees on Debt	(1,250,419.04)	(1,337,457.02)	87,037.98	-6.51%
Federal Interest Subsidy on Debt	569,423.36	308,437.50	260,985.86	-84.62%
Other Nonoperating Revenues	76,497.62	27,516.37	48,981.25	178.01%
<b>Total Nonoperating Revenues</b>	<b>46,941,499.42</b>	<b>50,122,989.41</b>	<b>(3,181,489.99)</b>	<b>-6.35%</b>
<b>Income (Loss) Before Other Revenues</b>	<b>459,798.97</b>	<b>(92,201.79)</b>	<b>552,000.76</b>	<b>-598.69%</b>
Capital Grants & Appropriations	3,038,701.42	13,478,556.73	(10,439,855.31)	-77.46%
Capital Gifts	210,360.00	3,607,890.71	(3,397,530.71)	-94.17%
Additions to Permanent Endowments	750,000.00	750,000.00		100.00%
<b>Increase in Net Assets</b>	<b>4,458,860.39</b>	<b>17,744,245.65</b>	<b>(13,285,385.26)</b>	<b>-74.87%</b>
Net Assets, Beginning of Year, as restated	167,538,248.31	149,794,002.66	17,744,245.65	11.85%
<b>Net Assets, End of Year</b>	<b>\$ 171,997,108.70</b>	<b>\$ 167,538,248.31</b>	<b>\$ 4,458,860.39</b>	<b>2.66%</b>

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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Total operating revenues increased \$1.4 million or 4.43%. The major components of this were an increase of tuition and fees, net in the amount of \$2.1 million due to an increase in tuition and fee rates and a decrease in grants and contracts of \$1.2 million. The decrease in grants and contracts consist primarily of a decrease in research grants of \$0.3 million from the Renaissance Computing Institute and the Lineburger Cancer research from UNC Chapel Hill and a private grant to the North Carolina Arboretum for \$0.9 million.

Total operating expenses decreased \$2.3 million or 2.83%. The major components of this change were a decrease in salaries and benefits, an increase in supplies and materials, an increase in services, and a decrease in scholarships and fellowships. Salaries and benefits decreased \$3.4 million with \$2.7 million attributed to the North Carolina Arboretum move and \$0.7 million due to appropriation/budget cuts. Supplies and materials increased \$1.1 million primarily due to the purchase of furniture and equipment for the Wilma Sherrill Center, the new residence dorm, Rhoades/Robinson Hall and for campus repairs. Services increased \$1.2 million primarily due to facility and campus repairs, health and counseling, video production, and leased equipment. Scholarships and fellowships decreased \$0.9 million due to a decrease in NCSEAA (North Carolina Student Educational Assistance Authority) funding.

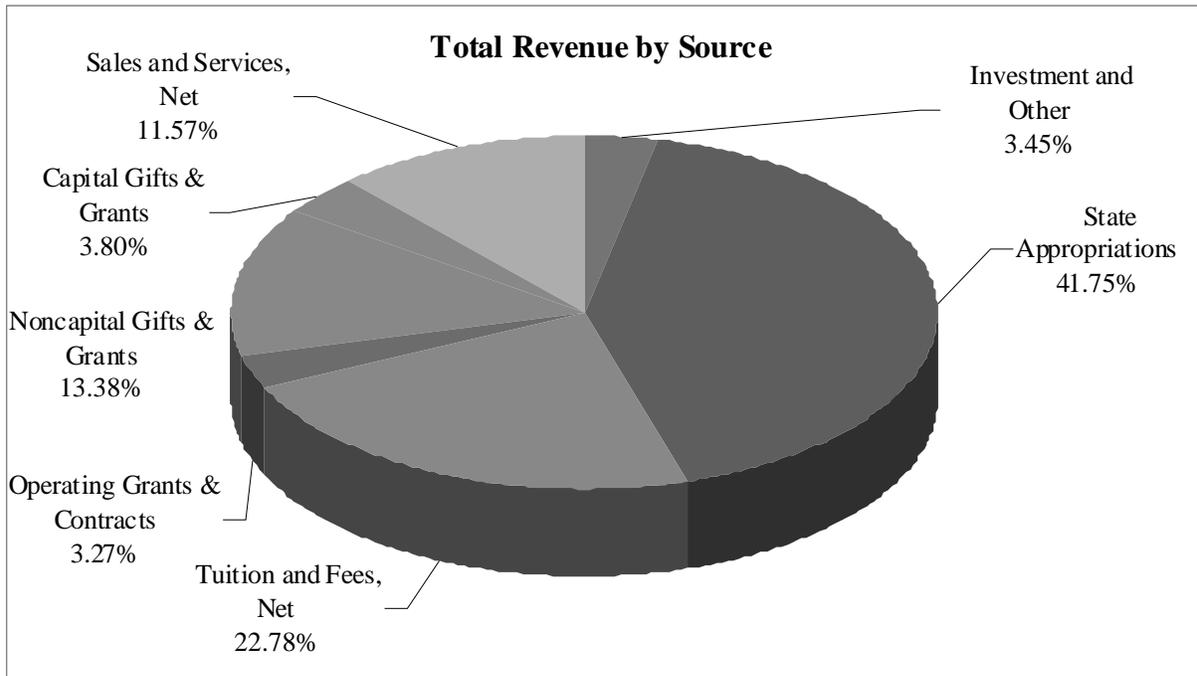
Nonoperating revenues decreased \$3.2 million. The major components of this decrease include a decrease in state aid/appropriations, a decrease in noncapital grants, an increase in noncapital gifts, and a decrease in investment income. State aid/appropriations decreased \$2.9 million with \$2.5 million attributed to the North Carolina Arboretum move and the remaining net decrease of \$0.4 million is due to statewide budget cuts enacted by the Legislature and General Assembly. Noncapital grants (federal and state financial aid) decreased \$1.3 million with a decrease in NCSEAA grants of \$0.9 million and a decrease in Federal Smart and Federal Academic Grants of \$0.4 million. Noncapital gifts increased \$1.7 million with an increase of \$1.2 million in gifts from The University of North Carolina at Asheville Foundation, Inc., and an increase in gifts for various university programs of \$0.5 million. Investment income decreased \$1.0 million due to lower investment returns from UNC Investment Fund, LLC.

