

STATE OF NORTH CAROLINA

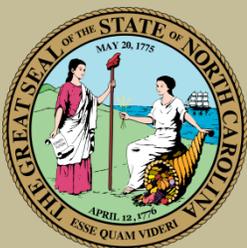
OFFICE OF THE STATE AUDITOR
BETH A. WOOD, CPA



WESTERN CAROLINA UNIVERSITY

CULLOWHEE, NORTH CAROLINA
FINANCIAL STATEMENT AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2017

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



NCOSA
The Taxpayers' Watchdog

STATE OF NORTH CAROLINA
Office of the State Auditor



Beth A. Wood, CPA
State Auditor

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AUDITOR'S TRANSMITTAL

The Honorable Roy Cooper, 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, 2017, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

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

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

Beth A. Wood, CPA
State Auditor

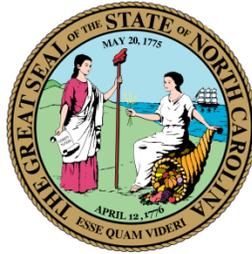


Beth A. Wood, CPA
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Article V, Chapter 147 of the *North Carolina General Statutes*, gives the Auditor broad powers to examine all books, records, files, papers, documents, and financial affairs of every state agency. The Auditor also has the power to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



INDEPENDENT AUDITOR'S REPORT

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Office of the State Auditor



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INDEPENDENT AUDITOR'S REPORT

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, 2017, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of Western Carolina University Foundation, which represent 6.05 percent, 8.58 percent, and 3.61 percent, respectively, of the assets, net position, and revenues of the University; nor the financial statements of Western Carolina University Research and Development Corporation, which represent less than one percent of the respective assets, net position, and revenues of the University. Those statements were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for those entities, is based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of Western Carolina University Foundation and Western Carolina University Research and Development Corporation were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's

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

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

Opinion

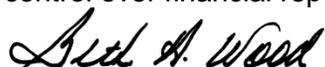
In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of Western Carolina University, as of June 30, 2017, and the changes in financial position and cash flows thereof for the 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 30, 2017 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.



Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

October 30, 2017



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 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. For 2016, the condensed statements presented in this section have been restated to reflect the elimination of the North Carolina Arboretum. See Note 20 to the financial statements for details on this restatement. The North Carolina Arboretum is not included in 2017.

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				
	2017	(as Restated)	\$ Change	% Change
Assets				
Current Assets	\$ 116,023,303.46	\$ 110,146,961.09	\$ 5,876,342.37	5.34%
Capital Assets, Net	418,128,046.85	369,342,700.35	48,785,346.50	13.21%
Other Noncurrent Assets	82,757,296.75	93,599,903.78	(10,842,607.03)	-11.58%
Total Assets	616,908,647.06	573,089,565.22	43,819,081.84	7.65%
Deferred Outflows of Resources	24,327,627.94	10,393,033.36	13,934,594.58	134.08%
Liabilities				
Current Liabilities	18,240,280.97	18,712,500.84	(472,219.87)	-2.52%
Long-Term Liabilities, Net	157,634,409.89	144,940,366.11	12,694,043.78	8.76%
Other Noncurrent Liabilities	7,401,573.03	5,818,009.68	1,583,563.35	27.22%
Total Liabilities	183,276,263.89	169,470,876.63	13,805,387.26	8.15%
Deferred Inflows of Resources	24,452,614.99	2,392,646.96	22,059,968.03	921.99%
Net Position				
Net Investment in Capital Assets	268,078,585.27	254,755,924.13	13,322,661.14	5.23%
Restricted – Nonexpendable	43,556,088.36	41,308,957.78	2,247,130.58	5.44%
Restricted – Expendable	40,531,293.21	38,135,684.48	2,395,608.73	6.28%
Unrestricted	81,341,429.28	77,418,508.60	3,922,920.68	5.07%
Total Net Position	\$ 433,507,396.12	\$ 411,619,074.99	\$ 21,888,321.13	5.32%

Assets

Current assets, which consist primarily of cash, accounts and notes receivable, and operating inventories, increased by \$5.8 million. This increase was due in great part to an approximate \$4.0 million increase in unrestricted cash and cash equivalents. The University continued to build the housing reserve with a \$1.1 million increase this fiscal year through an increase in revenues. Although dining revenue increased \$1.5 million, dining reserves decreased \$1.9 million for transfers to the Brown Cafeteria renovation project. Other auxiliary operations saw a modest increase of \$1.0 million, which include the bookstore increase at \$0.6 million from increased sales and rental fees. Certain unspent fees collected in trust funds accounted for a \$2.9 million increase in unrestricted cash. Other unrestricted University programs accounted for the remaining \$0.9 million in unrestricted cash, which included the discretionary funds which saw reduced spending this fiscal year. Current restricted cash increased \$0.4 million as the result of an increase in cash invested in the State Treasurer's Investment Fund (STIF) of \$0.8 million, offset by a decrease in restricted cash set aside for current liabilities in plant funds of \$0.1 million and a decrease of \$0.3 million in cash with fiscal agent. Receivables increased by approximately \$1.0 million. The majority of the increase was for the net cash flow due to the University from the service concession arrangement entered into by the Board of Trustees of the Endowment Fund. Inventories increased approximately \$0.5 million. Notes receivable decreased by \$0.1 million because of collection activity.

Net capital assets increased \$48.7 million. The University recorded a service concession agreement for Noble Hall during the fiscal year. Additionally, the renovation of Brown Hall was completed. These two projects accounted for an approximate \$52.7 million increase in buildings during the fiscal year. Land increased \$2.7 million because of the purchase of a tract of land, and land preparation costs for construction projects. Machinery and equipment additions were \$6.3 million and general infrastructure increased \$3.2 million. Construction in progress decreased \$6.8 million. Disposals and write-downs totaled approximately \$2.6 million. Depreciation and amortization expense for the year was \$8.6 million. Reductions to accumulated depreciation totaled approximately \$1.8 million.

Other noncurrent assets decreased approximately \$10.9 million. Noncurrent cash decreased approximately \$17.8 million. Bond proceeds for the Brown Hall renovation were expended in the amount of \$15.0 million during the year. Allotted and unallotted cash for capital projects decreased \$2.8 million. Endowment investments and restricted investments increased approximately \$6.5 million and approximately \$0.1 million, respectively, largely as a result of an increase in market value. There was an increase in notes receivable, net, of \$0.2 million because of an increase in student loans. Receivables, net, increased almost \$0.1 million because of an increase in pledge activity.

Deferred Outflows of Resources

The University has two deferred outflows of resources. The first outflow is in the amount of \$5.1 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 refunded debt or the life of the new debt. It decreased by \$0.3 million because of normal amortization. The second deferred outflow is \$19.2 million for a deferred outflow for pensions. This outflow increased \$14.1 million because of a change in actuarial assumptions by the pension plan trustees. Approximately \$4.5 million of this deferred outflow will reduce the net pension liability for the year end June 30, 2018.

Liabilities

Current liabilities decreased by \$0.4 million. Accounts payable decreased \$0.5 million and unearned revenue decreased by \$0.3 million. The current portion of long-term liabilities increased \$0.4 million because of the addition of capital leases during the fiscal year.

Long-term liabilities, net, increased by \$12.6 million. A significant portion of this increase resulted from an increase in the net pension liability in the amount of \$16.3 million. The large increase resulted because of a change in actuarial assumptions by the pension plan trustees. There were repayments of \$2.5 million in bond principal indebtedness and \$1.7 million in special indebtedness repayment. Unamortized bond premium decreased \$0.4 million because of normal amortization. Capital leases of \$2.2 million were added, with principal repayments of \$0.7 million for capital leases and notes payable. Compensated absences decreased \$0.2 million resulting largely from a buy back program offered to employees with accumulated bonus leave balances. The remaining change resulted from an increase in the current portion of long-term liabilities.

Other noncurrent liabilities increased by approximately \$1.6 million. This increase is primarily due to the recording of the present value of contractual obligations associated with a service concession arrangement. For additional information on the service concession arrangement, see Note 7 to the financial statements.

Deferred Inflows of Resources

Deferred inflows of resources has two components this year. The first component is deferred inflows related to pensions. This amount decreased by \$1.1 million to a balance of \$1.2 million at June 30, 2017. 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. New for this fiscal year is a deferred inflow under a service concession arrangement. This deferred inflow resulted from the capitalization of Noble Hall during the fiscal year. This inflow will be amortized over the life of the service concession arrangement. At year-end, the balance of the inflow was \$23.1 million.

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, together with any deferred inflows of resources related to such acquisition. 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, 2017, almost \$268.1 million (61.84% of total net position) of the \$433.5 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 almost \$43.6 million (10.05% of total net position) of the \$433.5 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, 2017, expendable net position totaled approximately \$40.5 million (9.35% of total net position) of the \$433.5 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 \$81.3 million (18.76% of total net position) of the \$433.5 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, 2017, with comparative data for 2016, as restated.

