

# Western Carolina University

Cullowhee, North Carolina

## Financial Statement Audit Report

For the Year Ended June 30, 2024

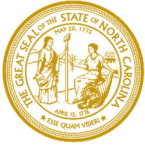
*A Constituent Institution of the University of North Carolina System*

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A Department of the  
State of North Carolina





## North Carolina Office of the State Auditor

Jessica N. Holmes, J.D., State Auditor

# Auditor's Transmittal

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The Honorable Roy Cooper, Governor  
Honorable Members of the North Carolina General Assembly  
Board of Trustees, Western Carolina University

We have completed a financial statement audit of Western Carolina University for the year ended June 30, 2024, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

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

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

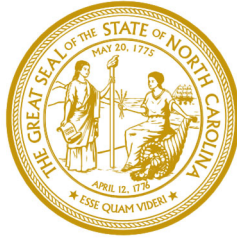
A handwritten signature in black ink that reads "Jessica N. Holmes, J.D." The signature is written in a cursive, flowing style.

Jessica N. Holmes, J.D.  
State Auditor

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Chapter 147, Article 5A 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 and any organization that receives public funding. The Auditor also has the power to summon people to produce records and to answer questions under oath.



# **Independent Auditor's Report**



## North Carolina Office of the State Auditor

Jessica N. Holmes, J.D., State Auditor

# Independent Auditor's Report

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Board of Trustees  
Western Carolina University  
Cullowhee, North Carolina

## **Report on the Audit of the Financial Statements**

### *Opinion*

We have audited 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, 2024, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

In our opinion, based on our audit and the reports of the other auditors, the accompanying financial statements present fairly, in all material respects, the financial position of Western Carolina University, as of June 30, 2024, and the changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

We did not audit the financial statements of Western Carolina University Foundation, which represent 8.40 percent and 5.39 percent, respectively, of the assets and revenues of the University; nor the financial statements of Western Carolina University Research and Development Corporation, which represent 0.82 percent and 0.11 percent, respectively, of the assets and revenues of the University. Those financial statements were audited by other auditors whose reports thereon 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.

### *Basis for Opinion*

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* (GAGAS), issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Western Carolina University and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Responsibilities of Management for the Financial Statements*

The University's management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the University's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

### *Auditor's Responsibilities for the Audit of the Financial Statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and GAGAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and GAGAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the University's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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

**Other Reporting Required by Government Auditing Standards**

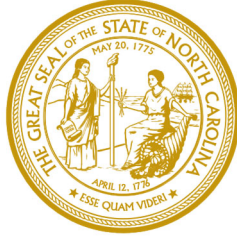
In accordance with *Government Auditing Standards*, we have also issued our report dated December 3, 2024 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements 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.



Jessica N. Holmes, J.D.  
State Auditor

Raleigh, North Carolina

December 3, 2024



# **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.

## 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

	2024	2023	\$ Change	% Change
<b>Assets</b>				
Current Assets	\$ 232,043,178.49	\$ 210,449,525.50	\$ 21,593,652.99	10.26
Capital Assets, Net	692,953,255.60	695,452,415.68	(2,499,160.08)	(0.36)
Other Noncurrent Assets	155,680,889.88	142,053,256.31	13,627,633.57	9.59
<b>Total Assets</b>	<b>1,080,677,323.97</b>	<b>1,047,955,197.49</b>	<b>32,722,126.48</b>	<b>3.12</b>
<b>Total Deferred Outflows of Resources</b>	<b>68,839,563.84</b>	<b>62,631,222.52</b>	<b>6,208,341.32</b>	<b>9.91</b>
<b>Liabilities</b>				
Current Liabilities	24,611,529.98	25,795,361.27	(1,183,831.29)	(4.59)
Long-Term Liabilities, Net	449,929,910.85	432,761,412.00	17,168,498.85	3.97
Other Noncurrent Liabilities	4,604,730.12	5,664,344.40	(1,059,614.28)	(18.71)
<b>Total Liabilities</b>	<b>479,146,170.95</b>	<b>464,221,117.67</b>	<b>14,925,053.28</b>	<b>3.22</b>
<b>Total Deferred Inflows of Resources</b>	<b>70,216,054.81</b>	<b>91,508,592.72</b>	<b>(21,292,537.91)</b>	<b>(23.27)</b>
<b>Net Position</b>				
Net Investment in Capital Assets	424,986,939.45	419,242,135.32	5,744,804.13	1.37
Restricted – Nonexpendable	62,060,238.81	59,921,812.46	2,138,426.35	3.57
Restricted – Expendable	107,019,640.91	90,733,739.75	16,285,901.16	17.95
Unrestricted	6,087,842.88	(15,040,977.91)	21,128,820.79	(140.48)
<b>Total Net Position</b>	<b>\$ 600,154,662.05</b>	<b>\$ 554,856,709.62</b>	<b>\$ 45,297,952.43</b>	<b>8.16</b>

### Assets

Current assets, which consist primarily of cash, accounts and notes receivable, and operating inventories, increased by \$21.6 million. This increase was due in part to a \$16.4 million increase in unrestricted cash and cash equivalents primarily from a significant increase in short-term investment fund (STIF) interest earnings allocated to unrestricted trust funds and unrestricted special funds, an increase in reserves in auxiliary operations, and unspent student fees collected as trust funds. Restricted current cash increased \$4.2 million because cash held in the quasi endowments and restricted spending funds increased \$5.0 million due to increased STIF earnings and an increase of \$2.5 million to the athletics capital campaign held in a quasi-endowment fund.

Net capital assets decreased \$2.5 million. Capital asset additions totaled \$15.2 million, while net disposals totaled \$1.3 million. Additions consisted primarily of machinery and equipment, leases, and IT subscriptions. Depreciation and amortization expense was \$15.0 million for the year, up from \$14.2 million in the prior year, driven higher because of new assets being placed in service. Refer to Note 6 for further details regarding capital asset activity.

Other noncurrent assets increased \$13.6 million primarily due to an increase in endowment and restricted investments of \$12.3 million resulting from investment gains and additions to endowments received during the period.

### Deferred Outflows of Resources

Deferred outflows of resources increased \$6.2 million from the prior fiscal year mostly related to the effects of recognizing the University's portion of the components of the State's pension and other postemployment benefit (OPEB) plans, with the deferred outflow for pensions increasing \$4.7 million and the deferred outflow for OPEB increasing \$1.9 million. Refer to Notes 14 and 15 for further details regarding deferred outflows of resources relating to pensions and OPEB, respectively.

### Liabilities

Noncurrent liabilities increased \$16.1 million. Long-term liabilities (net) increased by \$17.2 million. The net pension liability increased \$9.2 million and the net OPEB liability increased by \$14.5 million, both due to changes in actuarial valuations. There were principal repayments of \$5.5 million in bonds payable and \$2.4 million in special indebtedness, respectively. A new note from direct borrowing of \$1.2 million was issued for the purchase of the Tucks property, offset by repayments of \$0.1 million. Right-to-use buildings and machinery and equipment of \$3.5 million were acquired through lease liabilities, offset by \$2.3 million in lease liability payments. Subscription liabilities increased by \$1.3 million for a variety of software needed for operations, offset by payments of \$1.0 million.

### Deferred Inflows of Resources

Deferred inflows of resources decreased \$21.3 million over the prior fiscal year and related primarily to the effects of recognizing the University's portions of the components of the State's pension and OPEB plans. Refer to Notes 14 and 15 for further details regarding deferred inflows of resources relating to pensions and OPEB, respectively.

### Net Position

Net position represents the 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, general infrastructure, and improvements, net of accumulated depreciation and amortization and outstanding liability balances 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, 2024, \$425.0 million of the \$600.2 million in net position was attributable to the University's investment in capital assets. The \$5.7 million increase is primarily due to the acquisition of machinery, equipment, and general infrastructure and amortization of related debt, all offset by depreciation and amortization expense.
- 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 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 \$62.1 million of the \$600.2 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, 2024, expendable net position totaled \$107.0 million, which was a increase of \$16.3 million from the prior year primarily due to the increase in market value of endowment investments at June 30, 2024.
- 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 \$6.1 million. The \$21.1 million increase is primarily attributable to increases in unrestricted cash and changes in the OPEB and pension plans which are reported within unrestricted net position. This year's unrestricted net position marks the first time it has been positive since the implementation of GASB Statement No. 68 and GASB Statement No. 75.

### **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.

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, dining, 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 and other expenses not incurred in the normal operations of the University.

## Management's Discussion and Analysis

Capital appropriations, capital contributions, and additions to 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, 2024, with comparative data for 2023.

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

	2024	2023	\$ Change	% Change
<b>Operating Revenues</b>				
Student Tuition and Fees, Net	\$ 46,963,326.31	\$ 42,694,549.87	\$ 4,268,776.44	10.00
Grants and Contracts	7,810,868.45	9,123,472.15	(1,312,603.70)	(14.39)
Sales and Services, Net	54,130,458.30	48,819,774.23	5,310,684.07	10.88
Interest on Loans	9,528.63	4,875.61	4,653.02	95.43
Other Operating Revenues	4,536,092.28	4,487,910.76	48,181.52	1.07
Total Operating Revenues	113,450,273.97	105,130,582.62	8,319,691.35	7.91
<b>Operating Expenses</b>				
Salaries and Benefits	171,245,863.75	140,712,987.49	30,532,876.26	21.70
Supplies and Services	85,625,829.99	79,125,035.47	6,500,794.52	8.22
Scholarships and Fellowships	14,956,384.02	19,648,794.95	(4,692,410.93)	(23.88)
Utilities	4,786,849.88	4,906,829.57	(119,979.69)	(2.45)
Depreciation/Amortization	14,997,684.18	14,214,300.59	783,383.59	5.51
Total Operating Expenses	291,612,611.82	258,607,948.07	33,004,663.75	12.76
Operating Loss	(178,162,337.85)	(153,477,365.45)	(24,684,972.40)	16.08
<b>Nonoperating Revenues (Expenses)</b>				
State Appropriations	164,838,489.74	154,814,713.36	10,023,776.38	6.47
Student Financial Aid	25,275,369.02	22,025,184.15	3,250,184.87	14.76
Federal Aid - COVID-19	-	9,366,764.21	(9,366,764.21)	(100.00)
Noncapital Contributions, Net	11,088,399.74	8,225,339.28	2,863,060.46	34.81
Investment Income, Net	24,009,237.83	3,376,489.15	20,632,748.68	611.07
Interest and Fees on Debt	(8,200,775.40)	(8,907,369.57)	706,594.17	(7.93)
Other Nonoperating Expenses	(590,216.03)	(787,493.61)	197,277.58	(25.05)
Net Nonoperating Revenues	216,420,504.90	188,113,626.97	28,306,877.93	15.05
Income Before Other Revenues	38,258,167.05	34,636,261.52	3,621,905.53	10.46
Capital Appropriations	3,897,210.00	4,970,157.47	(1,072,947.47)	(21.59)
Capital Contributions	484,386.61	3,184,799.47	(2,700,412.86)	(84.79)
Additions to Endowments	2,658,188.77	3,239,618.17	(581,429.40)	(17.95)
Total Other Revenues	7,039,785.38	11,394,575.11	(4,354,789.73)	(38.22)
<b>Increase in Net Position</b>	45,297,952.43	46,030,836.63	(732,884.20)	(1.59)
<b>Beginning Net Position</b>	554,856,709.62	508,825,872.99	46,030,836.63	9.05
<b>Ending Net Position</b>	\$ 600,154,662.05	\$ 554,856,709.62	\$ 45,297,952.43	8.16
<b>Reconciliation of Increase in Net Position</b>				
Total Revenues	\$ 345,701,555.68	\$ 314,333,647.88	\$ 31,367,907.80	9.98
Total Expenses	300,403,603.25	268,302,811.25	32,100,792.00	11.96
Increase in Net Position	\$ 45,297,952.43	\$ 46,030,836.63	\$ (732,884.20)	(1.59)

