

# STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA



## WESTERN CAROLINA UNIVERSITY

CULLOWHEE, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2015

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



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



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

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## AUDITOR'S TRANSMITTAL

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The Honorable Pat McCrory, Governor  
The General Assembly of North Carolina  
Board of Trustees, Western Carolina University

We have completed a financial statement audit of Western Carolina University for the year ended June 30, 2015, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

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

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

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

Beth A. Wood, CPA  
State Auditor



Beth A. Wood, CPA  
State Auditor

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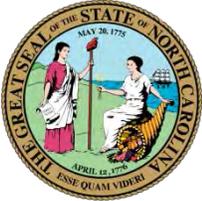
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Article V, Chapter 147 of the *North Carolina General Statutes*, gives the Auditor broad powers to examine all books, records, files, papers, documents, and financial affairs of every state agency. The Auditor also has the power to summon people to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



# INDEPENDENT AUDITOR'S REPORT

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



**Beth A. Wood, CPA**  
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## **INDEPENDENT AUDITOR'S REPORT**

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Board of Trustees  
Western Carolina University  
Cullowhee, North Carolina

### Report on the Financial Statements

We have audited the accompanying financial statements of Western Carolina University, a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of Western Carolina University Foundation, which represent 5.87 percent, 7.87 percent, and 2.17 percent, respectively, of the assets, net position, and revenues of the University; nor the statements of Western Carolina University Research and Development Corporation, which represent less than one percent of the respective assets, net position, and revenues of the University. Those statements were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for those entities, is based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of Western Carolina University Foundation and Western Carolina University Research and Development Corporation were not audited in accordance with *Government Auditing Standards*.

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

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

### Opinion

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of Western Carolina University, as of June 30, 2015, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### Emphasis of Matter

As discussed in Note 18 to the financial statements, during the year ended June 30, 2015, Western Carolina University adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 68. – *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27* and Statement No. 71 – *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*. Our opinion is not modified with respect to this matter.

### Other Matters – Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 9, 2015 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.



Beth A. Wood, CPA  
State Auditor

Raleigh, North Carolina

December 9, 2015



# **MANAGEMENT'S DISCUSSION AND ANALYSIS**

## Introduction

Western Carolina University's (University) financial report includes three financial statements and the *Notes to the Financial Statements*. The *Statement of Net Position* presents the assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position of the institution as of the end of the fiscal year; the *Statement of Revenues, Expenses, and Changes in Net Position* reflects revenues and expenses recognized during the fiscal year; and the *Statement of Cash Flows* provides information on all of the institution's cash inflows and outflows during the fiscal year by major category. These financial statements were prepared in accordance with Governmental Accounting Standards Board (GASB) pronouncements, which establish standards for external financial reporting for public colleges and universities. GASB standards require that financial statements be presented on a consolidated basis in order to focus on the University as a whole. The financial activities of the Western Carolina University Foundation (Foundation) and the Western Carolina University Research and Development Corporation (Corporation) are blended in the University's financial statements. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follow this section.

## Statement of Net Position

The *Statement of Net Position* presents assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position as of the date of the fiscal year end (June 30). This statement assists in the determination of the financial condition of the University. Newly effective for the University's fiscal year 2015 financials, GASB issued statement No. 68, Accounting and Financial Reporting for Pensions – *An Amendment of GASB Statement No. 27*. Additionally, GASB issued statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date – *An Amendment of GASB Statement No. 68*. As part of the implementation of GASB 68 and 71, net pension liability, a deferred outflow for pensions, and a deferred inflow for pensions has been recorded. Prior year amounts in the *Statement of Net Position* have been restated to reflect this change in accounting standards. Data presented in the *Statement of Net Position* helps readers determine the assets available to continue the operations of the University and how much the University owes vendors and lending institutions. In addition, the Net Position section of the statement reflects the residual value of the University's assets and deferred outflows of resources after liabilities and deferred inflows of resources are deducted and classifies their availability for expenditure.

## Condensed Statement of Net Position

	2015	2014 (as restated)	\$ Change	% Change
<b>Assets</b>				
Current Assets	\$ 93,010,669.06	\$ 84,290,059.64	\$ 8,720,609.42	10.35%
Capital Assets, Net	378,935,462.91	379,347,323.11	(411,860.20)	-0.11%
Other Noncurrent Assets	78,965,520.45	75,591,999.70	3,373,520.75	4.46%
<b>Total Assets</b>	<u>550,911,652.42</u>	<u>539,229,382.45</u>	<u>11,682,269.97</u>	2.17%
<b>Deferred Outflows of Resources</b>	<u>5,111,127.59</u>	<u>4,107,969.61</u>	<u>1,003,157.98</u>	24.42%
<b>Liabilities</b>				
Current Liabilities	13,999,934.14	10,928,590.84	3,071,343.30	28.10%
Long-Term Liabilities, Net	116,601,736.13	130,141,734.21	(13,539,998.08)	-10.40%
Other Noncurrent Liabilities	5,585,804.98	5,881,694.11	(295,889.13)	-5.03%
<b>Total Liabilities</b>	<u>136,187,475.25</u>	<u>146,952,019.16</u>	<u>(10,764,543.91)</u>	-7.33%
<b>Deferred Inflows of Resources</b>	<u>12,412,070.00</u>	<u>0.00</u>	<u>12,412,070.00</u>	100.00%
<b>Net Position</b>				
Net Investment in Capital Assets	268,730,166.04	268,764,641.82	(34,475.78)	-0.01%
Restricted – Nonexpendable	39,012,065.69	37,571,570.91	1,440,494.78	3.83%
Restricted – Expendable	38,491,124.77	37,970,993.37	520,131.40	1.37%
Unrestricted	61,189,878.26	52,078,126.80	9,111,751.46	17.50%
<b>Total Net Position</b>	<u>\$ 407,423,234.76</u>	<u>\$ 396,385,332.90</u>	<u>\$ 11,037,901.86</u>	2.78%

**Assets**

Current assets, which consist primarily of cash, accounts and notes receivable and operating inventories, increased by \$8.7 million. This increase was due in great part to an approximate \$4.2 million increase in unrestricted cash and cash equivalents. The increase in current cash balances is the result of certain unspent fees collected in trust funds in the amount of \$2.2 million, an increase in the distribution of indirect costs to departments that were unspent of \$0.2 million, an increase in auxiliary reserve funds (i.e. residential living, dining, etc.) of \$7.8 million, and an overall increase of other trust funds in of \$0.2 million, netted against a reduction in cash carryover of \$5.6 million and increased coverage of the restricted cash positions by unrestricted cash of \$0.6 million. Newly implemented for the fiscal year 2015, the University was part of a pilot program with the state for carryforward, state appropriated funds for outstanding encumbrances for unfulfilled obligations at year end. Instead of cash carryforward, the University recorded a receivable from primary government in the amount of \$4.2 million for the amount of carryforward. Restricted cash decreased by \$0.6 million in part because of allocations to administrative fee funds in the Endowments and the Foundation and an increase in the negative cash position of grants. Receivables increased by \$0.3 million for direct student loans. The balance of the increase in current assets is a result of inventories increasing by \$0.6 million. The bookstore inventory and repair parts inventory were the main areas with inventory increases.

Net capital assets decreased \$0.4 million. During the year, nondepreciable capital assets included land acquisitions of approximately \$0.9 million. Construction in progress had a net increase of \$3.5 million, predominately from an energy savings lighting project. Depreciation/amortization expense for the year was approximately \$8.5 million. Additions to depreciable capital assets totaled \$4.8 million. Disposals and write-downs totaled almost \$2.3 million during the year, part of which was for a building on lands which the Endowment

Board of the University has leased to a developer for construction of student housing and retail space. Reductions to accumulated depreciation totaled \$1.1 million.

Other noncurrent assets increased \$3.3 million. Noncurrent cash increased \$0.1 million as a result of an increase in allotted and unallotted cash for capital projects, offset by a reduction in cash that was converted to investments during 2015. Endowment investments increased \$3.3 million largely as a result of a positive market value change, while restricted investments increased by \$0.7 million because of unspent proceeds for an energy savings lighting project. Prepaid bond insurance decreased by approximately \$0.1 million. Notes receivable decreased by \$0.6 million as a result of repayments.

### **Deferred Outflows of Resources**

The University has two deferred outflows of resources. The first outflow is in the amount of \$0.3 million for a deferred loss on refunding. This deferred outflow of resources is amortized as a component of interest and fees on debt over the shorter of the remaining life of the old debt or the life of the new debt. The second deferred outflow of resources is \$4.7 million for a deferred outflow for pensions. Approximately \$4.0 million of this deferred outflow of resources will reduce the net pension liability for the year ended June 30, 2016.

### **Liabilities**

Current liabilities increased by \$3.0 million. Unearned revenues increased by approximately \$2.9 million. A \$4.0 million capital contribution was made toward a capital project for which only \$1.1 million was used during the fiscal year. The balance was classified as unearned revenue. The current portion of long-term liabilities increased by \$0.2 million because of the acquisition of capital assets through notes payable and an increase in compensated absences. Other current liabilities decreased approximately \$0.1 million.

Long-term liabilities, net decreased by \$13.5 million. A large portion of this decrease resulted from the implementation of GASB 68 and GASB 71 for pension reporting. The net pension liability decreased \$13.7 million. There was repayment of \$1.9 million in bond principal indebtedness, and \$1.7 million in special indebtedness repayment. Notes payable and capital leases of \$3.5 million were added, with principal repayments of almost \$0.2 million for those items. Compensated absences increased by almost \$0.4 million because employees were granted an additional five days of annual leave which can carryforward. Negligible changes occurred in unamortized bond premiums and bond discounts.

### **Deferred Inflows of Resources**

With the implementation of GASB 68 and GASB 71, the University recorded a deferred inflow for pensions of \$12.4 million. Over the next four fiscal years, \$11.7 million of this inflow will be recognized in pension expense.

### **Net Position**

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

- "Net Investment in Capital Assets" represents the University's investment in capital assets such as movable equipment, buildings, land, infrastructure, and improvements, net of accumulated depreciation and amortization and outstanding

principal balances of debt attributable to the acquisition, construction, or improvement of those assets. Additionally, deferred outflows of resources that are attributable to the acquisition, construction, or improvement of capital assets or related debt are also included in this component of net position. At June 30, 2015, \$268.7 million (65.95% of total net position) of the \$407.4 million in net position was attributable to the University's investment in capital assets.

- Restricted net position is subject to externally imposed restrictions governing use and is further divided into two categories: nonexpendable and expendable. "Restricted - Nonexpendable" net position primarily includes the University's permanent endowment funds received from donors for the purpose of creating present and future income. These funds must be held inviolate and in perpetuity and are, therefore, not expendable. Earnings on these funds support various programs determined by donors. The nonexpendable category makes up approximately \$39.0 million (9.57% of total net position) of the \$407.4 million net position total. "Restricted - Expendable" net position is available for expenditure in accordance with externally imposed restrictions. Examples include funds for scholarships, debt service, and capital projects. At June 30, 2015, expendable net position totaled approximately \$38.5 million (9.45% of total net position) of the \$407.4 million in net position.
- "Unrestricted" net position is not subject to externally imposed restrictions, although management has designated these funds for various academic, institutional, and research programs and initiatives, as well as capital projects. This year, unrestricted net position totaled approximately \$61.2 million (15.03% of total net position) of the \$407.4 million in net position.