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

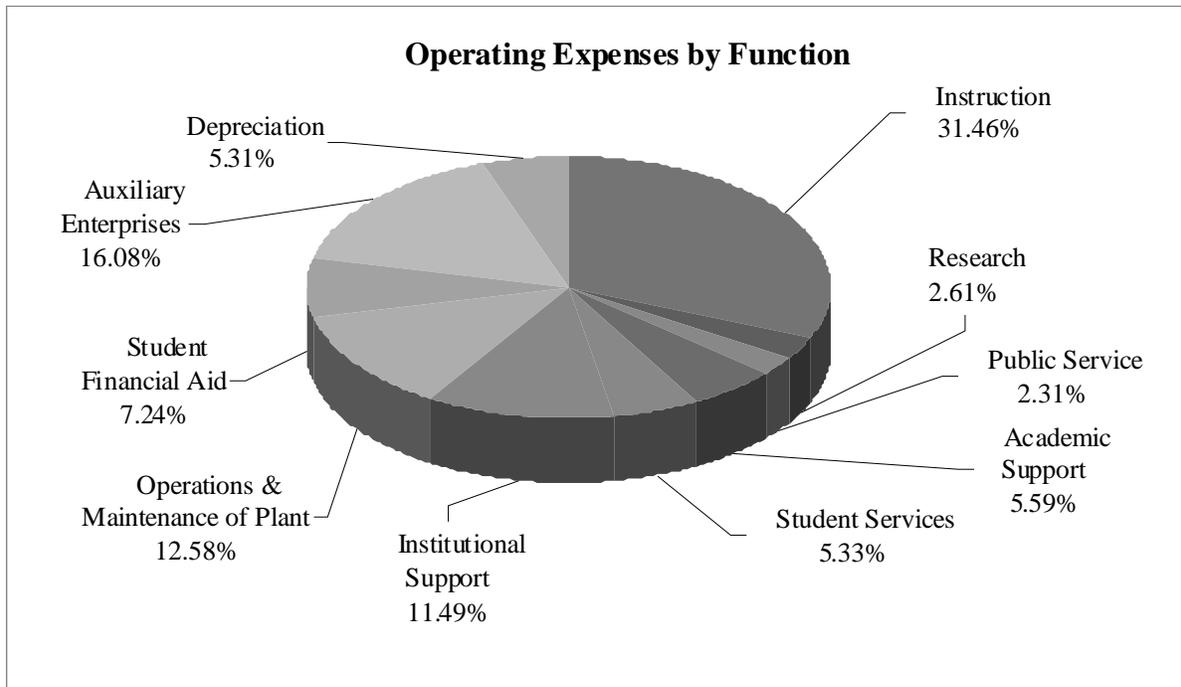
Capital grants decreased \$10.4 million. Capital grants consist primarily of state aid in the form of COPS (Certificates of Participation) and General Obligation Bonds provided to UNC Asheville for the construction of the Wilma Sherrill Center and for renovations to Rhoades/Robinson Hall. The decrease is a result of the Wilma Sherrill Center being completed and the Rhoades/Robinson Hall renovations which are near completion.

Capital gifts decreased \$3.4 million. This decrease was primarily the result of a onetime transfer in 2011 from the University of North Carolina at Asheville Foundation, Inc. for the Janice W. Brumit Pisgah House in the amount of \$3.0 million after construction was completed and a contribution in 2011 to the North Carolina Arboretum of \$.3 million.

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**



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



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

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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### **Debt Administration and Capital Assets**

UNC Asheville has several capital projects in various stages of planning and construction. Current projects are funded through capital grants, private fundraising, and revenue bonds. Projects include the final construction phase for the new Overlook Residence Hall, and renovations to Lipinsky and Karpen Halls.

On April 18, 2012, UNC Asheville issued a \$6.35 million revenue refunding bond with an average interest rate of 2.32%, Series 2012. The bond was issued to advance refund \$6.28 million of outstanding UNC Asheville general revenue bonds, series 2002A, with an average coupon rate of 4.92%. For additional specifics, see Note 7, paragraph D of the Notes to the Financial Statements.

The capital assets, net of accumulated depreciation, at June 30, 2012 were \$188.7 million. For more detailed information about asset holdings, see Note 5 of the Notes to the Financial Statements.

### **Economic Outlook**

Management believes that the University is positioned to continue its level of excellence of service to students, the community, and governmental agencies. However, it will continue to be a challenge to maintain service levels due to budget reductions. The University's ongoing efforts toward cost containment will help enable the University to provide the necessary resources to support this level of excellence. The University's management team continues to abide by the strategic priorities for the University, and is expecting reaffirmation of SACS (Southern Association of Colleges and Schools) accreditation in December 2012.

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

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

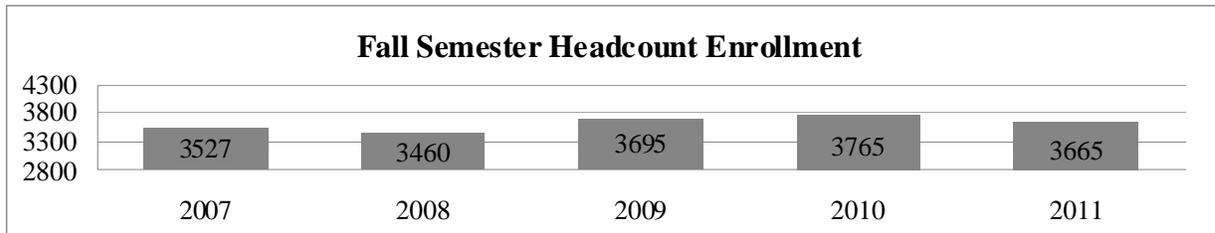
While it is not possible to predict the ultimate results, management believes that with cost reduction measures implemented and the continued support of the state of North Carolina and faithful donors, the University's financial condition is strong enough to weather the current economic uncertainties.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

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

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



The University continues to receive high rankings in several national publications for its educational quality and value. Forbes Magazine ranked UNC Asheville 21<sup>st</sup> in the nation as a “Best Buy College,” based on quality of teaching, career prospects, graduation rates, and student debt level. Of the eight universities in North Carolina that made the list, only UNC-Chapel Hill, at 13th, ranked higher than UNC Asheville.

UNC Asheville was recently ranked 7th in the nation among Public Liberal Arts Colleges by U.S. News & World Report and is the only North Carolina institution listed among National Liberal Arts Colleges whose students graduate with the least amount of debt.

UNC Asheville has been praised as a best value in the most recent rankings by the Princeton Review, Fiske Guide to Colleges, and Kiplinger's Personal Finance.

***The University of North Carolina at Asheville***  
***Statement of Net Assets***  
***June 30, 2012***

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

**ASSETS**

Current Assets:

Cash and Cash Equivalents	\$ 18,673,641.87
Restricted Cash and Cash Equivalents	5,876,092.84
Restricted Short-Term Investments	228.55
Receivables, Net (Note 4)	993,220.93
Inventories	293,950.70
Notes Receivable, Net (Note 4)	535,182.60
	<hr/>
Total Current Assets	26,372,317.49

Noncurrent Assets:

Restricted Cash and Cash Equivalents	955,401.03
Restricted Due from Primary Government	33,461.15
Endowment Investments	9,973,782.20
Notes Receivable, Net (Note 4)	487,908.50
Capital Assets - Nondepreciable (Note 5)	34,761,115.02
Capital Assets - Depreciable, Net (Note 5)	153,917,042.09
	<hr/>
Total Noncurrent Assets	200,128,709.99
	<hr/>
Total Assets	226,501,027.48