## Operating Revenues

Operating revenues increased \$8.3 million. Sales and services (net) increased \$5.3 million, of which \$3.1 million is attributable to housing revenues. The University opened the third of the three residences of the Lower Campus Residence Hall complex during the fiscal year. These additional beds, coupled with an increase in housing room charges in other dormitories, drove the increase in housing revenues. As a result of more beds being occupied on campus and an increase in the pricing of dining plans, dining revenues increased \$2.4 million. Athletic revenues also increased \$0.4 million. These increases in sales and services were offset by declines in electric service revenue of \$0.6 million and other auxiliary operations of \$0.6 million. Tuition and fees (net) increased \$4.3 million. While enrollment dropped slightly from the previous year, there was an increase in student fees of \$75 and a significant increase in out-of-state students. Contracts and grants revenues decreased \$1.3 million, with a decrease in federal grants of \$2.2 million and an increase in state and local grants of \$0.9 million. Grant revenue fluctuates from year to year with old grants expiring, while new grants are starting.

## Nonoperating Revenues

Net nonoperating revenues increased by \$28.3 million, primarily due to the following:

- Investment income (net) increased \$20.6 million because market performance was stronger than the prior year, with unrealized gains of \$12.7 million. Investment income also includes interest and dividend income of \$8.3 million and realized gains of \$3.0 million. The increase in interest and dividends is a result of higher rates paid by the state treasurer's short-term investment fund. Realized losses and unrealized losses were minimal.
- State appropriations increased \$10.0 million. Funding of \$5.1 million was received to fund the legislative salary increases and related benefit costs for state funded positions. The University received a recurring allocation of \$3.5 million to expand the engineering program. NC promise funding increased \$1.5 million. An appropriation of \$1.0 million was received for Athletics. Performance change funding resulted in an additional \$1.1 million in appropriation. These increases were offset by an enrollment funding decrease of \$2.5 million dollars. Other minor adjustments increasing and decreasing the state general fund revenues were made.
- Student financial aid increased \$3.3 million. Students received \$2.6 million more in Pell Grants and \$0.6 million more in state grants for financial aid. The number of Pell eligible students increased from 32.5% in the Fall 2022 semester to 35% in the Fall 2023 semester.
- Noncapital contributions increased \$2.9 million this year. Gifts increased \$2.9 million this year, a direct result of the University continuing its fundraising campaign entitled "Fill the Western Sky." Two new revenue sources were received this year. In addition to the amount contained in state appropriations, the University received a noncapital contribution in sports wagering tax revenue to support Athletics. Funding was received as a supplement to fund retiree contribution expense. Noncapital contributions related to benefits decreased \$0.8 million.
- Federal COVID-19 aid decreased \$9.4 million because funding ended in the prior fiscal year.

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 \$33.0 million, based on the following:

- Salaries and benefits for the faculty and staff of the University and other payroll costs increased by \$30.5 million. OPEB expense increased \$16.0 million, while the pension expense increased \$4.8 million. Pension and OPEB expenses vary year to year based on actuarial calculations and assumptions provided by the North Carolina Office of the State Treasurer. Employees received a cost of living raise of 4%, which was a contributing factor to the increase in salaries payments to employees of \$7.1 million. Another contributor to the increase in salary payments was several positions that had been vacant for a long period were successfully filled during the year. Benefit costs increased \$3.0 million.
- Supplies and services increased by \$6.5 million. Contract food purchases increased \$2.6 million necessitated by more students residing on campus this fiscal year with the opening of an additional dormitory building and general inflationary increases. Carpentry and hardware supplies and other repairs increased a combined \$1.6 million. These expenditures were for upgrades and maintenance to keep facilities in a good state of repair. Miscellaneous contract services increased \$1.6 million.
- Scholarships and fellowships, net of scholarship discount, decreased by \$4.7 million. In the prior year, Higher Education Emergency Relief Fund (HEERF) awards were provided to students in the amount of \$3.5 million (net of scholarship discount). Federal COVID-19 funding concluded in the prior year, and as a result no HEERF awards were provided to students in fiscal year 2024. In addition, fewer refunds were made to students this fiscal year, thus impacting the scholarship discount computation.

### Other Revenues

Capital contributions decreased \$2.7 million because the University received fewer capital gifts. Capital appropriations decreased by \$1.1 million due to a decrease in capital projects over the prior year.

### Capital Asset and Debt Administration

At June 30, 2024, the University had \$876.0 million invested in capital assets, and accumulated depreciation and amortization of \$183.0 million. Depreciation and amortization charges for the current year totaled \$15.0 million.

Several capital projects are in the design phase. The Moore Building renovation will provide classroom and office space for the English and Criminal Justice programs, as well as office space for the Center for Service Learning and the Center for Global Engagement. A site selection committee met several times during the year to determine a suitable location for a new facility for the College of Engineering. The recommended site was approved by the Board of Trustees after the fiscal year end. The North Carolina Legislature has given authorization to a \$95.2 million project to construct a new engineering building on campus.

Renovations to Athletic facilities are still in the design phase. The anticipated cost of these renovations is \$60 million, with one-half of the cost being sought through fundraising and one-half being financed through the issuance of bonds in a subsequent fiscal year.

Several repair and renovation projects are underway on campus including classroom upgrades, HVAC replacements, elevator replacements, and roof replacements.

For additional information on capital assets and debt administration, see Notes 6 and 9 to the financial statements.



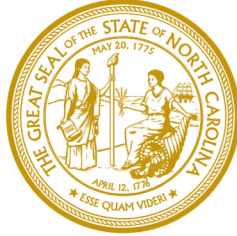
## Economic Outlook

A significant factor in the University's capacity to generate resources is the ability to recruit and retain high quality students. The freshman retention rate from Fall 2023 to Fall 2024 increased to 79.11%, up over the prior year's rate of 75.48%. 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. The University can now enroll up to 25 percent of out-of-state freshmen students after the UNC Board of Governors raised the cap for the University from 18 percent. Total enrollment for Fall 2024 was 11,686 as compared to 11,628 in Fall 2023. The University did enroll a large freshmen class in the Fall of 2024, with 2,037 first-time freshmen.

The University continues to seek innovative ways to grow and to provide services to the citizens in Western North Carolina, as well as all of North Carolina. For example, the University has entered a partnership with NCInnovation, a non-profit agency funded by a grant from the State, to promote research-based entrepreneurship, product development and commercialization, and bolster the likelihood of new job creation in the western portion of the State. Another example is to help address the critical workforce shortage in health care, the University will utilize funding from the State to double the number of pre-licensure nursing students in the program from 30 to 60 students per cohort (spring and fall); hire additional faculty and staff to support the increased student intake; upgrade simulation supplies and equipment to provide state-of-the-art training facilities; and enhance technology to support the expanded program.

At the end of September 2024, the storm Helene moved through Western North Carolina. While media reports showed extensive damage in the area, the University campus did not suffer any significant damage. Classes were suspended for two weeks, and non-essential campus operations were suspended for one week. The campus resumed normal business operations on October 7, 2024, and classes resumed on October 21, 2024, after the completion of the regularly scheduled student fall break.

The University continues to receive positive news. In March 2024, the Pride of the Mountains Marching Band performed in Dublin, Ireland for the St. Patrick's Day parade there. Forbes Magazine has ranked the University in the top 8.5% of mid-size employers, and they ranked the University's online programs in the top ten in the state.



# Financial Statements



**Western Carolina University**  
**Statement of Net Position**  
**June 30, 2024**

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

**ASSETS**

Current Assets:

Cash and Cash Equivalents	\$ 185,376,556.17
Restricted Cash and Cash Equivalents	30,496,459.29
Receivables, Net (Note 5)	7,393,834.77
Inventories	7,613,193.70
Notes Receivable, Net (Note 5)	824,461.26
Leases Receivable (Note 10)	137,080.35
Other Assets	201,592.95
	<hr/>
Total Current Assets	232,043,178.49

Noncurrent Assets:

Restricted Cash and Cash Equivalents	9,386,680.61
Receivables, Net (Note 5)	3,101,438.86
Endowment Investments	136,296,060.99
Restricted Investments	1,756,851.25
Other Investments	58,000.00
Notes Receivable, Net (Note 5)	325,391.15
Leases Receivable (Note 10)	4,558,994.74
Prepaid Bond Insurance	71,090.39
Beneficial Interest in Assets Held by Others	126,381.89
Capital Assets - Nondepreciable (Note 6)	25,410,704.67
Capital Assets - Depreciable, Net (Note 6)	667,542,550.93
	<hr/>
Total Noncurrent Assets	848,634,145.48

Total Assets	<hr/> 1,080,677,323.97
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**DEFERRED OUTFLOWS OF RESOURCES**

Deferred Loss on Refunding	3,335,471.51
Deferred Outflows Related to Pensions	35,632,280.16
Deferred Outflows Related to Other Postemployment Benefits (Note 15)	29,871,812.17
	<hr/>
Total Deferred Outflows of Resources	68,839,563.84

**LIABILITIES**

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 8)	3,588,203.78
Unearned Revenue	6,660,345.79
Interest Payable	1,839,927.70
Long-Term Liabilities - Current Portion (Note 9)	12,523,052.71
	<hr/>
Total Current Liabilities	24,611,529.98

**Western Carolina University**  
**Statement of Net Position**  
**June 30, 2024**

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

Noncurrent Liabilities:

Accounts Payable and Accrued Liabilities (Note 8)	575,904.58
Deposits Payable	159,449.29
Funds Held for Others	847,547.27
U.S. Government Grants Refundable	3,021,828.98
Long-Term Liabilities, Net (Note 9)	449,929,910.85

Total Noncurrent Liabilities	454,534,640.97
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Total Liabilities	479,146,170.95
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**DEFERRED INFLOWS OF RESOURCES**

Deferred Inflows Under Public-Private Partnerships (Note 7)	20,537,993.39
Deferred Gain on Refunding	607,217.64
Deferred Inflows for Irrevocable Split-Interest Agreements	126,381.89
Deferred Inflows Related to Pensions	536,183.91
Deferred Inflows Related to Other Postemployment Benefits (Note 15)	43,877,344.39
Deferred Inflows for Leases	4,530,933.59