Condensed Statement of Revenues, Expenses, and Changes in Net Position
2016

	2017	(as Restated)	\$ Change	% Change
Operating Revenues				
Student Tuition and Fees, Net	\$ 60,200,292.11	\$ 55,823,243.84	\$ 4,377,048.27	7.84%
Grants and Contracts	4,284,913.09	4,916,014.07	(631,100.98)	-12.84%
Sales and Services, Net	42,487,351.26	39,451,396.08	3,035,955.18	7.70%
Other Operating Revenues	3,003,783.66	1,570,692.96	1,433,090.70	91.24%
Total Operating Revenues	<u>109,976,340.12</u>	<u>101,761,346.95</u>	<u>8,214,993.17</u>	8.07%
Operating Expenses				
Salaries and Benefits	129,005,630.69	119,832,981.46	9,172,649.23	7.65%
Supplies and Materials	22,757,814.40	17,521,978.34	5,235,836.06	29.88%
Services	40,502,102.11	39,420,504.48	1,081,597.63	2.74%
Scholarships and Fellowships	11,979,010.55	11,655,857.97	323,152.58	2.77%
Utilities	4,554,182.72	4,779,774.76	(225,592.04)	-4.72%
Depreciation/Amortization	8,610,626.98	7,944,393.91	666,233.07	8.39%
Total Operating Expenses	<u>217,409,367.45</u>	<u>201,155,490.92</u>	<u>16,253,876.53</u>	8.08%
Operating Loss	<u>(107,433,027.33)</u>	<u>(99,394,143.97)</u>	<u>(8,038,883.36)</u>	8.09%
Nonoperating Revenues (Expenses)				
State Appropriations	89,333,308.85	89,559,505.43	(226,196.58)	-0.25%
Noncapital Grants - Student Financial Aid	24,807,950.10	24,650,066.61	157,883.49	0.64%
Noncapital Grants	224,956.24	83,617.10	141,339.14	169.03%
Noncapital Gifts, Net	5,168,185.68	3,684,947.39	1,483,238.29	40.25%
Investment Income (Loss)	8,176,666.52	(738,708.82)	8,915,375.34	1,206.89%
Interest and Fees on Debt	(4,115,015.62)	(5,297,932.40)	1,182,916.78	-22.33%
Other Nonoperating Expenses	(643,937.51)	(1,268,650.91)	624,713.40	-49.24%
Net Nonoperating Revenues	<u>122,952,114.26</u>	<u>110,672,844.40</u>	<u>12,279,269.86</u>	11.10%
Income Before Other Revenues	15,519,086.93	11,278,700.43	4,240,386.50	37.60%
Capital Appropriations	3,925,255.16	2,236,000.00	1,689,255.16	75.55%
Capital Grants		738.50	(738.50)	-100.00%
Capital Gifts	640,000.00	931,632.37	(291,632.37)	-31.30%
Additions to Permanent Endowments	1,803,979.04	2,373,573.47	(569,594.43)	-24.00%
Total Other Revenues	<u>6,369,234.20</u>	<u>5,541,944.34</u>	<u>827,289.86</u>	14.93%
Increase in Net Position	21,888,321.13	16,820,644.77	5,067,676.36	30.13%
Beginning Net Position, as Restated	<u>411,619,074.99</u>	<u>394,798,430.22</u>	<u>16,820,644.77</u>	4.26%
Ending Net Position	<u>\$ 433,507,396.12</u>	<u>\$ 411,619,074.99</u>	<u>\$ 21,888,321.13</u>	5.32%
Reconciliation of Increase in Net Position				
Total Revenues	\$ 244,056,641.71	\$ 225,281,427.82	\$ 18,775,213.89	8.33%
Total Expenses	<u>222,168,320.58</u>	<u>208,460,783.05</u>	<u>13,707,537.53</u>	6.58%
Increase in Net Position	<u>\$ 21,888,321.13</u>	<u>\$ 16,820,644.77</u>	<u>\$ 5,067,676.36</u>	30.13%

Operating Revenues

Operating revenues increased \$8.2 million, based on the following:

- Student tuition and fees increased by almost \$4.4 million as a result of an increase in tuition and fee rates, coupled with Fall 2016 enrollment growth of 466 students as compared to Fall 2015.
- Grants and contracts revenues decreased \$0.6 million. Federal grants were down \$0.5 million, state grants were up almost \$0.1 million, and nongovernmental grants were down almost \$0.2 million. The nature of grant activity is to fluctuate year to year.
- Sales and services revenue increased approximately \$3.0 million due to increases in fee rates for housing, dining, and other auxiliary services, coupled with enrollment growth.
- Other operating revenues increased \$1.4 million primarily because of activity related to the service concession arrangement that was placed in service during the fiscal year.

Nonoperating Revenues

Net nonoperating revenues increased by \$12.2 million, based on the following:

- State appropriations decreased only slightly by \$0.2 million as a result of a decrease in overall enrollment in the prior fiscal year.
- Noncapital grants for student financial aid increased by \$0.1 million, due to an increase in Pell grants and state scholarships, offset by a decrease in state grants.
- Noncapital gifts, net increased by almost \$1.5 million. The NCAA made a distribution to member schools during the fiscal year, accounting for almost \$0.5 million of the increase. The remaining increase is the result of gifts to the Foundation for athletic programs, academic programs, and scholarships.
- Investment income increased by \$8.9 million because the markets performed at a higher level than in the prior fiscal year. The total investment income was composed in part by realized gains of \$1.1 million, and unrealized gains of \$5.8 million. Realized losses were \$0.1 million, while unrealized losses totaled under \$0.1 million. STIF interest income was \$0.9 million for the year and other investment earnings were \$0.1 million. Endowment income was approximately \$0.4 million for the year.
- Interest and fees on debt decreased by almost \$1.2 million as a result of savings from refundings of debt in the prior year at lower interest rates, the capitalization of \$0.7 million of construction period interest for Brown Hall, and normal amortization.
- Other nonoperating expenses decreased by \$0.6 million. This category is composed of loss on the disposal of assets of \$0.8 million offset by almost \$0.2 million in 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 approximately \$16.3 million, based on the following:

- Salaries and benefits for the faculty and staff of the University and other payroll costs increased by almost \$9.2 million. The largest portion of the increase was from a \$4.2 million increase in pension expense. This increase resulted from a change in actuarial assumptions adopted by the trustees of the pension plan. The state awarded salary increases to employees of 1.5%, plus the potential to receive up to an additional 0.5% increase based on merit. The University's health insurance premium cost increased. Lastly, the state sponsored a buyback program of bonus leave that allowed employees to cash in bonus leave for payment.
- Supplies and materials increased significantly by \$5.2 million. The bulk of the increase, \$4.7 million, was for the purchase of capital items that did not meet capitalization requirements. The remaining \$0.5 million was for fuel, repair supplies, and other administrative supplies.
- Services increased by \$1.1 million primarily due to additional spending for contract food services of approximately \$1.8 million, offset by a decrease in contract repairs of \$0.2 million, a decrease in maintenance contracts of \$0.4 million, and a \$0.1 million decrease in telephone charges.
- Scholarships and fellowships, net of scholarship discount, increased by \$0.3 million. Before application of the \$25.5 million discount, scholarships increased by almost \$0.8 million, partly due to increases in endowed scholarships, athletic scholarships, and Pell Grants.
- Utilities expense decreased this year by \$0.2 million. Electricity costs and natural gas costs were cheaper this fiscal year.
- Depreciation and amortization expense increased almost \$0.7 million this fiscal year. The addition of new buildings contributed to the increase.

Other Revenues

Capital gifts decreased almost \$0.3 million this year. The additions to permanent endowments decreased by \$0.5 million this fiscal year because of a decrease in the amount of funds gifted and designated for endowed scholarships. Capital appropriations increased by \$1.6 million as the University began incurring expenses for the planning and design phases of the new natural sciences building, together with associated preparation costs.

Capital Asset and Debt Administration

At June 30, 2017, the University had approximately \$543.3 million invested in capital assets, and accumulated depreciation and amortization of \$125.2 million. Depreciation and amortization charges for the current year totaled \$8.6 million.

The University completed renovations of Brown Hall this fiscal year and has reopened the structure as a second dining facility on campus. During the fiscal year, Noble Hall, a 421 bed dormitory with retail space was placed in service. Noble Hall was built under a service concession arrangement which is discussed in Note 7 to the financial statements.

The University has selected a designer as well as a construction manager at risk for construction of a new natural sciences building. Construction of the building is being funded

by a bond issue approved by North Carolina voters in 2016. It is projected that construction of the new science building will begin in 2018 and will be completed by 2020. The project is in the design phase.

As for other future capital projects, approval has been granted to build an upper campus 600 bed dormitory to replace aging student housing units. This project will be financed by the issuance of bonds. This project is scheduled to be completed in time for the Fall 2019 semester. The University also has been authorized to proceed with building a parking garage with funding through the issuance of debt and the use of parking reserves. The University has received state funding to proceed with planning and designing an upgrade to the steam plant on campus.

The University's financial statements indicate \$117.3 million in bonds payable and special indebtedness, \$7.4 million in unamortized premiums, a small unamortized discount, \$2.8 million in notes payable, and \$2.2 million in capital leases payable at June 30, 2017. The indebtedness includes the debt of the Corporation and Foundation, which are blended with the University indebtedness for financial presentation purposes. Current year changes in the University's debt balances were discussed previously in the "Liabilities" section of this analysis.

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 2016 to Fall 2017 decreased slightly to 78.88%. 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 2017 was 11,034 as compared to 10,806 in Fall 2016. The Fall 2017 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 fees, sales and services, and state appropriations, as well as the corresponding operating expenses incurred by serving a larger numbers of students.

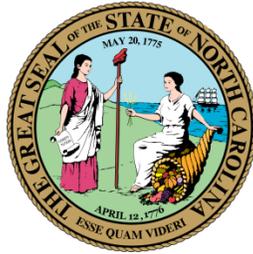
Looking toward the future, management believes that the University is well positioned to maintain its strong financial condition and to advance both the quality and scope of its services to the students, the State, and the region.

