

# 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, 2016

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



**NC OSA**  
The Taxpayers' Watchdog

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



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

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

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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, 2016, 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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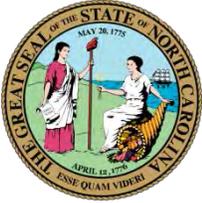
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Article V, Chapter 147 of the *North Carolina General Statutes*, gives the Auditor broad powers to examine all books, records, files, papers, documents, and financial affairs of every state agency. The Auditor also has the power to summon people to 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**  
State Auditor

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

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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 (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, 2016, 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 5.64 percent, 7.75 percent, and 2.22 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 report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The 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, 2016, 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.

### Other Matters – Required Supplementary Information

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

### Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 12, 2016 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.

A handwritten signature in black ink that reads "Beth A. Wood". The signature is written in a cursive style.

Beth A. Wood, CPA  
State Auditor

Raleigh, North Carolina

October 12, 2016



# **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 Western Carolina University Foundation (Foundation) and Western Carolina University Research and Development Corporation (Corporation) are blended in the University's financial statements. The Corporation also includes the activity of a new entity named the Corporation for Entrepreneurship and Innovation, LLC. 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. 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

	2016	2015	\$ Change	% Change
<b>Assets</b>				
Current Assets	\$ 110,617,774.49	\$ 93,010,669.06	\$ 17,607,105.43	18.93%
Capital Assets, Net	381,559,148.70	378,935,462.91	2,623,685.79	0.69%
Other Noncurrent Assets	94,129,987.33	78,965,520.45	15,164,466.88	19.20%
<b>Total Assets</b>	<u>586,306,910.52</u>	<u>550,911,652.42</u>	<u>35,395,258.10</u>	6.42%
<b>Deferred Outflows of Resources</b>	<u>10,516,059.54</u>	<u>5,111,127.59</u>	<u>5,404,931.95</u>	105.75%
<b>Liabilities</b>				
Current Liabilities	18,771,916.11	13,999,934.14	4,771,981.97	34.09%
Long-Term Liabilities, Net	145,588,666.08	116,601,736.13	28,986,929.95	24.86%
Other Noncurrent Liabilities	5,818,009.68	5,585,804.98	232,204.70	4.16%
<b>Total Liabilities</b>	<u>170,178,591.87</u>	<u>136,187,475.25</u>	<u>33,991,116.62</u>	24.96%
<b>Deferred Inflows of Resources</b>	<u>2,451,774.00</u>	<u>12,412,070.00</u>	<u>(9,960,296.00)</u>	-80.25%
<b>Net Position</b>				
Net Investment in Capital Assets	266,870,297.47	268,730,166.04	(1,859,868.57)	-0.69%
Restricted – Nonexpendable	41,333,957.78	39,012,065.69	2,321,892.09	5.95%
Restricted – Expendable	38,661,630.46	38,491,124.77	170,505.69	0.44%
Unrestricted	77,326,718.48	61,189,878.26	16,136,840.22	26.37%
<b>Total Net Position</b>	<u>\$ 424,192,604.19</u>	<u>\$ 407,423,234.76</u>	<u>\$ 16,769,369.43</u>	4.12%

**Assets**

Current assets, which consist primarily of cash, accounts and notes receivable, and operating inventories, increased by \$17.6 million. This increase was due in great part to an approximate \$16.9 million increase in unrestricted cash and cash equivalents. The increase in current cash balances is the result of a cash carryforward of almost \$8.5 million. During the 2015 fiscal year, the University was part of a pilot program that recorded the cash carryforward as a receivable in the amount of \$4.2 million. The University continued to build the housing reserve with a \$3.0 million increase this fiscal year through decreased spending. Other auxiliaries also built reserves, increasing cash by almost \$3.6 million through increased fees. Certain unspent fees collected in trust funds accounted for a \$1.8 million increase in unrestricted cash. Restricted cash increased by \$4.4 million in part because current liabilities in the plant fund increased by \$3.1 million, thus increasing the cash classification. The increase in current liabilities resulted primarily from the Brown Cafeteria renovation project. Cash with fiscal agent increased \$0.4 million due to the timing of investment activity. The Short-Term Investment Fund with the State Treasurer increased \$0.5 million due to the increase in endowments. Increases totaling \$0.4 million in loan funds and agency funds account for the remainder of the current restricted cash increase. Receivables increased by \$0.3 million for direct student loans. Minor increases in inventories, notes receivable, and other receivables make up the remainder of the increase in current assets of \$0.2 million.

Net capital assets increased \$2.6 million. During the year, nondepreciable capital assets included construction in progress of \$10.2 million, an increase of \$5.2 million over the prior year. The Brown Cafeteria renovation project accounted for \$8.8 million of the construction in progress balance at June 30, 2016. This renovation is scheduled for completion in time for the start of the Fall 2017 semester. Additions to land and art, literature, and artifacts totaled \$0.4 million. Depreciation and amortization expense for the year was approximately \$8.7 million. This amount does not vary significantly from the prior year. Additions to depreciable capital assets totaled \$6.5 million. Disposals and write-downs totaled \$2.6 million during the year. Reductions to accumulated depreciation totaled \$1.8 million.

Other noncurrent assets increased \$15.1 million. Noncurrent cash increased \$19.2 million as a result of an increase in allotted and unallotted cash for capital projects by \$4.5 million and unspent bond proceeds of \$15.0 million, offset by a reduction in other noncurrent cash of \$0.3 million. Endowment investments and restricted investments decreased \$3.0 million and approximately \$0.6 million, respectively, largely as a result of a decrease in market value. Prepaid bond insurance decreased by approximately \$0.4 million as a result of the refunding of debt issues in the Corporation. There was a minor decrease in notes receivable, net, because of collection activity, accounting for the balance of the decrease in other noncurrent assets.

**Deferred Outflows of Resources**

The University has two deferred outflows of resources. The first outflow is in the amount of \$5.4 million for a deferred loss on refunding. This deferred outflow 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 increase over the prior year of approximately \$5.0 million is the result of refunding bond activity in the University and the Corporation. The University revenue bond refundings accounted for almost \$2.0 million of the increase, while the special indebtedness refunding of the Corporation accounted for the remaining \$3.0 million. The

second deferred outflow is \$5.1 million for a deferred outflow for pensions. Approximately \$4.0 million of this deferred outflow will reduce the net pension liability for the year ended June 30, 2017.

### **Liabilities**

Current liabilities increased by \$4.7 million. Unearned revenues increased by approximately \$1.6 million. The bulk of this increase, \$1.0 million, was caused by tuition collections for terms occurring after June 30, 2016. Grant fund activity accounted for a \$0.3 million increase in deferred revenue, and the other \$0.3 million increase resulted from a contractual agreement for dining services. Accounts payable increased almost \$2.1 million primarily because of an increase in capital project activities. The current portion of long-term liabilities increased by \$0.9 million due to the issuance of debt for the Brown Cafeteria renovation project, addition of a capital lease for equipment, and the start of repayment of an energy savings lighting contract. The increase in debt caused a \$0.1 million increase in interest payable.

Long-term liabilities, net, increased by \$28.9 million. A significant portion of this increase resulted from the issuance of \$18.6 million in revenue bonds to fund the Brown Cafeteria renovation project. Because of bond activity, bond premiums increased \$6.8 million, and bond discounts decreased \$0.2 million. The net pension liability increased by \$7.6 million as a result of actuarial calculations. There was repayment of \$1.9 million in bond principal indebtedness and almost \$1.7 million in special indebtedness repayment. Capital leases of \$0.2 million were added, with principal repayments of almost \$0.2 million for capital leases and notes payable. There was a \$0.9 million increase in funds classified as current that were considered noncurrent long-term liabilities in the prior year. Compensated absences were relatively unchanged because employees were not granted a permanent legislative increase in salary during the fiscal year.

### **Deferred Inflows of Resources**

Deferred inflows of resources decreased by \$9.9 million to a balance of \$2.4 million at June 30, 2016. The reduction is based on actuarial calculations. It is primarily the difference between projected investment earnings and actual earnings of funds invested in the Teachers' and State Employees' Retirement System.

### **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, 2016, almost \$266.9 million (62.93% of total net position) of the \$424.1 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 \$41.3 million (9.74% of total net position) of the \$424.1 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, 2016, expendable net position totaled approximately \$38.6 million (9.10% of total net position) of the \$424.1 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 \$77.3 million (18.23% of total net position) of the \$424.1 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 appropriations, capital grants, capital gifts, and additions to permanent endowments 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, 2016, with comparative data for 2015.