**LIABILITIES**

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 6)	4,478,794.71
Due to Primary Government	12,952.50
Funds Held for Others	1,274.47
Unearned Revenue	1,549,091.87
Interest Payable	271,041.02
Long-Term Liabilities - Current Portion (Note 7)	1,726,284.00
	<hr/>
Total Current Liabilities	8,039,438.57

Noncurrent Liabilities:

Deposits Payable	94,920.33
Funds Held for Others	370,758.30
U. S. Government Grants Refundable	1,159,633.53
Long-Term Liabilities (Note 7)	44,839,168.05
	<hr/>
Total Noncurrent Liabilities	46,464,480.21
	<hr/>
Total Liabilities	54,503,918.78

*The University of North Carolina at Asheville*  
*Statement of Net Assets*  
*June 30, 2012*

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

**NET ASSETS**

Invested in Capital Assets, Net of Related Debt	146,917,086.51
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	578,438.33
Endowed Professorships	6,334,105.51
Loans	188,103.23
Expendable:	
Scholarships and Fellowships	1,656,678.25
Research	375,977.74
Endowed Professorships	1,387,291.61
Departmental Uses	148,093.12
Other	208,357.23
Unrestricted	<u>14,202,977.17</u>
Total Net Assets	<u><u>\$ 171,997,108.70</u></u>

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

*The University of North Carolina at Asheville*  
*Statement of Revenues, Expenses, and*  
*Changes in Net Assets*  
*For the Fiscal Year Ended June 30, 2012*

*Exhibit A-2*

**REVENUES**

Operating Revenues:

Student Tuition and Fees, Net (Note 9)	\$ 19,456,333.11
Federal Grants and Contracts	1,744,196.73
State and Local Grants and Contracts	434,353.73
Nongovernmental Grants and Contracts	608,753.57
Sales and Services, Net (Note 9)	9,883,373.08
Interest Earnings on Loans	4,813.43
Other Operating Revenues	1,091,683.82
	<hr/>
Total Operating Revenues	33,223,507.47
	<hr/>

**EXPENSES**

Operating Expenses:

Salaries and Benefits	48,131,282.58
Supplies and Materials	7,935,439.15
Services	11,194,944.70
Scholarships and Fellowships	5,857,190.53
Utilities	2,354,716.45
Depreciation	4,231,634.51
	<hr/>
Total Operating Expenses	79,705,207.92
	<hr/>
Operating Loss	(46,481,700.45)
	<hr/>

**NONOPERATING REVENUES (EXPENSES)**

State Appropriations	35,659,695.05
Noncapital Grants - Student Financial Aid	8,276,442.59
Other Noncapital Grants	308,290.80
Noncapital Gifts	2,846,503.82
Investment Income (Net of Investment Expense of \$47,755.32)	455,065.22
Interest and Fees on Debt	(1,250,419.04)
Federal Interest Subsidy on Debt	569,423.36
Other Nonoperating Revenues	76,497.62
	<hr/>
Net Nonoperating Revenues	46,941,499.42
	<hr/>
Income Before Other Revenues	459,798.97
Capital Grants	3,038,701.42
Capital Gifts	210,360.00
Additions to Endowments	750,000.00
	<hr/>
Increase in Net Assets	4,458,860.39

**NET ASSETS**

Net Assets - July 1, 2011, as Restated (Note 16)	167,538,248.31
	<hr/>
Net Assets - June 30, 2012	\$ 171,997,108.70
	<hr/>

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

***The University of North Carolina at Asheville***  
***Statement of Cash Flows***  
***For the Fiscal Year Ended June 30, 2012***

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

**CASH FLOWS FROM OPERATING ACTIVITIES**

Received from Customers	\$ 34,029,612.77
Payments to Employees and Fringe Benefits	(48,405,666.58)
Payments to Vendors and Suppliers	(21,253,159.55)
Payments for Scholarships and Fellowships	(5,857,190.53)
Loans Issued	(258,068.00)
Collection of Loans	104,562.89
Interest Earned on Loans	4,813.43
Other Payments	(16,318.58)
	<hr/>
Net Cash Used by Operating Activities	(41,651,414.15)

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

State Appropriations	35,659,695.05
Noncapital Grants - Student Financial Aid	8,276,442.59
Noncapital Grants	312,672.07
Noncapital Gifts	2,846,503.82
Additions to Endowments	750,000.00
William D. Ford Direct Lending Receipts	12,927,690.00
William D. Ford Direct Lending Disbursements	(12,927,690.00)
Related Activity Agency Receipts	4,295.85
	<hr/>
Net Cash Provided by Noncapital Financing Activities	47,849,609.38

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

Proceeds from Capital Debt	6,246,365.28
Capital Grants	3,039,705.19
Capital Gifts	37,600.00
Proceeds from Sale of Capital Assets	712.50
Acquisition and Construction of Capital Assets	(22,471,438.75)
Principal Paid on Capital Debt	(8,240,838.30)
Interest and Fees Paid on Capital Debt	(2,484,574.64)
Federal Interest Subsidy on Debt Received	569,423.36
	<hr/>
Net Cash Used by Capital Financing and Related Financing Activities	(23,303,045.36)

**CASH FLOWS FROM INVESTING ACTIVITIES**

Proceeds from Sales and Maturities of Investments	269,955.29
Investment Income	255,211.24
Purchase of Investments and Related Fees	(880,177.27)
	<hr/>
Net Cash Used by Investing Activities	(355,010.74)
	<hr/>
Net Decrease in Cash and Cash Equivalents	(17,459,860.87)
Cash and Cash Equivalents - July 1, 2011, as Restated	42,964,996.61
	<hr/>
Cash and Cash Equivalents - June 30, 2012	<u>\$ 25,505,135.74</u>

*The University of North Carolina at Asheville*  
**Statement of Cash Flows**  
**For the Fiscal Year Ended June 30, 2012**

*Exhibit A-3*

*Page 2 of 2*

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

Operating Loss	\$ (46,481,700.45)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	4,231,634.51
Allowances, Write-Offs, and Amortizations	27,629.18
Nonoperating Other Income	75,785.12
Changes in Assets and Liabilities:	
Receivables (Net)	366,214.89
Inventories	327,762.01
Deposit on Equipment	289,837.07
Notes Receivable (Net)	(148,341.94)
Accounts Payable and Accrued Liabilities	(512,982.00)
Due to Primary Government	(3,534.34)
US Government Grants Refundable	(6,618.45)
Unearned Revenue	399,433.19
Funds Held for Others	(98,450.25)
Compensated Absences	(119,382.00)
Deposits Payable	1,299.31
	<hr/>
Net Cash Used by Operating Activities	<u><u>\$ (41,651,414.15)</u></u>

**RECONCILIATION OF CASH AND CASH EQUIVALENTS**

Current Assets:	
Cash and Cash Equivalents	\$ 18,673,641.87
Restricted Cash and Cash Equivalents	5,876,092.84
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	955,401.03
	<hr/>
Total Cash and Cash Equivalents - June 30, 2012	<u><u>\$ 25,505,135.74</u></u>