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

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

Generally speaking, operating revenues are generated through the provision of goods and services, and include tuition and fees, contract and grant revenue, interest earnings on student loans, and sales and services 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. Nonoperating expenses include interest expense, extraordinary items, and other expenses not incurred in the normal operations of the University.

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

The following is a condensed *Statement of Revenues, Expenses, and Changes in Net Position* for the University as of June 30, 2015, with restated data for 2014.

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

	2015	2014*	\$ Change	% Change
<b>Operating Revenues</b>				
Student Tuition and Fees, Net	\$ 54,131,549.46	\$ 51,390,654.70	\$ 2,740,894.76	5.33%
Grants and Contracts	4,974,886.05	4,215,119.48	759,766.57	18.02%
Sales and Services, Net	39,039,606.45	35,762,418.27	3,277,188.18	9.16%
Other Operating Revenues	1,627,526.75	1,682,025.23	(54,498.48)	-3.24%
<b>Total Operating Revenues</b>	<b>99,773,568.71</b>	<b>93,050,217.68</b>	<b>6,723,351.03</b>	<b>7.23%</b>
<b>Operating Expenses</b>				
Salaries and Benefits	119,374,452.76	113,543,344.14	5,831,108.62	5.14%
Supplies and Materials	20,953,284.09	21,046,092.82	(92,808.73)	-0.44%
Services	38,981,614.09	34,885,559.69	4,096,054.40	11.74%
Scholarships and Fellowships	11,308,246.98	11,446,429.45	(138,182.47)	-1.21%
Utilities	5,190,654.03	5,410,822.11	(220,168.08)	-4.07%
Depreciation/Amortization	8,474,105.76	8,350,779.70	123,326.06	1.48%
<b>Total Operating Expenses</b>	<b>204,282,357.71</b>	<b>194,683,027.91</b>	<b>9,599,329.80</b>	<b>4.93%</b>
<b>Operating Loss</b>	<b>(104,508,789.00)</b>	<b>(101,632,810.23)</b>	<b>(2,875,978.77)</b>	<b>-2.83%</b>
<b>Nonoperating Revenues (Expenses)</b>				
State Appropriations	85,513,069.52	82,461,935.32	3,051,134.20	3.70%
Noncapital Grants - Student Financial Aid	24,406,326.13	23,350,231.65	1,056,094.48	4.52%
Noncapital Grants	1,095,412.93	903,436.13	191,976.80	21.25%
Noncapital Gifts, Net	4,942,677.23	3,347,201.34	1,595,475.89	47.67%
Investment Income (Includes Investment Expenses)	2,831,905.15	9,331,115.73	(6,499,210.58)	-69.65%
Interest and Fees on Debt	(5,289,922.42)	(5,145,708.61)	(144,213.81)	2.80%
Other Nonoperating Expenses	(828,257.83)	(299,256.64)	(529,001.19)	176.77%
<b>Net Nonoperating Revenues</b>	<b>112,671,210.71</b>	<b>113,948,954.92</b>	<b>(1,277,744.21)</b>	<b>-1.12%</b>
<b>Income Before Other Revenues</b>	<b>8,162,421.71</b>	<b>12,316,144.69</b>	<b>(4,153,722.98)</b>	<b>-33.73%</b>
Capital Appropriations		2,566,307.00	(2,566,307.00)	-100.00%
Capital Grants	1,526.75	283,581.80	(282,055.05)	-99.46%
Capital Gifts	1,570,000.00	483,760.00	1,086,240.00	224.54%
Additions to Permanent Endowments	1,303,953.40	1,924,058.46	(620,105.06)	-32.23%
<b>Total Other Revenue</b>	<b>2,875,480.15</b>	<b>5,257,707.26</b>	<b>(2,382,227.11)</b>	<b>-45.31%</b>
<b>Change in Net Position</b>	<b>11,037,901.86</b>	<b>17,573,851.95</b>	<b>(6,535,950.09)</b>	<b>-37.19%</b>
<b>Beginning Net Position, (Prior to GASB 68 and GASB 71 Restatement)</b>	<b>396,385,332.90</b>	<b>392,310,054.95</b>	<b>4,075,277.95</b>	<b>1.04%</b>
<b>Restatement to Record the University's Net Position Liability and Pension Related Deferred Outflows of Resources Per GASB 68 and GASB 71 Requirements</b>		<b>(13,498,574.00)</b>	<b>13,498,574.00</b>	<b>100.00%</b>
<b>Ending Net Position (as restated)</b>	<b>\$ 407,423,234.76</b>	<b>\$ 396,385,332.90</b>	<b>\$ 11,037,901.86</b>	<b>2.78%</b>
<b>Reconciliation of Change in Net Position</b>				
Total Revenues	\$ 221,438,439.82	\$ 217,701,845.11	\$ 3,736,594.71	1.72%
Total Expenses	210,400,537.96	200,127,993.16	10,272,544.80	5.13%
<b>Increase (Decrease) in Net Position</b>	<b>\$ 11,037,901.86</b>	<b>\$ 17,573,851.95</b>	<b>\$ (6,535,950.09)</b>	<b>-37.19%</b>

\* Note: The year ended June 30, 2014 column is not presented "as restated" above because actuarial calculations performed relative to the implementation of GASB 68 and GASB 71 do not provide sufficient information to restate these amounts.

### Operating Revenues

Operating revenues increased \$6.7 million, based on the following:

- Student tuition and fees increased by \$2.7 million as a result of increases in tuition and fee rates, together with an increase in enrollment.
- Grants and contracts revenues increased \$0.7 million. Federal contracts and grants composed the greatest portion of the increase with \$0.3 million. State grants and local grants increased approximately \$0.2 million each. These fluctuations are considered normal as grant activity does vary from year to year, with old grants terminating and new grants being sought.
- Sales and services revenue increased approximately \$3.2 million due to increases in fee rates for housing, dining, and other auxiliary services, together with an increase in enrollment.

### Nonoperating Revenues

Net nonoperating revenues decreased by approximately \$1.3 million, based on the following:

- State appropriations increased by \$3.0 million. This increase is largely due to enrollment growth funding the University received.
- Noncapital grants for student financial aid increased by \$1.0 million, due to increases in Pell Grants of \$0.7 million and an increase in North Carolina Need Based Grants of \$0.3 million.
- Noncapital grants increased by approximately \$0.2 million over the prior year, mainly due to a pass through amounts received through inter-institutional transfers.
- Noncapital gifts, net increased by approximately \$1.6 million. Noncash gifts increased by \$1.1 million, while cash gifts increased by \$0.5 million. The increase in non-cash gifts mainly arose from increased support of the N.C. Arboretum by the N.C. Arboretum Society.
- Investment income decreased by approximately \$6.5 million because the markets did not perform at the high level of the prior fiscal year. The total investment income was composed in part by realized gains of \$2.3 million, and unrealized gains of \$0.2 million. Realized losses were minimal, while unrealized losses totaled \$0.6 million. State Treasurer's Investment Fund (STIF) interest income was \$0.3 million for the year and other investment earnings were \$0.1 million. Endowment income was approximately \$0.5 million for the year.
- Interest and fees on debt decreased by \$0.1 million. The decrease is due to normal amortization.
- Other nonoperating expenses increased by \$0.5 million. This category is composed of loss on the disposal of assets of \$0.7 million, offset by nominal miscellaneous revenue and expenses.

Among the University's greatest strengths are the diverse revenue streams that supplement student tuition and fees. These include gifts from individuals, foundations, and corporations, along with state appropriations, investment income, and federal, state, and private grants and contracts. The University has sought and will continue to seek funding from available sources that are consistent with its mission and will continue to

prudently manage the financial resources realized from these efforts in order to supplement tuition and fee revenues and fund its operating activities.

### **Operating Expenses**

Operating expenses increased approximately \$9.6 million, based on the following:

- Salaries and benefits for the faculty and staff of the University increased by \$5.8 million. The state awarded raises of \$1,000 to SPA employees. The University provided the same raise to EPA employees. The University continued to make a conscious effort to increase some SPA employees' salaries to a greater percentage of the market rate for their respective positions. With the implementation of GASB 68, the University recognized a pension expense of \$1.6 million.
- Supplies and materials decreased nominally.
- Services increased by \$4.0 million mostly due to additional spending for contract food services of approximately \$1.0 million, marketing expenses of \$0.5 million, rental expenses of approximately \$0.8 million, and contractual services of \$1.0 million.
- Scholarships and fellowships, net of scholarship discount, decreased by \$0.1 million. Before application of the \$24.1 million discount, scholarships increased by \$1.7 million, partly due to increases in NC Need Based Grants and increases in spending for federal Pell Grants. The scholarship discount increased by a total of \$1.8 million this fiscal year.
- Utilities expense decreased slightly this year by \$0.2 million. The University has taken energy savings initiatives.
- Depreciation/amortization expense increased \$0.1 million this year.

### **Other Revenues**

Capital grants decreased by \$0.2 million because the University received a minimal amount of that aid for the fiscal year.

Capital gifts increased \$1.0 million because of a gift to the University to be applied to the Brown renovation project.

The additions to permanent endowments decreased by \$0.6 million this fiscal year. In the prior year, there was a matching contribution to an endowment fund.

Capital appropriations decreased by \$2.5 million as the University received no capital appropriation this year.

### **Capital Asset and Debt Administration**

At June 30, 2015, the University had approximately \$503.0 million invested in capital assets, and accumulated depreciation of \$123.9 million. Depreciation and amortization charges for the current year totaled \$8.4 million.

A critical factor for achieving quality in the University's academic endeavors, while enriching the quality of all students' campus experience, is the development and renewal of capital assets. The University continues to implement a long-range plan for modernizing its older teaching, research, and student life facilities, balanced with new construction. Capital asset

additions and improvements during the current fiscal year were funded with state capital grants, state appropriations, debt proceeds, gifts, grants, and unrestricted net position designated for capital purposes.

In December 2013, the Board of Trustees of the University approved a campus master plan for the development and improvement of the campus over the next several decades. A direct outgrowth of the University's recently approved strategic plan, titled "2020 Vision: Focusing Our Future," the campus master planning process addresses issues related to new building needs, utilization of existing space, parking and transportation, technology infrastructure, sustainability, safety and security, preservation of campus heritage, and integration of the campus with the surrounding community.