The University continues to be recognized in national rankings and faculty members are receiving honors. During the 2017 fiscal year, the University was ranked 13th among "top public regional universities" in the South by *U.S. News and World Report*. The same publication ranked the University 37th to tie with two other schools as the "best regional universities" in the South. *Kiplinger's Personal Finance* magazine ranked the University 98th nationwide for value for in-state students and 83rd nationwide for out-of-state students. Three faculty members were chosen for the Fulbright U.S. Scholar Program to engage in scholarly projects overseas.

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 2017 fiscal year, and out-of-state undergraduate tuition will drop from more than \$7,100 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 \$15,634 per year, a drop from the typical cost incurred during the 2017 school year of \$18,634. 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 \$51 million for the 2018 fiscal year to cover the cost of the "buy-down" 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, 2017

Exhibit A-1
Page 1 of 2

ASSETS

Current Assets:	
Cash and Cash Equivalents	\$ 87,660,037.65
Restricted Cash and Cash Equivalents	16,913,740.34
Receivables, Net (Note 5)	4,567,248.46
Inventories	5,839,968.61
Notes Receivable, Net (Note 5)	927,812.90
Other Assets	114,495.50
	<hr/>
Total Current Assets	116,023,303.46
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	7,488,248.67
Receivables, Net (Note 5)	83,361.28
Endowment Investments	69,301,418.89
Restricted Investments	1,305,983.41
Other Investments	13,500.00
Notes Receivable, Net (Note 5)	4,432,551.36
Prepaid Bond Insurance	132,233.14
Capital Assets - Nondepreciable (Note 6)	18,268,111.72
Capital Assets - Depreciable, Net (Note 6)	399,859,935.13
	<hr/>
Total Noncurrent Assets	500,885,343.60
	<hr/>
Total Assets	616,908,647.06

DEFERRED OUTFLOWS OF RESOURCES

Deferred Loss on Refunding	5,106,213.87
Deferred Outflows Related to Pensions	19,221,414.07
	<hr/>
Total Deferred Outflows of Resources	24,327,627.94

LIABILITIES

Current Liabilities:	
Accounts Payable and Accrued Liabilities (Note 8)	4,238,089.13
Due to Primary Government	4,254.37
Unearned Revenue	7,322,594.64
Interest Payable	788,067.11
Long-Term Liabilities - Current Portion (Note 9)	5,887,275.72
	<hr/>
Total Current Liabilities	18,240,280.97
Noncurrent Liabilities:	
Accounts Payable and Accrued Liabilities (Note 8)	1,715,156.10
Deposits Payable	117,669.48
Funds Held for Others	683,583.62
U. S. Government Grants Refundable	4,885,163.83
Long-Term Liabilities, Net (Note 9)	157,634,409.89
	<hr/>
Total Noncurrent Liabilities	165,035,982.92
	<hr/>
Total Liabilities	183,276,263.89

DEFERRED INFLOWS OF RESOURCES

Deferred Inflows Under Service Concession Arrangement	23,168,559.52
Deferred Inflows Related to Pensions	1,284,055.47
	<hr/>
Total Deferred Inflows of Resources	24,452,614.99

Western Carolina University
Statement of Net Position
June 30, 2017

Exhibit A-1
Page 2 of 2

NET POSITION

Net Investment in Capital Assets	268,078,585.27
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	22,520,025.94
Endowed Professorships	19,221,914.27
Departmental Uses	885,136.15
Loans	929,012.00
Expendable:	
Scholarships and Fellowships	19,729,177.68
Endowed Professorships	9,306,690.33
Departmental Uses	2,738,962.29
Loans	432,089.97
Capital Projects	6,477,308.72
Debt Service	1,787,538.91
Other	59,525.31
Unrestricted	<u>81,341,429.28</u>
Total Net Position	<u><u>\$ 433,507,396.12</u></u>

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

Western Carolina University
Statement of Revenues, Expenses, and
Changes in Net Position
For the Fiscal Year Ended June 30, 2017

Exhibit A-2

REVENUES

Operating Revenues:	
Student Tuition and Fees, Net (Note 11)	\$ 60,200,292.11
Federal Grants and Contracts	3,520,399.22
State and Local Grants and Contracts	255,472.46
Nongovernmental Grants and Contracts	509,041.41
Sales and Services, Net (Note 11)	42,487,351.26
Interest Earnings on Loans	17,824.28
Other Operating Revenues	<u>2,985,959.38</u>
Total Operating Revenues	<u>109,976,340.12</u>

EXPENSES

Operating Expenses:	
Salaries and Benefits	129,005,630.69
Supplies and Materials	22,757,814.40
Services	40,502,102.11
Scholarships and Fellowships	11,979,010.55
Utilities	4,554,182.72
Depreciation/Amortization	<u>8,610,626.98</u>
Total Operating Expenses	<u>217,409,367.45</u>
Operating Loss	<u>(107,433,027.33)</u>

NONOPERATING REVENUES (EXPENSES)

State Appropriations	89,333,308.85
Noncapital Grants - Student Financial Aid	24,807,950.10
Noncapital Grants	224,956.24
Noncapital Gifts, Net (Note 11)	5,168,185.68
Investment Income (Net of Investment Expense of \$350,332.90)	8,176,666.52
Interest and Fees on Debt	(4,115,015.62)
Other Nonoperating Expenses	<u>(643,937.51)</u>
Net Nonoperating Revenues	<u>122,952,114.26</u>
Income Before Other Revenues	15,519,086.93
Capital Appropriations	3,925,255.16
Capital Gifts	640,000.00
Additions to Endowments	<u>1,803,979.04</u>
Increase in Net Position	21,888,321.13

NET POSITION

Net Position - July 1, 2016, as Restated (Note 20)	<u>411,619,074.99</u>
Net Position - June 30, 2017	<u>\$ 433,507,396.12</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, 2017

Exhibit A-3
Page 1 of 2

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 106,353,307.66
Payments to Employees and Fringe Benefits	(128,335,290.23)
Payments to Vendors and Suppliers	(68,548,400.44)
Payments for Scholarships and Fellowships	(11,979,010.55)
Loans Issued	(1,276,003.66)
Collection of Loans	834,963.52
Interest Earned on Loans	103,448.22
Student Deposits Received	510,395.60
Student Deposits Returned	(531,873.79)
Other Receipts	2,380,796.41
	<hr/>
Net Cash Used by Operating Activities	(100,487,667.26)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Appropriations	89,333,308.85
Noncapital Grants - Student Financial Aid	24,807,950.10
Noncapital Grants	224,956.24
Noncapital Gifts	4,558,477.89
Additions to Endowments	1,633,665.68
William D. Ford Direct Lending Receipts	70,557,153.00
William D. Ford Direct Lending Disbursements	(70,557,153.00)
Related Activity Agency Receipts	2,449,237.97
Related Activity Agency Disbursements	(2,456,511.37)
Other Receipts	100,359.63
	<hr/>
Net Cash Provided by Noncapital Financing Activities	120,651,444.99

CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES

Capital Appropriations	3,925,255.16
Capital Gifts	350,000.00
Proceeds from Sale of Capital Assets	49,145.54
Acquisition and Construction of Capital Assets	(30,312,428.66)
Principal Paid on Capital Debt and Leases	(4,985,483.16)
Interest and Fees Paid on Capital Debt and Leases	(4,206,770.80)
	<hr/>
Net Cash Used by Capital Financing and Related Financing Activities	(35,180,281.92)

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from Sales and Maturities of Investments	3,831,501.39
Investment Income	2,814,103.79
Purchase of Investments and Related Fees	(4,893,512.67)
	<hr/>
Net Cash Provided by Investing Activities	1,752,092.51
	<hr/>
Net Decrease in Cash and Cash Equivalents	(13,264,411.68)
Cash and Cash Equivalents - July 1, 2016, as Restated	125,326,438.34
	<hr/>
Cash and Cash Equivalents - June 30, 2017	\$ 112,062,026.66

Western Carolina University
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2017

Exhibit A-3
Page 2 of 2

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

Operating Loss	\$ (107,433,027.33)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation/Amortization Expense	8,610,626.98
Amortization of Service Concession Arrangement	(605,162.97)
Allowances, Write-Offs, and Amortizations	130,276.51
Nonoperating Other Expenses	3,319.95
Changes in Assets and Deferred Outflows of Resources:	
Receivables, Net	(1,006,396.07)
Inventories	(465,372.17)
Notes Receivable, Net	(155,045.16)
Prepaid Assets	(13,276.99)
Deferred Outflows for Pensions	(14,243,011.25)
Changes in Liabilities and Deferred Inflows of Resources:	
Accounts Payable and Accrued Liabilities	(648,144.13)
Due to Primary Government	(11,322.64)
Unearned Revenue	211,544.29
Net Pension Liability	16,393,555.05
Compensated Absences	(143,780.04)
Deposits Payable	(3,859.80)
Deferred Inflows for Pensions	(1,108,591.49)
Net Cash Used by Operating Activities	<u>\$ (100,487,667.26)</u>

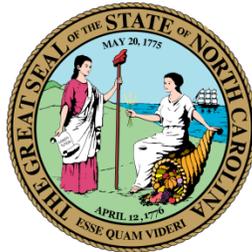
RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	\$ 87,660,037.65
Restricted Cash and Cash Equivalents	16,913,740.34
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	<u>7,488,248.67</u>
Total Cash and Cash Equivalents - June 30, 2017	<u>\$ 112,062,026.66</u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through the Assumption of a Liability	\$ 2,314,995.18
Assets Acquired through Service Concession Arrangement	25,557,026.81
Assets Acquired through a Gift	298,938.36
Change in Fair Value of Investments	5,712,895.63
Reinvested Distributions	1,776,547.74
Loss on Disposal of Capital Assets	(737,146.75)
Amortization of Bond Premiums/Discounts	(49,765.50)
Increase in Receivables Related to Nonoperating Income	154,176.81
Payments Made on Behalf of the University	161,381.63

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

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

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

The Corporation is governed by a seven-member board consisting of one appointed director and six elected directors. The mission of the Corporation is to aid and promote the education and charitable purposes 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 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 the Corporation may be obtained from the University Controller's Office, Suite 300N, Cullowhee, NC 28723, or by calling 828-227-3108.