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

Assets Acquired through the Assumption of a Liability	\$ 2,769,682.21
Assets Acquired through a Gift	172,760.00
Change in Fair Value of Investments	230,791.63

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

***The University of North Carolina at Asheville Foundation, Inc.***  
***Statement of Financial Position***  
***June 30, 2012***

***Exhibit B-1***

<b>CURRENT ASSETS</b>	
Cash and Cash Equivalents	\$ 2,836,076.07
Sales Tax Receivable	1,604.72
Other Receivables	10,470.17
Promises to Give, Net	114,357.24
	<hr/>
Total Current Assets	2,962,508.20
	<hr/>
<b>PROPERTY AND EQUIPMENT, NET</b>	
	2,184,011.59
	<hr/>
<b>OTHER ASSETS</b>	
Investments	18,645,732.68
Promises to Give, Net	99,844.71
Real Estate Held for Resale	214,000.00
Beneficial Interest in Perpetual Trust	134,044.60
	<hr/>
Total Other Assets	19,093,621.99
	<hr/>
Total Assets	\$ 24,240,141.78
	<hr/> <hr/>
<b>CURRENT LIABILITIES</b>	
Accounts Payable	\$ 62,939.04
Annuities Payable	52,864.56
	<hr/>
Total Current Liabilities	115,803.60
	<hr/>
<b>NONCURRENT LIABILITIES</b>	
Annuities Payable	430,214.36
Notes Payable	1,067,000.00
	<hr/>
Total Noncurrent Liabilities	1,497,214.36
	<hr/>
Total Liabilities	1,613,017.96
	<hr/>
<b>NET ASSETS</b>	
Unrestricted	1,913,351.37
Temporarily Restricted	8,415,525.37
Permanently Restricted	12,298,247.08
	<hr/>
Total Net Assets	22,627,123.82
	<hr/>
Total Net Assets and Liabilities	\$ 24,240,141.78
	<hr/> <hr/>

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

*The University of North Carolina at Asheville Foundation, Inc.*  
*Statement of Activities*  
*For the Fiscal Year Ended June 30, 2012*

*Exhibit B-2*

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>REVENUES</b>				
Investment Income	\$ 53,061.60	\$ 374,725.55	\$ 0.00	\$ 427,787.15
Family Business Forum		42,115.00		42,115.00
Special Events		164,027.00		164,027.00
Loss on Perpetual Trust			(6,628.91)	(6,628.91)
Other Income	41.25	29,540.36		29,581.61
Total Revenues	<u>53,102.85</u>	<u>610,407.91</u>	<u>(6,628.91)</u>	<u>656,881.85</u>
<b>PUBLIC SUPPORT</b>				
Contributions	285,511.95	369,504.70	449,859.82	1,104,876.47
Contributions-Gifts in Kind		370,637.18		370,637.18
Net Assets Released from Restriction	2,397,926.04	(2,297,926.04)	(100,000.00)	
Total Revenues, Gains, and Other Support	<u>2,736,540.84</u>	<u>(947,376.25)</u>	<u>343,230.91</u>	<u>2,132,395.50</u>
<b>EXPENSES</b>				
Program Services	2,353,541.54			2,353,541.54
Supporting Services:				
Management and General	214,333.16			214,333.16
Fund Raising	88,269.02			88,269.02
Total Expenses	<u>2,656,143.72</u>			<u>2,656,143.72</u>
Change in Net Assets	<u>80,397.12</u>	<u>(947,376.25)</u>	<u>343,230.91</u>	<u>(523,748.22)</u>
Net Assets at Beginning of Year	<u>1,832,954.25</u>	<u>9,362,901.62</u>	<u>11,955,016.17</u>	<u>23,150,872.04</u>
Net Assets at End of Year	<u>\$ 1,913,351.37</u>	<u>\$ 8,415,525.37</u>	<u>\$ 12,298,247.08</u>	<u>\$ 22,627,123.82</u>

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

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**THE UNIVERSITY OF NORTH CAROLINA AT ASHEVILLE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES**

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

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

**Discretely Presented Component Unit** – The University of North Carolina at Asheville Foundation, Inc. (Foundation) is a legally separate not-for-profit corporation and is reported as a discretely presented component unit based on the nature and significance of its relationship to the University. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the University in support of its programs. The Foundation board consists of 25 to 36 elected directors. Although the University does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, that the Foundation holds and invests is 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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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The Foundation is a private not-for-profit organization that reports its financial results under Financial Accounting Standards Board (FASB) Statements. As such, certain revenue recognition criteria and presentation features are different from the Governmental Accounting Standards Board (GASB) revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information in the University's financial reporting entity for these differences.

During the year ended June 30, 2012, the Foundation distributed \$1,953,809.85 to the University for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from the University Controller's Office, 207 Phillips Hall, One University Heights, Asheville, NC 28804 or by calling 828-232-5109.

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

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

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

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

Nonexchange transactions, in which the University receives (or gives) value without directly giving (or receiving) equal value in exchange, include state appropriations, certain grants, and donations. Revenues are recognized, net of estimated uncollectible amounts, as soon as all

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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eligibility requirements imposed by the provider have been met, if probable of collection.

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

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

- F. Receivables** - Receivables consist of tuition and fees charged to students, charges for auxiliary enterprises' sales and services, sales tax, and interest. Receivables also include amounts due from the federal government, state and local governments, and private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants. Receivables are recorded net of estimated uncollectible amounts.
- G. Inventories** - Inventories, consisting of expendable supplies, are valued at cost using the last invoice cost method.
- H. Capital Assets** - Capital assets are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. The value of assets constructed includes all material direct and indirect construction costs. Interest costs incurred are capitalized during the period of construction.

The University capitalizes assets that have a value or cost of \$5,000 or greater at the date of acquisition and an estimated useful life of more than one year.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 10 to 100 years for general infrastructure, 10 to 100 years for buildings, and 5 to 30 years for equipment.

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

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

- I. Restricted Assets** - Certain resources are reported as restricted assets because restrictions on asset use change the nature or normal understanding of the availability of the asset. Resources that are not available for current operations and are reported as restricted include resources restricted for the acquisition or construction of capital assets, 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, note payable, and compensated absences that will not be paid within the next fiscal year.

Revenue bonds payable are reported net of unamortized premiums or discounts and deferred losses on refundings. The University amortizes bond premiums/discounts over the life of the bonds using the straight-line method. The deferred losses on refundings are amortized over the life of the new debt using the straight-line method. Issuance costs are expensed.

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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30 days at year-end is converted to sick leave. Under this policy, the accumulated vacation leave for each employee at June 30 equals the leave carried forward at the previous December 31 plus the leave earned, less the leave taken between January 1 and June 30.

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

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

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

**Invested in Capital Assets, Net of Related Debt** - This represents the University's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.

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

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

**Unrestricted Net Assets** - Unrestricted net assets include resources derived from student tuition and fees, sales and services, unrestricted gifts, 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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system in place at the University. For projects funded by tax-exempt debt proceeds and other sources, the debt proceeds are always used first.