Total Deferred Inflows of Resources	70,216,054.81
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**NET POSITION**

Net Investment in Capital Assets	424,986,939.45
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Restricted:

Nonexpendable:

True Endowments	62,060,238.81
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Expendable:

Scholarships, Research, Instruction, and Other	88,942,796.04
Capital Projects	13,442,727.44
Debt Service	4,634,117.43

Total Restricted-Expendable Net Position	107,019,640.91
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Unrestricted	6,087,842.88
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Total Net Position	\$ 600,154,662.05
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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, 2024**

**Exhibit A-2**

**OPERATING REVENUES**

Student Tuition and Fees, Net (Note 12)	\$ 46,963,326.31
Federal Grants and Contracts	4,038,534.12
State and Local Grants and Contracts	2,373,447.71
Nongovernmental Grants and Contracts	1,398,886.62
Sales and Services, Net (Note 12)	54,130,458.30
Interest Earnings on Loans	9,528.63
Other Operating Revenues	4,536,092.28
	<hr/>
Total Operating Revenues	113,450,273.97

**OPERATING EXPENSES**

Salaries and Benefits	171,245,863.75
Supplies and Services	85,625,829.99
Scholarships and Fellowships	14,956,384.02
Utilities	4,786,849.88
Depreciation/Amortization	14,997,684.18
	<hr/>
Total Operating Expenses	291,612,611.82
	<hr/>
Operating Loss	(178,162,337.85)

**NONOPERATING REVENUES (EXPENSES)**

State Appropriations	164,838,489.74
Student Financial Aid	25,275,369.02
Noncapital Contributions, Net (Note 12)	11,088,399.74
Investment Income (Net of Investment Expense of \$404,733.37)	24,009,237.83
Interest and Fees on Debt	(8,200,775.40)
Other Nonoperating Expenses	(590,216.03)
	<hr/>
Net Nonoperating Revenues	216,420,504.90
	<hr/>
Income Before Other Revenues	38,258,167.05
	<hr/>
Capital Appropriations	3,897,210.00
Capital Contributions	484,386.61
Additions to Endowments	2,658,188.77
	<hr/>
Total Other Revenues	7,039,785.38
	<hr/>
Increase in Net Position	45,297,952.43

**NET POSITION**

Net Position - July 1, 2023	554,856,709.62
	<hr/>
Net Position - June 30, 2024	\$ 600,154,662.05
	<hr/>

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, 2024**

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

**CASH FLOWS FROM OPERATING ACTIVITIES**

Received from Customers	\$ 109,462,658.39
Payments to Employees and Fringe Benefits	(174,036,466.30)
Payments to Vendors and Suppliers	(91,139,387.99)
Payments for Scholarships and Fellowships	(14,956,384.02)
Loans Issued	(481,712.65)
Collection of Loans	432,445.65
Interest Earned on Loans	64,041.68
Student Deposits Received	258,187.56
Student Deposits Returned	(248,342.28)
William D. Ford Direct Lending Receipts	45,327,833.00
William D. Ford Direct Lending Disbursements	(45,327,833.00)
Related Activity Agency Receipts	3,248,255.98
Related Activity Agency Disbursements	(3,220,153.17)
Other Receipts	3,783,189.18
	<hr/>
Net Cash Used by Operating Activities	(166,833,667.97)

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

State Appropriations	164,838,489.74
Student Financial Aid	25,275,369.02
Noncapital Contributions	7,523,139.49
Additions to Endowments	2,343,446.66
	<hr/>
Total Cash Provided by Noncapital Financing Activities	199,980,444.91

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

Capital Appropriations	3,897,210.00
Capital Contributions	194,386.61
Proceeds from Sale of Capital Assets	25,803.11
Proceeds from Insurance on Capital Assets	29,317.06
Proceeds from Lease Arrangements	38,264.76
Acquisition and Construction of Capital Assets	(9,077,125.43)
Principal Paid on Capital Debt and Lease/Subscription Liabilities	(11,380,667.08)
Interest and Fees Paid on Capital Debt and Lease/Subscription Liabilities	(8,139,211.35)
	<hr/>
Net Cash Used by Capital Financing and Related Financing Activities	(24,412,022.32)

**CASH FLOWS FROM INVESTING ACTIVITIES**

Proceeds from Sales and Maturities of Investments	7,979,559.25
Investment Income	11,695,244.59
Purchase of Investments and Related Fees	(6,455,613.25)
	<hr/>
Net Cash Provided by Investing Activities	13,219,190.59
	<hr/>
Net Increase in Cash and Cash Equivalents	21,953,945.21
	<hr/>
Cash and Cash Equivalents - July 1, 2023	203,305,750.86
	<hr/>
Cash and Cash Equivalents - June 30, 2024	\$ 225,259,696.07

**Western Carolina University**  
**Statement of Cash Flows**  
**For the Fiscal Year Ended June 30, 2024**

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

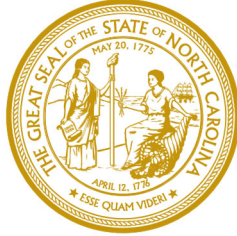
**RECONCILIATION OF OPERATING LOSS TO  
NET CASH USED BY OPERATING ACTIVITIES**

Operating Loss	\$ (178,162,337.85)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation/Amortization Expense	14,997,684.18
Lease Income (Amortized Deferred Inflows of Resources)	77,288.94
Allowances, Write-Offs, and Amortizations	288,726.89
Other Nonoperating Expenses	(248,194.43)
Changes in Assets and Deferred Outflows of Resources:	
Receivables, Net	(339,016.55)
Inventories	(626,166.30)
Notes Receivable, Net	444,064.25
Beneficial Interest in Assets Held by Others	(88,458.15)
Deferred Outflows Related to Pensions	(4,687,163.25)
Deferred Outflows Related to Other Postemployment Benefits	(1,879,204.03)
Prepaid Assets	(16,334.48)
Changes in Liabilities and Deferred Inflows of Resources:	
Accounts Payable and Accrued Liabilities	(594,109.84)
Unearned Revenue	530,220.48
Funds Held for Others	55,047.37
Net Pension Liability	9,239,222.92
Net Other Postemployment Benefits Liability	14,650,814.73
Compensated Absences	515,676.00
Deposits Payable	40,041.51
Workers' Compensation Liability	(24,606.86)
Deferred Inflows for Irrevocable Split-Interest Agreements	88,458.15
Deferred Inflows Under Public-Private Partnerships	(664,444.95)
Deferred Inflows Related to Pensions	(288,582.76)
Deferred Inflows Related to Other Postemployment Benefits	(20,142,293.94)
Net Cash Used by Operating Activities	<u>\$ (166,833,667.97)</u>

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

Assets Acquired through the Assumption of a Liability	\$ 6,401,376.34
Assets Acquired through a Gift	1,553,235.14
Change in Fair Value of Investments	12,740,042.78
Reinvested Distributions	3,862,180.64
Loss on Disposal of Capital Assets	(677,269.06)
Amortization of Bond Premiums	(1,007,726.42)
Increase in Receivables Related to Nonoperating/Other Revenues	944,937.45
Decrease in Net Other Postemployment Benefits Liability Related to Noncapital Contributions	(198,441.00)

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 *Annual Comprehensive 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 28-member board consisting of three ex officio directors and 25 elected directors. The Foundation's purpose is to aid, support, and promote teaching, research, and service in the various educational, scientific, scholarly, professional, artistic, and creative endeavors of the University. Because the elected directors of the Foundation are appointed by the members of the Western Carolina University Board of Trustees, and the Foundation's sole purpose is to benefit Western Carolina University, its financial statements have been blended with those of the University.

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

The Corporation for Entrepreneurship and Innovation, LLC (CEI), a North Carolina limited liability company, was formed on July 10, 2015. It is a wholly owned subsidiary of the Corporation, which is a nonprofit organization and blended component unit of the University, located in Cullowhee, North Carolina. CEI is operated by faculty within the College of Business at the University. As CEI is wholly owned by the Corporation, CEI's financial transactions are already included within the Corporation's financial statements.

Separate financial statements for the Foundation and the Corporation may be obtained from the University Controller's Office, Suite 300, Cullowhee, NC 28723, or by calling 828-227-7286.

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 Governmental Accounting Standards Board (GASB). Pursuant to the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended by GASB Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities*, and GASB Statement No. 84, *Fiduciary Activities*, 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.

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. Land and other real estate held as investments by endowments are reported at fair value, consistent with how investments are generally reported.



- 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.

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 computer software, which is 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. In addition, grouped acquisitions of machinery and equipment that have an estimated useful life of more than one year but are individually below the \$5,000 threshold are capitalized.

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

<u>Asset Class</u>	<u>Estimated Useful Life</u>
Buildings	20-100 years
Machinery and Equipment	2-30 years
General Infrastructure	10-50 years
Computer Software	20 years

Right-to-use leased and subscription assets are recorded at the present value of payments expected to be made during the lease or subscription term, plus any upfront payments and ancillary charges paid to place the underlying right-to-use asset into service. Lease liabilities are capitalized as a right-to-use asset when the underlying leased asset has a cost of \$100,000 or greater and an estimated useful life of more than one year. Subscription liabilities are capitalized as a right-to-use asset when the underlying subscription asset has a cost of \$100,000 or greater and an estimated useful life of more than one year.

Amortization for right-to-use leased and subscription assets is computed using the straight-line method over the shorter of the lease/subscription term or the underlying asset's estimated useful life. If a lease agreement contains a purchase option the University is reasonably certain will be exercised, the right-to-use leased asset is amortized over the asset's estimated useful life.

- I. Restricted Assets** - Certain resources are reported as restricted assets because restrictions on asset use change the nature or normal understanding of the availability of

the asset. Resources that are not available for current operations and are reported as restricted include resources restricted for the acquisition or construction of capital assets, resources legally segregated for the payment of principal and interest as required by debt covenants, unspent debt proceeds, and endowment and other restricted investments.

- J. Accounting and Reporting of Fiduciary Activities** - Pursuant to the provisions of GASB Statement No. 84, *Fiduciary Activities*, custodial funds that are normally expected to be received and disbursed within a 3-month period or otherwise do not meet the fiduciary activity criteria defined by GASB Statement No. 84 continue to be reported in the Statement of Net Position as funds held for others and as operating activities in the Statement of Cash Flows.

There are no other trust or custodial funds meeting the criteria of a fiduciary activity that are required to be reported in separate fiduciary fund financial statements.

- K. Noncurrent Long-Term Liabilities** - Noncurrent long-term liabilities include principal amounts of long-term debt and other long-term liabilities that will not be paid within the next fiscal year. Debt is defined as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. Long-term debt includes: revenue bonds payable, special indebtedness, and a note from direct borrowing. Other long-term liabilities include: lease liabilities, subscription liabilities, compensated absences, net pension liability, net other postemployment benefits (OPEB) liability, and workers' compensation.