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 change in the value of investments is recognized as a component of investment income.

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

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

- F. Receivables** - Receivables consist of tuition and fees charged to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from the federal government, state and local governments, private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants, and pledges that are verifiable, measurable, and expected to be collected and available for expenditures for which the resource provider's conditions have been satisfied. Receivables are recorded net of estimated uncollectible amounts.
- G. Inventories** - Inventories, consisting of expendable supplies and merchandise for resale, are valued at cost using the last invoice cost method.
- H. Capital Assets** - Capital assets are stated at cost at date of acquisition or 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 calculated

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 and Equipment	2-30 years
General Infrastructure	10-50 years
Computer Software	20 years
Other Intangible Assets	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, 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 bonds payable and special indebtedness 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 that approximates the effective interest method. Deferred losses on refundings are amortized over the life of the old debt or new debt (whichever is shorter) using the straight-line method, and are reported as deferred outflows of resources on the Statement of Net Position. Issuance costs are expensed in the reporting period in which they are incurred.

The net pension liability represents the University's proportionate share of the collective net pension liability reported in the State of North Carolina's 2016 *Comprehensive Annual Financial Report*. This liability represents the University's portion of the collective total pension liability less the fiduciary net position of the Teachers' and State Employees' Retirement System. See Note 13 for further information regarding the University's policies for recognizing liabilities, expenses, and deferred outflows of resources and deferred inflows of resources related to pensions.

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

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

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

- L. Deferred Outflows/Inflows of Resources** - In addition to assets, the Statement of Net Position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The University has the following items that qualify for reporting in this category: deferred loss on refunding and deferred outflows related to pensions.

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

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

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

attributable to the acquisition, construction, or improvement of capital assets or related debt are also included in this component of net position.

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

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

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

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

- N. **Scholarship Discounts** - Student tuition and fees revenues and certain other revenues from University charges are reported net of scholarship discounts in the accompanying Statement of Revenues, Expenses, and Changes in Net Position. The scholarship discount is the difference between the actual charge for goods and services provided by the University and the amount that is paid by students or by third parties on the students' behalf. Student financial assistance grants, such as Pell grants, and other federal, state, or nongovernmental programs, are recorded as nonoperating revenues in the accompanying Statement of Revenues, Expenses, and Changes in Net Position. To the extent that revenues from these programs are used to satisfy tuition, fees, and other charges, the University has recorded a scholarship discount.
- O. **Revenue and Expense Recognition** - The University classifies its revenues and expenses as operating or nonoperating in the accompanying Statement of Revenues, Expenses, and Changes in Net Position. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the University's principal ongoing operations. Operating revenues include activities that have characteristics of exchange transactions, such as (1) student tuition and fees, (2) sales and services of auxiliary enterprises, (3) certain federal, state, and local grants and contracts that

are essentially contracts for services, and (4) interest earned on loans. Operating expenses are all expense transactions incurred other than those related to capital and noncapital financing or investing activities as defined by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*.

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

- P. Internal Sales Activities** - Certain institutional auxiliary operations provide goods and services to University departments, as well as to its customers. These institutional auxiliary operations include activities such as 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, 2017 was \$35,065.00. The carrying amount of the University's deposits not with the State Treasurer was \$1,174,634.77, and the bank balance was \$981,103.68. Custodial credit risk is the risk that in the event of a bank failure, the University's deposits may not be returned to it. The University does not have a deposit policy for custodial

credit risk. As of June 30, 2017, the University's bank balance was exposed to custodial credit risk as follows:

Uninsured and Uncollateralized	\$ 30,611.61
Uninsured and Collateral Held by Pledging Bank's Trust Department not in University's Name	<u>257,310.35</u>
Total	<u><u>\$ 287,921.96</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 as defined by GASB Statement No. 40, *Deposit and Investment Risk Disclosures – An Amendment of GASB Statement No. 3*.

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

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

Short-Term Investment Fund - At June 30, 2017, the amount shown on the Statement of Net Position as cash and cash equivalents includes \$110,852,326.89, which represents the University's equity position in the State Treasurer's Short-Term Investment Fund (STIF). The STIF (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission or subject to any other regulatory oversight and does not have a credit rating) had a weighted average maturity of 1.6 years as of June 30, 2017. Assets and shares of the STIF are valued at fair value. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's STIF) are included in the North Carolina Department of State Treasurer Investment Programs' separately issued audit report. This separately issued report can be obtained from the Department of State Treasurer, 3200 Atlantic Avenue, Raleigh, NC 27604 or can be accessed from the Department of State Treasurer's website at <https://www.nctreasurer.com/> in the Audited Financial Statements section.

Long-Term Investment Pool - This is an internal investment pool that is utilized for the investment of the endowment funds. Fund ownership is measured using the unit value method. Under this method, each participating funds' 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, 2017, 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	\$ 6,533,513.19	\$ 0.00	\$ 0.00	\$ 6,533,513.19
Money Market Mutual Funds	<u>44,587.25</u>	<u>44,587.25</u>		
Total Debt Securities	6,578,100.44	<u>\$ 44,587.25</u>	<u>\$ 0.00</u>	<u>\$ 6,533,513.19</u>
Other Securities				
UNC Investment Fund	35,678,604.14			
Balanced Mutual Fund	2,396,977.81			
International Mutual Funds	4,294,466.43			
Equity Mutual Funds	4,549,525.86			
Private Equity Limited Partnerships	841,533.00			
Domestic Stocks	4,599,581.81			
Foreign Stocks (denominated in US dollars)	2,431,628.92			
Exchange Traded Funds	6,004,935.20			
Real Estate Investment Trusts	1,572,705.85			
Other	<u>2,122.00</u>			
Total Long-Term Investment Pool	<u>\$ 68,950,181.46</u>			

At June 30, 2017, 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	\$ 6,533,513.19	\$ 4,878,093.20	\$ 1,655,419.99	\$ 0.00
Money Market Mutual Funds	<u>44,587.25</u>			<u>44,587.25</u>
Totals	<u>\$ 6,578,100.44</u>	<u>\$ 4,878,093.20</u>	<u>\$ 1,655,419.99</u>	<u>\$ 44,587.25</u>

Rating Agency: Morningstar and Standard & Poor's

UNC Investment Fund, LLC - At June 30, 2017, the University's investments include \$35,678,604.14, which represents the University's equity position in the UNC Investment Fund, LLC (UNC Investment Fund). The UNC Investment Fund is an external investment pool that is not registered with the Securities and Exchange Commission, does not have a credit rating, and is not subject to any regulatory oversight. Investment risks associated with the UNC Investment Fund are included in audited financial statements of the UNC Investment Fund, LLC which may be obtained from UNC Management Company, Inc., 1400 Environ Way, Chapel Hill, NC 27517.

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

Non-Pooled Investments

Investment Type	Amount	Investment Maturities (in Years)			
		Less Than 1	1 to 5	6 to 10	More Than 10
Debt Securities					
Debt Mutual Funds	\$ 823,794.44	\$ 40,684.90	\$ 428,434.65	\$ 245,172.04	\$ 109,502.85
Money Market Mutual Funds	7,394.30	7,394.30			
Total Debt Securities	831,188.74	48,079.20	428,434.65	245,172.04	109,502.85
Other Securities					
Balanced Mutual Fund	37,514.94				
International Mutual Funds	55,081.99				
Investments in Real Estate	71,100.00				
Private Equity Limited Partnerships	26,674.10				
Domestic Stocks	442,844.98				
Foreign Stocks (denominated in US dollars)	152,838.50				
Exchange Traded Funds	51,677.59				
Other	1,800.00				
Total Non-Pooled Investments	\$ 1,670,720.84				

At June 30, 2017, 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	\$ 823,794.44	\$ 44,853.00	\$ 153,422.75	\$ 116,412.34	\$ 214,181.81	\$ 188,305.44	\$ 106,619.10
Money Market Mutual Funds	7,394.30	7,288.22					106.08
Totals	\$ 831,188.74	\$ 52,141.22	\$ 153,422.75	\$ 116,412.34	\$ 214,181.81	\$ 188,305.44	\$ 106,725.18

Rating Agency: Morningstar and Standard & Poor's

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

Investment Type	Amount
Debt Securities	
Debt Mutual Funds	\$ 7,357,307.63
Money Market Mutual Funds	51,981.55
Other Securities	
UNC Investment Fund	35,678,604.14
Balanced Mutual Fund	2,434,492.75
International Mutual Funds	4,349,548.42
Equity Mutual Funds	4,549,525.86
Investments in Real Estate	71,100.00
Private Equity Limited Partnerships	868,207.10
Domestic Stocks	5,042,426.79
Foreign Stocks (denominated in US dollars)	2,584,467.42
Exchange Traded Funds	6,056,612.79
Real Estate Investment Trusts	1,572,705.85
Other	3,922.00
Total Investments	\$ 70,620,902.30