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

	2016	2015	\$ Change	% Change
<b>Operating Revenues</b>				
Student Tuition and Fees, Net	\$ 55,823,243.84	\$ 54,131,549.46	\$ 1,691,694.38	3.13%
Grants and Contracts	4,916,014.07	4,974,886.05	(58,871.98)	-1.18%
Sales and Services, Net	39,856,999.90	39,039,606.45	817,393.45	2.09%
Other Operating Revenues	1,585,162.49	1,627,526.75	(42,364.26)	-2.60%
<b>Total Operating Revenues</b>	<b>102,181,420.30</b>	<b>99,773,568.71</b>	<b>2,407,851.59</b>	<b>2.41%</b>
<b>Operating Expenses</b>				
Salaries and Benefits	122,735,721.02	119,374,452.76	3,361,268.26	2.82%
Supplies and Materials	18,525,078.20	20,953,284.09	(2,428,205.89)	-11.59%
Services	40,461,654.06	38,981,614.09	1,480,039.97	3.80%
Scholarships and Fellowships	11,655,857.97	11,308,246.98	347,610.99	3.07%
Utilities	4,911,586.93	5,190,654.03	(279,067.10)	-5.38%
Depreciation/Amortization	8,712,920.64	8,474,105.76	238,814.88	2.82%
<b>Total Operating Expenses</b>	<b>207,002,818.82</b>	<b>204,282,357.71</b>	<b>2,720,461.11</b>	<b>1.33%</b>
<b>Operating Loss</b>	<b>(104,821,398.52)</b>	<b>(104,508,789.00)</b>	<b>(312,609.52)</b>	<b>0.30%</b>
<b>Nonoperating Revenues (Expenses)</b>				
State Appropriations	91,790,543.21	85,513,069.52	6,277,473.69	7.34%
Noncapital Grants - Student Financial Aid	24,650,066.61	24,406,326.13	243,740.48	1.00%
Noncapital Grants	1,117,255.88	1,095,412.93	21,842.95	1.99%
Noncapital Gifts, Net	5,165,142.53	4,942,677.23	222,465.30	4.50%
Investment Income (Loss)	(739,841.30)	2,831,905.15	(3,571,746.45)	-126.13%
Interest and Fees on Debt	(5,299,733.11)	(5,289,922.42)	(9,810.69)	0.19%
Other Nonoperating Expenses	(1,268,650.91)	(828,257.83)	(440,393.08)	53.17%
<b>Net Nonoperating Revenues</b>	<b>115,414,782.91</b>	<b>112,671,210.71</b>	<b>2,743,572.20</b>	<b>2.44%</b>
<b>Income Before Other Revenues</b>	<b>10,593,384.39</b>	<b>8,162,421.71</b>	<b>2,430,962.68</b>	<b>29.78%</b>
Capital Appropriations	2,751,000.00		2,751,000.00	100.00%
Capital Grants	119,779.20	1,526.75	118,252.45	7745.37%
Capital Gifts	931,632.37	1,570,000.00	(638,367.63)	-40.66%
Additions to Permanent Endowments	2,373,573.47	1,303,953.40	1,069,620.07	82.03%
<b>Total Other Revenue</b>	<b>6,175,985.04</b>	<b>2,875,480.15</b>	<b>3,300,504.89</b>	<b>114.78%</b>
<b>Increase in Net Position</b>	<b>16,769,369.43</b>	<b>11,037,901.86</b>	<b>5,731,467.57</b>	<b>51.93%</b>
<b>Beginning Net Position</b>	<b>407,423,234.76</b>	<b>396,385,332.90</b>	<b>11,037,901.86</b>	<b>2.78%</b>
<b>Ending Net Position</b>	<b>\$ 424,192,604.19</b>	<b>\$ 407,423,234.76</b>	<b>\$ 16,769,369.43</b>	<b>4.12%</b>
<b>Reconciliation of Increase in Net Position</b>				
Total Revenues	\$ 231,080,413.57	\$ 221,438,439.82	\$ 9,641,973.75	4.35%
Total Expenses	214,311,044.14	210,400,537.96	3,910,506.18	1.86%
<b>Increase in Net Position</b>	<b>\$ 16,769,369.43</b>	<b>\$ 11,037,901.86</b>	<b>\$ 5,731,467.57</b>	<b>51.93%</b>

### Operating Revenues

Operating revenues increased \$2.4 million, based on the following:

- Student tuition and fees increased by almost \$1.7 million as a result of a modest increase in tuition and fee rates, offset by a slight decrease in enrollment from the prior year.
- Grants and contracts revenues decreased slightly with flat performance. Federal grants were up \$0.3 million, and were offset by an approximately \$0.2 million decrease in both state and local grants. The nature of grant activity is to fluctuate year to year.
- Sales and services revenue increased approximately \$0.8 million due to increases in fee rates for housing, dining, and other auxiliary services. Enrollment was down slightly from the prior year.

### Nonoperating Revenues

Net nonoperating revenues increased by \$2.7 million, based on the following:

- State appropriations increased by \$6.2 million. This increase is largely due to enrollment growth funding the University received based on the 2015 fiscal year enrollment data.
- Noncapital grants for student financial aid increased by \$0.2 million, due to an increase in North Carolina Need Based Grants. Pell Grant activity was relatively flat in comparison with the prior year.
- Noncapital gifts, net increased by \$0.2 million. Cash gifts, unrestricted private gifts, and sports sponsor's gifts had a combined increase \$0.4 million. Noncash gifts declined by \$0.2 million.
- Investment income decreased by \$3.5 million because the markets did not perform at the level of the prior fiscal year resulting in an investment loss of \$0.7 million. The total investment loss was composed in part by realized gains of \$0.7 million, and unrealized gains of under \$0.1 million. Realized losses were minimal, while unrealized losses totaled \$2.4 million. State Treasurer's Investment Fund (STIF) interest income was \$0.5 million for the year and other investment earnings were \$0.1 million. Endowment income was approximately \$0.3 million for the year.
- Interest and fees on debt increased slightly. The University took on additional debt, but also refunded debt at a lower interest rate.
- Other nonoperating expenses increased by \$0.4 million. This category is composed of loss on the disposal of assets of \$0.7 million and bond issuance cost of \$0.5 million offset by nominal miscellaneous revenues.

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 \$2.7 million, based on the following:

- Salaries and benefits for the faculty and staff of the University increased by \$3.3 million. The state awarded a one-time bonus to employees of \$750. The University continued to make a conscious effort to increase some employees' salaries, particularly for those employed in a position subject to the State Human Resources Act, to a greater percentage of the market rate for their respective positions.
- Supplies and materials decreased significantly by \$2.4 million because allocations to colleges and non-academic units were decreased so that carryforward funds could be used in the 2017 fiscal year.
- Services increased by almost \$1.5 million primarily due to additional spending for contract food services of approximately \$0.2 million, marketing expenses of \$0.2 million, repairs of almost \$0.2 million, and contractual services of \$0.8 million. Minor increases in other service areas made up the difference.
- Scholarships and fellowships, net of scholarship discount, increased by \$0.3 million. Before application of the \$25.0 million discount, scholarships increased by \$1.1 million, partly due to increases in endowed scholarships, athletic scholarships, and NC Need Based Grants. The scholarship discount increased by a total of \$0.9 million this fiscal year.
- Utilities expense decreased this year by \$0.2 million. This year was the first full year of an energy saving lighting project being in service. Natural gas prices dropped, resulting in savings to the University.
- Depreciation and amortization expense increased \$0.2 million this fiscal year.

## Other Revenues

Capital gifts decreased \$0.6 million this year. This change is the result of a significant gift being recognized in the prior year. The additions to permanent endowments increased by \$1.0 million this fiscal year because of an increase in the number of donors endowing scholarships. Capital appropriations increased by \$2.7 million as the University received capital appropriations for projects this year. Capital grants increased \$0.1 million.

## Capital Asset and Debt Administration

At June 30, 2016, the University had approximately \$512.4 million invested in capital assets, and accumulated depreciation of \$130.8 million. Depreciation and amortization charges for the current year totaled \$8.7 million.

The University is in the midst of renovating the Brown Cafeteria Building. The renovated space will provide additional dining facilities and student activity space. The University issued revenue bonds in Fall 2015 for the Brown Cafeteria renovation project in the amount of \$18.6 million. Other sources of funding for the project include capital gifts and University reserves.

Noble Hall, built under a service concession arrangement, was completed and put into service in August, 2016. The new facility was built and is owned by a private developer. It contains 421 beds and retail space. The retail space will be leased to two restaurants, a convenience store operator, an outdoor outfitter, and a coffee shop operator. The facility is

operated under a management agreement with the University. 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 will lease land to the developer to build a multi-tenant structure.

In March 2016, a \$2.0 billion bond referendum was approved by voters in North Carolina. The University is slated to receive \$110.0 million in funding to replace the Natural Sciences Building. The University has selected a designer as well as a construction manager at risk for the project. It is projected that construction of the new science building will begin in 2018 and will be completed by 2020.

The University's financial statements indicate \$129.4 million in bonds payable and special indebtedness, \$3.4 million in notes payable, and almost \$0.2 million in capital leases payable at June 30, 2016. The indebtedness includes the debt of the Corporation and Foundation, which are blended with the University indebtedness for financial presentation purposes. During the fiscal year, the University refunded three bond issues. The refundings will reduce future debt service payments by \$2.6 million and will result in an economic gain of \$2.0 million. The Corporation refunded a certificate of participation issue that will reduce debt service payments by almost \$6.8 million and will result in an economic gain of \$4.9 million.

For additional information on capital assets, leases, and debt administration, see Notes 6, 9, and 10 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 2015 to Fall 2016 remained steady at 80%. The University continues to 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 2016 was 10,806 as compared to 10,340 in Fall 2015. The Fall 2016 enrollment sets a new record for enrollment. 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 State of North Carolina implemented a tuition "buy down" plan known as the NC Promise Tuition Plan. Beginning in Fall 2018, the NC Promise Tuition Plan will mean that in-state undergraduate students at the University will pay \$500 per semester for tuition rather than the nearly \$2,000 they paid during the 2016 fiscal year, and out-of-state undergraduate tuition will drop from more than \$7,000 to \$2,500 per semester. It's important to note here that costs related to housing, meals, and fees will not be affected by this legislation, meaning the total cost of attendance for in-state students living on campus will be just over \$14,500 per year, a drop from the typical cost incurred during the 2016 fiscal year of \$17,500. It is expected the number of applications will climb even higher as parents look for the best value education for their student. Because the University manages its growth based in part on capacity, acceptance to the University will become even more competitive while at the same

time the University will remain committed to providing an accessible, affordable education to prepare students in our region to be successful.

The State has committed funding to the NC Promise Tuition Plan. The Director of the Budget has the authority to increase the base budget for The University of North Carolina System by up to \$40 million each fiscal year to cover the cost of the "buy down" for that fiscal year and will allocate the appropriate sum to the University as well as the two other universities approved for the plan, Elizabeth City State University and The University of North Carolina at Pembroke. This "buy-down" will apply to undergraduate students and does not include fees.