**M. Scholarship Discounts** - Student tuition and fees revenues and certain other revenues from University charges are reported net of scholarship discounts in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. The scholarship discount is the difference between the actual charge for goods and services provided by the University and the amount that is paid by students or by third parties on the students' behalf. Student financial assistance grants, such as Pell grants, and other federal, state, or nongovernmental programs, are recorded as nonoperating revenues in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. To the extent that revenues from these programs are used to satisfy tuition, fees, and other charges, the University has recorded a scholarship discount.

**N. Revenue and Expense Recognition** - The University classifies its revenues and expenses as operating or nonoperating in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the University's principal ongoing operations. Operating revenues include activities that have characteristics of exchange transactions, such as (1) student tuition and fees, (2) sales and services of auxiliary enterprises, (3) certain federal, state, and local grants and contracts that are essentially contracts for services, and (4) interest earned on loans. Operating expenses are all expense transactions incurred other than those related to capital and noncapital financing or investing activities as defined by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*.

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

**O. Internal Sales Activities** - Certain institutional auxiliary operations provide goods and services to University departments, as well as to its customers. These institutional auxiliary operations include activities such as central stores, printing services, and telecommunications. In addition, the University has other miscellaneous sales and service units that operated either on a reimbursement or charge basis. All internal sales activities to University departments from auxiliary operations and sales

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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and service units have been eliminated in the accompanying financial statements. These eliminations are recorded by removing the revenue and expense in the auxiliary operations and sales and service units and, if significant, allocating any residual balances to those departments receiving the goods and services during the year.

### NOTE 2 - DEPOSITS AND INVESTMENTS

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

At June 30, 2012, the amount shown on the Statement of Net Assets as cash and cash equivalents includes \$25,462,219.13 which represents the University's equity position in the State Treasurer's Short-Term Investment Fund. The Short-Term Investment Fund (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission and does not have a credit rating) had a weighted average maturity of 1.5 years as of June 30, 2012. Assets and shares of the Short-Term Investment Fund are valued at amortized cost, which approximates fair value. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's Short-Term Investment Fund) are included in the state of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.nc.gov/> and clicking on "Reports" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

Cash on hand at June 30, 2012 was \$13,540.00. The carrying amount of the University's deposits not with the State Treasurer was \$29,376.61 and the bank balance was \$29,160.09. Custodial credit risk is the risk that in the event of a bank failure, the University's deposits may not be returned

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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to it. The University does not have a deposit policy for custodial credit risk. As of June 30, 2012, the University's bank balance was not exposed to custodial credit risk.

### **B. Investments**

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

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

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

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

Investments of 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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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Investments are subject to the following risks.

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

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

**Long-Term Investment Pool** - This is an internal investment pool that is utilized for the investment of the endowment funds. Fund ownership is measured using the unit method. Under this method, each participating fund's investment balance is determined on the basis of the number of units purchased less sales multiplied by the current unit market value. The investment strategy, including the selection of investment managers, is based on the directives of the University's Endowment Board. At year-end, the pooled investments were all with the UNC Investment Fund, LLC.

**UNC Investment Fund, LLC** - At June 30, 2012, the University's investments include \$9,973,782.20 which represents the University's equity position in the UNC Investment Fund, LLC (UNC Investment Fund). The UNC Investment Fund is an external investment pool that is not registered with the Securities and Exchange Commission and does not have a credit rating. Asset and ownership interests of the UNC Investment Fund are determined on a market unit valuation basis each month. Investment risks associated with the UNC Investment Fund are included in audited financial statements of the UNC Investment Fund, LLC which may be obtained from UNC Management Company, Inc., 1400 Environ Way, Chapel Hill, NC 27517.

**Non-Pooled Investments** - The fair value of the University's non-pooled subject to interest rate risk at June 30, 2012 was \$228.55. These investments were held in money market mutual funds with maturities of less than 1 year. The credit rating of the money market mutual funds was Aaa as rated by Moody's Investors Service.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

**Total Investments** - The following table presents the fair value of the total investments at June 30, 2012:

	Fair Value
<b>Investment Type</b>	
Debt Securities	
Money Market Mutual Funds	\$ 228.55
Other Securities	
UNC Investment Fund	9,973,782.20
<b>Total Investments</b>	<b>\$ 9,974,010.75</b>

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

The Foundation owns membership interest in the UNC Investment Fund, LLC (a North Carolina limited liability company). The Fund is managed by the UNC Management Company, Inc. (a North Carolina non-profit corporation).

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

	2012		
	Cost	Fair Value	Cumulative Unrealized Gains
Membership Interest in UNC Investment Fund LLC	\$ 13,302,349.18	\$ 18,645,732.68	\$ 5,343,383.50

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

	2012
Interest and Dividends	\$ 17,447.87
Realized Gains	97,974.39
Unrealized Gains	312,364.89
	<b>\$ 427,787.15</b>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

**C. Reconciliation of Deposits and Investments** - A reconciliation of deposits and investments for the University as of June 30, 2012, is as follows:

Cash on Hand	\$	13,540.00
Amount of Deposits with Private Financial Institutions		29,376.61
Investments with the State Treasurer		25,462,219.13
Investments in the UNC Investment Fund		9,973,782.20
Non-Pooled Investments		228.55
		228.55
<b>Total Deposits and Investments</b>	<b>\$</b>	<b>35,479,146.49</b>
Deposits		
Current:		
Cash and Cash Equivalents	\$	18,673,641.87
Restricted Cash and Cash Equivalents		5,876,092.84
Noncurrent:		
Restricted Cash and Cash Equivalents		955,401.03
		955,401.03
<b>Total Deposits</b>	<b>\$</b>	<b>25,505,135.74</b>
Investments		
Current:		
Restricted Short-Term Investments	\$	228.55
Noncurrent:		
Endowment Investments		9,973,782.20
		9,973,782.20
<b>Total Investments</b>	<b>\$</b>	<b>9,974,010.75</b>

### NOTE 3 - ENDOWMENT INVESTMENTS

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

Investment return of the University's endowment funds is predicated on the total return concept (yield plus appreciation). Annual payouts from the University's endowment funds are based on an adopted spending policy which limits spending to 5% of the average of the endowment principal's three-year trailing market value. Under this policy, the spending policy is agreed upon

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

prior to the beginning of the University's fiscal year and is maintained at that level unless altered by Board action. To the extent that the total return for the current year exceeds the payout, the excess is added to the appreciation of the principal. If current year earnings do not meet the payout requirements, the University uses accumulated income and appreciation from restricted, expendable net asset endowment balances to make up the difference. At June 30, 2012, net appreciation of \$2,239,901.19 was available to be spent, of which \$2,080,757.17 was classified in net assets as restricted to specific purposes (e.g. scholarships, fellowships and professorships). The remaining portion of net appreciation available to be spent is classified as unrestricted net assets.