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

Cash on Hand	\$ 35,065.00
Amount of Deposits with Private Financial Institutions	1,174,634.77
Deposits in the Short-Term Investment Fund	110,852,326.89
Long-Term Investment Pool	68,950,181.46
Non-Pooled Investments	<u>1,670,720.84</u>
Total Deposits and Investments	<u>\$ 182,682,928.96</u>
Deposits	
Current:	
Cash and Cash Equivalents	\$ 87,660,037.65
Restricted Cash and Cash Equivalents	16,913,740.34
Noncurrent:	
Restricted Cash and Cash Equivalents	<u>7,488,248.67</u>
Total Deposits	<u>112,062,026.66</u>
Investments	
Noncurrent:	
Endowment Investments	69,301,418.89
Restricted Investments	1,305,983.41
Other Investments	<u>13,500.00</u>
Total Investments	<u>70,620,902.30</u>
Total Deposits and Investments	<u>\$ 182,682,928.96</u>

NOTE 3 - FAIR VALUE MEASUREMENTS

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

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The following describes the hierarchy of inputs used to measure fair value and the

primary valuation methodologies used for financial instruments measured at fair value on a recurring basis:

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

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

	Fair Value	Fair Value Measurements Using		
		Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Investments by Fair Value Level				
Debt Securities				
Debt Mutual Funds	\$ 7,357,307.63	\$ 7,357,307.63	\$ 0.00	\$ 0.00
Money Market Mutual Funds	44,693.33	44,693.33		
Total Debt Securities	7,402,000.96	7,402,000.96		
Other Securities				
Short-Term Investment Fund	110,852,326.89		110,852,326.89	
UNC Investment Fund	35,678,604.14			35,678,604.14
Balanced Mutual Fund	2,434,492.75	2,434,492.75		
International Mutual Funds	4,349,548.42	4,349,548.42		
Equity Mutual Funds	4,549,525.86	4,549,525.86		
Investments in Real Estate	71,100.00			71,100.00
Domestic Stocks	5,042,426.79	5,042,426.79		
Foreign Stocks (denominated US dollars)	2,584,467.42	2,584,467.42		
Exchange Traded Funds	6,056,612.79	6,056,612.79		
Other	3,922.00			3,922.00
Total Investments by Fair Value Level	179,025,028.02	\$ 32,419,074.99	\$ 110,852,326.89	\$ 35,753,626.14
Investments Measured at the Net Asset Value (NAV)				
Private Equity Limited Partnerships	868,207.10			
Real Estate Investment Trusts	1,572,705.85			
Total Investments Measured at the NAV	2,440,912.95			
Total Investments Measured at Fair Value	\$ 181,465,940.97			

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.

Investments in Real Estate - The Foundation currently holds three parcels of land for resale valued at \$71,100.00. 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 valuation.

Other - 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 ^A	\$ 868,207.10	\$ 678,818.00	N/A	N/A
Real Estate Investment Trusts ^B	<u>1,572,705.85</u>		N/A	N/A
Total Investments Measured at the NAV	<u>\$ 2,440,912.95</u>			

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's 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.

B. Real Estate Investment Trusts - The University and Foundation currently has investments in real estate investment trusts (REITs). A REIT is a company that owns or finances income-producing real estate. Modeled after mutual funds, REITs provide investors of all types regular income streams, diversification, and long-term capital appreciation. REITs generate income, and 90 percent of that taxable income must be distributed to the shareholders on a regular basis. REITs make money from the properties they purchase by renting, leasing, or selling them.

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, 2017, net appreciation of \$34,348,685.53 was available to be spent, of which \$27,241,725.41 was classified in net position as restricted for specific purposes (e.g. scholarships, fellowships, and professorships). The remaining portion of net appreciation available to be spent is classified as unrestricted net position.

NOTE 5 - RECEIVABLES

Receivables at June 30, 2017, were as follows:

	<u>Gross Receivables</u>	<u>Less Allowance for Doubtful Accounts</u>	<u>Net Receivables</u>
Current Receivables:			
Students	\$ 2,191,855.88	\$ 737,872.48	\$ 1,453,983.40
Student Sponsors	36,164.17		36,164.17
Accounts	1,610,291.24		1,610,291.24
Intergovernmental	647,458.44		647,458.44
Pledges	106,048.89	4,096.30	101,952.59
Investment Earnings	1,481.86		1,481.86
Interest on Loans	129,209.35		129,209.35
Other	586,707.41		586,707.41
Total Current Receivables	<u>\$ 5,309,217.24</u>	<u>\$ 741,968.78</u>	<u>\$ 4,567,248.46</u>
Noncurrent Receivables:			
Pledges	<u>\$ 87,054.57</u>	<u>\$ 3,693.29</u>	<u>\$ 83,361.28</u>
Notes Receivable:			
Notes Receivable - Current:			
Federal Loan Programs	\$ 894,894.79	\$ 0.00	\$ 894,894.79
Institutional Student Loan Programs	34,858.42	1,940.31	32,918.11
Total Notes Receivable - Current	<u>\$ 929,753.21</u>	<u>\$ 1,940.31</u>	<u>\$ 927,812.90</u>
Notes Receivable - Noncurrent:			
Federal Loan Programs	\$ 5,808,069.87	\$ 1,379,874.00	\$ 4,428,195.87
Institutional Student Loan Programs	4,355.49		4,355.49
Total Notes Receivable - Noncurrent	<u>\$ 5,812,425.36</u>	<u>\$ 1,379,874.00</u>	<u>\$ 4,432,551.36</u>

NOTE 6 - CAPITAL ASSETS

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

	Balance July 1, 2016 (as Restated)	Increases	Decreases	Balance June 30, 2017
Capital Assets, Nondepreciable:				
Land and Permanent Easements	\$ 11,086,902.71	\$ 2,752,587.42	\$ 68,160.00	\$ 13,771,330.13
Art, Literature, and Artifacts	1,081,276.00	71,000.00		1,152,276.00
Construction in Progress	10,213,616.06	26,712,417.32	33,581,527.79	3,344,505.59
Total Capital Assets, Nondepreciable	22,381,794.77	29,536,004.74	33,649,687.79	18,268,111.72
Capital Assets, Depreciable:				
Buildings	387,038,761.40	52,750,950.97	5,500.00	439,784,212.37
Machinery and Equipment	38,075,966.86	6,308,541.84	1,412,085.02	42,972,423.68
General Infrastructure	38,800,978.29	3,236,456.01	1,167,074.21	40,870,360.09
Computer Software	267,380.85			267,380.85
Other Intangible Assets	1,190,218.76			1,190,218.76
Total Capital Assets, Depreciable	465,373,306.16	62,295,948.82	2,584,659.23	525,084,595.75
Less Accumulated Depreciation/Amortization for:				
Buildings	91,184,284.59	5,867,875.94	4,775.45	97,047,385.08
Machinery and Equipment	13,193,643.22	1,738,903.70	748,646.01	14,183,900.91
General Infrastructure	13,690,429.98	871,438.02	1,044,945.48	13,516,922.52
Computer Software	46,488.09	13,387.44		59,875.53
Other Intangible Assets	297,554.70	119,021.88		416,576.58
Total Accumulated Depreciation/Amortization	118,412,400.58	8,610,626.98	1,798,366.94	125,224,660.62
Total Capital Assets, Depreciable, Net	346,960,905.58	53,685,321.84	786,292.29	399,859,935.13
Capital Assets, Net	\$ 369,342,700.35	\$ 83,221,326.58	\$ 34,435,980.08	\$ 418,128,046.85

During the year ended June 30, 2017, the University incurred \$4,866,632.85 in interest costs related to the acquisition and construction of capital assets. Of this total, \$4,124,809.09 was charged in interest expense, and \$741,823.76 was capitalized.

The University has pledged the energy savings improvements installed in its buildings and other structures financed through the UNC System Guaranteed Energy Savings Installment Financing Agreement dated September 1, 2014. The carrying value of the energy savings improvement assets associated with the agreement is \$2,928,594.76 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.

For the year ended June 30, 2017, the University had one building addition that was recorded at acquisition value for \$25,557,026.81. The building was acquired under a service concession arrangement, and its acquisition value was determined using the actual costs of construction incurred by the third-party developer. Additional information regarding the service concession arrangement can be found in Note 7.

NOTE 7 - SERVICE CONCESSION ARRANGEMENT FOR NOBLE HALL

In August 2016, construction was completed on Noble Hall pursuant to an agreement with a third-party developer, Collegiate Housing Foundation (CHF), under which CHF designed and built a mixed use facility that includes residential units, commercial, and dining establishments. The building is on land owned by the Board of Trustees of the Endowment Fund, a body established under the State of North Carolina, and leased to CHF for 40 years. 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. At the end of the arrangement, CHF will transfer its interest in the facility at no cost to the University or, if directed by the University, to the Board of Trustees of the Endowment Fund.

In order to promote economic, cultural, and community development opportunities, including the creation of employment, and the stimulation of economic activity, the University entered into this agreement with CHF to construct the facility. Under this arrangement, the University is responsible for providing electricity to the facility over the course of the 40-year lease agreement. The University reports a liability for \$1,783,304.32, the present value of this obligation. The University also reports the facility as a capital asset with a carrying amount of \$25,429,241.68 at year-end and a related deferred inflow of resources of \$23,168,559.52. The net effect of this arrangement is reflected in the Statement of Net Position as an increase to net investment in capital assets of \$2,260,682.16.