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 gains and losses on refundings are amortized over the life of the old debt or new debt (whichever is shorter) using the straight-line method, and are aggregated as deferred outflows of resources or deferred inflows 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 2023 *Annual Comprehensive 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 14 for further information regarding the University's policies for recognizing liabilities, expenses, deferred outflows of resources, and deferred inflows of resources related to pensions.

The net OPEB liability represents the University's proportionate share of the collective net OPEB liability reported in the State of North Carolina's 2023 *Annual Comprehensive Financial Report*. This liability represents the University's portion of the collective total OPEB liability less the fiduciary net position of the Retiree Health Benefit Fund and Disability Income Plan of North Carolina. See Note 15 for further information regarding the University's policies for recognizing liabilities, expenses, deferred outflows of resources, and deferred inflows of resources related to OPEB.

- L. 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.

**M. Deferred Outflows/Inflows of Resources** - Deferred outflows of resources represent a consumption of net assets that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. Deferred inflows of resources represent an acquisition of net assets that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until then.

**N. 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. It also includes the net position of accrued employee benefits such as compensated absences, workers' compensation, pension plans, and other postemployment benefits.

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. See Note 11 for further information regarding deferred outflows of resources and deferred inflows of resources that had a significant effect on unrestricted net position.

**O. 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.

**P. 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.

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

**Note 2 - Deposits and Investments**

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

At June 30, 2024, the amount shown on the Statement of Net Position as cash and cash equivalents includes \$223,351,737.24, 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 1.4 years as of June 30, 2024. 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.

Cash on hand at June 30, 2024 was \$29,265.00. The carrying amount of the University's deposits not with the State Treasurer was \$1,878,693.83, and the bank balance was \$1,160,727.30. 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, 2024, the University's bank balance was exposed to custodial credit risk as follows:

Uninsured and Uncollateralized	<u>\$ 536,335.38</u>
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- 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 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 from various donors or other sources 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.

**Long-Term Investment Pool** - This is an internal investment pool that is utilized for the investment of the endowment funds. Fund ownership is measured using the unit value method. Under this method, each participating fund's investment balance is determined on a market value basis. The investment strategy, including the selection of investment managers, is based on the directives of the Board of Trustees of the Endowment Fund.

The following table presents investments by type and investments subject to interest rate risk at June 30, 2024, for the Long-Term Investment Pool.

	Amount
<b>Investment Type</b>	
Other Securities	
UNC Investment Fund	\$ 136,011,808.35
Private Equity Limited Partnerships	1,980,112.00
Other	2,122.00
<b>Total Long-Term Investment Pool</b>	<b>\$ 137,994,042.35</b>

**UNC Investment Fund, LLC** - At June 30, 2024, the University's investments include \$136,011,808.35, 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, 2024, for the University's non-pooled investments.

Investment Type	Amount	Investment Maturities (in Years)
		Less Than 1
Debt Securities		
Money Market Mutual Funds	\$ 514.83	<u>\$ 514.83</u>
Other Securities		
Investments in Real Estate	58,000.00	
Private Equity Limited Partnerships	6,035.00	
Domestic Stocks	<u>52,320.06</u>	
<b>Total Non-Pooled Investments</b>	<u>\$ 116,869.89</u>	

At June 30, 2024, the University's non-pooled investments had the following credit quality distribution for securities with credit exposure:

	Amount	AAA Aaa
Money Market Mutual Funds	<u>\$ 514.83</u>	<u>\$ 514.83</u>

Rating Agency: Morningstar and Standard & Poor's

**Total Investments** - The following table presents the total investments at June 30, 2024:

Investment Type	Amount
Debt Securities	
Money Market Mutual Funds	\$ 514.83
Other Securities	
UNC Investment Fund	136,011,808.35
Investments in Real Estate	58,000.00
Private Equity Limited Partnerships	1,986,147.00
Domestic Stocks	52,320.06
Other	<u>2,122.00</u>
<b>Total Investments</b>	<u>\$ 138,110,912.24</u>

## Note 3 - Fair Value Measurements

To the extent available, the University's investments are recorded at fair value as of June 30, 2024. 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 deposits in the Short-Term Investment Fund, within the fair value hierarchy at June 30, 2024:

	Fair Value	Fair Value Measurements Using		
		Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
<b>Investments by Fair Value Level</b>				
Debt Securities				
Money Market Mutual Funds	\$ 514.83	\$ 514.83	\$ -	\$ -
Other Securities				
Investments in Real Estate	58,000.00	-	-	58,000.00
Domestic Stocks	52,320.06	52,320.06	-	-
Other	2,122.00	-	-	2,122.00
<b>Total Investments by Fair Value Level</b>	<u>112,956.89</u>	<u>\$ 52,834.89</u>	<u>\$ -</u>	<u>\$ 60,122.00</u>
<b>Investments Measured at the Net Asset Value (NAV)</b>				
Private Equity Limited Partnerships	<u>1,986,147.00</u>			
<b>Investments as a Position in an External Investment Pool</b>				
Short-Term Investment Fund	223,351,737.24			
UNC Investment Fund	<u>136,011,808.35</u>			
<b>Total Investments as a Position in an External Investment Pool</b>	<u>359,363,545.59</u>			
<b>Total Investments Measured at Fair Value</b>	<u>\$ 361,462,649.48</u>			



**Short-Term Investment Fund** - Ownership interests of the STIF are 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. Pool investments are measured at fair value in accordance with GASB Statement No. 72. The University's position in the pool is measured and reported at fair value and the STIF is not required to be categorized within the fair value hierarchy.

**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. Valuation of the underlying assets is performed by the custodian. Pool investments are measured at fair value in accordance with GASB Statement No. 72. The University's position in the pool is measured and reported at fair value and the UNC Investment Fund is not required to be categorized within the fair value hierarchy.

**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 two parcels of land for resale valued at \$58,000.00. 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 currently has other investments amounting to \$2,122.00 that are classified in Level 3.

The following table presents the valuation of investments measured at the Net Asset Value (NAV) per share (or its equivalent) at June 30, 2024:

**Investments Measured at the NAV**

	Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Private Equity Limited Partnerships	\$ 1,986,147.00	\$ -	N/A	N/A

**Private Equity Limited Partnerships** - The University and Foundation currently have investments in limited partnerships. This type includes investments in four different limited partnerships and one private equity investment. The limited partnerships, which represent the University's largest investment in this category, are private investment firms. 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 private equity is minimal. All of these investments are valued at the NAV. Valuation is based upon March 31, 2024 statements provided to the University by the investment partners.

**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 5.0% of the endowment pool's twelve quarter rolling average market value, disregarding the highest and lowest quarter's value as of June 30. The Board of Trustees annually reviews the spending policy and adjusts accordingly. At June 30, 2024, net appreciation of \$80,020,395.49 was available to be spent, of which \$71,387,301.49 was classified in net position as restricted expendable. The remaining portion of net appreciation available to be spent is classified as unrestricted net position.

### Note 5 - Receivables

Receivables at June 30, 2024, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
<b>Current Receivables:</b>			
Students	\$ 4,520,966.94	\$ 1,787,180.41	\$ 2,733,786.53
Student Sponsors	116,869.61	-	116,869.61
Accounts	1,673,904.14	-	1,673,904.14
Intergovernmental	1,076,415.39	-	1,076,415.39
Pledges	1,663,666.36	74,864.97	1,588,801.39
Interest on Loans	16,830.37	-	16,830.37
Other	187,227.34	-	187,227.34
<b>Total Current Receivables</b>	<b>\$ 9,255,880.15</b>	<b>\$ 1,862,045.38</b>	<b>\$ 7,393,834.77</b>
<b>Noncurrent Receivables:</b>			
Pledges	\$ 3,247,579.95	\$ 146,141.09	\$ 3,101,438.86
<b>Notes Receivable:</b>			
<b>Notes Receivable - Current:</b>			
Federal Loan Programs	\$ 824,332.57	\$ -	\$ 824,332.57
Institutional Student Loan Programs	1,595.49	1,466.80	128.69
<b>Total Notes Receivable - Current</b>	<b>\$ 825,928.06</b>	<b>\$ 1,466.80</b>	<b>\$ 824,461.26</b>
<b>Notes Receivable - Noncurrent:</b>			
Federal Loan Programs	\$ 735,675.66	\$ 414,640.00	\$ 321,035.66
Institutional Student Loan Programs	4,355.49	-	4,355.49
<b>Total Notes Receivable - Noncurrent</b>	<b>\$ 740,031.15</b>	<b>\$ 414,640.00</b>	<b>\$ 325,391.15</b>

**Note 6 - Capital Assets**

A summary of changes in the capital assets for the year ended June 30, 2024, is presented as follows:

	Balance July 1, 2023	Increases	Decreases	Balance June 30, 2024
Capital Assets, Nondepreciable:				
Land and Permanent Easements	\$ 14,627,041.34	\$ 900,292.89	\$ -	\$ 15,527,334.23
Art, Literature, and Artifacts	1,502,931.63	221,888.00	-	1,724,819.63
Construction in Progress	7,619,498.48	1,903,456.84	1,364,404.51	8,158,550.81
<b>Total Capital Assets, Nondepreciable</b>	<b>23,749,471.45</b>	<b>3,025,637.73</b>	<b>1,364,404.51</b>	<b>25,410,704.67</b>
Capital Assets, Depreciable:				
Buildings	685,875,861.92	1,717,040.15	716,889.93	686,876,012.14
Machinery and Equipment	46,433,175.71	4,969,696.42	1,209,772.24	50,193,099.89
General Infrastructure	97,970,045.01	380,147.72	135,829.31	98,214,363.42
Computer Software	267,380.85	-	-	267,380.85
Right-to-Use Leased Buildings	8,779,653.77	2,393,681.54	741,117.54	10,432,217.77
Right-to-Use Leased Machinery and Equipment	1,391,433.66	1,131,530.21	1,134,381.70	1,388,582.17
Right-to-Use Subscription Assets	1,976,682.89	1,569,876.62	355,778.66	3,190,780.85
Other Intangible Assets	1,371,565.43	-	1,371,565.43	-
<b>Total Capital Assets, Depreciable</b>	<b>844,065,799.24</b>	<b>12,161,972.66</b>	<b>5,665,334.81</b>	<b>850,562,437.09</b>
Less Accumulated Depreciation/Amortization for:				
Buildings	131,637,001.15	8,516,657.20	609,356.49	139,544,301.86
Machinery and Equipment	15,351,377.31	1,933,481.28	731,011.81	16,553,846.78
General Infrastructure	20,160,424.18	1,999,145.06	135,829.31	22,023,739.93
Computer Software	140,200.17	13,387.44	-	153,587.61
Right-to-Use Leased Buildings	2,331,809.96	1,379,647.04	136,438.01	3,575,018.99
Right-to-Use Leased Machinery and Equipment	968,693.66	400,929.66	1,134,381.70	235,241.62
Right-to-Use Subscription Assets	518,561.45	754,436.50	338,848.58	934,149.37
Other Intangible Assets	1,254,787.13	-	1,254,787.13	-
<b>Total Accumulated Depreciation/Amortization</b>	<b>172,362,855.01</b>	<b>14,997,684.18</b>	<b>4,340,653.03</b>	<b>183,019,886.16</b>
<b>Total Capital Assets, Depreciable, Net</b>	<b>671,702,944.23</b>	<b>(2,835,711.52)</b>	<b>1,324,681.78</b>	<b>667,542,550.93</b>
<b>Capital Assets, Net</b>	<b>\$ 695,452,415.68</b>	<b>\$ 189,926.21</b>	<b>\$ 2,689,086.29</b>	<b>\$ 692,953,255.60</b>

As of June 30, 2024, the total amount of right-to-use leased and subscription assets was \$11,820,799.94 and \$3,190,780.85, and the related accumulated amortization was \$3,810,260.61 and \$934,149.37, respectively.