# FINANCIAL STATEMENTS

**Western Carolina University**  
**Statement of Net Position**  
**June 30, 2016**

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

**ASSETS**

Current Assets:

Cash and Cash Equivalents	\$ 83,896,596.84
Restricted Cash and Cash Equivalents	16,512,587.98
Receivables, Net (Note 5)	3,675,338.27
Inventories	5,382,492.38
Notes Receivable, Net (Note 5)	1,049,540.51
Prepaid Assets	101,218.51

Total Current Assets	110,617,774.49
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Noncurrent Assets:

Restricted Cash and Cash Equivalents	25,757,837.21
Receivables, Net (Note 5)	7,969.15
Endowment Investments	62,589,082.04
Restricted Investments	1,394,078.56
Other Investments	17,500.00
Notes Receivable, Net (Note 5)	4,199,136.64
Prepaid Bond Insurance	164,383.73
Capital Assets - Nondepreciable (Note 6)	23,199,317.94
Capital Assets - Depreciable, Net (Note 6)	358,359,830.76

Total Noncurrent Assets	475,689,136.03
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Total Assets	586,306,910.52
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**DEFERRED OUTFLOWS OF RESOURCES**

Deferred Loss on Refunding	5,414,630.54
Deferred Outflows Related to Pensions	5,101,429.00

Total Deferred Outflows of Resources	10,516,059.54
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**LIABILITIES**

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 8)	4,828,053.46
Due to Primary Government	15,577.01
Unearned Revenue	7,622,002.35
Interest Payable	847,824.39
Long-Term Liabilities - Current Portion (Note 9)	5,458,458.90

Total Current Liabilities	18,771,916.11
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Noncurrent Liabilities:

Deposits Payable	120,945.86
Funds Held for Others	691,440.44
U. S. Government Grants Refundable	5,005,623.38
Long-Term Liabilities, Net (Note 9)	145,588,666.08

Total Noncurrent Liabilities	151,406,675.76
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Total Liabilities	170,178,591.87
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**DEFERRED INFLOWS OF RESOURCES**

Deferred Inflows Related to Pensions	2,451,774.00
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**Western Carolina University**  
**Statement of Net Position**  
**June 30, 2016**

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

**NET POSITION**

Net Investment in Capital Assets	266,870,297.47
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	20,454,060.72
Endowed Professorships	19,217,989.27
Departmental Uses	732,895.79
Loans	929,012.00
Expendable:	
Scholarships and Fellowships	16,638,708.51
Endowed Professorships	7,652,631.85
Departmental Uses	2,418,438.07
Loans	445,789.18
Capital Projects	9,605,090.53
Debt Service	1,485,128.53
Other	415,843.79
Unrestricted	<u>77,326,718.48</u>
Total Net Position	<u>\$ 424,192,604.19</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, 2016**

**Exhibit A-2**

**REVENUES**

Operating Revenues:

Student Tuition and Fees, Net (Note 11)	\$ 55,823,243.84
Federal Grants and Contracts	4,051,403.55
State and Local Grants and Contracts	156,908.14
Nongovernmental Grants and Contracts	707,702.38
Sales and Services, Net (Note 11)	39,856,999.90
Interest Earnings on Loans	16,891.22
Other Operating Revenues	1,568,271.27
	<hr/>
Total Operating Revenues	102,181,420.30

**EXPENSES**

Operating Expenses:

Salaries and Benefits	122,735,721.02
Supplies and Materials	18,525,078.20
Services	40,461,654.06
Scholarships and Fellowships	11,655,857.97
Utilities	4,911,586.93
Depreciation/Amortization	8,712,920.64
	<hr/>
Total Operating Expenses	207,002,818.82

Operating Loss (104,821,398.52)

**NONOPERATING REVENUES (EXPENSES)**

State Appropriations	91,790,543.21
Noncapital Grants - Student Financial Aid	24,650,066.61
Noncapital Grants	1,117,255.88
Noncapital Gifts, Net (Note 11)	5,165,142.53
Investment Loss (Includes Investment Expense of \$329,532.97)	(739,841.30)
Interest and Fees on Debt	(5,299,733.11)
Other Nonoperating Expenses	(1,268,650.91)
	<hr/>

Net Nonoperating Revenues 115,414,782.91

Income Before Other Revenues 10,593,384.39

Capital Appropriations	2,751,000.00
Capital Grants	119,779.20
Capital Gifts	931,632.37
Additions to Endowments	2,373,573.47
	<hr/>

Increase in Net Position 16,769,369.43

**NET POSITION**

Net Position - July 1, 2015	<u>407,423,234.76</u>
Net Position - June 30, 2016	<u>\$ 424,192,604.19</u>

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, 2016**

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

**CASH FLOWS FROM OPERATING ACTIVITIES**

Received from Customers	\$ 105,701,495.86
Payments to Employees and Fringe Benefits	(125,387,579.75)
Payments to Vendors and Suppliers	(62,385,645.84)
Payments for Scholarships and Fellowships	(11,737,068.11)
Loans Issued	(1,154,553.09)
Collection of Loans	1,186,880.13
Interest Earned on Loans	111,528.33
Student Deposits Received	677,815.55
Student Deposits Returned	(668,980.66)
Other Receipts	1,568,271.27
	<hr/>
Net Cash Used by Operating Activities	(92,087,836.31)

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

State Appropriations	91,790,543.21
Noncapital Grants - Student Financial Aid	24,650,066.61
Noncapital Grants	1,117,255.88
Noncapital Gifts	4,077,401.60
Additions to Endowments	2,373,573.47
William D. Ford Direct Lending Receipts	63,828,582.00
William D. Ford Direct Lending Disbursements	(63,828,582.00)
Related Activity Agency Receipts	83,970.32
Related Activity Agency Disbursements	(95,983.77)
Other Payments	(558,939.25)
	<hr/>
Net Cash Provided by Noncapital Financing Activities	123,437,888.07

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

Proceeds from Capital Debt	20,461,257.72
Capital Appropriations	2,751,000.00
Capital Grants	119,779.20
Capital Gifts	641,632.37
Proceeds from Sale of Capital Assets	44,249.34
Acquisition and Construction of Capital Assets	(9,775,325.93)
Principal Paid on Capital Debt and Leases	(3,919,604.21)
Interest and Fees Paid on Capital Debt and Leases	(4,151,370.01)
	<hr/>
Net Cash Provided by Capital Financing and Related Financing Activities	6,171,618.48

**CASH FLOWS FROM INVESTING ACTIVITIES**

Proceeds from Sales and Maturities of Investments	4,988,352.84
Investment Income	2,033,086.23
Purchase of Investments and Related Fees	(3,876,367.04)
	<hr/>
Net Cash Provided by Investing Activities	3,145,072.03
	<hr/>
Net Increase in Cash and Cash Equivalents	40,666,742.27
Cash and Cash Equivalents - July 1, 2015	85,500,279.76
	<hr/>
Cash and Cash Equivalents - June 30, 2016	\$ 126,167,022.03

**Western Carolina University**  
**Statement of Cash Flows**  
**For the Fiscal Year Ended June 30, 2016**

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

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

Operating Loss	\$ (104,821,398.52)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation/Amortization Expense	8,712,920.64
Pension Expense	1,395,467.00
Allowances, Write-Offs, and Amortizations	(174,244.33)
Nonoperating Other Expenses	1,349,331.28
Miscellaneous Pension Adjustment	4,453.00
Changes in Assets, Liabilities, and Deferred Outflows of Resources:	
Receivables, Net	(194,854.02)
Due from Primary Government	4,219,163.99
Inventories	(30,930.74)
Notes Receivable, Net	(36,657.63)
Prepaid Assets	(56,861.60)
Accounts Payable and Accrued Liabilities	454,242.61
Due to Primary Government	3,007.58
Unearned Revenue	1,195,797.50
Deferred Outflows for Contributions Subsequent to the Measurement Date	(4,098,372.00)
Compensated Absences	(17,735.96)
Deposits Payable	8,834.89
Net Cash Used by Operating Activities	<u>\$ (92,087,836.31)</u>

**RECONCILIATION OF CASH AND CASH EQUIVALENTS**

Current Assets:	
Cash and Cash Equivalents	\$ 83,896,596.84
Restricted Cash and Cash Equivalents	16,512,587.98
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	<u>25,757,837.21</u>
Total Cash and Cash Equivalents - June 30, 2016	<u>\$ 126,167,022.03</u>

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

Assets Acquired through the Assumption of a Liability	\$ 2,150,588.76
Assets Acquired through a Gift	260,174.49
Change in Fair Value of Investments	(2,412,284.23)
Reinvested Distributions	1,393,061.32
Loss on Disposal of Capital Assets	(799,162.03)
Bond Issuance Cost Withheld	(390,908.21)
Amortization of Bond Premiums/Discounts	(168,903.74)
Decrease in Receivables Related to Nonoperating Income	(47,387.96)
Payments Made on Behalf of the University	(529,894.23)
Funds Escrowed to Defeasement Debt	69,930,780.35

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 Western Carolina 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 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.

The Corporation for Entrepreneurship and Innovation, LLC (CEI), a North Carolina limited liability company, was formed on July 10, 2015. It is a wholly owned subsidiary of the Corporation, which is a nonprofit organization and a blended component unit of the University, located in

Cullowhee, North Carolina. CEI is operated by faculty within the College of Business at the University.

Separate financial statements for the Foundation and Corporation may be obtained from the University Controller's Office, Suite 300N, Cullowhee, NC 28723, or by calling 828-227-3108. 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 18.

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

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

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

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

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

- E. Investments** - To the extent available, investments are recorded at fair value based on quoted market prices in active markets on a trade-date basis. Additional information regarding the fair value measurement of investments is disclosed in Note 3. Because of the inherent uncertainty in the use of estimates, values that are based on estimates may differ from

the values that would have been used had a ready market existed for the investments. The net increase (decrease) in the value of investments is recognized as a component of investment income.