NOTE 8 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	<u>Amount</u>
Current Accounts Payable and Accrued Liabilities	
Accounts Payable	\$ 1,328,671.89
Accrued Payroll	550,024.90
Contract Retainage	2,014,957.47
Intergovernmental Payables	38,713.69
Obligation Under Service Concession Arrangement	68,148.22
Other	<u>237,572.96</u>
Total Current Accounts Payable and Accrued Liabilities	<u>\$ 4,238,089.13</u>
Noncurrent Accounts Payable and Accrued Liabilities	
Obligation Under Service Concession Arrangement	<u>\$ 1,715,156.10</u>

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, 2017, is presented as follows:

	Balance July 1, 2016 (as Restated)	Additions	Reductions	Balance June 30, 2017	Current Portion
Revenue Bonds Payable	\$ 65,100,000.00	\$ 0.00	\$ 2,515,000.00	\$ 62,585,000.00	\$ 2,600,000.00
Special Indebtedness	56,515,000.00		1,750,000.00	54,765,000.00	1,800,000.00
Plus: Unamortized Premium	7,865,614.96		402,156.46	7,463,458.50	
Less: Unamortized Discount	57,943.45		11,823.70	46,119.75	
Total Revenue Bonds Payable and Special Indebtedness, Net	129,422,671.51		4,655,332.76	124,767,338.75	4,400,000.00
Net Pension Liability	10,775,670.85	16,393,555.05		27,169,225.90	
Notes Payable	3,319,887.14		496,376.96	2,823,510.18	451,959.68
Capital Leases Payable	197,908.23	2,249,590.24	224,106.63	2,223,391.84	399,156.66
Compensated Absences	6,628,320.61	5,184,164.00	5,327,943.61	6,484,541.00	632,586.00
Annuity and Life Income Payable	60,123.64		6,445.70	53,677.94	3,573.38
Total Long-Term Liabilities, Net	\$ 150,404,581.98	\$ 23,827,309.29	\$ 10,710,205.66	\$ 163,521,685.61	\$ 5,887,275.72

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, 2017	Principal Outstanding June 30, 2017	See Table Below
Revenue Bonds Payable							
The University of North Carolina System Pool Revenue Bonds							
Student Recreation Center	(A)	5.00%	10/01/2018	\$ 4,355,000.00	\$ 4,075,000.00	\$ 280,000.00	
Dining Hall Facility	(A)	5.00%	10/01/2018	17,545,000.00	16,420,000.00	1,125,000.00	
Student Housing - Harrill	(B)	3.00 - 4.50%	04/01/2041	13,605,000.00	1,440,000.00	12,165,000.00	
Facility Refund 03	(B)	3.00 - 4.00%	04/01/2025	831,726.00	249,116.00	582,610.00	
Student Recreation Center Refund 03	(B)	3.00 - 4.00%	04/01/2025	6,413,274.00	1,920,884.00	4,492,390.00	
Brown Cafeteria	(C)	3.00 - 5.00%	04/01/2046	18,610,000.00	325,000.00	18,285,000.00	
Athletic Facility Refund 03A	(C)	5.00%	04/01/2028	239,850.00		239,850.00	
Student Recreation Center Refund 03A	(C)	5.00%	04/01/2028	1,810,150.00		1,810,150.00	
Dining Hall Facility Refund 08A	(C)	3.00 - 5.00%	04/01/2034	13,066,500.00	20,034.50	13,046,465.50	
Student Recreation Center Refund 08A	(C)	3.00 - 5.00%	04/01/2034	3,238,500.00	4,965.50	3,233,534.50	
Athletic Facility Refund 06A	(D)	0.80 - 3.595%	04/01/2027	4,777,731.00	70,686.00	4,707,045.00	
Student Center Refund 06A	(D)	0.80 - 3.595%	04/01/2027	2,657,269.00	39,314.00	2,617,955.00	
Total Revenue Bonds Payable				87,150,000.00	24,565,000.00	62,585,000.00	
Special Indebtedness							
WCU Student Housing Project, Series 2008		4.00%	06/01/2018	45,000,000.00	43,955,000.00	1,045,000.00	(1)
Refunding Limited Obligation Bonds, Series 2013		2.00 - 5.00%	06/01/2033	9,400,000.00	1,375,000.00	8,025,000.00	(2)
Refunding Limited Obligation Bonds, Series 2015		3.00 - 4.00%	06/01/2032	8,035,000.00	715,000.00	7,320,000.00	(3)
Refunding Limited Obligation Bonds, Series 2016		2.00 - 5.00%	06/01/2039	38,375,000.00		38,375,000.00	(1)
Total Special Indebtedness				100,810,000.00	46,045,000.00	54,765,000.00	
Total Revenue Bonds Payable and Special Indebtedness (principal only)				\$ 187,960,000.00	\$ 70,610,000.00	117,350,000.00	
Plus: Unamortized Premium						7,463,458.50	
Less: Unamortized Discount						46,119.75	
Total Revenue Bonds Payable and Special Indebtedness, Net						\$ 124,767,338.75	

(A) The University of North Carolina System Pool Revenue Bonds, Series 2008A
(B) The University of North Carolina System Pool Revenue Bonds, Series 2011B
(C) The University of North Carolina System Pool Revenue Bonds, Series 2015A
(D) The University of North Carolina System Pool Revenue Bonds, Series 2015B

The University has pledged future revenues, net of specific operating expenses, to repay revenue bonds and 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	\$ 39,420,000.00	\$ 3,928,137.30	\$ 1,005,000.00	\$ 1,702,599.09	62%
(2)	The Village	8,025,000.00	910,307.01	370,000.00	336,451.75	72%
(3)	Norton Road	7,320,000.00	1,170,957.52	375,000.00	258,477.36	50%

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

Fiscal Year	Annual Requirements					
	Revenue Bonds Payable		Special Indebtedness		Notes Payable	
	Principal	Interest	Principal	Interest	Principal	Interest
2018	\$ 2,600,000.00	\$ 2,477,078.29	\$ 1,800,000.00	\$ 2,120,381.28	\$ 451,959.68	\$ 49,353.47
2019	2,695,000.00	2,386,322.04	1,980,000.00	2,052,181.28	470,814.88	40,671.49
2020	2,795,000.00	2,290,843.29	2,050,000.00	1,976,931.28	483,332.94	31,723.79
2021	2,885,000.00	2,200,237.04	2,120,000.00	1,907,181.28	498,078.84	22,699.73
2022	3,000,000.00	2,088,297.04	2,200,000.00	1,830,731.28	518,184.45	13,387.14
2023-2027	16,320,000.00	8,537,865.53	12,370,000.00	7,766,150.14	401,139.39	3,700.16
2028-2032	12,080,000.00	5,478,321.90	15,240,000.00	4,894,668.82		
2033-2037	9,130,000.00	3,422,743.78	11,930,000.00	2,239,675.02		
2038-2042	7,035,000.00	1,843,025.00	5,075,000.00	306,600.00		
2043-2046	4,045,000.00	417,375.00				
Total Requirements	\$ 62,585,000.00	\$ 31,142,108.91	\$ 54,765,000.00	\$ 25,094,500.38	\$ 2,823,510.18	\$ 161,535.78

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

D. Prior Year Defeasances - During prior years, the University defeased certain special indebtedness by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old special indebtedness. Accordingly, the trust account assets and the liability for the defeased special indebtedness are not included in the University's financial statements. At June 30, 2017, the outstanding balance of prior year defeased special indebtedness was \$1,045,000.00.

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

Purpose	Financial Institution	Interest Rate	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2017	Principal Outstanding June 30, 2017
Equipment	Macon Bank	3.85%	11/01/2019	\$ 52,844.00	\$ 26,010.95	\$ 26,833.05
UNC System Guaranteed Energy Savings Project	Banc of America Public Capital Corp.	1.84%	02/14/2023	3,327,434.04	530,756.91	2,796,677.13
Total Notes Payable				<u>\$ 3,380,278.04</u>	<u>\$ 556,767.86</u>	<u>\$ 2,823,510.18</u>

F. Annuity 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 received a guaranteed fixed income for life. The Foundation recognized 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 the charitable gift annuity is \$53,677.94 at June 30, 2017.

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, 2017:

Fiscal Year	Amount
2018	\$ 459,472.76
2019	455,469.87
2020	414,295.64
2021	366,105.67
2022	362,383.20
2023-2024	<u>409,501.60</u>
Total Minimum Lease Payments	2,467,228.74
Amount Representing Interest (3.04 - 5.63% Rate of Interest)	<u>243,836.90</u>
Present Value of Future Lease Payments	<u><u>\$ 2,223,391.84</u></u>

Machinery and equipment acquired under capital lease amounted to \$2,482,420.16 at June 30, 2017.

Depreciation for the capital assets associated with capital leases is included in depreciation expense, and accumulated depreciation for assets acquired under capital lease totaled \$257,779.80 at June 30, 2017.

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, 2017:

<u>Fiscal Year</u>	<u>Amount</u>
2018	\$ 1,510,375.17
2019	1,390,328.73
2020	1,254,695.86
2021	909,971.01
2022	943,790.10
2023-2027	<u>922,280.40</u>
Total Minimum Lease Payments	<u>\$ 6,931,441.27</u>

Rental expense for all operating leases during the year was \$3,289,703.02.