The July 1, 2023 balances of depreciable capital assets and corresponding accumulated depreciation were restated to reflect reclassifications among categories made after the end of the prior fiscal year. These reclassifications had no net impact on beginning net position.

**Note 7 - Public-Private Partnership 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.

## Notes to the Financial Statements

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. The University reports the facility as a capital asset with a carrying amount of \$23,640,249.79 at year-end and a related deferred inflow of resources of \$20,537,993.39 that is amortized using the straight-line method over the terms of the lease agreement.

### Note 8 - Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities at June 30, 2024, were as follows:

	Amount
<b>Current Accounts Payable and Accrued Liabilities</b>	
Accounts Payable	\$ 1,711,703.66
Accounts Payable - Capital Assets	318,356.52
Accrued Payroll	1,135,804.43
Contract Retainage	64,565.45
Other	357,773.72
<b>Total Current Accounts Payable and Accrued Liabilities</b>	<b>\$ 3,588,203.78</b>
<b>Noncurrent Accounts Payable and Accrued Liabilities</b>	
Contract Retainage	\$ 575,904.58

### 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, 2024, is presented as follows:

	Balance July 1, 2023	Additions	Reductions	Balance June 30, 2024	Current Portion
Long-Term Debt					
Revenue Bonds Payable	\$ 183,140,000.00	\$ -	\$ 5,505,000.00	\$ 177,635,000.00	\$ 5,685,000.00
Special Indebtedness	42,465,000.00	-	2,380,000.00	40,085,000.00	2,490,000.00
Plus: Unamortized Premium	21,992,169.95	-	1,007,726.42	20,984,443.53	-
<b>Total Revenue Bonds Payable and Special Indebtedness, Net</b>	<b>247,597,169.95</b>	<b>-</b>	<b>8,892,726.42</b>	<b>238,704,443.53</b>	<b>8,175,000.00</b>
Note from Direct Borrowing	-	1,200,000.00	142,258.78	1,057,741.22	99,949.13
<b>Total Long-Term Debt</b>	<b>247,597,169.95</b>	<b>1,200,000.00</b>	<b>9,034,985.20</b>	<b>239,762,184.75</b>	<b>8,274,949.13</b>
Other Long-Term Liabilities					
Lease Liabilities	7,112,528.39	3,525,211.75	2,348,159.15	8,289,580.99	1,668,792.33
Subscription (SBITA) Liabilities	1,433,895.45	1,293,242.62	1,005,249.15	1,721,888.92	695,833.55
Employee Benefits					
Compensated Absences	8,199,953.00	7,233,408.16	6,717,729.18	8,715,631.98	1,686,264.97
Net Pension Liability	48,192,939.23	9,239,222.92	-	57,432,162.15	-
Net Other Postemployment Benefits Liability	131,286,550.19	14,452,373.73	-	145,738,923.92	-
Workers' Compensation	817,197.71	199,936.58	224,543.44	792,590.85	197,212.73
<b>Total Other Long-Term Liabilities</b>	<b>197,043,063.97</b>	<b>35,943,395.76</b>	<b>10,295,680.92</b>	<b>222,690,778.81</b>	<b>4,248,103.58</b>
<b>Total Long-Term Liabilities, Net</b>	<b>\$ 444,640,233.92</b>	<b>\$ 37,143,395.76</b>	<b>\$ 19,330,666.12</b>	<b>\$ 462,452,963.56</b>	<b>\$ 12,523,052.71</b>

Additional information regarding lease and subscription (SBITA) liabilities is included in Note 10.

Additional information regarding the net pension liability is included in Note 14.

Additional information regarding the net other postemployment benefits liability is included in Note 15.

Additional information regarding workers' compensation is included in Note 16.

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

Purpose	Series	Interest Rate/ Ranges	Final Maturity Date	Original Amount of Issue	Principal Outstanding June 30, 2024	See Table Below
<b>Revenue Bonds Payable</b>						
<b>The University of North Carolina System Pool Revenue Bonds</b>						
Dining, Athletics, and Student Recreation Center	(A)	3.00 - 5.00%	04/01/2046	\$ 36,965,000.00	\$ 29,675,000.00	
Athletics and Student Recreation Center	(B)	2.350 - 3.595%	04/01/2027	7,435,000.00	2,190,000.00	
Student Housing	(C)	3.625 - 5.00%	10/01/2047	46,285,000.00	42,910,000.00	
Parking Deck	(D)	2.00 - 5.00%	10/01/2049	19,825,000.00	18,450,000.00	
Student Housing	(E)	2.25 - 5.00%	04/01/2050	75,815,000.00	75,815,000.00	
Athletics, Student Housing and Student Recreation Center	(F)	0.909 - 2.013%	04/01/2028	14,175,000.00	8,595,000.00	
Total The University of North Carolina System Pool Revenue Bonds				200,500,000.00	177,635,000.00	
<b>Special Indebtedness</b>						
Refunding Limited Obligation Bonds	2023	3.47%	06/01/2033	5,695,000.00	5,210,000.00	(1)
Refunding Limited Obligation Bonds	2015	3.0-4.0%	06/01/2032	8,035,000.00	4,380,000.00	(2)
Refunding Limited Obligation Bonds	2016	3.0-5.0%	06/01/2039	38,375,000.00	30,495,000.00	(3)
Total Special Indebtedness				52,105,000.00	40,085,000.00	
<b>Total Revenue Bonds Payable and Special Indebtedness (principal only)</b>				<u>\$ 252,605,000.00</u>	217,720,000.00	
Plus: Unamortized Premium					20,984,443.53	
<b>Total Revenue Bonds Payable and Special Indebtedness, Net</b>					<u>\$ 238,704,443.53</u>	

- (A) The University of North Carolina System Pool Revenue Bonds, Series 2015A  
 (B) The University of North Carolina System Pool Revenue Bonds, Series 2015B  
 (C) The University of North Carolina System Pool Revenue Bonds, Series 2018  
 (D) The University of North Carolina System Pool Revenue Bonds, Series 2020A  
 (E) The University of North Carolina System Pool Revenue Bonds, Series 2020B  
 (F) The University of North Carolina System Pool Revenue Bonds, Series 2020C

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

Ref	Revenue Source	Total Future Revenues Pledged	For the Year Ended June 30, 2024			Estimate of % of Revenues Pledged
			Revenues Net of Expenses	Principal	Interest	
(1)	The Village	\$ 5,210,000.00	\$ 1,001,945.27	\$ 485,000.00	\$ 212,437.44	53%
(2)	Norton Road	4,380,000.00	1,485,279.75	465,000.00	165,068.76	33%
(3)	Balsam/Blue Ridge	30,495,000.00	4,732,679.46	1,430,000.00	1,260,831.26	42%

**C. Note from Direct Borrowing** - The University was indebted for a note from direct borrowing for the purpose shown in the following table:

Purpose	Financial Institution	Interest Rate	Final Maturity Date	Original Amount of Issue	Principal Outstanding June 30, 2024
Tucks Property	VIPKOL, LLC	4.00%	09/01/2032	<u>\$ 1,200,000.00</u>	<u>\$ 1,057,741.22</u>

**D. Annual Requirements** - The annual requirements to pay principal and interest on the long-term obligations at June 30, 2024, are as follows:

Fiscal Year	Annual Requirements					
	Revenue Bonds Payable		Special Indebtedness		Note from Direct Borrowing	
	Principal	Interest	Principal	Interest	Principal	Interest
2025	\$ 5,685,000.00	\$ 7,021,899.07	\$ 2,490,000.00	\$ 1,516,587.02	\$ 99,949.13	\$ 42,309.65
2026	6,540,000.00	6,810,431.02	2,585,000.00	1,419,663.52	103,947.10	38,311.68
2027	6,420,000.00	6,572,346.64	2,700,000.00	1,303,343.02	108,104.98	34,153.80
2028	6,135,000.00	6,332,279.76	2,815,000.00	1,187,028.52	112,429.18	29,829.60
2029	5,585,000.00	6,122,943.76	2,945,000.00	1,065,570.02	116,926.35	25,332.43
2030-2034	32,010,000.00	26,563,228.14	14,510,000.00	3,575,681.80	516,384.48	52,650.65
2035-2039	31,535,000.00	19,910,912.50	12,040,000.00	1,424,112.50	-	-
2040-2044	37,850,000.00	13,578,793.76	-	-	-	-
2045-2049	39,845,000.00	5,324,237.52	-	-	-	-
2050-2054	6,030,000.00	218,600.00	-	-	-	-
<b>Total Requirements</b>	<b>\$ 177,635,000.00</b>	<b>\$ 98,455,672.17</b>	<b>\$ 40,085,000.00</b>	<b>\$ 11,491,986.40</b>	<b>\$ 1,057,741.22</b>	<b>\$ 222,587.81</b>

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

**E. Terms of Debt Agreements** - The University's debt agreements are subject to the following collateral requirements and terms with finance-related consequences:

**Revenue Bonds Payable** - As of June 30, 2024, the University has six General Revenue Bonds payable in the University of North Carolina System Pool, with a total outstanding balance of \$177,635,000.00. The bonds were issued to fund the construction and equipping of certain student housing, dining, athletic, parking and recreation facilities on the main Cullowhee, NC campus. Each series has been issued under and secured by a General Trust Indenture dated November 1, 2015, as amended and supplemented, between the Board of Governors of the University of North Carolina and The Bank of New York Mellon Trust Company, N.A. (the Trustee, BNY Mellon).

Each series contains provisions that in the occurrence and continuance of a default event, the Trustee may, or if required by a majority of the owners of the bonds, must, declare the bonds to be immediately due and payable. An event of default is defined as a failure to pay the principal of or premium, if any, on a bond when it becomes due and payable, a failure to pay any installment of interest when it becomes due and payable, or when the University fails to observe any covenant, condition, agreement or provision contained in the bonds or the indenture 30 days after receiving written notification specifying the failure and requesting remedy. In this event, the Trust Estate becomes immediately subject to the lien of the security interest.

**Special Indebtedness** - The University has three Refunding Limited Obligation Bonds (LOBs) payable, with a total outstanding balance of \$40,085,000.00, as of June 30, 2024. These bonds were issued to fund the construction and equipping of student housing facilities on the main Cullowhee, NC campus. Each issuance has been executed and delivered pursuant to a Trust Indenture between Western Carolina University Research and Development Corporation (the Company), a blended component unit of the University, and U.S. Bank National Association (the Trustee, US Bank).