### NOTE 4 - RECEIVABLES

Receivables at June 30, 2012, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
<b>Current Receivables:</b>			
Students	\$ 574,160.49	\$ 22,758.83	\$ 551,401.66
Student Sponsors	6,439.18		6,439.18
Accounts	61,163.27		61,163.27
Intergovernmental	165,415.44		165,415.44
Interest on Loans	74,319.96		74,319.96
Federal Interest Subsidy on Debt	47,451.95		47,451.95
Other	87,029.47		87,029.47
<b>Total Current Receivables</b>	<b>\$ 1,015,979.76</b>	<b>\$ 22,758.83</b>	<b>\$ 993,220.93</b>
<b>Notes Receivable:</b>			
<b>Notes Receivable - Current:</b>			
Federal Loan Programs	\$ 670,060.55	\$ 134,877.95	\$ 535,182.60
<b>Notes Receivable - Noncurrent:</b>			
Federal Loan Programs	\$ 610,872.10	\$ 122,963.60	\$ 487,908.50

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2012, is presented as follows:

	Balance July 1, 2011 (as restated)	Increases	Decreases	Balance June 30, 2012
Capital Assets, Nondepreciable:				
Land	\$ 6,642,162.58	\$ 0.00	\$ 0.00	\$ 6,642,162.58
Art, Literature, and Artifacts	419,800.00	37,500.00		457,300.00
Construction in Progress	50,920,474.91	22,020,921.55	45,279,744.02	27,661,652.44
<b>Total Capital Assets, Nondepreciable</b>	<b>57,982,437.49</b>	<b>22,058,421.55</b>	<b>45,279,744.02</b>	<b>34,761,115.02</b>
Capital Assets, Depreciable:				
Buildings	150,722,688.59	44,700,407.02		195,423,095.61
Machinery and Equipment	6,516,490.36	1,082,933.37	400,489.15	7,198,934.58
Art, Literature, and Artifacts	201,500.00			201,500.00
General Infrastructure	16,657,378.36	614,565.00	856,189.36	16,415,754.00
<b>Total Capital Assets, Depreciable</b>	<b>174,098,057.31</b>	<b>46,397,905.39</b>	<b>1,256,678.51</b>	<b>219,239,284.19</b>
Less Accumulated Depreciation for:				
Buildings	49,315,043.08	3,010,926.51		52,325,969.59
Machinery and Equipment	3,160,195.80	482,982.12	400,489.15	3,242,688.77
Art, Literature, and Artifacts	100,000.24	17,689.92		117,690.16
General Infrastructure	9,772,046.98	720,035.96	856,189.36	9,635,893.58
<b>Total Accumulated Depreciation</b>	<b>62,347,286.10</b>	<b>4,231,634.51</b>	<b>1,256,678.51</b>	<b>65,322,242.10</b>
<b>Total Capital Assets, Depreciable, Net</b>	<b>111,750,771.21</b>	<b>42,166,270.88</b>		<b>153,917,042.09</b>
<b>Capital Assets, Net</b>	<b>\$ 169,733,208.70</b>	<b>\$ 64,224,692.43</b>	<b>\$ 45,279,744.02</b>	<b>\$ 188,678,157.11</b>

### NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2012, were as follows:

	Amount
Accounts Payable	\$ 2,679,869.43
Accrued Payroll	561,848.07
Contract Retainage	1,219,265.65
Intergovernmental Payables	4,381.27
Other	13,430.29
<b>Total Accounts Payable and Accrued Liabilities</b>	<b>\$ 4,478,794.71</b>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 7 - LONG-TERM LIABILITIES

#### A. Changes in Long-Term Liabilities - A summary of changes in the long-term liabilities for the year ended June 30, 2012, is presented as follows:

	Balance July 1, 2011 (as restated)	Additions	Reductions	Balance June 30, 2012	Current Portion
Revenue Bonds Payable	\$ 44,345,000.00	\$ 6,345,400.00	\$ 7,821,400.00	\$ 42,869,000.00	\$ 1,498,200.00
Add Premium	882,812.15		315,596.52	567,215.63	
Deduct Discount	(14,148.26)		(1,067.79)	(13,080.47)	
Deduct Deferred Charge on Refunding	(366,265.05)		(215,494.01)	(150,771.04)	
<b>Total Revenue Bonds Payable</b>	<b>44,847,398.84</b>	<b>6,345,400.00</b>	<b>7,920,434.72</b>	<b>43,272,364.12</b>	<b>1,498,200.00</b>
Notes Payable	1,211,607.23	0.00	419,438.30	792,168.93	
Compensated Absences	2,620,301.00	1,625,462.00	1,744,844.00	2,500,919.00	228,084.00
<b>Total Long-Term Liabilities</b>	<b>\$ 48,679,307.07</b>	<b>\$ 7,970,862.00</b>	<b>\$ 10,084,717.02</b>	<b>\$ 46,565,452.05</b>	<b>\$ 1,726,284.00</b>

#### 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, 2012	Principal Outstanding June 30, 2012
<b>Revenue Bonds Payable</b>						
<b>Dormitory and Dining System</b>						
UNCA System Pool Revenue Bonds (A)	2005A	4.62% *	04/01/2023	\$ 7,575,000.00	\$ 3,025,000.00	\$ 4,550,000.00
UNCA System Pool Revenue Bonds (B)	2010C	3.00% *	10/01/2024	5,815,000.00		5,815,000.00
UNCA Revenue Bonds (Build America Bonds)**, Series 2010 (C)	2010	2.40% *	06/01/2040	26,160,000.00		26,160,000.00
UNCA Revenue Refunding Bonds, Series 2012 (D)	2012	2.32% *	06/01/2027	6,345,400.00	1,400.00	6,344,000.00
<b>Total Dormitory and Dining System</b>				<b>45,895,400.00</b>	<b>3,026,400.00</b>	<b>42,869,000.00</b>
<b>Total Revenue Bonds Payable (principal only)</b>				<b>\$ 45,895,400.00</b>	<b>\$ 3,026,400.00</b>	<b>42,869,000.00</b>
Plus: Unamortized Premium						567,215.63
Less: Unamortized Discount						(13,080.47)
Less: Unamortized Loss on Refunding						(150,771.04)
<b>Total Revenue Bonds Payable</b>						<b>\$ 43,272,364.12</b>

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

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

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

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

\* For variable rate debt, interest rates in effect at June 30, 2012 are included.