The University participated in the UNC System Guaranteed Energy Savings Installment Agreement in which the University has acquired energy savings assets of \$3.3 million. The assets will be paid through a note payable. See note 5 to the financial statements for details on this project. The University will be pursuing the renovation of the Brown Building, for additional dining facilities and student activity space. The University issued bonds in Fall 2015 for the Brown project, see note 19 for more details regarding this bond issuance. Structures on land owned by the University Endowment were demolished and the land was leased to a private developer to build a mixed-use facility as a replacement for the razed structures. The new facility will contain 421 beds and retail space. The goal is for occupancy in August, 2016. A medical office building is slated to be built by a private developer on the Millennial Campus of the University, with a projected completion date of 2017.

The University's financial statements indicate \$106.9 million in bonds payable and special indebtedness, approximately \$3.6 million in notes payable, and \$0.1 million in capital leases payable at June 30, 2015. The indebtedness includes the debt of the Corporation, which is blended with the University indebtedness for financial presentation purposes. In April 2015, the Corporation issued \$8.0 million in Western Carolina University Refunding Limited Obligation Bonds (Student Housing Project), Series 2015, with an average interest rate of 3.37%. These bonds were used to advance refund \$8.0 million of outstanding Western Carolina University Certificates of Participation (Student Housing Project), Series 2005, with an average interest rate of 4.22%. The advance refunding was undertaken to reduce total debt service by \$.8 million over the next 8.3 years.

For additional information on capital assets, leases, and debt administration, see Notes 5, 8, and 9 to the financial statements.

### **Economic Outlook**

A significant factor in the University's capacity to generate resources is the ability to recruit and retain high quality students. The freshman retention rate from Fall 2014 to Fall 2015 increased from 78% to 80%. Enrollment growth targets for the coming years have been established, and the University continues to vigorously pursue strategic growth in all categories of enrollment - resident credit and distance learning enrollments, at both the undergraduate and graduate levels. Total enrollment for Fall 2015 was 10,340 as compared to 10,382 in Fall 2014. The University aspires to continue to increase enrollment through quality recruitment and retention, generating increases in revenues such as tuition and fees, sales and services, and state appropriations as well as the corresponding operating expenses incurred by serving larger numbers of students.

Looking toward the future, management believes that the University is well positioned to maintain its strong financial condition and to advance both the quality and scope of its services to the students, the state, and the region. The University's economic impact on North Carolina is significant. A study from the 2012-2013 fiscal year that was released this year shows the University's impact to be more than \$900 million annually, with more than a half billion of those dollars staying in Western North Carolina. The economic impact survey of all higher education institutions in the state of North Carolina was conducted by the Economic Modeling Specialists International.

A crucial element in the University's future will be our relationships with The University of North Carolina System and the North Carolina General Assembly, as we work to remain competitive in price while providing an outstanding education for our students. There is a direct relationship between the growth of the University's enrollment and facilities and the demand for state appropriations to operate the University. Declines in state appropriations generally exert pressure on institutions to increase tuition and fees. As an institution targeted for growth in the years ahead, the University will be greatly affected by the availability and levels of state operating funds and capital resources to support that growth. As the University of North Carolina System moves toward a performance based funding model, it will be crucial that the University continue to meet graduation, retention, and other defined metrics, while maintaining a strong student enrollment.

Management believes that the University has taken strong measures to ensure fiscal stability. These measures have involved spending cuts, program reviews, cultivating outside resource support, and maximizing total returns on investments, while protecting University assets and cultivating opportunities through public-private partnerships. The University continues to examine all functions in order to make informed decisions about how to use limited resources toward the goal of maintaining the growth, vitality, and excellence of the University and its ability to provide a quality education and services to the students and the people of North Carolina.

University management believes that enrollment growth, increased research activity, and fundraising efforts will also help provide the resources necessary to maintain and enhance academic programs and campus life experiences. The University is in the early phases of beginning its next comprehensive fundraising campaign. The focus of the campaign will be to increase the level of endowments for scholarships, program support, faculty/staff support, and support for select capital projects. The University continues to receive positive rankings in national publications for its quality and value. The 2016 Edition of U.S. News & World Report's Best Colleges guidebook ranks the University as 13<sup>th</sup> among "top public regional universities" in the South and as tied for 32<sup>nd</sup> as a "best regional university."



# FINANCIAL STATEMENTS

**Western Carolina University**  
**Statement of Net Position**  
**June 30, 2015**

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

**ASSETS**

Current Assets:	
Cash and Cash Equivalents	\$ 66,978,899.66
Restricted Cash and Cash Equivalents	12,034,672.19
Receivables, Net (Note 4)	3,487,679.37
Due from Primary Government	4,219,163.99
Inventories	5,351,561.64
Notes Receivable, Net (Note 4)	866,949.55
Other Assets	71,742.66
	<hr/>
Total Current Assets	93,010,669.06
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	6,486,707.91
Receivables, Net (Note 4)	6,680.24
Endowment Investments	65,600,269.94
Restricted Investments	1,971,039.51
Other Investments	17,500.00
Notes Receivable, Net (Note 4)	4,253,474.47
Prepaid Bond Insurance	629,848.38
Capital Assets - Nondepreciable (Note 5)	17,526,192.30
Capital Assets - Depreciable, Net (Note 5)	361,409,270.61
	<hr/>
Total Noncurrent Assets	457,900,983.36
	<hr/>
Total Assets	550,911,652.42

**DEFERRED OUTFLOWS OF RESOURCES**

Deferred Loss on Refunding	353,213.59
Deferred Outflows Related to Pensions	4,757,914.00
	<hr/>
Total Deferred Outflows of Resources	5,111,127.59

**LIABILITIES**

Current Liabilities:	
Accounts Payable and Accrued Liabilities (Note 7)	2,751,563.89
Due to Primary Government	12,569.43
Unearned Revenue	5,973,569.86
Interest Payable	749,575.63
Long-Term Liabilities - Current Portion (Note 8)	4,512,655.33
	<hr/>
Total Current Liabilities	13,999,934.14
Noncurrent Liabilities:	
Deposits Payable	106,312.87
Funds Held for Others	709,251.99
U. S. Government Grants Refundable	4,770,240.12
Long-Term Liabilities, Net (Note 8)	116,601,736.13
	<hr/>
Total Noncurrent Liabilities	122,187,541.11
	<hr/>
Total Liabilities	136,187,475.25

**DEFERRED INFLOWS OF RESOURCES**

Deferred Inflows Related to Pensions	12,412,070.00
	<hr/>

**Western Carolina University**  
**Statement of Net Position**  
**June 30, 2015**

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

**NET POSITION**

Net Investment in Capital Assets, Net of Related Debt	268,730,166.04
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	18,350,138.85
Endowed Professorships	19,218,949.90
Departmental Uses	513,964.94
Loans	929,012.00
Expendable:	
Scholarships and Fellowships	18,204,637.83
Endowed Professorships	9,280,209.64
Departmental Uses	2,393,551.59
Loans	403,951.87
Capital Projects	5,607,353.07
Debt Service	2,184,013.00
Other	417,407.77
Unrestricted	<u>61,189,878.26</u>
Total Net Position	<u><u>\$ 407,423,234.76</u></u>

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

**Western Carolina University**  
**Statement of Revenues, Expenses, and**  
**Changes in Net Position**  
**For the Fiscal Year Ended June 30, 2015**

**Exhibit A-2**

**REVENUES**

Operating Revenues:

Student Tuition and Fees, Net (Note 10)	\$ 54,131,549.46
Federal Grants and Contracts	3,750,369.19
State and Local Grants and Contracts	336,814.15
Nongovernmental Grants and Contracts	887,702.71
Sales and Services, Net (Note 10)	39,039,606.45
Interest Earnings on Loans	15,165.98
Other Operating Revenues	1,612,360.77

Total Operating Revenues	99,773,568.71
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**EXPENSES**

Operating Expenses:

Salaries and Benefits	119,374,452.76
Supplies and Materials	20,953,284.09
Services	38,981,614.09
Scholarships and Fellowships	11,308,246.98
Utilities	5,190,654.03
Depreciation/Amortization	8,474,105.76

Total Operating Expenses	204,282,357.71
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Operating Loss	(104,508,789.00)
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**NONOPERATING REVENUES (EXPENSES)**

State Appropriations	85,513,069.52
Noncapital Grants - Student Financial Aid	24,406,326.13
Noncapital Grants	1,095,412.93
Noncapital Gifts, Net (Note 10)	4,942,677.23
Investment Income (Net of Investment Expense of \$337,634.28)	2,831,905.15
Interest and Fees on Debt	(5,289,922.42)
Other Nonoperating Expenses	(828,257.83)

Net Nonoperating Revenues	112,671,210.71
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Income Before Other Revenues	8,162,421.71
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Capital Grants	1,526.75
Capital Gifts	1,570,000.00
Additions to Endowments	1,303,953.40

Increase in Net Position	11,037,901.86
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**NET POSITION**

Net Position - July 1, 2014, as Restated (Note 18)	396,385,332.90
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Net Position - June 30, 2015	\$ 407,423,234.76
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The accompanying notes to the financial statements are an integral part of this statement.

**Western Carolina University**  
**Statement of Cash Flows**  
**For the Fiscal Year Ended June 30, 2015**

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

**CASH FLOWS FROM OPERATING ACTIVITIES**

Received from Customers	\$ 93,753,058.04
Payments to Employees and Fringe Benefits	(121,304,378.39)
Payments to Vendors and Suppliers	(63,422,260.21)
Payments for Scholarships and Fellowships	(11,309,846.66)
Loans Issued	(981,978.74)
Collection of Loans	808,642.20
Interest Earned on Loans	88,889.88
Student Deposits Received	769,359.31
Student Deposits Returned	(799,583.08)
Other Receipts	1,568,337.39
	<u>1,568,337.39</u>
Net Cash Used by Operating Activities	<u>(100,829,760.26)</u>

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

State Appropriations	85,513,069.52
Noncapital Grants - Student Financial Aid	24,406,326.13
Noncapital Grants	1,095,412.93
Noncapital Gifts	2,906,891.79
Additions to Endowments	1,303,953.40
William D. Ford Direct Lending Receipts	63,733,661.00
William D. Ford Direct Lending Disbursements	(63,733,661.00)
Related Activity Agency Receipts	237,613.38
Related Activity Agency Disbursements	(233,487.91)
Other Payments	(59,450.31)
	<u>(59,450.31)</u>
Net Cash Provided by Noncapital Financing Activities	<u>115,170,328.93</u>

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

Proceeds from Capital Debt	24,491.31
Capital Grants	1,526.75
Capital Gifts	4,470,000.00
Proceeds from Sale of Capital Assets	12,079.71
Acquisition and Construction of Capital Assets	(5,518,433.84)
Principal Paid on Capital Debt and Leases	(3,668,058.16)
Interest and Fees Paid on Capital Debt and Leases	(4,860,639.28)
	<u>(4,860,639.28)</u>
Net Cash Used by Capital Financing and Related Financing Activities	<u>(9,539,033.51)</u>