Major terms are the same for each Trust Indenture, which includes a land lease between the Company and the State of North Carolina and an operation agreement (Use Agreement) between the Company and the University. These bonds are secured by

revenues which include rentals payable by the University under the leases and use agreements on the funded project. The LOBs are further secured by a deed of trust on the property.

The Trust Indentures evidence proportionate undivided interests in rights to receive certain revenues, including Base Rentals (as defined in the Trust Indenture), pursuant to a corresponding Lease agreement (Lease, as amended) between the State of North Carolina and the Company. Base Rentals are defined as payments by the University under the Use Agreement, which constitute the rental payments payable by the University for and in consideration of the right to use, and the option to purchase, the funded project.

The Use Agreement establishes that the UNC Board and the University will at times fix, revise, charge and collect fees, rents, and charges for the use of and for services furnished by the funded Project. Additionally, these revenues may be collected in an amount sufficient to (1) produce a Debt Service Coverage Ratio equal to 1.15, plus (2) any required deposits to be held in reserve.

Each series contains provisions that in the occurrence and continuance of a default event, there will be no prepayment of less than all of the corresponding LOBs outstanding. An event of default is defined as a failure to pay the principal or premium, if any, on a bond when it becomes due and payable, a failure to pay any installment of interest when it becomes due and payable, or when the University fails to observe any covenant, condition, agreement or provision contained in the bonds or the indenture 30 days after receiving written notification specifying the failure and requesting remedy.

**Note from Direct Borrowing** - The University entered into a note from direct borrowing of \$1,200,000 through a promissory note agreement with a private lender dated September 11, 2023. The note was issued for the purchase of land. The outstanding balance as of June 30, 2024 was \$1,057,741.22. The loan carries an interest rate of 4.00% and requires ten annual principal and interest payments in the amount of \$142,258.78 beginning September 1, 2023. This agreement contains provision related to events of default. An event of default occurs when: (1) payment of any installment of principal or interest is not paid within 10 days from the due date, or (2) default under the terms of any instrument securing the note, and such default is not resolved within 15 days after written notice to the maker.

Upon the occurrence of any default, the holder may without further notice, declare the remainder of the principal sum, together with all interest accrued, at once due and payable. The unpaid principal, accrued interest, and all other sums due under the note will be subject to interest at the rate of 12% per annum after default until paid.

## F. Bond Defeasance

**Prior Year Defeasances** - During prior years, the University defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the University's financial statements. At June 30, 2024, the outstanding balance of prior year defeased bonds was \$13,805,000.



## Note 10 - Leases and Subscription-Based Information Technology Arrangements

**A. Lessor Arrangements** - The University leases land and roof-top space to external parties. The leases expire at various dates, and some have renewal options. Lease receivables and related deferred inflows of resources are recorded based on the present value of expected receipts over the term of the respective leases. The expected receipts are discounted using the interest rate stated per the lease contract, or the University's estimated incremental borrowing rate if there is no stated contractual interest rate.

During the year the University did not recognize any variable payment amounts.

During the year ended June 30, 2024, the University recognized operating revenues related to lessor arrangements totaling \$217,575.24, and nonoperating lease interest income totaling \$77,288.94.

The University's lessor arrangements at June 30, 2024, are summarized below (excluding short-term leases):

Classification:	Number of Lease Contracts	Lease Receivable June 30, 2024	Current Portion	Lease Terms <sup>(1)</sup>	Interest Rate Ranges
Lessor:					
Land	2	\$3,686,767.28	\$ 66,783.98	4 - 39 years	0.203 - 2.054%
Buildings	3	1,009,307.81	70,296.37	3 - 15 years	1.355 - 1.888%
<b>Total</b>	<b>5</b>	<b>\$4,696,075.09</b>	<b>\$ 137,080.35</b>		

(1) The lease terms represent the range of remaining terms in each lease.

**B. Lessee Arrangements** - The University has lease agreements for the right to use building space and equipment from external parties. The leases expire at various dates, and some have renewal options. Lease liabilities and right-to-use leased assets are recorded at the present value of payments expected to be made during the lease term, plus any upfront payments and ancillary charges paid to place the underlying right-to-use asset into service. The expected payments are discounted using the interest rate stated per the lease contract, or the University's estimated incremental borrowing rate if there is no stated contractual interest rate.

During the year the University did not recognize any variable payment amounts.

The University's lessee arrangements at June 30, 2024, are summarized below (excluding short-term leases):

Classification:	Number of Lease Contracts	Lease Liabilities June 30, 2024	Current Portion	Lease Terms <sup>(1)</sup>	Interest Rate Ranges
Lessee:					
Right-to-Use Leased Buildings	7	\$ 7,237,652.29	\$ 1,394,814.74	2 - 7.5 years	1.722 - 2.409%
Right-to-Use Leased Machinery and Equipment	5	1,051,928.70	273,977.59	2.5 - 5 years	0.806 - 2.409%
<b>Total</b>	<b>12</b>	<b>\$ 8,289,580.99</b>	<b>\$ 1,668,792.33</b>		

(1) The lease terms were calculated using weighted averages based on lease payable amounts.

**C. Subscription-Based Information Technology Arrangements (SBITAs)** - The University enters SBITAs for the right to use information technology software and cloud computing arrangement (network) assets from external parties. The SBITAs expire at various dates, and some have renewal options. Subscription liabilities and the related right-to-use subscription assets are recorded based on the present value of expected payments over

the term of the respective SBITA. The expected payments are discounted using the interest rate stated per the SBITA contract, or the University's estimated incremental borrowing rate if there is no stated contractual interest rate.

During the year the University did not recognize any variable payment amounts.

The University's SBITAs at June 30, 2024, are summarized below (excluding short-term SBITAs):

SBITA	Number of SBITAs	Subscription (SBITA) Liabilities June 30, 2024	Current Portion	SBITA Terms and Conditions	Interest Rate Ranges
Right-to-Use Subscription Assets	15	\$ 1,721,888.92	\$ 695,833.55	2 - 5 years	2.02 - 3.018%

**D. Annual Requirements** - The annual requirements to pay principal and interest on leases and SBITAs at June 30, 2024, are as follows:

Fiscal Year	Annual Requirements			
	Lease Liabilities		Subscription (SBITA) Liabilities	
	Principal	Interest	Principal	Interest
2025	\$ 1,668,792.33	\$ 164,565.41	\$ 695,833.55	\$ 31,947.64
2026	1,698,827.63	140,900.14	617,213.90	23,719.58
2027	1,731,806.11	100,224.56	408,841.47	9,774.87
2028	1,742,783.34	58,441.92	-	-
2029	1,349,153.15	18,643.13	-	-
2030-2034	98,218.43	197.18	-	-
<b>Total Requirements</b>	<b>\$ 8,289,580.99</b>	<b>\$ 482,972.34</b>	<b>\$ 1,721,888.92</b>	<b>\$ 65,442.09</b>

**Note 11 - Net Position**

Unrestricted net position has been significantly affected by transactions resulting from the recognition of deferred outflows of resources, deferred inflows of resources, and related long-term liabilities, as shown in the following table:

	Amount
Net Pension Liability and Related Deferred Outflows of Resources and Deferred Inflows of Resources	\$ (22,336,065.90)
Net OPEB Liability and Related Deferred Outflows of Resources and Deferred Inflows of Resources	(159,744,456.14)
Effect on Unrestricted Net Position	(182,080,522.04)
Total Unrestricted Net Position Before Recognition of Deferred Outflows of Resources, Deferred Inflows of Resources, and Related Long-Term Liabilities	188,168,364.92
<b>Total Unrestricted Net Position</b>	<b>\$ 6,087,842.88</b>

## Notes to the Financial Statements

See Notes 14 and 15 for detailed information regarding the amortization of the deferred outflows of resources and deferred inflows of resources relating to pensions and OPEB, respectively.

The net investment in capital assets amount of \$424,986,939.45 has been significantly affected by a transaction that resulted in the recognition of deferred inflows of resources. A summary of the balances reported within net investment in capital assets' net position relating to the reporting of capital assets and the deferred inflows of resources is presented as follows:

	Amount
Capital Asset Acquired Under Public-Private Partnership	\$ 23,640,249.79
Deferred Inflows Under Public-Private Partnership	<u>(20,537,993.39)</u>
Net Effect on Net Investment in Capital Assets	3,102,256.40
Total Net Investment in Capital Assets Before Recognition of Public-Private Partnership	<u>421,884,683.05</u>
<b>Total Net Investment in Capital Assets</b>	<b><u>\$ 424,986,939.45</u></b>

See Note 7 for detailed information regarding the amortization of the deferred inflows of resources under the public-private partnership arrangement.

### Note 12 - Revenues

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

	Gross Revenues	Less Scholarship Discounts and Allowances	Less Allowance for Uncollectibles	Net Revenues
<b>Operating Revenues:</b>				
Student Tuition and Fees, Net	<u>\$ 62,765,926.03</u>	<u>\$ 14,549,325.17</u>	<u>\$ 1,253,274.55</u>	<u>\$ 46,963,326.31</u>
<b>Sales and Services:</b>				
Sales and Services of Auxiliary Enterprises:				
Residential Life	\$ 27,291,582.56	\$ 6,347,692.57	\$ 260,741.58	\$ 20,683,148.41
Dining	22,156,524.61	5,255,060.31	-	16,901,464.30
Student Union Services	315,834.70	-	-	315,834.70
Health, Physical Education, and Recreation Services	334,624.84	-	68,843.46	265,781.38
Bookstore	2,156,391.33	-	9,068.03	2,147,323.30
Book Rental	2,805,398.12	569,935.91	165,571.01	2,069,891.20
Print Shop	183,873.14	-	-	183,873.14
Parking	2,612,451.87	-	-	2,612,451.87
Athletic	2,426,840.28	-	-	2,426,840.28
Other	404,062.26	-	29,681.78	374,380.48
Sales and Services of Education and Related Activities	218,153.72	-	-	218,153.72
Independent Operations	<u>5,931,315.52</u>	<u>-</u>	<u>-</u>	<u>5,931,315.52</u>
<b>Total Sales and Services, Net</b>	<b><u>\$ 66,837,052.95</u></b>	<b><u>\$ 12,172,688.79</u></b>	<b><u>\$ 533,905.86</u></b>	<b><u>\$ 54,130,458.30</u></b>
<b>Nonoperating Revenues:</b>				
Noncapital Contributions, Net	<u>\$ 11,309,405.80</u>	<u>\$ -</u>	<u>\$ 221,006.06</u>	<u>\$ 11,088,399.74</u>