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

Endowment investments include the principal amount of gifts and bequests that, according to donor restrictions, must be held in perpetuity or for a specified period of time, 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 last invoice cost method.
- H. Capital Assets** - Capital assets are stated at cost at date of acquisition or acquisition value at date of donation in the case of gifts. Donated capital assets acquired prior to July 1, 2015 are stated at fair value as of the date of donation. The value of assets constructed includes all material direct and indirect construction costs. Interest costs incurred are capitalized during the period of construction.

The University capitalizes assets that have a value or cost of \$5,000 or greater at the date of acquisition and an estimated useful life of more than one year except for 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 acquisition value at the date of donation. Donated capital assets acquired prior to July 1, 2015 are stated at fair value as of the date of donation. These collections are considered inexhaustible and are therefore not depreciated.

- I. **Restricted Assets** - Certain resources are reported as restricted assets because restrictions on asset use change the nature or normal understanding of the availability of the asset. Resources that are not available for current operations and are reported as restricted include resources restricted for the acquisition or construction of capital assets, resources legally segregated for the payment of principal and interest as required by debt covenants, unspent debt proceeds, and endowment and other restricted investments.
- J. **Noncurrent Long-Term Liabilities** - Noncurrent long-term liabilities include principal amounts of revenue bonds payable, 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 2015 *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 13 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 liabilities related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of Net Investment in Capital Assets. Additionally, deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of capital assets or related debt are also included in this component of net position.

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

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

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

Restricted and unrestricted resources are tracked using a fund accounting system and are spent in accordance with established fund authorities. Fund authorities provide rules for the fund activity and are separately established for restricted and unrestricted activities. When both restricted and unrestricted funds are available for expenditure, the decision for funding is transactional based within the departmental management system in place at the University. For projects funded by

tax-exempt debt proceeds and other sources, the debt proceeds are always used first. Both restricted and unrestricted net position include consideration of deferred outflows 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.

Cash on hand at June 30, 2016 was \$34,890.00. The carrying amount of the University's deposits not with the State Treasurer was \$1,224,423.66 and the bank balance was \$1,598,879.40. 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, 2016, the University's bank balance was exposed to custodial credit risk as follows:

Uninsured and Uncollateralized	\$ 32,446.19
Uninsured and Collateral Held by Pledging Bank's Trust Department not in University's Name	<u>554,669.58</u>
<b>Total</b>	<u><u>\$ 587,115.77</u></u>

**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, the 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 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.

**Short-Term Investment Fund** - At June 30, 2016, the amount shown on the Statement of Net Position as cash and cash equivalents includes \$124,907,708.37 which represents the University's equity position in the State Treasurer's Short-Term Investment Fund (STIF). The STIF (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission or subject to any other regulatory oversight and does not have a credit rating) had a weighted average maturity of 1.5 years as of June 30, 2016. Assets and shares of the STIF are valued at fair value. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's STIF) are included in the 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.

**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 investments by type and investments subject to interest rate risk at June 30, 2016, for the Long-Term Investment Pool.

**Long-Term Investment Pool**

Investment Type	Amount	Investment Maturities (in Years)		
		Less Than 1	1 to 5	6 to 10
Debt Securities				
Debt Mutual Funds	\$ 5,848,381.96	\$ 0.00	\$ 1,395,802.56	\$ 4,452,579.40
Money Market Mutual Funds	498,009.41	498,009.41		
<b>Total Debt Securities</b>	<b>6,346,391.37</b>	<b>\$ 498,009.41</b>	<b>\$ 1,395,802.56</b>	<b>\$ 4,452,579.40</b>
Other Securities				
UNC Investment Fund	32,228,517.91			
Balanced Mutual Fund	3,735,836.24			
International Mutual Funds	2,935,991.85			
Equity Mutual Funds	6,593,706.00			
Private Equity Limited Partnerships	675,368.33			
Domestic Stocks	5,175,393.53			
Foreign Stocks (denominated in US dollars)	1,400,767.12			
Exchange Traded Funds	2,397,860.32			
Other	639,592.15			
<b>Total Long-Term Investment Pool</b>	<b>\$ 62,129,424.82</b>			

At June 30, 2016, investments in the Long-Term Investment Pool had the following credit quality distribution for securities with credit exposure:

	Amount	BBB	BB	Unrated
Debt Mutual Funds	\$ 5,848,381.96	\$ 4,452,579.40	\$ 1,395,802.56	\$ 0.00
Money Market Mutual Funds	498,009.41			489,009.41
<b>Totals</b>	<b>\$ 6,346,391.37</b>	<b>\$ 4,452,579.40</b>	<b>\$ 1,395,802.56</b>	<b>\$ 489,009.41</b>

Rating Agency: Morningstar and Standard & Poor's

**UNC Investment Fund, LLC** - At June 30, 2016, the University's investments include \$32,228,517.91 which represents the University's equity position in the UNC Investment Fund, LLC (UNC Investment Fund). The UNC Investment Fund is an external investment pool that is not registered with the Securities and Exchange Commission, does not have a credit rating, and is not subject to any regulatory oversight. Investment risks associated with the UNC Investment Fund are included in audited financial statements of the UNC Investment Fund, LLC which

may be obtained from UNC Management Company, Inc., 1400 Environ Way, Chapel Hill, NC 27517.

**Non-Pooled Investments** - The following table presents investments by type and investments subject to interest rate risk at June 30, 2016, for the University's non-pooled investments.

Investment Type	Amount	Investment Maturities (in Years)			
		Less Than 1	1 to 5	6 to 10	More than 10
Debt Securities					
Debt Mutual Funds	\$ 790,922.23	\$ 30,154.20	\$ 452,858.88	\$ 202,363.40	\$ 105,545.75
Money Market Mutual Funds	305,870.34	305,870.34			
<b>Total Debt Securities</b>	<b>1,096,792.57</b>	<b>\$ 336,024.54</b>	<b>\$ 452,858.88</b>	<b>\$ 202,363.40</b>	<b>\$ 105,545.75</b>
Other Securities					
Balanced Mutual Fund	38,137.42				
International Mutual Funds	45,940.85				
Equity Mutual Funds	100,172.16				
Investments in Real Estate	93,800.00				
Private Equity Limited Partnerships	32,191.10				
Domestic Stocks	281,504.82				
Foreign Stocks (denominated in US dollars)	92,809.73				
Exchange Traded Funds	57,860.80				
Other	32,026.33				
<b>Total Non-Pooled Investments</b>	<b>\$ 1,871,235.78</b>				

At June 30, 2016, the University's non-pooled investments had the following credit quality distribution for securities with credit exposure:

	Amount	AAA	AA	A	BBB	BB	Unrated
Debt Mutual Funds	\$ 790,922.23	\$ 20,452.20	\$ 190,023.60	\$ 95,345.60	\$ 212,042.85	\$ 188,176.98	\$ 84,881.00
Money Market Mutual Funds	305,870.34	173,771.21					132,099.13
<b>Totals</b>	<b>\$ 1,096,792.57</b>	<b>\$ 194,223.41</b>	<b>\$ 190,023.60</b>	<b>\$ 95,345.60</b>	<b>\$ 212,042.85</b>	<b>\$ 188,176.98</b>	<b>\$ 216,980.13</b>

Rating Agency: Morningstar and Standard & Poors

**Total Investments** - The following table presents the total investments at June 30, 2016:

Investment Type	<u>Amount</u>
Debt Securities	
Debt Mutual Funds	\$ 6,639,304.19
Money Market Mutual Funds	803,879.75
Other Securities	
UNC Investment Fund	32,228,517.91
Balanced Mutual Fund	3,773,973.66
International Mutual Funds	2,981,932.70
Equity Mutual Funds	6,693,878.16
Investments in Real Estate	93,800.00
Private Equity Limited Partnerships	707,559.43
Domestic Stocks	5,456,898.35
Foreign Stocks (denominated in US dollars)	1,493,576.85
Exchange Traded Funds	2,455,721.12
Other	<u>671,618.48</u>
<b>Total Investments</b>	<u><u>\$ 64,000,660.60</u></u>

**C. Reconciliation of Deposits and Investments** - A reconciliation of deposits and investments for the University as of June 30, 2016, is as follows:

Cash on Hand	\$ 34,890.00
Amount of Deposits with Private Financial Institutions	1,224,423.66
Deposits in the Short-Term Investment Fund	124,907,708.37
Long-Term Investment Pool	62,129,424.82
Non-Pooled Investments	<u>1,871,235.78</u>
<b>Total Deposits and Investments</b>	<u><u>\$ 190,167,682.63</u></u>
Deposits	
Current:	
Cash and Cash Equivalents	\$ 83,896,596.84
Restricted Cash and Cash Equivalents	16,512,587.98
Noncurrent:	
Restricted Cash and Cash Equivalents	<u>25,757,837.21</u>
<b>Total Deposits</b>	<u>126,167,022.03</u>
Investments	
Noncurrent:	
Endowment Investments	62,589,082.04
Restricted Investments	1,394,078.56
Other Investments	<u>17,500.00</u>
<b>Total Investments</b>	<u>64,000,660.60</u>
<b>Total Deposits and Investments</b>	<u><u>\$ 190,167,682.63</u></u>

**NOTE 3 - FAIR VALUE MEASUREMENTS**

To the extent available, the University's investments are recorded at fair value as of June 30, 2016. GASB Statement No. 72 - *Fair Value Measurement and*

*Application*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Inputs are used in applying the various valuation techniques and take into account the assumptions that market participants use to make valuation decisions. Inputs may include price information, credit data, interest and yield curve data, and other factors specific to the financial instrument. Observable inputs reflect market data obtained from independent sources. In contrast, unobservable inputs reflect the entity's assumptions about how market participants would value the financial instrument. Valuation techniques should maximize the use of observable inputs to the extent available.