NOTE 11 - REVENUES

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

	<u>Gross Revenues</u>	<u>Internal Sales Eliminations</u>	<u>Less Scholarship Discounts</u>	<u>Less Allowance for Uncollectibles</u>	<u>Net Revenues</u>
Operating Revenues:					
Student Tuition and Fees, Net	<u>\$ 77,561,275.22</u>	<u>\$ 5,178.47</u>	<u>\$ 16,883,257.97</u>	<u>\$ 472,546.67</u>	<u>\$ 60,200,292.11</u>
Sales and Services:					
Sales and Services of Auxiliary Enterprises:					
Residential Life	\$ 20,962,250.36	\$ 137,239.65	\$ 4,561,141.40	\$ 92,903.92	\$ 16,170,965.39
Dining	17,944,991.38	1,133,384.12	3,644,872.87	52,280.55	13,114,453.84
Book Rental	2,442,738.73	1,559.04	483,315.85	79,056.42	1,878,807.42
Bookstore	2,116,887.35	48,870.57		3,263.63	2,064,753.15
Print Shop	1,665,621.47	1,482,820.53			182,800.94
Athletic	2,120,009.86				2,120,009.86
Parking	1,751,721.10	16,611.00		32,518.62	1,702,591.48
Health Services	325,732.95	5,938.70			319,794.25
Campus Activities	372,537.66	69,012.50			303,525.16
Other	406,642.55	10,476.50		5,302.67	390,863.38
Sales and Services of Education and Related Activities	3,795,735.84	3,231,914.63			563,821.21
Independent Operations	<u>4,008,667.24</u>	<u>333,702.06</u>			<u>3,674,965.18</u>
Total Sales and Services, Net	<u>\$ 57,913,536.49</u>	<u>\$ 6,471,529.30</u>	<u>\$ 8,689,330.12</u>	<u>\$ 265,325.81</u>	<u>\$ 42,487,351.26</u>
Nonoperating Revenues:					
Noncapital Gifts, Net	<u>\$ 5,175,975.27</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 7,789.59</u>	<u>\$ 5,168,185.68</u>

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	\$ 65,997,455.15	\$ 2,298,171.80	\$ 4,388,247.83	\$ 0.00	\$ 0.00	\$ 0.00	\$ 72,683,874.78
Research	1,359,067.08	42,152.22	323,132.49		27,480.22		1,751,832.01
Public Service	1,743,042.98	363,164.33	750,567.98		1,599.08		2,858,374.37
Academic Support	11,447,042.46	2,155,446.21	2,074,838.54		2,850.85		15,680,178.06
Student Services	5,445,871.17	302,367.81	2,706,200.87		50.00		8,454,489.85
Institutional Support	13,786,833.52	4,109,563.48	7,224,639.66		37,188.63		25,158,225.29
Operations and Maintenance of Plant	10,449,771.38	5,467,034.80	1,234,497.18		3,009,474.68		20,160,778.04
Student Financial Aid	103,368.61		31,567.55	11,979,010.55			12,113,946.71
Auxiliary Enterprises	18,171,479.01	4,978,045.58	21,614,965.70		1,475,539.26		46,240,029.55
Independent Operations	501,699.33	3,041,868.17	153,444.31				3,697,011.81
Depreciation/Amortization						8,610,626.98	8,610,626.98
Total Operating Expenses	\$ 129,005,630.69	\$ 22,757,814.40	\$ 40,502,102.11	\$ 11,979,010.55	\$ 4,554,182.72	\$ 8,610,626.98	\$ 217,409,367.45

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 that elect to join the Retirement System. Benefit provisions are established by General Statute 135-5 and may be amended only by the North Carolina General Assembly.

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

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

Contributions: Contribution provisions are established by General Statute 135-8 and may be amended only by the North Carolina General Assembly. Employees are required to contribute 6% of their annual pay. The contribution rate for employers is set each year by the North Carolina General Assembly in the Appropriations Act based on the actuarially-determined rate recommended by the actuary. The University's contractually-required contribution rate for the year ended June 30, 2017 was 9.98% of covered payroll. Employee contributions to the pension plan were \$2,744,917.79, and the University's contributions were \$4,565,713.26 for the year ended June 30, 2017.

The TSERS plan's financial information, including all information about the plan's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fiduciary net position, is included in the State of North Carolina's fiscal year 2016 *Comprehensive Annual Financial Report*. An electronic version of this report is available on the North Carolina Office of the State Controller's website at <http://www.osc.nc.gov/> or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

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

Methods Used to Value TSERS Investment: Pursuant to *North Carolina General Statutes*, the State Treasurer is the custodian and administrator of the retirement systems. The State Treasurer maintains various investment portfolios in its Investment Pool. The pension trust funds are the primary participants in the Long-Term Investment portfolio and the sole participants in the External Fixed Income Investment, Equity Investment, Real Estate Investment, Alternative Investment, Credit Investment, and Inflation Protection Investment portfolios. The Fixed Income Asset Class includes the Long-Term Investment and External Fixed Income Investment Portfolios. The Global Equity Asset Class includes the Equity Investment Portfolio. The investment balance of each pension trust fund represents its share of the fair market value of the net position of the various portfolios within the pool. Detailed descriptions of the methods and significant assumptions regarding investments of the State Treasurer are provided in the 2016 *Comprehensive Annual Financial Report*.

Net Pension Liability: At June 30, 2017, the University reported a liability of \$27,169,225.90 for its proportionate share of the collective net pension liability. The net pension liability was measured as of June 30, 2016. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2015, and update procedures were used to roll forward the total pension liability to June 30, 2016. The University's proportion of the net pension liability was based on the present value of future salaries for the University relative to the present value of future salaries for all participating employers, actuarially-determined. As of June 30, 2016, the University's proportion was .30324%, which was an increase of .00361 from its proportion measured as of June 30, 2015.

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

Valuation Date	12/31/2015
Inflation	3%
Salary Increases*	3.50% - 8.10%
Investment Rate of Return**	7.25%

* Salary increases include 3.5% inflation and productivity factor.

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

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

The actuarial assumptions used in the December 31, 2015 valuations were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014.

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

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

analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2016 (the valuation date) are summarized in the following table:

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

The information in the preceding table is based on 30-year expectations developed with the consulting actuary and is part of the asset, liability, and investment policy of the North Carolina Retirement Systems. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.05%. Return projections do not include any excess return expectations over benchmark averages. All rates of return and inflation are annualized.

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

Sensitivity of the Net Pension Liability to Changes in the Discount Rate: The following presents the net pension liability of the plan at June 30, 2016 calculated using the discount rate of 7.25%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.25%) or 1-percentage point higher (8.25%) than the current rate:

<u>Net Pension Liability</u>		
<u>1% Decrease (6.25%)</u>	<u>Current Discount Rate (7.25%)</u>	<u>1% Increase (8.25%)</u>
\$ 51,100,064.62	\$ 27,169,225.90	\$ 7,046,671.69

death. Faculty and staff of the University may join the ORP instead of the TSERS. The Board of Governors of the University of North Carolina is responsible for the administration of the ORP and designates the companies authorized to offer investment products or the trustee responsible for the investment of contributions under the ORP and approves the form and contents of the contracts and trust agreements.

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

Participant eligibility and contributory requirements are established by General Statute 135-5.1. Employer and member contribution rates are set each year by the North Carolina General Assembly. For the year ended June 30, 2017, these rates were set at 6.84% of covered payroll for employers and 6% of covered payroll for members. The University assumes no liability other than its contribution.

For the current fiscal year, the University had a total payroll of \$99,651,822.70, of which \$42,501,417.94 was covered under the Optional Retirement Program. Total employer and employee contributions for pension benefits for the year were \$2,907,096.99 and \$2,550,085.08, respectively. The amount of expense recognized in the current year related to ORP is equal to the employer contributions less forfeitures from TIAA CREF of \$151,598.58.

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 period July 1, 2016 through December 31, 2016, the University contributed 5.60% of the covered payroll under TSERS and ORP to the Fund, and for the period January 1, 2017 through June 30, 2017, the University contributed 6.02% of the covered payroll under TSERS and ORP to the Fund. Required contribution rates for the years ended June 30, 2016, and 2015, were 5.60% and 5.49%, respectively. The University made 100% of its annual required contributions to the Plan for the years ended June 30, 2017, 2016, and 2015, which were \$5,140,444.30, \$4,732,209.80, and \$4,543,212.02, respectively. The University assumes no liability for retiree health care benefits provided by the programs other than its required contribution.

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

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

Disability income benefits are funded by actuarially determined employer contributions that are established by the General Assembly. For the fiscal year ended June 30, 2017, the University made a statutory contribution of .38% of covered payroll under TSERS and ORP to the DIPNC. Required contribution rates for the years ended June 30, 2016, and 2015, were .41% in both years. The University made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2017, 2016, and 2015, which were \$335,350.18, \$346,465.36, and \$339,292.70, 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 is funded by employer and employee contributions. The Plan has contracted with third parties to process claims.

2. Death Benefit Plan of North Carolina

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

B. Other Risk Management and Insurance Activities

1. Automobile, Fire, and Other Property Losses

The University is required to maintain fire and lightning coverage on all state-owned buildings and contents through the State Property Fire Insurance Fund (Fund), an internal service fund of the State. Such coverage is provided at no cost to the University for operations supported by the State's General Fund. Other operations not supported by the State's General Fund are charged for the coverage. Losses covered by the Fund are subject to a \$10,000 per occurrence deductible except for the Highlands Biological Station which still maintains a \$5,000 per occurrence deductible. The Corporation maintains coverage of \$100,346,976 and the University housing maintains coverage of \$24,928,258 with a private broker 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 \$15,572,238.21 and on other purchases were \$1,924,181.81 at June 30, 2017.
- B. Pending Litigation and Claims** - The University is a party to litigation and claims in the ordinary course of its operations. Since it is not possible to predict the ultimate outcome of these matters, no provision for any liability has been made in the financial statements. University management is of the opinion that the liability, if any, for any of these matters will not have a material adverse effect on the financial position of the University.

NOTE 17 - RELATED PARTIES

Foundations - There are two separately incorporated nonprofit foundations associated with the University. These foundations are The Highlands Biological Foundation, Inc. and Forest Stewards, Inc.

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 \$135,884.68 for the year ended June 30, 2017.

Forest Stewards, Inc. was incorporated in North Carolina on May 5, 2008 for the purpose of providing educational and charitable support to the University. There was no support provided to the University for the year ended June 30, 2017.