**Note 13 - Operating Expenses by Function**

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

	Salaries and Benefits	Supplies and Services	Scholarships and Fellowships	Utilities	Depreciation/ Amortization	Total
Instruction	\$ 81,877,444.78	\$ 8,426,507.74	\$ 27,265.20	\$ 2,495.83	\$ -	\$ 90,333,713.55
Research	1,839,229.41	805,352.66	673.61	34,968.13	-	2,680,223.81
Public Service	6,583,778.23	3,482,741.29	269,460.03	2,515.56	-	10,338,495.11
Academic Support	15,596,613.75	4,714,655.17	5,902.30	2,983.96	-	20,320,155.18
Student Services	7,678,298.98	4,980,923.27	8,394.65	-	-	12,667,616.90
Institutional Support	24,158,710.59	11,174,906.27	1,132,362.06	55,690.26	-	36,521,669.18
Operations and Maintenance of Plant	12,858,659.16	15,263,063.54	-	2,434,698.26	-	30,556,420.96
Student Financial Aid	99,879.27	20,089.30	12,252,732.97	-	-	12,372,701.54
Auxiliary Enterprises	19,577,555.18	32,153,149.69	1,259,593.20	2,252,497.88	-	55,242,795.95
Independent Operations	975,694.40	4,604,441.06	-	1,000.00	-	5,581,135.46
Depreciation/Amortization	-	-	-	-	14,997,684.18	14,997,684.18
<b>Total Operating Expenses</b>	<b>\$ 171,245,863.75</b>	<b>\$ 85,625,829.99</b>	<b>\$ 14,956,384.02</b>	<b>\$ 4,786,849.88</b>	<b>\$ 14,997,684.18</b>	<b>\$ 291,612,611.82</b>

**Note 14 - 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 unreduced retirement benefits at age 65 with five years of membership 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 reduced retirement benefits at age 50 with 20 years of creditable service or at age 60 with five years of membership 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 in lieu of the return of the member's contributions that is generally available to beneficiaries of deceased members. The plan does not provide for automatic post-retirement benefit increases.

**Contributions:** Contribution provisions are established by General Statute 135-8 and may be amended only by the North Carolina General Assembly. Plan members 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 and may not be less than the contribution rate required of plan members. The TSERS Board of Trustees establishes a funding policy from which an accrued liability rate and a normal contribution rate are developed by the consulting actuary. The sum of those two rates developed under the funding policy is the actuarially determined contribution rate (ADC). The TSERS Board of Trustees may further adopt a contribution rate policy that is higher than the ADC known as the required employer contribution to be recommended to the North Carolina General Assembly. The University's contractually-required contribution rate for the year ended June 30, 2024 was 17.64% of covered payroll. Plan members' contributions to the pension plan were \$3,891,504.53, and the University's contributions were \$11,441,023.31 for the year ended June 30, 2024.

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 2023 *Annual Comprehensive Financial Report*. An electronic version of this report is available on the North Carolina Office of the State Controller's website at <https://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 are 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. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the TSERS plan, and additions to/deductions from the TSERS plan's fiduciary net position have been determined on the same basis as they are reported by TSERS.

**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 External Investment Pool. TSERS and other pension plans of the State of North Carolina participate in the Long-Term Investment, Fixed Income Investment, Equity Investment, Real Estate Investment, Alternative Investment, Opportunistic Fixed Income Investment, and Inflation Sensitive Investment portfolios. The Fixed Income Asset Class includes the Long-Term Investment and 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 value of the net position of the various portfolios within the External Investment Pool. Detailed descriptions of the methods and significant assumptions regarding investments of the State Treasurer are provided in the 2023 *Annual Comprehensive Financial Report*.

**Net Pension Liability:** At June 30, 2024, the University reported a liability of \$57,432,162.15 for its proportionate share of the collective net pension liability. The net pension liability was measured as of June 30, 2023. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2022, and update procedures were used to roll forward the total pension liability to June 30, 2023. The University's proportion of the net pension liability was based on a projection of the present value of future salaries for the University relative to the projected present value of

future salaries for all participating employers, actuarially-determined. As of June 30, 2023, the University's proportion was 0.35709%, which was an increase of 0.0194 from its proportion measured as of June 30, 2022, which was 0.33769%.

**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	12/31/2022
Inflation	2.5%
Salary Increases*	3.25% - 8.05%
Investment Rate of Return**	6.5%

\* Salary increases include 3.25% inflation and productivity factor.

\*\* Investment rate of return includes inflation assumption and is net of pension plan investment expense.

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. public plan population. The mortality rates also contain a provision to reflect future mortality improvements.

The actuarial assumptions used in the December 31, 2022 valuation were based on the results of an actuarial experience review for the period January 1, 2015 through December 31, 2019.

Future ad hoc cost-of-living adjustment 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, 2023 (the measurement date) are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return
Fixed Income	0.9%
Global Equity	6.5%
Real Estate	5.9%
Alternatives	8.2%
Opportunistic Fixed Income	5.0%
Inflation Sensitive	2.7%

The information in the preceding table is based on 30-year expectations developed with an investment consulting firm as part of a study that was completed in early 2022, 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 2.25%. Return projections do not include any excess return expectations over benchmark averages. All rates of return and inflation are annualized. The long-term expected real rate of return for the Bond Index Investment Pool as of June 30, 2023 is 0.78%.

**Discount Rate:** The discount rate used to measure the total pension liability was 6.5% for the December 31, 2022 valuation. The discount rate is in line with the long-term nominal expected return on pension plan investments. The calculation of the net pension liability is a present value calculation of the future net pension payments. These net pension payments assume that contributions from plan members will be made at the current statutory contribution rate and that contributions from employers will be made at the contractually 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, 2023 calculated using the discount rate of 6.5%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.5%) or 1-percentage-point higher (7.5%) than the current rate:

Net Pension Liability		
1% Decrease (5.5%)	Current Discount Rate (6.5%)	1% Increase (7.5%)
\$ 98,597,564.31	\$ 57,432,162.15	\$ 23,472,040.88

**Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions:** For the year ended June 30, 2024, the University recognized pension expense of \$15,657,638.66. At June 30, 2024, the University reported deferred outflows of resources and deferred inflows of resources related to TSERS from the following sources:

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Actual and Expected Experience	\$ 4,682,079.80	\$ 423,890.06
Changes of Assumptions	2,016,941.79	-
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	15,934,259.86	-
Change in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	1,557,975.40	112,293.85
Contributions Subsequent to the Measurement Date	11,441,023.31	-
<b>Total</b>	<b>\$ 35,632,280.16</b>	<b>\$ 536,183.91</b>



The amount reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 2025. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to TSERS will be recognized as pension expense as follows:

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

Year Ending June 30:	Amount
2025	\$ 7,871,719.82
2026	4,411,983.41
2027	10,748,711.70
2028	622,658.01
<b>Total</b>	<b>\$ 23,655,072.94</b>

**B. Defined Contribution Plan** - The Optional Retirement Program (ORP) is a defined contribution pension plan that provides retirement benefits with options for payments to beneficiaries in the event of the participant's death. Faculty and staff of the University may join the ORP instead of TSERS. The ORP is administered by the UNC System.

Benefits are provided by means of contracts issued and administered by the privately-operated Teachers' Insurance and Annuity Association and Fidelity Investments. Participants' eligibility and contributory requirements are established in General Statute 135-5.1 and may be amended only by the North Carolina General Assembly. Participants are always fully vested in their own contributions to the plan and their investment earnings. Participants are fully vested in the University's contributions and earnings after five years of participating in the ORP.

Participants contribute 6% of compensation and the University contributes 6.84%. For the year ended June 30, 2024, the University had a total payroll of \$129,153,403.51, of which \$51,615,538.29 was covered under ORP. Total employee and employer contributions for pension benefits for the year were \$3,096,932.30 and \$3,530,502.82, respectively. The amount of pension expense recognized in the current year related to ORP is equal to the employer contributions.

#### **Note 15 - Other Postemployment Benefits**

The University participates in two postemployment benefit plans, the Retiree Health Benefit Fund and the Disability Income Plan of North Carolina, that are administered by the State of North Carolina as pension and other employee benefit trust funds. Each plan's financial information, including all information about the plans' 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 2023 *Annual Comprehensive Financial Report*. An electronic version of this report is available on the North Carolina Office of the State Controller's website at <https://www.osc.nc.gov/> or by calling the State Controller's Financial Reporting Section at 919-707-0500.

### A. Summary of Significant Accounting Policies and Plan Asset Matters

*Basis of Accounting:* The financial statements of these plans were prepared using the accrual basis of accounting. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits are recognized when due and payable in accordance with the terms of each plan. For purposes of measuring the net other postemployment benefits (OPEB) liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of each plan, and additions to/deductions from each plans' fiduciary net position have been determined on the same basis as they are reported by the plans.

*Methods Used to Value Plan Investments:* Pursuant to North Carolina General Statutes, the State Treasurer is the custodian and administrator of the other postemployment benefit funds. The State Treasurer maintains various investment portfolios in its External Investment Pool. The Retiree Health Benefit Fund participates in the External Investment Pool. The Disability Income Plan is invested in the Short-Term Investment Portfolio of the External Investment Pool and the Bond Index External Investment Pool. The investment balance of each other employee benefit trust fund represents its share of the fair 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 2023 *Annual Comprehensive Financial Report*.

### B. Plan Descriptions

#### 1. Health Benefits

*Plan Administration:* The State of North Carolina administers the North Carolina State Health Plan for Teachers and State Employees, referred to as the State Health Plan (the Plan), a healthcare plan exclusively for the benefit of employees of the State, the University of North Carolina System, community colleges, and certain other component units. In addition, Local Education Agencies (LEAs), charter schools, and some select local governments that are not part of the State's financial reporting entity also participate. Health benefit programs and premium rates are determined by the State Treasurer upon approval of the Plan Board of Trustees.

The Retiree Health Benefit Fund (RHBF) has been established by Chapter 135-7, Article 1 of the General Statutes as a fund to provide health benefits to retired and disabled employees and their applicable beneficiaries. RHBF is a cost-sharing, multiple-employer, defined benefit healthcare plan, exclusively for the benefit of former employees of the State, the University of North Carolina System, and community colleges. In addition, LEAs, charter schools, and some select local governments that are not part of the State's financial reporting entity also participate.

By statute, RHBF is administered by the Board of Trustees of the Teachers' and State Employees' Retirement System (TSERS). RHBF is supported by a percent of payroll contribution from participating employing units. Each year the percentage is set in legislation, as are the maximum per retiree contributions from RHBF to the Plan. The State Treasurer, with the approval of the Plan Board of Trustees, then sets the employer contributions (subject to the legislative cap) and the premiums to be paid by retirees, as well as the health benefits to be provided through the Plan.

*Benefits Provided:* Plan benefits received by retired employees and disabled employees from RHBF are OPEB. The healthcare benefits for retired and disabled employees who are not eligible for Medicare are the same as for active employees as described in Note 16. The plan options change when the former employees become eligible for Medicare. The benefits provided include medical and pharmacy coverage for employees and their dependents. Non-Medicare eligible members have two self-funded options administered by the State Health Plan while Medicare members have three options, including one self-funded option and two fully-insured Medicare Advantage/Prescription Drug Plan options. Self-funded medical and pharmacy claims costs are shared between the covered member and the State Health Plan. If the self-funded plan is elected by a Medicare eligible member, the coverage is secondary to Medicare. Fully-insured claims include cost sharing from covered members with the remaining balance paid by the fully-insured carrier.