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

- Level 1 Investments whose values are based on quoted prices (unadjusted) for identical assets in active markets that a government can access at the measurement date.
- Level 2 Investments with inputs – other than quoted prices included within Level 1 – that are observable for an asset, either directly or indirectly.
- Level 3 Investments classified as Level 3 have unobservable inputs for an asset and may require a degree of professional judgment.

The following table summarizes the University's investments within the fair value hierarchy at June 30, 2016:

	Fair Value	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
<b>Investments by Fair Value Level</b>				
Debt Securities				
Debt Mutual Funds	\$ 6,639,304.19	\$ 6,639,304.19	\$ 0.00	\$ 0.00
Money Market Mutual Funds	630,108.54	630,108.54		
<b>Total Debt Securities</b>	7,269,412.73	7,269,412.73		
Other Securities				
Short-Term Investment Fund	124,907,708.37		124,907,708.37	
UNC Investment Fund	32,228,517.91			32,228,517.91
Balanced Mutual Fund	3,773,973.66	3,773,973.66		
International Mutual Funds	2,981,932.70	2,981,932.70		
Equity Mutual Funds	6,693,878.16	6,693,878.16		
Domestic Stocks	5,456,898.35	5,456,898.35		
Foreign Stocks (denominated in US dollars)	1,493,576.85	1,493,576.85		
Investment in Real Estate	93,800.00			93,800.00
Exchange Traded Funds	2,455,721.12	2,455,721.12		
Other	671,618.48	667,696.48		3,922.00
<b>Total Investments by Fair Value Level</b>	188,027,038.33	\$ 30,793,090.05	\$ 124,907,708.37	\$ 32,326,239.91
Investments Measured at the Net Asset Value (NAV)				
Private Equity Limited Partnerships	707,559.43			
<b>Total Investments Measured at Fair Value</b>	\$ 188,734,597.76			

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

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

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

**Investment in Real Estate** - The Foundation currently holds three parcels of land for resale valued at \$93,800.00. This investment is classified in Level 3. The real estate was donated to the Foundation to be sold. The investment is measured at fair value by comparing to the county tax value.

**Other** - Other investments include alternative investments in commodities and gold valued at \$667,696.48 which is classified as Level 1. The University and Foundation currently have other investments amounting to \$3,922.00. These items include jewelry to be sold, with the proceeds to be used to fund scholarships.

The valuation of investments measured at the Net Asset Value (NAV) per share (or its equivalent) is presented on the following table.

Investments Measured at the NAV

	Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Private Equity Limited Partnerships	\$ 707,559.43	\$ 699,672.00	N/A	N/A

**Private Equity Limited Partnerships** - The University currently has investments in limited partnerships. This type includes investments in four different limited partnerships and three private equity investments. The limited partnerships, which represent the University’ largest investment in this category, are private investment firms. These firms prefer to invest in healthcare, consumer services, and business services. There is not a ready market for any of these investments. If the University desired to sell its position in any of these investments, it would have to find a buyer for its interest. The investment in the other three private equities is minimal. All of these investments are valued at the NAV. Valuation is based upon K-1 values.

**NOTE 4 - ENDOWMENT INVESTMENTS**

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

Investment return of the University's endowment funds is predicated on the total return concept (yield plus appreciation). 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, 2016, net appreciation of \$26,270,885.42 was available to be spent, of which \$22,553,652.50 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.

During the current year, the University incurred investment losses that exceeded the related endowment's available accumulated income and net appreciation. These losses resulted in a reduction to the specific nonexpendable endowment balance. At June 30, 2016, the amount of investment losses reported against the nonexpendable endowment balances was \$2,230.82.

**NOTE 5 - RECEIVABLES**

Receivables at June 30, 2016, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
<b>Current Receivables:</b>			
Students	\$ 2,166,971.37	\$ 650,954.02	\$ 1,516,017.35
Student Sponsors	52,871.18		52,871.18
Accounts	1,171,008.98		1,171,008.98
Intergovernmental	585,545.26		585,545.26
Pledges	26,069.02	2,901.11	23,167.91
Investment Earnings	1,481.86		1,481.86
Interest on Loans	105,746.46		105,746.46
Other	219,499.27		219,499.27
<b>Total Current Receivables</b>	<b><u>\$ 4,329,193.40</u></b>	<b><u>\$ 653,855.13</u></b>	<b><u>\$ 3,675,338.27</u></b>
<b>Noncurrent Receivables:</b>			
Pledges	<u>\$ 9,672.33</u>	<u>\$ 1,703.18</u>	<u>\$ 7,969.15</u>
<b>Notes Receivable:</b>			
<b>Notes Receivable - Current:</b>			
Federal Loan Programs	\$ 1,016,855.86	\$ 0.00	\$ 1,016,855.86
Institutional Student Loan Programs	35,416.91	2,732.26	32,684.65
<b>Total Notes Receivable - Current</b>	<b><u>\$ 1,052,272.77</u></b>	<b><u>\$ 2,732.26</u></b>	<b><u>\$ 1,049,540.51</u></b>
<b>Notes Receivable - Noncurrent:</b>			
Federal Loan Programs	\$ 5,530,505.15	\$ 1,335,724.00	\$ 4,194,781.15
Institutional Student Loan Programs	4,355.49		4,355.49
<b>Total Notes Receivable - Noncurrent</b>	<b><u>\$ 5,534,860.64</u></b>	<b><u>\$ 1,335,724.00</u></b>	<b><u>\$ 4,199,136.64</u></b>

**NOTE 6 - CAPITAL ASSETS**

A summary of changes in the capital assets for the year ended June 30, 2016, is presented as follows:

	Balance July 1, 2015	Increases	Decreases	Balance June 30, 2016
Capital Assets, Nondepreciable:				
Land and Permanent Easements	\$ 11,287,299.71	\$ 244,603.00	\$ 0.00	\$ 11,531,902.71
Art, Literature, and Artifacts	1,266,098.70	187,700.47		1,453,799.17
Construction in Progress	4,972,793.89	9,651,885.30	4,411,063.13	10,213,616.06
<b>Total Capital Assets, Nondepreciable</b>	<b>17,526,192.30</b>	<b>10,084,188.77</b>	<b>4,411,063.13</b>	<b>23,199,317.94</b>
Capital Assets, Depreciable:				
Buildings	396,827,193.59	3,518,195.52	720,000.00	399,625,389.11
Machinery and Equipment	37,618,381.39	2,649,889.43	1,850,577.09	38,417,693.73
General Infrastructure	49,476,406.23	338,807.21	87,591.32	49,727,622.12
Computer Software	267,380.85			267,380.85
Other Intangible Assets	1,190,218.76			1,190,218.76
<b>Total Capital Assets, Depreciable</b>	<b>485,379,580.82</b>	<b>6,506,892.16</b>	<b>2,658,168.41</b>	<b>489,228,304.57</b>
Less Accumulated Depreciation/Amortization for:				
Buildings	90,665,108.58	5,716,425.48	548,259.36	95,833,274.70
Machinery and Equipment	13,106,162.67	1,483,131.12	1,198,543.07	13,390,750.72
General Infrastructure	19,987,405.49	1,380,954.72	67,954.61	21,300,405.60
Computer Software	33,100.65	13,387.44		46,488.09
Other Intangible Assets	178,532.82	119,021.88		297,554.70
<b>Total Accumulated Depreciation/Amortization</b>	<b>123,970,310.21</b>	<b>8,712,920.64</b>	<b>1,814,757.04</b>	<b>130,868,473.81</b>
<b>Total Capital Assets, Depreciable, Net</b>	<b>361,409,270.61</b>	<b>(2,206,028.48)</b>	<b>843,411.37</b>	<b>358,359,830.76</b>
<b>Capital Assets, Net</b>	<b>\$ 378,935,462.91</b>	<b>\$ 7,878,160.29</b>	<b>\$ 5,254,474.50</b>	<b>\$ 381,559,148.70</b>

During the year ended June 30, 2016, the University incurred \$4,982,243.03 in interest costs related to the acquisition and construction of capital assets. Of this total, \$4,494,014.60 was charged in interest expense, and \$488,228.43 was capitalized.

The University pledged the energy savings improvements installed in its buildings and structures financed 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 \$3,240,262.96 and is subject to security provisions in the agreement to ensure timely debt service payments. Additional information regarding the agreement can be found in Note 9.

**NOTE 7 - 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 \$26.3 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 in fiscal year 2017.

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 8 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

Accounts payable and accrued liabilities at June 30, 2016, were as follows:

	<u>Amount</u>
<b>Current Accounts Payable and Accrued Liabilities</b>	
Accounts Payable	\$ 3,334,314.27
Accrued Payroll	814,664.60
Contract Retainage	466,530.38
Intergovernmental Payables	41,947.79
Other	<u>170,596.42</u>
<b>Total Current Accounts Payable and Accrued Liabilities</b>	<b><u>\$ 4,828,053.46</u></b>

**NOTE 9 - LONG-TERM LIABILITIES**

**A. Changes in Long-Term Liabilities - A summary of changes in the long-term liabilities for the year ended June 30, 2016, is presented as follows:**

	<u>Balance July 1, 2015</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2016</u>	<u>Current Portion</u>
Revenue Bonds Payable	\$ 48,110,000.00	\$ 44,400,000.00	\$ 27,410,000.00	\$ 65,100,000.00	\$ 2,515,000.00
Special Indebtedness	58,140,000.00	38,375,000.00	40,000,000.00	56,515,000.00	1,750,000.00
Plus: Unamortized Premium	1,004,255.37	7,060,054.40	198,694.81	7,865,614.96	
Less: Unamortized Discount	<u>286,522.47</u>		<u>228,579.02</u>	<u>57,943.45</u>	
<b>Total Revenue Bonds Payable and Special Indebtedness, Net</b>	<u>106,967,732.90</u>	<u>89,835,054.40</u>	<u>67,380,115.79</u>	<u>129,422,671.51</u>	<u>4,265,000.00</u>
Net Pension Liability	3,436,600.00	7,605,359.00		11,041,959.00	
Notes Payable	3,594,331.38		177,235.82	3,417,095.56	509,242.75
Capital Leases Payable	110,689.44	204,587.18	117,368.39	197,908.23	52,040.03
Compensated Absences	6,925,103.00	4,945,615.99	4,963,351.95	6,907,367.04	628,382.00
Annuity and Life Income Payable	<u>79,934.74</u>		<u>19,811.10</u>	<u>60,123.64</u>	<u>3,794.12</u>
<b>Total Long-Term Liabilities, Net</b>	<b><u>\$ 121,114,391.46</u></b>	<b><u>\$ 102,590,616.57</u></b>	<b><u>\$ 72,657,883.05</u></b>	<b><u>\$ 151,047,124.98</u></b>	<b><u>\$ 5,458,458.90</u></b>

Additional information regarding capital lease obligations is included in Note 10.  
Additional information regarding the net pension liability is included in Note 13.