**CASH FLOWS FROM INVESTING ACTIVITIES**

Proceeds from Sales and Maturities of Investments	3,857,262.22
Investment Income	3,519,305.11
Purchase of Investments and Related Fees	(8,508,606.16)
	<u>(8,508,606.16)</u>
Net Cash used by Investing Activities	<u>(1,132,038.83)</u>
Net Increase in Cash and Cash Equivalents	3,669,496.33
Cash and Cash Equivalents - July 1, 2014	<u>81,830,783.43</u>
Cash and Cash Equivalents - June 30, 2015	<u>\$ 85,500,279.76</u>

**Western Carolina University**  
**Statement of Cash Flows**  
**For the Fiscal Year Ended June 30, 2015**

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

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

Operating Loss	\$ (104,508,789.00)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation/Amortization Expense	8,474,105.76
Allowances, Write-Offs, and Amortizations	290,879.41
Pension Expense	1,654,559.00
Nonoperating Other Expenses	1,879,668.63
Changes in Assets, Liabilities, and Deferred Outflows of Resources:	
Receivables, Net	(248,361.20)
Due from Primary Government	(4,219,163.99)
Due from University Component Units	(637,999.56)
Inventories	276,974.59
Notes Receivable, Net	(23,562.24)
Accounts Payable and Accrued Liabilities	(149,924.82)
Due to Primary Government	(2,580.85)
Unearned Revenue	58,502.70
Deferred Outflows for Contributions Subsequent to the Measurement Date	(4,062,377.00)
Compensated Absences	397,112.70
Deposits Payable	(8,804.39)
	<hr/>
Net Cash Used by Operating Activities	<u><u>\$ (100,829,760.26)</u></u>

**RECONCILIATION OF CASH AND CASH EQUIVALENTS**

Current Assets:	
Cash and Cash Equivalents	\$ 66,978,899.66
Restricted Cash and Cash Equivalents	12,034,672.19
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	6,486,707.91
	<hr/>
Total Cash and Cash Equivalents - June 30, 2015	<u><u>\$ 85,500,279.76</u></u>

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

Assets Acquired through the Assumption of a Liability	\$ 3,798,268.65
Change in Fair Value of Investments	(382,044.91)
Reinvested Distributions	3,221,719.27
Loss on Disposal of Capital Assets	(781,094.37)
Bond Issuance Cost Withheld	(183,193.83)
Funds Escrowed to Defeasement Debt	8,673,470.63
Amortization of Bond Premiums/Discounts	(104,907.00)
Decrease in Receivables Related to Nonoperating Income	(112,619.71)
Noncash Gifts	1,901,088.01

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



# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

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

The accompanying financial statements present all funds belonging to the University and its component units. While the Board of Governors of the University of North Carolina System has ultimate responsibility, the Chancellor, the Board of Trustees, and the Board of Trustees of the Endowment Fund have delegated responsibilities for financial accountability of the University's funds. The University's component units are blended in the University's financial statements. See below for further discussion of the University's component units.

**Blended Component Units** - Although legally separate, Western Carolina University Foundation (Foundation) and Western Carolina University Research and Development Corporation (Corporation), component units of the University, are reported as if they were part of the University.

The Foundation is governed by a 31-member board consisting of four ex officio directors and 27 elected directors. The Foundation's purpose is to aid, support, and promote teaching, research, and service in the various educational, scientific, scholarly, professional, artistic, and creative endeavors of the University. Because the elected directors of the Foundation are appointed by the members of the Western Carolina University Board of Trustees and the Foundation's sole purpose is to benefit the University, its financial statements have been blended with those of the University.

The Corporation is governed by a six member board consisting of one appointed director and five elected directors. The mission of the Corporation is to aid and promote the education and charitable purpose and lawful activities of the University. Because the University indirectly appoints the Corporation's board, and the total debt outstanding of the Corporation is expected to be repaid entirely within the resources of the University, its financial statements have been blended with those of the University.

Separate financial statements for the Foundation and Corporation may be obtained from the University Controller's Office, HFR 315, Cullowhee, NC 28723, or by calling 828-227-7323. Other related foundations and

similar nonprofit corporations for which the University is not financially accountable are not part of the accompanying financial statements.

Condensed combining information regarding blended component units is provided in Note 17.

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

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

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

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

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

- E. Investments** - Investments generally are reported at fair value, as determined by quoted market prices or estimated amounts determined by management if quoted market prices are not available. The fair value for investments in the UNC Investment Fund was based on amounts reported to the University by UNC Management Company, Inc. University management reviews and evaluates the values provided by UNC Management Company, Inc. as well as the valuation methods and assumptions used in determining the fair value of such investments. Because of the inherent uncertainty in the use of estimates, values that are based on estimates may differ from the values that would have been used had a ready market existed for the investments. The net increase

(decrease) in the fair value of investments is recognized as a component of investment income.

Real estate not held by a governmental external investment pool and investments in limited partnerships are reported at cost, if purchased, or at fair value or appraised value at date of gift, if donated.

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

- F. Receivables** - Receivables consist of tuition and fees charged to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from the federal government, state and local governments, private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants, and pledges that are verifiable, measurable, and expected to be collected and available for expenditures for which the resource provider's conditions have been satisfied. Receivables are recorded net of estimated uncollectible amounts.
- G. Inventories** - Inventories, consisting of expendable supplies and merchandise for resale, 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 except for externally purchased software and other intangible assets which are capitalized when the value or cost is \$100,000 or greater, and electric resale assets which are capitalized in accordance with the guidelines from the North Carolina Utilities Commission.

Depreciation and amortization are computed using the straight-line method for all assets, except for the electric resale assets which are computed using the composite rate method. These methods calculate depreciation and amortization over the estimated useful lives of the assets in the following manner:

<u>Asset Class</u>	<u>Estimated Useful Life</u>
Buildings	20-100 years
Machinery & Equipment	3-30 years
General Infrastructure	10-50 years
Computer Software	20 years
Other Intangibles	10 years

The art collections are capitalized at cost or fair value at the date of donation. These collections are considered inexhaustible and are therefore not depreciated.

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

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

The net pension liability represents the University's proportionate share of the collective net pension liability reported in the State of North Carolina's 2014 *Comprehensive Annual Financial Report*. This liability represents the University's portion of the collective total pension liability less the fiduciary net position of the Teachers' and State Employees' Retirement System. See Note 12 for further information regarding the University's policies for recognizing liabilities, expenses, and deferred outflows and inflows related to pensions.

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

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

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

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

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

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

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

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

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

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

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

- O. Internal Sales Activities** - Certain institutional auxiliary operations provide goods and services to University departments, as well as to its customers. These institutional auxiliary operations include activities such as dining, residential living, and printing services. In addition, the

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

**NOTE 2 - DEPOSITS AND INVESTMENTS**

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

At June 30, 2015, the amount shown on the Statement of Net Position as cash and cash equivalents includes \$84,739,225.26 which represents the University's equity position in the State Treasurer's STIF. The STIF (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission or subject to any other regulatory oversight and does not have a credit rating) had a weighted average maturity of 1.5 years as of June 30, 2015. Assets and shares of the STIF are valued at amortized cost, which approximates fair value. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's STIF) are included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.nc.gov/> and clicking on "Reports" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

Cash on hand at June 30, 2015 was \$35,280.00. The carrying amount of the University's deposits not with the State Treasurer was \$725,774.50 and the bank balance was \$976,974.52. Custodial credit risk is the risk that in the event of a bank failure, the University's deposits may not be returned to it. The University does not have a deposit policy for custodial credit risk. As of June 30, 2015, the University's bank balance was exposed to custodial credit risk as follows:

Uninsured and Uncollateralized	\$ 14,308.50
Uninsured and Collateral Held by Pledging Bank's Trust Department not in University's Name	480,416.55
	<hr/>
Total	\$ 494,725.05
	<hr/> <hr/>

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

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

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

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

Investments of the University's component units, Foundation and the Corporation, are subject to and restricted by G.S. 36E "Uniform Prudent Management of Institutional Funds Act" (UPMIFA) and any requirements placed on them by contract or donor agreements.

Investments of various funds may be pooled unless prohibited by statute or by terms of the gift or contract. The University utilizes investment pools to manage investments and distribute investment income.

Investments are subject to the following risks.

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

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

**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 value method. Under this method, each participating fund's investment balance is determined on a market value basis. The investment strategy, including the selection of investment managers, is based on the directives of the University's Endowment Board and the Board of Directors of the Foundation.

The following table presents the fair value of investments by type and investments subject to interest rate risk at June 30, 2015, for the Long-Term Investment Pool.

**Long-Term Investment Pool**

Investment Type	Fair Value	Investment Maturities (in Years)		
		Less Than 1	1 to 5	6 to 10
Debt Securities				
Debt Mutual Funds	\$ 6,123,599.55	\$ 0.00	\$ 1,529,901.00	\$ 4,593,698.55
Money Market Mutual Funds	<u>380,692.20</u>	<u>380,692.20</u>		
<b>Total Debt Securities</b>	6,504,291.75	<u>\$ 380,692.20</u>	<u>\$ 1,529,901.00</u>	<u>\$ 4,593,698.55</u>
Other Securities				
UNC Investment Fund	33,421,016.84			
Balanced Mutual Fund	4,086,006.38			
International Mutual Funds	3,143,169.80			
Equity Mutual Funds	6,543,469.47			
Private Equity Limited Partnerships	842,510.33			
Domestic Stocks	5,526,789.54			
Foreign Stocks (denominated in US dollars)	1,456,880.49			
Exchange Traded Funds	2,341,955.45			
Other	<u>955,096.00</u>			
<b>Total Long-Term Investment Pool</b>	<u>\$ 64,821,186.05</u>			

At June 30, 2015, investments in the Long-Term Investment Pool had the following credit quality distribution for securities with credit exposure:

	Fair Value	BBB	BB	Unrated
Debt Mutual Funds	\$ 6,123,599.55	\$ 4,593,698.55	\$ 1,529,901.00	\$ 0
Money Market Mutual Funds	380,692.20			380,692.20
Totals	<u>\$ 6,504,291.75</u>	<u>\$ 4,593,698.55</u>	<u>\$ 1,529,901.00</u>	<u>\$ 380,692.20</u>

Rating Agency: Morningstar and Standard & Poor's

**UNC Investment Fund, LLC** - At June 30, 2015, the University's investments include \$33,421,016.84 which represents the University's equity position in the UNC Investment Fund, LLC (UNC Investment Fund). The UNC Investment Fund is an external investment pool that is not registered with the Securities and Exchange Commission, does not have a credit rating, and is not subject to any regulatory oversight. Asset and ownership interests of the UNC Investment Fund are determined on a market unit valuation basis each month. Investment risks associated with the UNC Investment Fund are included in audited financial statements of the UNC Investment Fund, LLC which may be obtained from UNC Management Company, Inc., 1400 Environ Way, Chapel Hill, NC 27517.

**Non-Pooled Investments** - The following table presents the fair value of investments by type and investments subject to interest rate risk at June 30, 2015, for the University's non-pooled investments.