\*\* The University has elected to treat these bonds as federally taxable "Build America Bonds" for the purposes of the American Recovery and Reinvestment Act and to receive a cash subsidy from the U.S. Treasury equal to 35% of the interest payable on these bonds. For these bonds, the interest rate included is the taxable rate, which does not factor in the cash subsidy from the U.S. Treasury.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

**C. Annual Requirements** - The annual requirements to pay principal and interest on the long-term obligations at June 30, 2012, are as follows:

Fiscal Year	Annual Requirements			
	Revenue Bonds Payable		Notes Payable	
	Principal	Interest	Principal	Interest
2013	\$ 1,498,200.00	\$ 2,266,942.80	\$ 0.00	\$ 16,920.28
2014	1,617,000.00	2,215,043.86	294,967.14	12,240.94
2015	1,687,800.00	2,157,180.50	308,550.12	6,479.48
2016	1,793,100.00	2,088,638.36	188,651.67	1,778.04
2017	1,902,500.00	2,017,913.10		
2018-2022	8,346,000.00	8,987,141.96		
2023-2027	8,239,400.00	7,084,390.07		
2028-2032	5,710,000.00	5,232,889.00		
2033-2037	7,055,000.00	3,173,437.50		
2038-2042	5,020,000.00	689,524.50		
<b>Total Requirements</b>	<b>\$ 42,869,000.00</b>	<b>\$ 35,913,101.65</b>	<b>\$ 792,168.93</b>	<b>\$ 37,418.74</b>

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

On 4/18/2012 the University issued a \$6,345,400.00 UNC Asheville Revenue refunding bond with an average interest rate of 2.321%. The bond was issued to advance refund \$6,280,000.00 of outstanding UNC Asheville General Revenue Bonds, Series 2002A, with an average coupon rate of 4.92%. The net proceeds of the refunding bonds were used to purchase U.S. Treasury Securities. These securities were deposited into an irrevocable trust to provide for all future debt service payments on the refunded bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the University's Statement of Net Assets. This advance refunding was undertaken to reduce total debt service payments by \$1,267,340.53 over the next 15 years and resulted in an economic gain of \$1,065,068.70. At June 30, 2012, there was no outstanding balance for the defeased UNC Asheville General Revenue and Refunding Bonds, Series 2002A.

**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, 2012	Principal Outstanding June 30, 2012
Capital Equipment	TD Equipment Finance	1.89% *	12/01/2015	\$ 1,500,000.00	\$ 707,831.07	\$ 792,168.93

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 8 - LEASE OBLIGATIONS

The University entered into operating leases for digital equipment, wireless equipment and software, computers, servers, and telephone equipment. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2012:

<u>Fiscal Year</u>	<u>Amount</u>
2013	\$ 851,311.59
2014	555,436.34
2015	169,563.43
2016	169,563.43
2017	42,000.00
2018-2019	84,000.00
<b>Total Minimum Lease Payments</b>	<b>\$ 1,871,874.79</b>

Rental expense for all operating leases during the year was \$1,249,533.11.

### NOTE 9 - REVENUES

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

	<u>Gross Revenues</u>	<u>Internal Sales Eliminations</u>	<u>Less Scholarship Discounts</u>	<u>Less Allowance for Uncollectibles</u>	<u>Net Revenues</u>
<b>Operating Revenues:</b>					
<b>Student Tuition and Fees</b>	<u>\$ 24,886,691.02</u>	<u>\$ 0.00</u>	<u>\$ 5,404,015.03</u>	<u>\$ 26,342.88</u>	<u>\$ 19,456,333.11</u>
<b>Sales and Services:</b>					
Sales and Services of Auxiliary Enterprises:					
Residential Life	\$ 4,845,846.64	\$ 12,940.00	\$ 1,103,414.56	\$ 0.00	\$ 3,729,492.08
Dining	3,432,509.16		785,531.32		2,646,977.84
Student Union Services	79,139.30	1,747.50			77,391.80
Health, Physical Education, and Recreation Services	173,715.41				173,715.41
Bookstore	1,075,490.76				1,075,490.76
Parking	584,326.47	75,997.91	48,453.33		459,875.23
Athletic	764,825.66				764,825.66
Other	542,523.03	459,014.18			83,508.85
Sales and Services of Education and Related Activities	<u>880,521.45</u>	<u>8,426.00</u>			<u>872,095.45</u>
<b>Total Sales and Services</b>	<u>\$ 12,378,897.88</u>	<u>\$ 558,125.59</u>	<u>\$ 1,937,399.21</u>	<u>\$ 0.00</u>	<u>\$ 9,883,373.08</u>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 10 - OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	\$ 22,446,384.28	\$ 1,100,544.08	\$ 1,417,737.49	\$ 112,327.68	\$ 1,062.13	\$ 0.00	\$ 25,078,055.66
Research	1,403,884.22	192,311.41	480,263.74		2,491.04		2,078,950.41
Public Service	1,245,654.92	123,812.33	467,370.54	5,500.00			1,842,337.79
Academic Support	2,929,471.23	1,024,667.49	499,308.09	894.31			4,454,341.12
Student Services	2,618,519.63	395,128.73	1,236,991.75				4,250,640.11
Institutional Support	7,423,940.60	264,649.51	1,465,615.24	50.00	12.81		9,154,268.16
Operations and Maintenance of Plant	5,226,329.85	2,235,839.26	602,244.13		1,962,292.95		10,026,706.19
Student Financial Aid	31,948.82	1,683.64	5,845.05	5,734,155.59			5,773,633.10
Auxiliary Enterprises	4,805,149.03	2,596,802.70	5,019,568.67	4,262.95	388,857.52		12,814,640.87
Depreciation						4,231,634.51	4,231,634.51
<b>Total Operating Expenses</b>	<b>\$ 48,131,282.58</b>	<b>\$ 7,935,439.15</b>	<b>\$ 11,194,944.70</b>	<b>\$ 5,857,190.53</b>	<b>\$ 2,354,716.45</b>	<b>\$ 4,231,634.51</b>	<b>\$ 79,705,207.92</b>

### NOTE 11 - PENSION PLANS

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

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

Benefit and contribution provisions for the Teachers' and State Employees' Retirement System are established by *North Carolina General Statutes* 135-5 and 135-8 and may be amended only by the North Carolina General Assembly. Employer and member contribution rates are set each year by the North Carolina General Assembly based on annual actuarial valuations. For the year ended June 30, 2012, these rates were set at 7.44% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the University had a total payroll of \$37,950,136.31, of which \$17,361,543.37 was covered under the Teachers' and State Employees' Retirement System. Total employer and

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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employee contributions for pension benefits for the year were \$1,291,698.83 and \$1,041,692.60, respectively.

Required employer contribution rates for the years ended June 30, 2011, and 2010, were 4.93% and 3.57%, respectively, while employee contributions were 6% each year. The University made 100% of its annual required contributions for the years ended June 30, 2012, 2011, and 2010, which were \$1,291,698.83, \$969,176.50, and \$691,531.92, respectively.