**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, 2016	Principal Outstanding June 30, 2016	See Table Below
<b>Revenue Bonds Payable</b>							
<u>The University of North Carolina System Pool Revenue Bonds</u>							
Student Center Refund	(A)	5.00%	10/01/2016	\$ 4,335,000.00	\$ 4,115,000.00	\$ 220,000.00	
Athletic Facility Refund	(A)	2.00%	10/01/2016	6,135,000.00	5,795,000.00	340,000.00	
Student Recreation Center	(B)	5.00%	10/01/2018	4,355,000.00	3,945,000.00	410,000.00	
Dinning Hall Facility	(B)	5.00%	10/01/2018	17,545,000.00	15,895,000.00	1,650,000.00	
Student Housing - Harrill	(C)	3.00 - 4.50%	04/01/2041	13,605,000.00	1,135,000.00	12,470,000.00	
Facility Refund 03	(C)	3.00 - 4.00%	04/01/2025	831,726.00	187,698.00	644,028.00	
Student Recreation Center Refund 03	(C)	3.00 - 4.00%	04/01/2025	6,413,274.00	1,447,302.00	4,965,972.00	
Brown Cafeteria	(D)	3.00 - 5.00%	04/01/2046	18,610,000.00		18,610,000.00	
Athletic Facility Refund 03A	(D)	5.00%	04/01/2028	239,850.00		239,850.00	
Student Recreation Center Refund 03A	(D)	5.00%	04/01/2028	1,810,150.00		1,810,150.00	
Dinning Hall Facility Refund 08A	(D)	3.00 - 5.00%	04/01/2034	13,066,500.00		13,066,500.00	
Student Recreation Center Refund 08A	(D)	3.00 - 5.00%	04/01/2034	3,238,500.00		3,238,500.00	
Athletic Facility Refund 06A	(E)	0.80 - 3.595%	04/01/2027	4,777,731.00		4,777,731.00	
Student Center Refund 06A	(E)	0.80 - 3.595%	04/01/2027	2,657,269.00		2,657,269.00	
<b>Total Revenue Bonds Payable</b>				<u>97,620,000.00</u>	<u>32,520,000.00</u>	<u>65,100,000.00</u>	
<b>Special Indebtedness</b>							
WCU Student Housing Project, Series 2008		3.50 - 5.25%	06/01/2018	45,000,000.00	42,950,000.00	2,050,000.00	(1)
Refunding Limited Obligation Bonds, Series 2013		2.00 - 5.00%	03/01/2033	9,400,000.00	1,005,000.00	8,395,000.00	(2)
Refunding Limited Obligation Bonds, Series 2015		2.00 - 5.00%	06/01/2032	8,035,000.00	340,000.00	7,695,000.00	(3)
Refunding Limited Obligation Bonds, Series 2016		3.00 - 4.00%	03/01/2039	38,375,000.00		38,375,000.00	(1)
<b>Total Special Indebtedness</b>				<u>100,810,000.00</u>	<u>44,295,000.00</u>	<u>56,515,000.00</u>	
<b>Total Revenue Bonds Payable and Special Indebtedness (principal only)</b>				<u>\$ 198,430,000.00</u>	<u>\$ 76,815,000.00</u>	121,615,000.00	
Less: Unamortized Discount						57,943.45	
Plus: Unamortized Premium						7,865,614.96	
<b>Total Revenue Bonds Payable and Special Indebtedness, Net</b>						<u>\$ 129,422,671.51</u>	
(A) The University of North Carolina System Pool Revenue Bonds, Series 2006A							
(B) The University of North Carolina System Pool Revenue Bonds, Series 2008A							
(C) The University of North Carolina System Pool Revenue Bonds, Series 2011B							
(D) The University of North Carolina System Pool Revenue Bonds, Series 2015A							
(E) The University of North Carolina System Pool Revenue Bonds, Series 2015B							

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)	Balsam/Blue Ridge	\$ 40,425,000.00	\$ 3,436,348.20	\$ 960,000.00	\$ 2,012,085.62	70%
(2)	The Village	8,395,000.00	808,204.32	360,000.00	347,275.52	80%
(3)	Norton Road	7,695,000.00	1,018,054.51	340,000.00	285,217.90	57%

**C. Annual Requirements** - The annual requirements to pay principal and interest on the long-term obligations at June 30, 2016, are as follows:

Fiscal Year	Annual Requirements					
	Revenue Bonds Payable		Special Indebtedness		Notes Payable	
	Principal	Interest	Principal	Interest	Principal	Interest
2017	\$ 2,515,000.00	\$ 2,589,349.54	\$ 1,750,000.00	\$ 2,324,997.56	\$ 509,242.75	\$ 60,364.05
2018	2,600,000.00	2,477,078.29	1,800,000.00	2,120,381.28	465,266.93	50,816.36
2019	2,695,000.00	2,366,322.04	1,980,000.00	2,052,181.28	484,677.95	41,885.44
2020	2,795,000.00	2,290,843.29	2,050,000.00	1,976,931.28	497,749.08	33,697.65
2021	2,885,000.00	2,200,237.04	2,120,000.00	1,907,181.28	513,103.30	23,384.46
2022-2026	16,105,000.00	9,207,006.91	11,890,000.00	8,249,356.40	947,055.55	17,602.74
2027-2031	12,850,000.00	5,974,927.54	14,615,000.00	5,518,275.08		
2032-2036	10,195,000.00	3,785,368.77	12,840,000.00	2,664,793.78		
2037-2041	7,525,000.00	2,178,450.00	7,470,000.00	605,400.00		
2042-2046	4,935,000.00	641,875.00				
<b>Total Requirements</b>	<u>\$ 65,100,000.00</u>	<u>\$ 33,711,458.42</u>	<u>\$ 56,515,000.00</u>	<u>\$ 27,419,497.94</u>	<u>\$ 3,417,095.56</u>	<u>\$ 227,750.70</u>

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

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

On November 19, 2015, the University issued \$2,050,000 in UNC System Pool Revenue Bonds, Series 2015A with an average interest rate of 5.0%. The bonds were issued for a current refunding of \$2,435,000 of outstanding UNC System Pool Revenue Bonds, Series 2003A bonds with an average interest rate of 4.75%. The refunding was undertaken to reduce total debt service payments by \$601,347.92 over the next 12 years and resulted in an economic gain of \$429,408.80.

On November 19, 2015 the University issued \$7,435,000 in UNC System Pool Revenue Bonds, Series 2015B with an average interest rate of 2.92%. The bonds were issued to advance refund \$7,050,000 of outstanding UNC System Pool Revenue Bonds, Series 2006A bonds with an average interest rate of 4.92%. The net proceeds of the refunding bonds were used to purchase U.S. government securities. These securities were deposited into an irrevocable trust to provide for all future debt service payments on the refunded bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the University's Statement of Net Position. This advance refunding was undertaken to reduce total debt service payments by \$564,916.58 over the next 11 years and resulted in an economic gain of \$487,986.00. At June 30, 2016, the outstanding balance was \$7,050,000 for the defeased UNC System Pool Revenue Bonds, Series 2006A bonds.

On November 19, 2015 the University issued \$16,305,000 in UNC System Pool Revenue Bonds, Series 2015A with an average interest rate of 3.89%. The bonds were issued to advance refund \$15,960,000 of outstanding UNC System Pool Revenue Bonds, Series 2008A bonds with an average interest rate of 4.85%. The net proceeds of the refunding

bonds were used to purchase U.S. government securities. These securities were deposited into an irrevocable trust to provide for all future debt service payments on the refunded bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the University's Statement of Net Position. This advance refunding was undertaken to reduce total debt service payments by \$1,480,715.46 over the next 18 years and resulted in an economic gain of \$1,141,717.67. At June 30, 2016, the outstanding balance was \$15,960,000 for the defeased UNC System Pool Revenue Bonds, Series 2008A bonds.

On April 27, 2016 the Corporation issued \$38,375,000 in certificate of participation (COPs), Refunding Limited Obligation Bonds, Series 2016 with an average interest rate of 3.82%. The bonds were issued to advance refund \$38,340,000 of outstanding Certificate of Participation Student Housing Project Bonds, Series 2008 with an average coupon rate of 4.97%. The net proceeds of the refunding bonds were used to purchase U.S. government securities. These securities were deposited into an irrevocable trust to provide for all future debt service payments on the refunded bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the University's Statement of Net Position. This advance refunding was undertaken to reduce total debt service payments by \$6,793,814.84 over the next 23 years and resulted in an economic gain of \$4,958,170.50. At June 30, 2016, the outstanding balance of \$38,340,000 remains for the defeased Certificate of Participation Student Housing Project Bonds, Series 2008.