**Non-Pooled Investments**

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less Than 1	1 to 5	6 to 10	More than 10
Debt Securities					
Debt Mutual Funds	\$ 1,169,196.03	\$ 0.00	\$ 395,757.12	\$ 565,158.11	\$ 208,280.80
Money Market Mutual Funds	735,883.64	735,883.64			
<b>Total Debt Securities</b>	1,905,079.67	<u>\$ 735,883.64</u>	<u>\$ 395,757.12</u>	<u>\$ 565,158.11</u>	<u>\$ 208,280.80</u>
Other Securities					
International Mutual Funds	220,910.59				
Equity Mutual Funds	187,687.89				
Investments in Real Estate	93,800.00				
Private Equity Limited Partnerships	9,878.00				
Domestic Stocks	153,788.90				
Foreign Stocks (denominated in US dollars)	1,032.08				
Exchange Traded Funds	166,789.84				
Other	28,656.43				
<b>Total Non-Pooled Investments</b>	<u>\$ 2,767,623.40</u>				

At June 30, 2015, the University's non-pooled investments had the following credit quality distribution for securities with credit exposure:

	Fair Value	AAA	A	BBB	BB	B	Unrated
Debt Mutual Funds	\$ 1,169,196.03	\$ 0.00	\$ 30,550.73	\$ 422,405.33	\$ 528,699.13	\$ 32,631.93	\$ 154,908.91
Money Market Mutual Funds	735,883.64	703,626.30					32,257.34
Totals	<u>\$ 1,905,079.67</u>	<u>\$ 703,626.30</u>	<u>\$ 30,550.73</u>	<u>\$ 422,405.33</u>	<u>\$ 528,699.13</u>	<u>\$ 32,631.93</u>	<u>\$ 187,166.25</u>

Rating Agency: Morningstar and Standard & Poor's

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

Investment Type	Fair Value
Debt Securities	
Debt Mutual Funds	\$ 7,292,795.58
Money Market Mutual Funds	1,116,575.84
Other Securities	
UNC Investment Fund	33,421,016.84
Balanced Mutual Fund	4,086,006.38
International Mutual Funds	3,364,080.39
Equity Mutual Funds	6,731,157.36
Investments in Real Estate	93,800.00
Private Equity Limited Partnerships	852,388.33
Domestic Stocks	5,680,578.44
Foreign Stocks (denominated in US dollars)	1,457,912.57
Exchange Traded Funds	2,508,745.29
Other	983,752.43
<b>Total Investments</b>	<u>\$ 67,588,809.45</u>

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

Cash on Hand	\$ 35,280.00
Amount of Deposits with Private Financial Institutions	725,774.50
Deposits in the Short-Term Investment Fund	84,739,225.26
Long-Term Investment Pool	64,821,186.05
Non-Pooled Investments	<u>2,767,623.40</u>
<b>Total Deposits and Investments</b>	<b><u>\$ 153,089,089.21</u></b>
Deposits	
Current:	
Cash and Cash Equivalents	\$ 66,978,899.66
Restricted Cash and Cash Equivalents	12,034,672.19
Noncurrent:	
Restricted Cash and Cash Equivalents	<u>6,486,707.91</u>
<b>Total Deposits</b>	<b><u>85,500,279.76</u></b>
Investments	
Noncurrent:	
Endowment Investments	65,600,269.94
Restricted Investments	1,971,039.51
Other Investments	<u>17,500.00</u>
<b>Total Investments</b>	<b><u>67,588,809.45</u></b>
<b>Total Deposits and Investments</b>	<b><u>\$ 153,089,089.21</u></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). The current spending policy for the University's pooled endowment funds provides 5% of the endowment pool's twelve quarter rolling average market value, discarding the highest and lowest quarter's value as of June 30. The Board of Trustees annually reviews

the spending policy and makes adjustments accordingly. At June 30, 2015, net appreciation of \$29,748,305.93 was available to be spent, of which \$25,850,740.31 was classified in net position as restricted for specific purposes (e.g. scholarships, fellowships, and professorships). The remaining portion of net appreciation available to be spent is classified as unrestricted net position.

**NOTE 4 - RECEIVABLES**

Receivables at June 30, 2015, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
<b>Current Receivables:</b>			
Students	\$ 2,026,520.37	\$ 733,602.85	\$ 1,292,917.52
Student Sponsors	72,549.58		72,549.58
Accounts	1,035,110.01		1,035,110.01
Intergovernmental	493,811.92		493,811.92
Pledges	78,823.35	6,978.57	71,844.78
Investment Earnings	32,292.23		32,292.23
Interest on Loans	97,007.20		97,007.20
Other	392,146.13		392,146.13
<b>Total Current Receivables</b>	<u>\$ 4,228,260.79</u>	<u>\$ 740,581.42</u>	<u>\$ 3,487,679.37</u>
<b>Noncurrent Receivables:</b>			
Pledges	<u>\$ 7,332.86</u>	<u>\$ 652.62</u>	<u>\$ 6,680.24</u>
<b>Notes Receivable:</b>			
<b>Notes Receivable - Current:</b>			
Federal Loan Programs	\$ 833,421.40	\$ 0.00	\$ 833,421.40
Institutional Student Loan Programs	36,190.91	2,662.76	33,528.15
<b>Total Notes Receivable - Current</b>	<u>\$ 869,612.31</u>	<u>\$ 2,662.76</u>	<u>\$ 866,949.55</u>
<b>Notes Receivable - Noncurrent:</b>			
Federal Loan Programs	\$ 5,676,507.98	\$ 1,427,389.00	\$ 4,249,118.98
Institutional Student Loan Programs	4,355.49		4,355.49
<b>Total Notes Receivable - Noncurrent</b>	<u>\$ 5,680,863.47</u>	<u>\$ 1,427,389.00</u>	<u>\$ 4,253,474.47</u>

**NOTE 5 - CAPITAL ASSETS**

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

	Balance July 1, 2014	Increases	Decreases	Balance June 30, 2015
Capital Assets, Nondepreciable:				
Land and Permanent Easements	\$ 10,390,222.05	\$ 897,077.66	\$ 0.00	\$ 11,287,299.71
Art, Literature, and Artifacts	1,266,098.70			1,266,098.70
Construction in Progress	<u>1,445,288.50</u>	<u>5,264,268.06</u>	<u>1,736,762.67</u>	<u>4,972,793.89</u>
<b>Total Capital Assets, Nondepreciable</b>	<u>13,101,609.25</u>	<u>6,161,345.72</u>	<u>1,736,762.67</u>	<u>17,526,192.30</u>
Capital Assets, Depreciable:				
Buildings	396,245,638.55	1,107,520.21	525,965.17	396,827,193.59
Machinery and Equipment	36,372,763.75	2,999,289.67	1,753,672.03	37,618,381.39
General Infrastructure	48,777,136.76	712,157.00	12,887.53	49,476,406.23
Computer Software	267,380.85			267,380.85
Other Intangible Assets	<u>1,190,218.76</u>			<u>1,190,218.76</u>
<b>Total Capital Assets, Depreciable</b>	<u>482,853,138.67</u>	<u>4,818,966.88</u>	<u>2,292,524.73</u>	<u>485,379,580.82</u>
Less Accumulated Depreciation/Amortization for:				
Buildings	85,222,420.89	5,568,625.35	125,937.66	90,665,108.58
Machinery and Equipment	12,675,110.90	1,406,469.82	975,418.05	13,106,162.67
General Infrastructure	18,630,668.87	1,366,601.27	9,864.65	19,987,405.49
Computer Software	19,713.21	13,387.44		33,100.65
Other Intangible Assets	<u>59,510.94</u>	<u>119,021.88</u>		<u>178,532.82</u>
<b>Total Accumulated Depreciation/Amortization</b>	<u>116,607,424.81</u>	<u>8,474,105.76</u>	<u>1,111,220.36</u>	<u>123,970,310.21</u>
<b>Total Capital Assets, Depreciable, Net</b>	<u>366,245,713.86</u>	<u>(3,655,138.88)</u>	<u>1,181,304.37</u>	<u>361,409,270.61</u>
<b>Capital Assets, Net</b>	<u>\$ 379,347,323.11</u>	<u>\$ 2,506,206.84</u>	<u>\$ 2,918,067.04</u>	<u>\$ 378,935,462.91</u>

During the year ended June 30, 2015, the University incurred \$5,004,016.86 in interest costs related to the acquisition and construction of capital assets. Of this total, \$4,960,731.34 was charged in interest expense, and \$43,285.52 was capitalized.

The University has pledged the energy savings improvements installed in its buildings and structures finances through the UNC System Guaranteed Energy Savings Installment Financing Agreement dated September 1, 2014. The value of the energy savings improvement assets associated with the agreement is \$3,334,732.66 and is subject to security provisions in the agreement to ensure timely debt service payment. The value of the energy savings improvement assets includes \$3,141,586.30 which has been completed as of June 30, 2015 and \$193,146.36 which is remaining to be completed by the ESCO provider. Additional information regarding the agreement can be found in Note 8.

Operating expenses include an impairment loss of \$388,130.29 due to the University suffering a fire loss of 3 buildings on November 21, 2013. The University acquired the buildings in 2006 at a cost of \$931,356. The fire destroyed approximately 51% of the commercial strip. After reviewing cost estimates, tax assessments, and anticipated insurance settlement proceeds,

the Board of Trustees of the Endowment Fund of the University decided against replacing or repairing the establishments destroyed by fire. The resolution was approved February 5, 2014 by the Endowment Fund Board authorizing University officers to demolish the damaged buildings.

**NOTE 6 - SERVICE CONCESSION ARRANGEMENTS**

The University entered an agreement on June 10, 2015 with a third party developer, Collegiate Housing Foundation (CHF), to construct a 120,000 square-foot structure featuring a mix of residential units, commercial, and dining establishments. The building will include a 421 bed student housing facility. The project, with an estimated cost of \$29.3 million, is on land owned by The Board of Trustees of the Endowment Fund of Western Carolina University, a body established under the state of North Carolina and leased to CHF for 40 years. Upon final payment of all indebtedness owed under the agreement, CHF will transfer all of its interest in the facility for no cost to the University. The University will report the project as a capital asset and a related deferred inflow of resources when the project is placed in service. The estimated completion date of the project is August, 2016.

The student housing facility will be managed by the University under the terms of the management agreement. The University will operate the facility with budgetary oversight from CHF.