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

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

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

Participant eligibility and contributory requirements are established by General Statute 135-5.1. Employer and member contribution rates are set each year by the North Carolina General Assembly. For the year ended June 30, 2012, 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 \$37,950,136.31, of which \$15,746,865.78 was covered under the Optional Retirement Program. Total employer and employee contributions for pension benefits for the year were \$1,077,085.62 and \$944,811.95, respectively.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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**B. Deferred Compensation and Supplemental Retirement Income Plans** - Internal Revenue Code Section 457 Plan - The state of North Carolina offers its permanent employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 through the North Carolina Public Employee Deferred Compensation Plan (the Plan). The Plan permits each participating employee to defer a portion of his or her salary until future years. The deferred compensation is available to employees upon separation from service, death, disability, retirement, or financial hardships if approved by the Board of Trustees of the Plan. The Board, a part of the North Carolina Department of Administration, maintains a separate fund for the exclusive benefit of the participating employees and their beneficiaries, *the North Carolina Public Employee Deferred Compensation Trust Fund*. The Board also contracts with an external third party to perform certain administrative requirements and to manage the trust fund's assets. All costs of administering and funding the Plan are the responsibility of the Plan participants. No costs are incurred by the University. The voluntary contributions by employees amounted to \$122,666.00 for the year ended June 30, 2012.

Internal Revenue Code Section 401(k) Plan - All members of the Teachers' and State Employees' Retirement System and the Optional Retirement Program are eligible to enroll in the Supplemental Retirement Income Plan, a defined contribution plan, created under Internal Revenue Code Section 401(k). All costs of administering the Plan are the responsibility of the Plan participants. No costs are incurred by the University except for a 5% employer contribution for the University's law enforcement officers, which is mandated under General Statute 143-166.30(e). Total employer contributions on behalf of University law enforcement officers for the year ended June 30, 2012, were \$117,431.35. The voluntary contributions by employees amounted to \$311,991.00 for the year ended June 30, 2012.

Internal Revenue Code Section 403(b) and 403(b)(7) Plans - Eligible University employees can participate in tax sheltered annuity plans created under Internal Revenue Code Sections 403(b) and 403(b)(7). The employee's eligible contributions, made through salary reduction agreements, are exempt from federal and state income taxes until the annuity is received or the contributions are withdrawn. These plans are exclusively for employees of universities and certain charitable and other nonprofit institutions. All costs of administering and funding these plans are the responsibility of the Plan participants. The plan administrators are TIAA-CREF and Fidelity. No costs are incurred by the University. The voluntary contributions by employees amounted to \$486,102.94 for the year ended June 30, 2012.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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### NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS

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

The Plan's benefit and contribution provisions are established by the State Treasurer and the Board of Trustees of the State Health Plan for Teachers and State Employees as authorized by Chapter 135, Article 3B, of the General Statutes. The Plan does not provide for automatic post-retirement benefit increases.

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

For the current fiscal year the University contributed 5.0% of the covered payroll under the Teachers' and State Employees' Retirement System and the Optional Retirement Program to the Fund. Required contribution rates for the years ended June 30, 2011, and 2010, were 4.9% and 4.5%, respectively. The University made 100% of its annual required contributions to the Plan for the years ended June 30, 2012, 2011, and 2010, which were \$1,655,420.46, \$1,761,142.89, and \$1,594,829.63, respectively. The University assumes no liability for retiree health care benefits provided by the programs other than its required contribution.

Additional detailed information about these programs can be located in the state of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

Disability income benefits are funded by actuarially determined employer contributions that are established by the General Assembly. For the fiscal year ended June 30, 2012, the University made a statutory contribution of .52% of covered payroll under the Teachers' and State Employees' Retirement System and the Optional Retirement Program to the DIPNC. The required contribution rate for the years ended June 30, 2011, and 2010, was .52% for both years. The University made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2012, 2011, and 2010, which were \$172,163.73, \$186,896.79, and \$184,291.43, respectively. The University assumes no liability for long-term disability benefits under the Plan other than its contribution.

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

### NOTE 13 - RISK MANAGEMENT

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

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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The University is required to maintain fire and lightning coverage on all state-owned buildings and contents through the State Property Fire Insurance Fund (Fund), an internal service fund of the State. Such coverage is provided at no cost to the University for operations supported by the State's General Fund. Other operations not supported by the State's General Fund are charged for the coverage. Losses covered by the Fund are subject to a \$5,000 per occurrence deductible. However, some agencies have chosen a higher deductible for a reduction in premium. Auxiliary buildings have broad form coverage for buildings and contents in addition to the fire coverage with the same \$5,000 deductible. The Janice W. Brumit Pisgah House and the Wilma M. Sherrill Center have all risk special form coverage with a \$5,000 deductible. The University has also purchased through the Fund, extended coverage for boiler and machinery components with at \$5,000 deductible, and fine arts coverage for artwork that has a \$2,500 deductible

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

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

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

### NOTE 14 - COMMITMENTS AND CONTINGENCIES

- A. Commitments** - The University has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were \$1,797,120.99 and on other purchases were \$4,939,764.58 at June 30, 2012.
- B. Pending Litigation and Claims** - The University is a party to litigation and claims in the ordinary course of its operations. Since it is not possible to predict the ultimate outcome of these matters, no provision for any liability has been made in the financial statements. University management is of the opinion that the liability, if any, for any of these matters will not have a material adverse effect on the financial position of the University.

### NOTE 15 - RELATED PARTIES

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

These entities are in existence to support the individual programs of the University. The University's financial statements do not include the assets, liabilities, net assets, or operational transactions of the entities, except for support from each organization to the University. The support provided to the University from these not-for-profit corporations is not considered significant for the year ending June 30, 2012. Further information, including audit reports, may be obtained directly from these entities.

## NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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### NOTE 16 - NET ASSET RESTATEMENT

Pursuant to G.S. 116-242, as of July 1, 2011, the administration and state appropriations for The North Carolina Arboretum were moved from UNC Asheville to Western Carolina University. As a result, net assets as previously reported on July 1, 2011 were restated to remove the North Carolina Arboretum as follows:

	<u>Amount</u>
July 1, 2011 Net Assets as Previously Reported	\$ 182,204,567.85
Change in Reporting Entity - Transfer of NC Arboretum to Another University	<u>(14,666,319.54)</u>
<b>July 1, 2011 Net Assets as Restated</b>	<b><u><u>\$ 167,538,248.31</u></u></b>



Beth A. Wood, CPA  
State Auditor

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Office of the State Auditor

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

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Board of Trustees  
The University of North Carolina at Asheville  
Asheville, North Carolina

We have audited the financial statements of The University of North Carolina at Asheville, a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the state of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 2012, which collectively comprise the University's basic financial statements and have issued our report thereon dated October 8, 2012. Our report includes a reference to other auditors.

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

Internal Control Over Financial Reporting

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

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

**INDEPENDENT AUDITOR'S REPORT  
ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
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GOVERNMENT AUDITING STANDARDS (CONCLUDED)**

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possibility that a material misstatement of the University's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters

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

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



Beth A. Wood, CPA  
State Auditor

October 8, 2012

## **ORDERING INFORMATION**

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

Office of the State Auditor  
State of North Carolina  
2 South Salisbury Street  
20601 Mail Service Center

Raleigh, North Carolina 27699-0601

Telephone: 919/807-7500

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This audit required 833 audit hours at an approximate cost of \$59,976. The cost represents .026% of the University's total assets and .074% of the University's total expenses subjected to audit.