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

Purpose	Financial Institution	Interest Rate	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2016	Principal Outstanding June 30, 2016
Equipment	Bank of America	1.58%	11/25/2016	\$ 238,578.45	\$ 178,472.89	\$ 60,105.56
Equipment	Macon Bank	3.85%	11/01/2019	52,844.00	15,634.21	37,209.79
UNC System Guaranteed Energy Savings Project	Banc of America Public Capital Corp.	1.84%	02/14/2023	3,427,805.61	108,025.40	3,319,780.21
<b>Total Notes Payable</b>				<u>\$ 3,719,228.06</u>	<u>\$ 302,132.50</u>	<u>\$ 3,417,095.56</u>

**F. Annuities and Life Income Payable** – The Foundation has entered into a charitable gift annuity agreement with a donor. Under the terms of the agreement, the donor contributed assets to the Foundation and in return receives 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 annuity is \$60,123.64 at June 30, 2016.

**NOTE 10 - 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, 2016:

<u>Fiscal Year</u>	<u>Amount</u>
2017	\$ 58,331.40
2018	53,044.62
2019	49,078.08
2020	44,669.52
2021	<u>7,444.93</u>
Total Minimum Lease Payments	212,568.55
Amount Representing Interest (3.04 - 3.63% Rate of Interest)	<u>14,660.32</u>
Present Value of Future Lease Payments	<u><u>\$ 197,908.23</u></u>

Machinery and equipment acquired under capital lease amounted to \$257,905.64 at June 30, 2016.

Depreciation for the capital assets associated with capital leases is included in depreciation expense, and accumulated depreciation for assets acquired under capital lease totaled \$54,782.13 at June 30, 2016.

**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, 2016:

<u>Fiscal Year</u>	<u>Amount</u>
2017	\$ 1,721,933.09
2018	1,407,073.34
2019	1,306,986.04
2020	1,159,695.86
2021	909,671.01
2022-2026	1,830,320.50
2027-2031	<u>35,750.00</u>
Total Minimum Lease Payments	<u><u>\$ 8,371,429.84</u></u>

Rental expense for all operating leases during the year was \$3,437,133.19.

## NOTES TO THE FINANCIAL STATEMENTS

### NOTE 11 - REVENUES

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

	Gross Revenues	Internal Sales Eliminations	Less Scholarship Discounts	Less Allowance for Uncollectibles	Net Revenues
<b>Operating Revenues:</b>					
Student Tuition and Fees, Net	\$ 73,011,220.91	\$ 3,338.50	\$ 16,751,598.90	\$ 433,039.67	\$ 55,823,243.84
<b>Sales and Services:</b>					
Sales and Services of Auxiliary Enterprises:					
Residential Life	\$ 18,882,079.84	\$ 67,460.76	\$ 4,395,694.15	\$ 62,531.04	\$ 14,356,393.89
Dining	16,177,178.80	1,068,467.93	3,446,278.88	49,379.75	11,613,052.24
Book Rental	2,243,446.71	1,410.65	477,577.65	59,807.78	1,704,650.63
Bookstore	2,095,842.59	90,306.83		2,907.57	2,002,628.19
Print Shop	1,646,827.40	1,463,766.60			183,060.80
Athletic	2,379,529.34	2,265.00			2,377,264.34
Parking	1,696,532.94	15,515.00		21,238.08	1,659,779.86
Health Services	320,241.72	10,033.64			310,208.08
Campus Services	337,517.31	62,429.70			275,087.61
Other	609,139.81	15,989.00		4,523.03	588,627.78
Sales and Services of Education and Related Activities	4,645,064.00	3,517,205.72			1,127,858.28
Independent Operations	3,939,394.38	281,006.18			3,658,388.20
<b>Total Sales and Services, Net</b>	<b>\$ 54,972,794.84</b>	<b>\$ 6,595,857.01</b>	<b>\$ 8,319,550.68</b>	<b>\$ 200,387.25</b>	<b>\$ 39,856,999.90</b>
<b>Nonoperating - Noncapital Gifts, Net</b>	<b>\$ 5,169,746.82</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 4,604.29</b>	<b>\$ 5,165,142.53</b>

### NOTE 12 - 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	\$ 62,228,593.52	\$ 1,952,817.54	\$ 4,477,821.61	\$ 0.00	\$ 110.00	\$ 0.00	\$ 68,659,342.67
Research	1,160,523.99	40,851.71	251,052.66		29,267.73		1,481,696.09
Public Service	4,586,471.99	1,167,508.17	1,747,795.67		132,243.52		7,634,019.35
Academic Support	10,657,684.12	2,808,876.80	2,321,309.60		3,650.37		15,791,520.89
Student Services	4,719,638.04	321,114.19	1,696,082.33				6,736,834.56
Institutional Support	12,570,719.27	1,746,972.00	8,146,236.21		39,407.86		22,503,335.34
Operations and Maintenance of Plant	9,526,961.68	3,559,769.57	1,132,965.43		3,180,685.00		17,400,381.68
Student Financial Aid	106,133.10		13,513.93	11,655,857.97			11,775,505.00
Auxiliary Enterprises	16,693,074.17	3,866,553.64	20,219,519.56		1,526,222.45		42,305,369.82
Independent Operations	485,921.14	3,060,614.58	455,357.06				4,001,892.78
Depreciation/Amortization						8,712,920.64	8,712,920.64
<b>Total Operating Expenses</b>	<b>\$ 122,735,721.02</b>	<b>\$ 18,525,078.20</b>	<b>\$ 40,461,654.06</b>	<b>\$ 11,655,857.97</b>	<b>\$ 4,911,586.93</b>	<b>\$ 8,712,920.64</b>	<b>\$ 207,002,818.82</b>

## NOTE 13 - 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 annual pay. 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, 2016 was 9.15% of covered payroll. The University's contributions to the pension plan were \$4,098,372.06, and employee contributions were \$2,687,457.09 for the year ended June 30, 2016.

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 2015 *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 2015 *Comprehensive Annual Financial Report*.

*Net Pension Liability:* At June 30, 2016, the University reported a liability of \$11,041,959.00 for its proportionate share of the collective net pension liability. The net pension liability was measured as of June 30, 2015. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2014, and update procedures were used to roll forward the total pension liability to June 30, 2015. 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, 2015, the University's proportion was .29963%, which was an increase of .00651 from its proportion measured as of June 30, 2014.

*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	12/31/2014
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, 2014 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, 2015 (the valuation date) are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed Income	2.2%
Global Equity	5.8%
Real Estate	5.2%
Alternatives	9.8%
Credit	6.8%
Inflation Protection	3.4%

The information above is based on 30-year expectations developed with the consulting actuary for the 2014 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:

Net Pension Liability (Asset)		
1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
\$ 33,233,248.71	\$ 11,041,959.00	\$ (7,789,909.58)

*Deferred Inflows of Resources and Deferred Outflows of Resources Related to Pensions:* For the year ended June 30, 2016, the University recognized pension expense of \$1,395,467.00. At June 30, 2016, 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	\$ 1,255,471.00
Changes of Assumptions		
Net Difference Between Projected and Actual Earnings on Pension Plan Investments		1,196,303.00
Change in Proportion and Differences Between Agency's Contributions and Proportionate Share of Contributions	1,003,057.00	
Contributions Subsequent to the Measurement Date	4,098,372.00	
Total	\$ 5,101,429.00	\$ 2,451,774.00

The amount of \$4,098,372.00 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, 2017. 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
2017	\$ (1,118,195.00)
2018	(1,118,195.00)
2019	(1,111,355.00)
2020	1,899,028.00
Total	\$ (1,448,717.00)

**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, 2016, 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 \$97,640,882.46, of which \$41,580,780.00 was covered under the Optional Retirement Program. Total employer and employee contributions for pension benefits for the year were \$2,844,125.35 and \$2,494,846.80, respectively. The amount of pension expense recognized in the current year related to ORP is equal to the employer contributions.

**NOTE 14 - 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 5.60% of the covered payroll under TSERS and ORP to the Fund. Required contribution rates for the years ended June 30, 2015, and 2014, were 5.49% and 5.40%, respectively. The University made 100% of its annual required contributions to the Plan for the years ended June 30, 2016, 2015, and 2014, which were \$4,836,816.96, \$4,645,458.71, and \$4,292,227.66, 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, 2016, 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, 2015, and 2014, were .41% and .44%, respectively. The University made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2016, 2015, and 2014, which were \$354,124.10, \$346,928.61, and \$349,737.07, 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 15 - 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 \$85,120,425 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 landlord 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 via contract with a private insurance company. The University pays the premium, based on a composite rate, directly to the private insurer.

**3. Employee Dishonesty and Computer Fraud**

The University is protected for losses from employee dishonesty and computer fraud. This coverage is with a private insurance company and is handled by the North Carolina Department of Insurance. Universities are charged a premium by the private insurance

company. Coverage limit is \$5,000,000 per occurrence. The private insurance company pays 90% of each loss less a \$100,000 deductible.

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 16 - 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 \$24,398,890.63 and on other purchases were \$1,371,966.16 at June 30, 2016.
- 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 17 - 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 transactions 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 \$136,109.00 for the year ended June 30, 2016.

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 \$10,000.00 for the year ended June 30, 2016.

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 \$2,513,833.92 for the year ended June 30, 2016, including \$1,480,195.14 of noncash gifts.

**Corporation of Entrepreneurship and Innovation (CEI)** - The Corporation, a blended component unit of the University, is the sole member of the CEI. Four members of the board of managers of CEI are also officers and employees of the University. CEI has an investment in Pinnacle Enterprise Fund, LLC (Pinnacle). Two members of the CEI board are officers of Pinnacle and employees of the University. Subsequent to June 30, 2016, both members also became officers of Pinnacle.