**NOTE 7 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

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

	Amount
Current Accounts Payable and Accrued Liabilities	
Accounts Payable	\$ 1,550,177.85
Accrued Payroll	717,722.22
Contract Retainage	154,915.04
Intergovernmental Payables	45,844.30
Other	282,904.48
	<hr/>
Total Current Accounts Payable and Accrued Liabilities	\$ 2,751,563.89
	<hr/> <hr/>

**NOTE 8 - LONG-TERM LIABILITIES**

**A. Changes in Long-Term Liabilities - A summary of changes in the long-term liabilities for the year ended June 30, 2015, is presented as follows:**

	Balance July 1, 2014 (As Restated)	Additions	Reductions	Balance June 30, 2015	Current Portion
Revenue Bonds Payable	\$ 50,010,000.00	\$ 0.00	\$ 1,900,000.00	\$ 48,110,000.00	\$ 1,965,000.00
Special Indebtedness	59,870,000.00	8,035,000.00	9,765,000.00	58,140,000.00	1,660,000.00
Plus: Unamortized Premium	741,150.24	313,833.50	50,728.37	1,004,255.37	
Less: Unamortized Discount	406,237.82		119,715.35	286,522.47	
<b>Total Revenue Bonds and Special Indebtedness, Net</b>	<b>110,214,912.42</b>	<b>8,348,833.50</b>	<b>11,596,013.02</b>	<b>106,967,732.90</b>	<b>3,625,000.00</b>
Net Pension Liability	17,217,410.00		13,780,810.00	3,436,600.00	
Notes Payable	177,521.47	3,480,649.61	63,839.70	3,594,331.38	177,188.70
Capital Leases Payable	190,247.40	24,660.50	104,218.46	110,689.44	86,336.55
Compensated Absences	6,527,990.30	5,815,774.00	5,418,661.30	6,925,103.00	621,519.00
Annuity and Life Income Payable	83,078.27		3,143.53	79,934.74	2,611.08
<b>Total Long-Term Liabilities, Net</b>	<b>\$ 134,411,159.86</b>	<b>\$ 17,669,917.61</b>	<b>\$ 30,966,686.01</b>	<b>\$ 121,114,391.46</b>	<b>\$ 4,512,655.33</b>

Additional information regarding capital lease obligations is included in Note 9.

Additional information regarding the net pension liability is included in Note 12.

**B. Revenue Bonds Payable and Special Indebtedness - The University was indebted for revenue bonds payable and special indebtedness (which includes Certificates of Participation and Limited Obligation Bonds) for the purposes shown in the following table:**

Purpose	Series	Interest Rate/ Ranges	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2015	Principal Outstanding June 30, 2015	See Table Below
<b>Revenue Bonds Payable</b>							
<b>The University of North Carolina System Pool Revenue Bonds</b>							
Athletics Facilities	(A)	4.13 - 5.25%	04/01/2028	\$ 1,510,000.00	\$ 1,225,000.00	\$ 285,000.00	
Student Recreation Center	(A)	4.13 - 5.25%	04/01/2028	11,610,000.00	9,460,000.00	2,150,000.00	
Student Center Refund	(B)	4.50 - 5.00%	10/01/2025	4,335,000.00	1,390,000.00	2,945,000.00	
Athletic Facility Refund	(B)	4.50 - 5.00%	10/01/2026	6,135,000.00	940,000.00	5,195,000.00	
Student Recreation Center	(C)	4.00 - 5.00%	10/01/2033	4,355,000.00	650,000.00	3,705,000.00	
Dinning Hall Facility	(C)	4.00 - 5.00%	10/01/2033	17,545,000.00	2,610,000.00	14,935,000.00	
Student Housing - Harrill	(D)	3.00 - 4.50%	04/01/2041	13,605,000.00	840,000.00	12,765,000.00	
Facility Refund 03	(D)	3.00 - 4.00%	04/01/2025	831,726.00	128,002.00	703,724.00	
Student Recreation Center Refund 03	(D)	3.00 - 4.00%	04/01/2025	6,413,274.00	986,998.00	5,426,276.00	
<b>Total Revenue Bonds Payable</b>				<b>66,340,000.00</b>	<b>18,230,000.00</b>	<b>48,110,000.00</b>	
<b>Special Indebtedness</b>							
WCU Student Housing Project, Series 2008		3.50 - 5.25%	06/01/2039	45,000,000.00	3,650,000.00	41,350,000.00	(2)
Refunding Limited Obligation Bonds, Series 2013		2.00 - 5.00%	03/01/2033	9,400,000.00	645,000.00	8,755,000.00	(3)
Refunding Limited Obligation Bonds, Series 2015		2.00 - 5.00%	06/01/2032	8,035,000.00		8,035,000.00	(1)
<b>Total Special Indebtedness</b>				<b>62,435,000.00</b>	<b>4,295,000.00</b>	<b>58,140,000.00</b>	
<b>Total Revenue Bonds Payable and Special Indebtedness (principal only)</b>				<b>\$ 128,775,000.00</b>	<b>\$ 22,525,000.00</b>	<b>\$ 106,250,000.00</b>	
Less: Unamortized Discount						286,522.47	
Plus: Unamortized Premium						1,004,255.37	
<b>Total Revenue Bonds Payable and Special Indebtedness, Net</b>						<b>\$ 106,967,732.90</b>	

- (A) The University of North Carolina System Pool Revenue Bonds, Series 2003A
- (B) The University of North Carolina System Pool Revenue Bonds, Series 2006A
- (C) The University of North Carolina System Pool Revenue Bonds, Series 2008A
- (D) The University of North Carolina System Pool Revenue Bonds, Series 2011B

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

Ref	Revenue Source	Total Future Revenues Pledged	Current Year			Estimate of % of Revenues Pledged
			Revenues Net of Expenses	Principal	Interest	
(1)	Norton Road	\$ 8,035,000.00	\$ 1,085,995.00	\$ 335,000.00	\$ 344,173.00	58%
(2)	Balsam/Blue Ridge	41,350,000.00	3,432,777.00	915,000.00	2,066,586.00	86%
(3)	The Village	8,755,000.00	815,198.00	350,000.00	354,577.00	86%

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

Fiscal Year	Annual Requirements					
	Revenue Bonds Payable		Special Indebtedness		Notes Payable	
	Principal	Interest	Principal	Interest	Principal	Interest
2016	\$ 1,965,000.00	\$ 2,127,437.52	\$ 1,660,000.00	\$ 22,661,501.36	\$ 177,188.70	\$ 66,699.78
2017	2,055,000.00	2,043,112.52	1,750,000.00	2,574,481.28	509,242.75	60,364.05
2018	2,140,000.00	1,951,587.52	1,800,000.00	2,511,931.28	465,266.93	50,315.36
2019	2,245,000.00	1,851,537.52	1,880,000.00	2,443,731.28	484,677.95	41,885.44
2020	2,350,000.00	1,750,362.52	1,960,000.00	2,361,581.28	497,796.20	32,650.53
2021-2025	13,290,000.00	7,189,034.51	11,070,000.00	10,535,468.86	1,460,158.85	40,987.20
2026-2030	11,590,000.00	4,194,140.67	13,685,000.00	7,910,306.30		
2031-2035	8,225,000.00	1,888,456.26	13,750,000.00	4,555,312.50		
2036-20340	3,460,000.00	657,556.24	10,585,000.00	1,355,500.00		
2041	790,000.00	35,500.00				
<b>Total Requirements</b>	<b>\$ 48,110,000.00</b>	<b>\$ 23,688,725.28</b>	<b>\$ 58,140,000.00</b>	<b>\$ 56,909,814.14</b>	<b>\$ 3,594,331.38</b>	<b>\$ 292,902.36</b>

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

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

On April 30, 2015, the University issued \$8,035,000 in Refunding Limited Obligation Bonds, Series 2015 with an average interest rate of 3.37%. The bonds were issued to advance refund \$8,165,000 of outstanding Certificate of Participation Student Housing Project Bonds, Series 2005 bonds with an average interest rate of 4.22%. These proceeds were deposited into an irrevocable trust to provide for all future debt service payments on the refunded bonds. The 2005 Series bonds were extinguished on June 1, 2015. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the University's Statement of Net Position. This advance refunding was undertaken to reduce total debt service payments by \$876,047.28 over the next 8.313 years and resulted in an economic gain of \$684,144.42.

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

Purpose	Financial Institution	Interest Rate/Ranges	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2015	Principal Outstanding June 30, 2015
Equipment	Bank of America	1.58%	11/25/2016	\$ 238,578.45	\$ 119,303.93	\$ 119,274.52
Equipment	Macon Bank	3.85%	11/01/2019	52,844.00	5,592.75	47,251.25
UNC System Guaranteed Energy Savings Project	Banc of America Public Capital Corp.	1.84%	02/14/2023	<u>3,427,805.61</u>		<u>3,427,805.61</u>
<b>Total Notes Payable</b>				<u>\$ 3,719,228.06</u>	<u>\$ 124,896.68</u>	<u>\$ 3,594,331.38</u>

**F. Annuities and Life Income Payable** - The Foundation has entered into charitable gift annuity agreements with various donors. Under the terms of the agreements, the donors contributed assets to the Foundation and in return receive a guaranteed fixed income for life. The Foundation recognizes contribution revenue in the year of the gift for the difference between the fair value of the assets received and the annuity liability.

Annuity liabilities are recorded for the required life annuity payments at the present value of expected cash payments discounted using current interest rates and actuarial assumptions for those annuities that have not been reinsured. The annuity obligations are adjusted each year for changes in the life expectancy of the beneficiaries and are reduced either as payments are made to the donor or as annuities are reinsured. The present value of future payment liabilities of charitable gift annuities is \$79,934.74 at June 30, 2015.

**NOTE 9 - LEASE OBLIGATIONS**

**A. Capital Lease Obligations** - Capital lease obligations relating to machinery and equipment are recorded at the present value of the minimum lease payments. Future minimum lease payments under capital lease obligations consist of the following at June 30, 2015:

Fiscal Year	Amount
2016	\$ 87,859.04
2017	13,652.88
2018	7,787.69
2019	<u>3,857.49</u>
Total Minimum Lease Payments	113,157.10
Amount Representing Interest (0 - 3.63% Rate of Interest)	<u>2,467.66</u>
<b>Present Value of Future Lease Payments</b>	<u><u>\$ 110,689.44</u></u>

Machinery and equipment acquired under capital lease amounted to \$461,823.54 at June 30, 2015.

Depreciation for the capital assets associated with capital leases is included in depreciation expense, and accumulated depreciation for assets acquired under capital lease totaled \$282,321.73 at June 30, 2015.

**B. Operating Lease Obligations** - The University entered into operating leases for equipment, housing, land, classroom space, and contracts for software licensing. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2015:

<u>Fiscal Year</u>	<u>Amount</u>
2016	\$ 1,758,772.02
2017	1,302,376.76
2018	893,002.93
2019	886,675.67
2020	840,982.85
2021-2025	<u>2,561,241.51</u>
<b>Total Minimum Lease Payments</b>	<b><u>\$ 8,243,051.74</u></b>

Rental expense for all operating leases during the year was \$2,729,466.49.