NOTE 18 - BLENDED COMPONENT UNITS

Condensed combining information for the University's blended component units for the year ended June 30, 2017, is presented as follows:

*Condensed Statement of Net Position
June 30, 2017*

	University	WCU Foundation	WCU R & D Corporation	Eliminations	Total
ASSETS					
Current Assets	\$ 111,719,060.21	\$ 3,870,309.18	\$ 433,934.07	\$ 0.00	\$ 116,023,303.46
Capital Assets, Net	417,926,951.24	201,095.61			418,128,046.85
Other Noncurrent Assets	46,659,627.74	33,247,284.09	2,850,384.92		82,757,296.75
Component Unit Receivable from Primary Government			54,948,391.47	(54,948,391.47)	
Total Assets	<u>576,305,639.19</u>	<u>37,318,688.88</u>	<u>58,232,710.46</u>	<u>(54,948,391.47)</u>	<u>616,908,647.06</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>21,378,385.09</u>		<u>2,949,242.85</u>		<u>24,327,627.94</u>
LIABILITIES					
Current Liabilities	16,207,076.10	65,196.53	1,968,008.34		18,240,280.97
Long-Term Liabilities, Net	100,552,825.78	66,128.53	57,015,455.58		157,634,409.89
Other Noncurrent Liabilities	7,401,573.03				7,401,573.03
Primary Government Payable to Component Unit	54,948,391.47			(54,948,391.47)	
Total Liabilities	<u>179,109,866.38</u>	<u>131,325.06</u>	<u>58,983,463.92</u>	<u>(54,948,391.47)</u>	<u>183,276,263.89</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>24,452,614.99</u>				<u>24,452,614.99</u>
NET POSITION					
Net Investment in Capital Assets	267,904,322.71	174,262.56			268,078,585.27
Restricted - Nonexpendable	22,651,913.69	20,904,174.67			43,556,088.36
Restricted - Expendable	23,238,278.74	15,505,475.56	1,787,538.91		40,531,293.21
Unrestricted	80,327,027.77	603,451.03	410,950.48		81,341,429.28
Total Net Position	<u>\$ 394,121,542.91</u>	<u>\$ 37,187,363.82</u>	<u>\$ 2,198,489.39</u>	<u>\$ 0.00</u>	<u>\$ 433,507,396.12</u>

NOTES TO THE FINANCIAL STATEMENTS

Condensed Statement of Revenues, Expenses, and Changes in Net Position For the Fiscal Year Ended June 30, 2017

	University	WCU Foundation	WCU R & D Corporation	Eliminations	Total
OPERATING REVENUES					
Operating Revenues	\$ 109,781,270.61	\$ 195,069.51	\$ 657,509.19	\$ (657,509.19)	\$ 109,976,340.12
OPERATING EXPENSES					
Operating Expenses	207,717,807.08	1,531,964.48	206,478.10	(657,509.19)	208,798,740.47
Depreciation/Amortization	8,602,556.10	8,070.88			8,610,626.98
Total Operating Expenses	216,320,363.18	1,540,035.36	206,478.10	(657,509.19)	217,409,367.45
Operating Income (Loss)	(106,539,092.57)	(1,344,965.85)	451,031.09		(107,433,027.33)
NONOPERATING REVENUES (EXPENSES)					
State Appropriations	89,333,308.85				89,333,308.85
Noncapital Grants - Student Financial Aid	24,807,950.10				24,807,950.10
Noncapital Grants	224,956.24				224,956.24
Noncapital Gifts, Net	1,428,010.44	3,740,175.24			5,168,185.68
Investment Income (Net of Investment Expense)	4,912,966.82	3,241,249.45	22,450.25		8,176,666.52
Investment Earned from Investment in Capital Leases			2,167,114.07	(2,167,114.07)	
Interest and Fees on Debt	(3,995,026.97)	(1,281.91)	(2,285,820.81)	2,167,114.07	(4,115,015.62)
Other Nonoperating Revenue (Expenses)	(646,766.20)	2,828.69			(643,937.51)
Net Nonoperating Revenues (Expenses)	116,065,399.28	6,982,971.47	(96,256.49)		122,952,114.26
Capital Appropriations	3,925,255.16				3,925,255.16
Capital Gifts	640,000.00				640,000.00
Transfers to University/Foundation	2,955,217.85	(2,955,217.85)			
Additions to Endowments	171,688.36	1,632,290.68			1,803,979.04
Increase in Net Position	17,218,468.08	4,315,078.45	354,774.60		21,888,321.13
NET POSITION					
Net Position, July 1, 2016, as Restated	376,903,074.83	32,872,285.37	1,843,714.79		411,619,074.99
Net Position, June 30, 2017	<u>\$ 394,121,542.91</u>	<u>\$ 37,187,363.82</u>	<u>\$ 2,198,489.39</u>	<u>\$ 0.00</u>	<u>\$ 433,507,396.12</u>

Condensed Statement of Cash Flows June 30, 2017

	University	WCU Foundation	WCU R & D Corporation	Total
Net Cash Provided (Used) by Operating Activities	\$ (99,593,719.69)	\$ (1,324,043.67)	\$ 430,096.10	\$ (100,487,667.26)
Net Cash Provided by Noncapital Financing Activities	118,722,403.70	1,929,041.29		120,651,444.99
Net Cash Used by Capital and Related Financing Activities	(31,083,956.31)	(11,665.92)	(4,084,659.69)	(35,180,281.92)
Net Cash Provided (Used) by Investing Activities	(1,279,281.87)	(1,047,752.77)	4,079,127.15	1,752,092.51
Net Increase (Decrease) in Cash and Cash Equivalents	(13,234,554.17)	(454,421.07)	424,563.56	(13,264,411.68)
Cash and Cash Equivalents, July 1, 2016, as Restated	117,746,316.84	4,981,241.79	2,598,879.71	125,326,438.34
Cash and Cash Equivalents, June 30, 2017	<u>\$ 104,511,762.67</u>	<u>\$ 4,526,820.72</u>	<u>\$ 3,023,443.27</u>	<u>\$ 112,062,026.66</u>

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

NOTE 19 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

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

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

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

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

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

NOTE 20 - NET POSITION RESTATEMENT

The University restated net position to remove the North Carolina Arboretum after the re-evaluation of the University’s financial reporting framework based on review of governmental accounting standards. As of July 1, 2016, net position as previously reported was restated as follows:

	<u>Amount</u>
July 1, 2016 Net Position as Previously Reported	\$ 424,192,604.19
Restatement:	
To remove the Net Position of the North Carolina Arboretum	<u>(12,573,529.20)</u>
July 1, 2016 Net Position as Restated	<u>\$ 411,619,074.99</u>



REQUIRED SUPPLEMENTARY INFORMATION

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

Exhibit B-1

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Proportionate Share Percentage of Collective Net Pension Liability	0.30324%	0.29963%	0.29312%	0.28360%
Proportionate Share of TSERS Collective Net Pension Liability	\$ 27,169,225.90	\$ 10,775,670.85	\$ 3,436,600.00	\$ 17,217,410.00
Covered Payroll	\$ 43,396,253.67	\$ 43,031,562.83	\$ 42,705,248.19	\$ 42,200,130.52
Net Pension Liability as a Percentage of Covered Payroll	62.61%	25.04%	8.05%	40.80%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	87.32%	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>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually Required Contribution	\$ 4,565,713.26	\$ 3,970,757.21	\$ 3,937,388.00	\$ 3,711,086.07	\$ 3,515,270.87
Contributions in Relation to the Contractually Determined Contribution	<u>4,565,713.26</u>	<u>3,970,757.21</u>	<u>3,937,388.00</u>	<u>3,711,086.07</u>	<u>3,515,270.87</u>
Contribution Deficiency (Excess)	<u>\$ 0.00</u>				
Covered Payroll	\$ 45,748,629.86	\$ 43,396,253.67	\$ 43,031,562.83	\$ 42,705,248.19	\$ 42,200,130.52
Contributions as a Percentage of Covered Payroll	9.98%	9.15%	9.15%	8.69%	8.33%

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Contractually Required Contribution	\$ 2,992,318.90	\$ 2,005,828.91	\$ 1,446,088.32	\$ 1,550,533.28	\$ 1,283,031.78
Contributions in Relation to the Contractually Determined Contribution	<u>2,992,318.90</u>	<u>2,005,828.91</u>	<u>1,446,088.32</u>	<u>1,550,533.28</u>	<u>1,283,031.78</u>
Contribution Deficiency (Excess)	<u>\$ 0.00</u>				
Covered Payroll	\$ 40,219,340.11	\$ 40,686,184.25	\$ 40,506,675.64	\$ 46,146,823.92	\$ 42,066,615.67
Contributions as a Percentage of Covered Payroll	7.44%	4.93%	3.57%	3.36%	3.05%

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

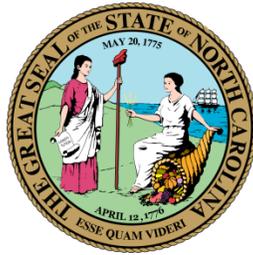
Western Carolina University
Notes to Required Supplementary Information
Schedule of University Contributions
Teachers' and State Employees' Retirement System
Last Ten Fiscal Years

Changes of Benefit Terms:

<u>Cost of Living Increase</u>									
2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
N/A	N/A	1.00%	N/A	N/A	N/A	2.20%	2.20%	3.00%	2.00%

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

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



INDEPENDENT AUDITOR'S REPORT

STATE OF NORTH CAROLINA
Office of the State Auditor



Beth A. Wood, CPA
State Auditor

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

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, 2017, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated October 30, 2017. 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 30, 2017

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For additional information contact:
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This audit required 763 hours at an approximate cost of \$78,589.