**NOTE 18 - BLENDED COMPONENT UNITS**

Condensed combining information for the University's blended component units for the year ended June 30, 2016, is presented as follows:

*Condensed Statement of Net Position*

June 30, 2016

	University	WCU Foundation	WCU R & D Corporation	Eliminations	Total
<b>ASSETS</b>					
Current Assets	\$ 105,904,741.73	\$ 4,333,835.91	\$ 379,196.85	\$ 0.00	\$ 110,617,774.49
Capital Assets	381,349,982.21	209,166.49			381,559,148.70
Other Noncurrent Assets	63,088,436.92	28,523,675.77	2,517,874.64		94,129,987.33
Component Unit Receivable from Primary Government			56,814,997.83	(56,814,997.83)	
Total Assets	<u>550,343,160.86</u>	<u>33,066,678.17</u>	<u>59,712,069.32</u>	<u>(56,814,997.83)</u>	<u>586,306,910.52</u>
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<u>7,432,760.20</u>		<u>308,329.34</u>		<u>10,516,059.54</u>
<b>LIABILITIES</b>					
Current Liabilities	16,712,044.95	111,249.42	1,948,621.74		18,771,916.11
Long-Term Liabilities, Net	86,502,490.56	83,143.38	59,003,032.14		145,588,666.08
Other Noncurrent Liabilities	5,818,009.68				5,818,009.68
Primary Government Payable to Component Unit	56,814,997.83			(56,814,997.83)	
Total Liabilities	<u>165,847,543.02</u>	<u>194,392.80</u>	<u>60,951,653.88</u>	<u>(56,814,997.83)</u>	<u>170,178,591.87</u>
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<u>2,451,774.00</u>				<u>2,451,774.00</u>
<b>NET POSITION</b>					
Net Investment in Capital Assets	266,698,340.77	171,956.70			266,870,297.47
Restricted - Nonexpendable	22,682,714.45	18,651,243.33			41,333,957.78
Restricted - Expendable	23,622,870.42	13,553,631.51	1,485,128.53		38,661,630.46
Unrestricted	76,472,678.40	495,453.83	358,586.25		77,326,718.48
Total Net Position	<u>\$ 389,476,604.04</u>	<u>\$ 32,872,285.37</u>	<u>\$ 1,843,714.78</u>	<u>\$ 0.00</u>	<u>\$ 424,192,604.19</u>

## NOTES TO THE FINANCIAL STATEMENTS

*Condensed Statement of Revenues, Expenses, and  
Changes in Net Position  
For the Fiscal Year Ended June 30, 2016*

	University	WCU Foundation	WCU R & D Corporation	Eliminations	Total
<b>OPERATING REVENUES</b>					
Operating Revenues	\$ 101,860,071.11	\$ 302,899.19	\$ 716,209.84	\$ (697,759.84)	\$ 102,181,420.30
<b>OPERATING EXPENSES</b>					
Operating Expenses	197,367,333.19	1,391,257.63	229,067.20	(697,759.84)	198,289,898.18
Depreciation/Amortization	8,704,849.76	8,070.88		0.00	8,712,920.64
Total Operating Expenses	206,072,182.95	1,399,328.51	229,067.20	(697,759.84)	207,002,818.82
Operating Income (Loss)	(104,212,111.84)	(1,096,429.32)	487,142.64		(104,821,398.52)
<b>NONOPERATING REVENUES (EXPENSES)</b>					
State Appropriations	91,790,543.21				91,790,543.21
Noncapital Grants - Student Financial Aid	24,650,066.61				24,650,066.61
Noncapital Grants	1,117,255.88				1,117,255.88
Noncapital Gifts, Net	2,325,769.95	2,839,372.58			5,165,142.53
Investment Income (Loss)	(274,662.19)	(481,001.32)	15,822.21		(739,841.30)
Investment Earned from Investment in Capital Leases			2,683,755.02	(2,683,755.02)	0.00
Interest and Fees on Debt	(4,223,364.99)	(1,598.20)	(3,758,524.94)	2,683,755.02	(5,299,733.11)
Other Nonoperating Revenue (Expenses)	(1,272,701.13)	4,050.22			(1,268,650.91)
Net Nonoperating Revenues (Expenses)	114,112,907.34	2,360,823.28	(1,058,947.71)		115,414,782.91
Capital Appropriations	2,751,000.00				2,751,000.00
Capital Grants	119,779.20				119,779.20
Capital Gifts	931,632.37				931,632.37
Transfers to University/Endowments	2,427,071.71	(2,427,071.71)			
Additions to Endowments	394,028.12	1,979,545.35			2,373,573.47
Increase (Decrease) in Net Position	16,524,306.90	816,867.60	(571,805.07)		16,769,369.43
<b>NET POSITION</b>					
Net Position, July 1, 2015	372,952,297.14	32,055,417.77	2,415,519.85		407,423,234.76
Net Position, June 30, 2016	\$ 389,476,604.04	\$ 32,872,285.37	\$ 1,843,714.78	\$ 0.00	\$ 424,192,604.19

*Condensed Statement of Cash Flows  
June 30, 2016*

	University	WCU Foundation	WCU R & D Corporation	Total
Net Cash Provided (Used) by Operating Activities	\$ (91,425,393.86)	\$ (1,072,101.49)	\$ 409,659.04	\$ (92,087,836.31)
Net Cash Provided by Noncapital Financing Activities	121,316,967.51	2,120,920.56		123,437,888.07
Net Cash Provided (Used) by Capital and Related Financing Activities	10,494,554.22	(11,665.92)	(4,311,269.82)	6,171,618.48
Net Cash Provided (Used) by Investing Activities	(1,035,002.01)	(91,237.30)	4,271,311.34	3,145,072.03
Net Increase in Cash and Cash Equivalents	39,351,125.86	945,915.85	369,700.56	40,666,742.27
Cash and Cash Equivalents, July 1, 2015	79,235,774.67	4,035,325.94	2,229,179.15	85,500,279.76
Cash and Cash Equivalents, June 30, 2016	\$ 118,586,900.53	\$ 4,981,241.79	\$ 2,598,879.71	\$ 126,167,022.03

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 19 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING**

For the fiscal year ended June 30, 2016, the University implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

*GASB Statement No. 72, Fair Value Measurement and Application*

*GASB Statement No. 76, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*

GASB Statement No. 72 provides guidance for determining a fair value measurement for financial reporting purposes. This statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

GASB Statement No. 76 reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP.



# **REQUIRED SUPPLEMENTARY INFORMATION**

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

**Exhibit B-1**

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Proportionate Share Percentage of Collective Net Pension Liability	0.29963%	0.29312%	0.28360%
Proportionate Share of TSERS Collective Net Pension Liability	\$ 11,041,959.00	\$ 3,436,600.00	\$ 17,217,410.00
Covered-Employee Payroll	\$ 44,397,567.00	\$ 42,705,248.19	\$ 42,200,130.52
Net Pension Liability as a Percentage of Covered-Employee Payroll	24.871%	8.047%	40.799%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	94.64%	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>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Contractually Required Contribution	\$ 4,098,372.06	\$ 4,062,377.38	\$ 3,711,086.07	\$ 3,515,270.87	\$ 2,992,318.90
Contributions in Relation to the Contractually Determined Contribution	<u>4,098,372.06</u>	<u>4,062,377.38</u>	<u>3,711,086.07</u>	<u>3,515,270.87</u>	<u>2,992,318.90</u>
Contribution Deficiency (Excess)	<u>\$ 0.00</u>				
Covered-Employee Payroll	\$ 44,790,951.50	\$ 44,397,567.00	\$ 42,705,248.19	\$ 42,200,130.52	\$ 40,219,340.11
Contributions as a Percentage of Covered-Employee Payroll	9.15%	9.15%	8.69%	8.33%	7.44%

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Contractually Required Contribution	\$ 2,005,828.91	\$ 1,446,088.32	\$ 1,550,533.28	\$ 1,283,031.78	\$ 1,021,055.41
Contributions in Relation to the Contractually Determined Contribution	<u>2,005,828.91</u>	<u>1,446,088.32</u>	<u>1,550,533.28</u>	<u>1,283,031.78</u>	<u>1,021,055.41</u>
Contribution Deficiency (Excess)	<u>\$ 0.00</u>				
Covered-Employee Payroll	\$ 40,686,184.25	\$ 40,506,675.64	\$ 46,146,823.92	\$ 42,066,615.67	\$ 38,385,541.58
Contributions as a Percentage of Covered-Employee Payroll	4.93%	3.57%	3.36%	3.05%	2.66%

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

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Changes of Benefit Terms:

<u>Cost of Living Increase</u>									
<u>2015*</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>
1.00%	N/A	1.00%	N/A	N/A	N/A	2.20%	2.20%	3.00%	2.00%

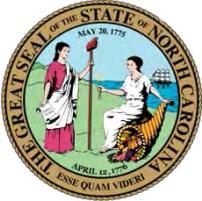
*Changes of assumptions.* In 2008, and again in 2012, the rates of withdrawal, mortality, service retirement and salary increase for active members and the rates of mortality for beneficiaries were adjusted to more closely reflect actual experience. Assumptions for leave conversions and loads were also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

\*Per the 2015 State of North Carolina *Comprehensive Annual Financial Report*, the 1.00% cost of living adjustment applies to retirees whose retirement began on or before July 1, 2013.



# INDEPENDENT AUDITOR'S REPORT

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



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

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

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

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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 (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, 2016, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated October 12, 2016. Our report includes a reference to other auditors who audited the financial statements of Western Carolina University Foundation 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

October 12, 2016

# ORDERING INFORMATION

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

Telephone: 919-807-7500  
Facsimile: 919-807-7647  
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For additional information contact:  
Bill Holmes  
Director of External Affairs  
**919-807-7513**



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This audit required 735.5 hours at an approximate cost of \$75,757.