**NOTE 10 - 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>					
Student Tuition and Fees	<u>\$ 70,578,304.55</u>	<u>\$ 3,042.00</u>	<u>\$ 15,971,359.43</u>	<u>\$ 472,353.66</u>	<u>\$ 54,131,549.46</u>
<b>Sales and Services:</b>					
Sales and Services of Auxiliary Enterprises:					
Residential Life	\$ 18,884,353.53	\$ 191,262.46	\$ 4,318,329.67	\$ 89,766.17	\$ 14,284,995.23
Dining	16,403,243.71	971,040.14	3,456,302.94	82,113.32	11,893,787.31
Book Rental	1,777,086.57	1,339.94	359,900.98	48,778.75	1,367,066.90
Bookstore	2,074,670.19	142,627.45		1,785.77	1,930,256.97
Parking	1,301,790.85	27,782.00		22,964.62	1,251,044.23
Athletic	2,117,893.75	1,045.00			2,116,848.75
Print Shop	1,461,475.46	1,270,361.96			191,113.50
Other	1,184,105.87	31,595.85		367.88	1,152,142.14
Sales and Services of Education and Related Activities	3,692,561.67	2,690,680.24		1,126.57	1,000,754.86
Independent Operations	4,150,737.81	299,141.25			3,851,596.56
<b>Total Sales and Services</b>	<u>\$ 53,047,919.41</u>	<u>\$ 5,626,876.29</u>	<u>\$ 8,134,533.59</u>	<u>\$ 246,903.08</u>	<u>\$ 39,039,606.45</u>
<b>Nonoperating - Noncapital Gifts</b>	<u>\$ 4,950,308.42</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 7,631.19</u>	<u>\$ 4,942,677.23</u>

**NOTE 11 - OPERATING EXPENSES BY FUNCTION**

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

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation/ Amortization	Total
Instruction	\$ 60,552,714.32	\$ 2,168,505.86	\$ 4,423,431.38	\$ 0.00	\$ 0.00	\$ 0.00	\$ 67,144,651.56
Research	870,933.92	149,003.49	220,064.87		33,532.30		1,273,534.58
Public Service	4,161,314.80	1,070,049.93	1,705,820.96		133,736.55		7,070,922.24
Academic Support	10,211,138.94	2,862,066.93	2,201,805.39		10,479.24		15,285,490.50
Student Services	4,613,496.10	283,281.02	1,548,386.01				6,445,163.13
Institutional Support	11,538,748.15	2,750,232.86	7,691,274.42		39,342.13		22,019,597.56
Operations and Maintenance of Plant	9,223,822.68	2,526,117.41	1,836,839.62		3,549,079.05		17,135,858.76
Student Financial Aid	102,415.63		11,245.36	11,308,246.98			11,421,907.97
Auxiliary Enterprises	16,006,973.47	5,900,950.05	19,204,311.62		1,424,484.76		42,536,719.90
Independent Operations	438,335.75	3,243,076.54	138,434.46				3,819,846.75
Depreciation/ Amortization						8,474,105.76	8,474,105.76
Pension Expense	1,654,559.00						1,654,559.00
<b>Total Operating Expenses</b>	<b>\$ 119,374,452.76</b>	<b>\$ 20,953,284.09</b>	<b>\$ 38,981,614.09</b>	<b>\$ 11,308,246.98</b>	<b>\$ 5,190,654.03</b>	<b>\$ 8,474,105.76</b>	<b>\$ 204,282,357.71</b>

**NOTE 12 - PENSION PLANS**

**A. Defined Benefit Plan**

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

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

have either completed 20 years of creditable service regardless of age, or have completed five years of service and have reached age 60. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions. The plan does not provide for automatic post-retirement benefit increases. Increases are contingent upon actuarial gains of the plan.

*Contributions:* Contribution provisions are established by General Statute 135-8 and may be amended only by the North Carolina General Assembly. Employees are required to contribute 6% of their compensation. The contribution rate for employers is set each year by the NC General Assembly in the Appropriations Act based on the actuarially-determined rate recommended by the actuary. The University's contractually-required contribution rate for the year ended June 30, 2015 was 9.15% of covered payroll. The University's contributions to the pension plan were \$4,062,377.38, and employee contributions were \$2,663,854.02 for the year ended June 30, 2015.

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

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

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

*Net Pension Liability:* At June 30, 2015, the University reported a liability of \$3,436,600.00 for its proportionate share of the collective net pension liability. The net pension liability was measured as of June 30, 2014. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2013, and update procedures were used to roll forward the total pension liability to June 30, 2014. The University's proportion of the net pension liability was based on the present value of future salaries for the University relative to the present value of future salaries for all participating employers, actuarially-determined. As of June 30, 2014, the University's proportion was .29312%, which was an increase of .00952% from its proportion measured as of June 30, 2013.

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

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

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

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

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

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

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

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data

analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2014 (the valuation date) are summarized in the following table:

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

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

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

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

<u>Net Pension Liability (Asset)</u>		
<u>1% Decrease (6.25%)</u>	<u>Current Discount Rate (7.25%)</u>	<u>1% Increase (8.25%)</u>
\$ 24,670,301.17	\$ 3,436,600.00	\$ (14,492,166.44)

*Deferred Inflows of Resources and Deferred Outflows of Resources Related to Pensions:* For the year ended June 30, 2015, the University recognized pension expense of \$1,654,599.00. At June 30, 2015, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Actual and Expected Experience	\$ 0.00	\$ 801,053.00
Changes of Assumptions		
Net Difference Between Projected and Actual Earnings on Pension Plan Investments		11,611,017.00
Change in Proportion and Differences Between Agency's Contributions and Proportionate Share of Contributions	695,537.00	
Contributions Subsequent to the Measurement Date	4,062,377.00	
Total	\$ 4,757,914.00	\$ 12,412,070.00

The amount of \$4,062,377.00 reported as deferred outflows of resources related to pensions will be included as a reduction of the net pension liability in the fiscal year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

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

Year ended June 30:	Amount
2016	\$ (2,930,597.00)
2017	(2,930,597.00)
2018	(2,930,597.00)
2019	(2,924,742.00)
Total	\$ (11,716,533.00)

**B. Defined Contribution Plan -** The Optional Retirement Program (Program) is a defined contribution pension plan that provides retirement benefits with options for payments to beneficiaries in the event of the

participant's death. Administrators and eligible faculty of the University may join the Program instead of the TSERS. The Board of Governors of The University of North Carolina is responsible for the administration of the Program and designates the companies authorized to offer investment products or the trustee responsible for the investment of contributions under the Program and approves the form and contents of the contracts and trust agreements.

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

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

For the current fiscal year, the University had a total payroll of \$94,531,506.35, of which \$40,219,167.27 was covered under the Optional Retirement Program. Total employer and employee contributions for pension benefits for the year were \$2,750,991.04 and \$2,413,150.04, respectively. The amount of pension expense recognized in the current year related to ORP is equal to the employer contributions less forfeitures from TIAA CREF of \$354,923.16.

#### **NOTE 13 - OTHER POSTEMPLOYMENT BENEFITS**

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

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

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

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

For the current fiscal year the University contributed 5.49% of the covered payroll under TSERS and ORP to the Fund. Required contribution rates for the years ended June 30, 2014, and 2013, were 5.40% and 5.30%, respectively. The University made 100% of its annual required contributions to the Plan for the years ended June 30, 2015, 2014, and 2013, which were \$4,645,458.71, \$4,292,227.66, and \$4,099,870.46, respectively. The University assumes no liability for retiree health care benefits provided by the programs other than its required contribution.

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

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

Disability income benefits are funded by actuarially determined employer contributions that are established by the General Assembly. For the fiscal year ended June 30, 2015, the University made a statutory contribution of .41% of covered payroll under TSERS and ORP to the DIPNC. Required contribution rates for the years ended June 30, 2014, and 2013, was .44% in both years. The University made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2015, 2014, and 2013, which were \$346,928.61, \$349,737.07, and \$340,366.60, respectively. The University assumes no liability for long-term disability benefits under the Plan other than its contribution.

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

**NOTE 14 - RISK MANAGEMENT**

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

**A. Employee Benefit Plans****1. State Health Plan**

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

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

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

**B. Other Risk Management and Insurance Activities****1. Automobile, Fire, and Other Property Losses**

The University is required to maintain fire and lightning coverage on all state-owned buildings and contents through the State Property Fire Insurance Fund (Fund), an internal service fund of the State. Such coverage is provided at no cost to the University for operations supported by the State's General Fund. Other operations not supported by the State's General Fund are charged for the coverage. Losses covered by the Fund are subject to a \$10,000 per occurrence deductible except for the Highlands Biological Station which still maintains a \$5,000 per occurrence deductible. The Corporation maintains coverage with a private broker of \$85,220,425 in property coverage and liability coverage of \$1,000,000 per occurrence with a \$10,000,000 aggregate in liability coverage. The Foundation maintains \$208,000 in property coverage with \$500,000 in land lord liability coverage.

The University also purchased through the Fund extended coverage for all University owned buildings which covers windstorm and hail damage. The extended coverage deductible is \$50,000 per occurrence. Optional "All Risk" coverage is purchased for selected

University owned business equipment such as high value equipment and computers. "All risk" losses are subject to a \$5,000 deductible per occurrence. Flood insurance is purchased for the Camp Building Gym which is within a flood zone.

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 Foundation maintains the same coverage for the Foundation owned vehicles including a \$10,000 per person in medical payments.

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

The risk of tort claims of up to \$1,000,000 per claimant is retained under the authority of the State Tort Claims Act. In addition, the State provides excess public officers' and employees' liability insurance up to \$10,000,000 per occurrence and \$25,000,000 aggregate via contract with a private insurance company. The University pays the premium, based on a composite rate, directly to the private insurer.

## **3. Employee Dishonesty and Computer Fraud**

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

A Crime bonding policy protects the University from losses related to forgery, theft, and money & securities theft with a limit of \$500,000 per occurrence and a \$1,000 deductible. The University pays the premium directly to the Department of Insurance for the coverage.

## **4. Statewide Workers' Compensation Program**

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

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

#### 5. Other Insurance Held by the University

The University purchased other authorized coverage from private insurance companies through the North Carolina Department of Insurance. These coverages provide insurance for medical malpractice, accident coverage for students participating in University athletic events, boiler, machinery and fine art coverage, excess liability, and various other commercial applications. These coverages were affected and placed by the North Carolina Department of Insurance through the State's agent of record.

#### NOTE 15 - COMMITMENTS AND CONTINGENCIES

- A. Commitments** - The University has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were \$1,150,283.84 and on other purchases were \$2,000,736.35 at June 30, 2015.
- B. Pending Litigation and Claims** - The University is a party to litigation and claims in the ordinary course of its operations. Since it is not possible to predict the ultimate outcome of these matters, no provision for any liability has been made in the financial statements. University management is of the opinion that the liability, if any, for any of these matters will not have a material adverse effect on the financial position of the University.

#### NOTE 16 - RELATED PARTIES

**Foundations** - There are three separately incorporated nonprofit foundations associated with the University. These foundations are The Highlands Biological Foundation, Inc., Forest Stewards, Inc., and The North Carolina Arboretum Society, Inc. The University's financial statements do not include the assets, liabilities, net position, or operational transaction of the foundations, except for support from each organization to the University.

The Highlands Biological Foundation, Inc. was incorporated in North Carolina on July 21, 1930 for the purpose of supporting through grants and scholarships the activities of Highlands Biological Station, an inter-institutional center of the University of North Carolina system that is administered by the University. This support approximated \$131,896.73 for the year ended June 30, 2015.

Forest Stewards, Inc. was incorporated in North Carolina on May 5, 2008 for the purpose of providing educational and charitable support to the University. This support approximated \$10,500.00 for the year ended June 30, 2015.

The North Carolina Arboretum Society, Inc. was incorporated in North Carolina on July 27, 1990 for the purpose to promote and provide financial and volunteer assistance to the North Carolina Arboretum, an inter-institutional center of the University of North Carolina system that is administered by the University. This support approximated \$2,591,298.53 for the year ended June 30, 2015, including \$1,642,138.97 of noncash gifts.

**NOTE 17 - BLENDED COMPONENT UNITS**

Condensed combining information for the University's blended component units for the year ended June 30, 2015, is presented as follows:

*Condensed Statement of Net Position  
June 30, 2015*

	University	WCU Foundation	WCU R & D Corporation	Eliminations	Total
<b>ASSETS</b>					
Current Assets	\$ 89,054,337.50	\$ 3,707,319.56	\$ 249,012.00	\$ 0.00	\$ 93,010,669.06
Capital Assets, Net	378,718,225.54	217,237.37			378,935,462.91
Other Noncurrent Assets	47,905,208.97	28,392,080.48	2,668,231.00		78,965,520.45
Component Unit Receivable from Primary Government			58,409,083.00	(58,409,083.00)	
Total Assets	515,677,772.01	32,316,637.41	61,326,326.00	(58,409,083.00)	550,911,652.42
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	5,111,127.59				5,111,127.59
<b>LIABILITIES</b>					
Current Liabilities	11,980,595.07	146,639.07	1,872,700.00		13,999,934.14
Long-Term Liabilities, Net	59,449,049.56	114,580.57	57,038,106.00		116,601,736.13
Other Noncurrent Liabilities	5,585,804.98				5,585,804.98
Primary Government Payable to Component Unit	58,409,083.00			(58,409,083.00)	
Total Liabilities	135,424,532.61	261,219.64	58,910,806.00	(58,409,083.00)	136,187,475.25
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	12,412,070.00				12,412,070.00
<b>NET POSITION</b>					
Net Investment in Capital Assets	268,560,179.92	169,986.12			268,730,166.04
Restricted - Nonexpendable	22,684,188.04	16,327,877.65			39,012,065.69
Restricted - Expendable	21,274,389.65	15,032,722.12	2,184,013.00		38,491,124.77
Unrestricted	60,433,539.38	524,831.88	231,507.00		61,189,878.26
Total Net Position	\$ 372,952,296.99	\$ 32,055,417.77	\$ 2,415,520.00	\$ 0.00	\$ 407,423,234.76

*Condensed Statement of Revenues, Expenses, and  
Changes in Net Position  
For the Fiscal Year Ended June 30, 2015*

	WCU		WCU		Total
	University	Foundation	R & D Corporation	Eliminations	
<b>OPERATING REVENUES</b>					
Operating Revenue	\$ 99,531,153.47	\$ 242,415.24	\$ 635,259.00	\$ (635,259.00)	\$ 99,773,568.71
<b>OPERATING EXPENSES</b>					
Operating Expenses	194,804,644.99	1,282,248.96	356,617.00	(635,259.00)	195,808,251.95
Depreciation/Amortization	8,465,601.99	8,503.77			8,474,105.76
Total Operating Expenses	203,270,246.98	1,290,752.73	356,617.00	(635,259.00)	204,282,357.71
Operating Income (Loss)	(103,739,093.51)	(1,048,337.49)	278,642.00		(104,508,789.00)
<b>NONOPERATING REVENUES (EXPENSES)</b>					
State Appropriations	85,513,069.52				85,513,069.52
Noncapital Grants - Student Financial Aid	24,406,326.13				24,406,326.13
Noncapital Grants	1,095,412.93				1,095,412.93
Noncapital Gifts, Net	2,450,583.22	2,492,094.01			4,942,677.23
Investment Income (Net of Investment Expenses)	1,872,437.04	946,046.11	13,422.00		2,831,905.15
Investment Earned from Investment in Capital Leases			2,874,406.00	(2,874,406.00)	
Interest and Fees on Debt	(5,177,429.50)	(1,358.92)	(2,985,540.00)	2,874,406.00	(5,289,922.42)
Other Nonoperating Revenue (Expense)	(655,844.03)	1,928.20	(174,342.00)		(828,257.83)
Net Nonoperating Revenues (Expenses)	109,504,555.31	3,438,709.40	(272,054.00)		112,671,210.71
Capital Grants	1,526.75				1,526.75
Capital Gifts	1,570,000.00				1,570,000.00
Transfers to University/Athletics	2,299,248.13	(2,299,248.13)			
Additions to Endowments	174,516.17	1,129,437.23			1,303,953.40
Increase in Net Position	9,810,752.85	1,220,561.01	6,588.00		11,037,901.86
<b>NET POSITION</b>					
Net Position, July 1, 2014 as Restated	363,141,544.14	30,834,856.76	2,408,932.00		396,385,332.90
Net Position, June 30, 2015	\$ 372,952,296.99	\$ 32,055,417.77	\$ 2,415,520.00	\$ 0.00	\$ 407,423,234.76

*Condensed Statement of Cash Flows  
June 30, 2015*

	WCU		WCU		Total
	University	Foundation	R & D Corporation	Eliminations	
Net Cash Provided (Used) by Operating Activities	\$ (100,104,967.78)	\$ (1,037,540.48)	\$ 312,748.00	\$	\$ (100,829,760.26)
Net Cash Provided by Noncapital Financing Activities	113,841,519.38	1,328,809.55			115,170,328.93
Net Cash Used by Capital and Related Financing Activities	(5,165,074.39)	(6,805.12)	(4,367,154.00)		(9,539,033.51)
Net Cash Provided (Used) by Investing Activities	(5,055,040.09)	(457,239.74)	4,380,241.00		(1,132,038.83)
Net Increase (Decrease) in Cash and Cash Equivalents	3,516,437.12	(172,775.79)	325,835.00		3,669,496.33
Cash and Cash Equivalents, July 1, 2014	75,719,336.70	4,208,101.73	1,903,345.00		81,830,783.43
Cash and Cash Equivalents, June 30, 2015	\$ 79,235,773.82	\$ 4,035,325.94	\$ 2,229,180.00	\$	\$ 85,500,279.76

The condensed combining financial statements include the elimination of capital lease transactions between the University and the Corporation relating to residence halls built by the Corporation.

**NOTE 18 - NET POSITION RESTATEMENT**

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

	<u>Amount</u>
July 1, 2014 Net Position as Previously Reported	\$ 409,883,906.90
Restatement:	
Record the University's Net Pension Liability and Pension Related Deferred Outflows of Resources Per GASB 68 Requirements.	<u>(13,498,574.00)</u>
July 1, 2014 Net Position as Restated	<u>\$ 396,385,332.90</u>

**NOTE 19 - SUBSEQUENT EVENTS**

On November 19, 2015, the University issued the Western Carolina University General Revenue Bond, Series 2015A for \$36,965,000.00 to provide funds for the renovation of and addition to the Brown Cafeteria and for the refunding of General Revenue Bonds, Series 2003A and Series 2008A in the amount of \$18,395,000.00. The net present value of the savings realized by the University on the refunded bonds will be \$1,571,126.47.

On November 19, 2015, the University issued the Western Carolina University General Revenue Bond, Series 2015B in the amount of \$7,435,000.00 for refunding of General Revenue Bond, Series 2006A in the amount of \$7,050,000.00. The net present value of the savings realized by the University on the refunded bond will be \$487,986.00.



# **REQUIRED SUPPLEMENTARY INFORMATION**

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

**Exhibit B-1**

	<u>2014</u>	<u>2013</u>
Proportionate Share Percentage of Collective Net Pension Liability	0.29312%	0.28360%
Proportionate Share of TSERS Collective Net Pension Liability	\$ 3,436,600.00	\$ 17,217,410.00
Covered-Employee Payroll	\$ 42,705,248.19	\$ 42,200,130.52
Net Pension Liability as a Percentage of Covered-Employee Payroll	8.047%	40.799%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	98.24%	90.60%

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

**Exhibit B-2**

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Contractually Required Contribution	\$ 4,062,377.38	\$ 3,711,086.07	\$ 3,515,270.87	\$ 2,992,318.90	\$ 2,005,828.91
Contributions in Relation to the					
Contractually Determined Contribution	<u>4,062,377.38</u>	<u>3,711,086.07</u>	<u>3,515,270.87</u>	<u>2,992,318.90</u>	<u>2,005,828.91</u>
Contribution Deficiency (Excess)	<u>\$ 0.00</u>				
Covered-Employee Payroll	\$ 44,397,567.00	\$ 42,705,248.19	\$ 42,200,130.52	\$ 40,219,340.11	\$ 40,686,184.25
Contributions as a Percentage of					
Covered-Employee Payroll	9.15%	8.69%	8.33%	7.44%	4.93%

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Contractually Required Contribution	\$ 1,446,088.32	\$ 1,550,533.28	\$ 1,283,031.78	\$ 1,021,055.41	\$ 815,583.73
Contributions in Relation to the					
Contractually Determined Contribution	<u>1,446,088.32</u>	<u>1,550,533.28</u>	<u>1,283,031.78</u>	<u>1,021,055.41</u>	<u>815,583.73</u>
Contribution Deficiency (Excess)	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>
Covered-Employee Payroll	\$ 40,506,675.64	\$ 46,146,823.92	\$ 42,066,615.67	\$ 38,385,541.58	\$ 34,854,005.36
Contributions as a Percentage of					
Covered-Employee Payroll	3.57%	3.36%	3.05%	2.66%	2.34%

**Western Carolina University**  
**Notes to Required Supplementary Information**  
**Schedule of University Contributions**  
**Teachers' and State Employees' Retirement System**

For the Fiscal Year Ended June 30, 2015

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*Changes of Benefit Terms:*

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

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



# INDEPENDENT AUDITOR'S REPORT

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



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

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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  
Western Carolina University  
Cullowhee, North Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Western Carolina University, a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated December 9, 2015. Our report includes a reference to other auditors who audited the financial statements of Western Carolina University Foundation, Inc. and Western Carolina University Research and Development Corporation, as described in our report on the University's financial statements. The financial statements of those entities were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with those entities.

Internal Control Over Financial Reporting

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

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

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

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

### Compliance and Other Matters

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

### Purpose of this Report

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



Beth A. Wood, CPA  
State Auditor

Raleigh, North Carolina

December 9, 2015

# ORDERING INFORMATION

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