Those former employees who are eligible to receive medical benefits from RHBF are long-term disability beneficiaries of the Disability Income Plan of North Carolina and retirees of TSERS, the Consolidated Judicial Retirement System (CJRS), the Legislative Retirement System (LRS), the University Employees' Optional Retirement Program (ORP), and a small number of local governments, with five or more years of contributory membership service in their retirement system prior to disability or retirement, with the following exceptions: for employees first hired on or after October 1, 2006, and members of the North Carolina General Assembly first taking office on or after February 1, 2007, future coverage as retired employees and retired members of the North Carolina General Assembly is subject to the requirement that the future retiree have 20 or more years of retirement service credit in order to receive coverage on a noncontributory basis. Employees first hired on or after October 1, 2006 and members of the North Carolina General Assembly first taking office on or after February 1, 2007 with 10 but less than 20 years of retirement service credit are eligible for coverage on a partially contributory basis. For such future retirees, the State will pay 50% of the Plan's total noncontributory premium. Employees first hired on or after October 1, 2006 and members of the North Carolina General Assembly first taking office on or after February 1, 2007 with five but less than 10 years of retirement service credit are eligible for coverage on a fully contributory basis.

Section 35.21 (c) & (d) of Session Law 2017-57 repealed retiree medical benefits for employees first hired on or after January 1, 2021. The legislation amended Chapter 135, Article 3B of the General Statutes to require that retirees must earn contributory retirement service in the TSERS (or in an allowed local system unit), CJRS, or LRS prior to January 1, 2021, and not withdraw that service, in order to be eligible for retiree medical benefits under the amended law. Consequently, members first hired on and after January 1, 2021 will not be eligible to receive retiree medical benefits.

RHBF's benefit and contribution provisions are established by Chapter 135-7, Article 1, and Chapter 135, Article 3B of the General Statutes and may be amended only by the North Carolina General Assembly. RHBF does not provide for automatic post-retirement benefit increases.

*Contributions:* Contribution rates to RHBF, which are intended to finance benefits and administrative expenses on a pay-as-you-go basis, are determined by the North Carolina General Assembly in the Appropriations Act. The University's contractually-required contribution rate for the year ended June 30, 2024 was 7.14%

of covered payroll. The University's contributions to the RHBF were \$8,316,239.82 for the year ended June 30, 2024.

In fiscal year 2022, the Plan transferred \$180.51 million to RHBF as a result of cost savings to the Plan over a span of six years. For financial reporting purposes, the transfer was recognized as a nonemployer contributing entity contribution. The contribution was allocated among the RHBF employers and recorded as noncapital contributions. For the fiscal year ended June 30, 2024, the University recognized noncapital contributions for RHBF of 198,441.00.

## 2. Disability Income

*Plan Administration:* As discussed in Note 16, short-term and long-term disability benefits are provided through the Disability Income Plan of North Carolina (DIPNC), a cost-sharing, multiple-employer defined benefit plan, to the eligible members of TSERS which includes employees of the State, the University of North Carolina System, community colleges, certain participating component units and LEAs which are not part of the State's reporting entity, and the University Employees' ORP. By statute, DIPNC is administered by the Department of State Treasurer and the Board of Trustees of TSERS.

*Benefits Provided:* Long-term disability benefits are payable as an OPEB from DIPNC after the conclusion of the short-term disability period or after salary continuation payments cease, whichever is later, while the employee is disabled and does not meet the TSERS conditions for unreduced service retirement. An employee is eligible to receive long-term disability benefits provided the following requirements are met: (1) the employee has five or more years of contributing membership service in TSERS or the University Employees' ORP, earned within 96 months prior to becoming disabled or cessation of salary continuation payments, whichever is later; (2) the employee must make application to receive long-term benefits within 180 days after the conclusion of the short-term disability period or after salary continuation payments cease or after monthly payments for Workers' Compensation cease (excluding monthly payments for permanent partial benefits), whichever is later; (3) the employee must be certified by the Medical Board to be mentally or physically disabled for the further performance of his/her usual occupation; (4) the disability must have been continuous, likely to be permanent, and incurred at the time of active employment; (5) the employee must not be eligible to receive an unreduced retirement benefit from TSERS; and (6) the employee must terminate employment as a permanent, full-time employee. A general employee is eligible to receive an unreduced retirement benefit from TSERS after: (1) reaching the age of 65 and completing five years of membership service; (2) reaching the age of 60 and completing 25 years of creditable service; or (3) completing 30 years of creditable service, at any age.

For employees who had five or more years of membership service as of July 31, 2007, during the first 36 months of the long-term disability period, the monthly long-term disability benefit is equal to 65% of one-twelfth of an employee's annual base rate of compensation last payable to the participant or beneficiary prior to the beginning of the short-term disability period, plus the like percentage of one-twelfth of the annual longevity payment and local supplements to which the participant or beneficiary would be eligible. The monthly benefits are subject to a maximum of \$3,900 per month reduced by any primary Social Security disability benefits, by an amount equal to the

monthly primary Social Security retirement benefit to which the employee might be entitled should the employee be at least age 62, and by monthly payments for Workers' Compensation to which the participant or beneficiary may be entitled, but the benefits payable shall be no less than \$10 a month. After the first 36 months of the long-term disability, the long-term benefit is calculated in the same manner as described above except the monthly benefit is reduced by an amount equal to a monthly primary Social Security disability benefit to which the participant or beneficiary might be entitled had Social Security disability benefits been awarded. When an employee qualifies for an unreduced service retirement allowance from TSERS, the benefits payable from DIPNC will cease, and the employee will commence retirement under TSERS or the University Employees' ORP.

For employees who had less than five years of membership service as of July 31, 2007, and meet the requirements for long-term disability on or after August 1, 2007, benefits are calculated in the same manner as described above except that after the first 36 months of the long-term disability, no further long-term disability benefits are payable unless the employee has been approved and is in receipt of primary Social Security benefits.

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.

*Contributions:* Although DIPNC operates on a calendar year, disability income benefits are funded by actuarially determined employer contributions that are established in the Appropriations Act by the North Carolina General Assembly and coincide with the State's fiscal year. The University's contractually-required contribution rate for the year ended June 30, 2024 was 0.11% of covered payroll. The University's contributions to DIPNC were \$128,121.34 for the year ended June 30, 2024.

### C. Net OPEB Liability

*Retiree Health Benefit Fund:* At June 30, 2024, the University reported a liability of \$145,587,736.85 for its proportionate share of the collective net OPEB liability for RHBF. The net OPEB liability was measured as of June 30, 2023. The total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2022, and update procedures were used to roll forward the total OPEB liability to June 30, 2023. The University's proportion of the net OPEB liability was based on a projection of the present value of future salaries for the University relative to the projected present value of future salaries for all participating employers, actuarially-determined. As of June 30, 2023, the University's proportion was 0.56687%, which was a decrease of 0.00737 from its proportion measured as of June 30, 2022, which was 0.57424%.

*Disability Income Plan of North Carolina:* At June 30, 2024, the University reported a liability of \$151,187.07 for its proportionate share of the collective net OPEB liability for DIPNC. The net OPEB liability was measured as of June 30, 2023. The total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2022, and update procedures were used to roll forward the total OPEB liability to June 30, 2023. The University's proportion of the net OPEB liability was based on a projection of the present value of future salaries for the University relative to the

projected present value of future salaries for all participating employers, actuarially-determined. As of June 30, 2023, the University's proportion was 0.58926%, which was an increase of 0.00420 from its proportion measured as of June 30, 2022, which was 0.58506%.

**Actuarial Assumptions:** The total OPEB liabilities for RHBF and DIPNC were determined by actuarial valuations as of December 31, 2022, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified. The total OPEB liabilities were then rolled forward to June 30, 2023 utilizing update procedures incorporating the actuarial assumptions.

	Retiree Health Benefit Fund	Disability Income Plan of N.C.
Valuation Date	12/31/2022	12/31/2022
Inflation	2.5%	2.5%
Salary Increases*	3.25% - 8.05%	3.25% - 8.05%
Investment Rate of Return**	6.5%	3.0%
Healthcare Cost Trend Rate - Medical***	6.5% grading down to 5% by 2029	N/A
Healthcare Cost Trend Rate - Prescription Drug***	10% grading down to 5% by 2033	N/A
Healthcare Cost Trend Rate - Prescription Drug Rebates***	7% grading down to 5% by 2033	N/A
Healthcare Cost Trend Rate - Medicare Advantage***	0% through 2025, 5% thereafter	N/A
Healthcare Cost Trend Rate - Administrative***	3%	N/A

\* Salary increases include 3.25% inflation and productivity factor.

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

\*\*\* Disability Income Plan of NC eliminated employer reimbursements from the Plan (which included State Health Plan premiums) effective July 1, 2019.

N/A - Not Applicable

The OPEB plans currently use mortality tables that vary by age, gender, employee group (i.e. teacher, other educational employee, general employee, or law enforcement officer) and health status (i.e. disabled or not disabled). The current mortality rates are based on published tables and studies that cover significant portions of the U.S. public plan population. The healthy mortality rates also contain a provision to reflect future mortality improvements.

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. DIPNC is primarily invested in the Bond Index Investment Pool as of June 30, 2023.



Best estimates of real rates of return for each major asset class included in RHBF's target asset allocation as of June 30, 2023 (the measurement date) are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return
Fixed Income	0.9%
Global Equity	6.5%
Real Estate	5.9%
Alternatives	8.2%
Opportunistic Fixed Income	5.0%
Inflation Sensitive	2.7%

The information in the preceding table is based on 30-year expectations developed with an investment consulting firm as part of a study that was completed in early 2022, 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 2.25%. Return projections do not include any excess return expectations over benchmark averages. All rates of return and inflation are annualized. The long-term expected real rate of return for the Bond Index Investment Pool as of June 30, 2023 is 0.78%.

Actuarial valuations of the plans involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. The results of the valuations fluctuate from year to year as actual experience differs from assumptions. This includes demographic experiences (i.e., mortality and retirement) that differ from expected. This also includes financial experiences (i.e., member medical costs and contributions) that vary from expected trends. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

The actuarial assumptions used for RHBF are consistent with those used to value the pension benefits of TSERS where appropriate. These assumptions are based on the most recent pension valuations available. The discount rate used for RHBF reflects a pay-as-you-go approach.

Projections of benefits for financial reporting purposes of the plans are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The RHBF is funded solely by employer contributions and benefits are dependent on membership requirements.

The actuarial methods and assumptions used for DIPNC include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. Prior to July 1, 2019, employers received a reimbursement from DIPNC for employer costs, including the employer's share of the State Health Plan premiums, incurred during the second six months of the first year of a member's short-term disability coverage. With the elimination of the reimbursement to employers, State Health Plan premiums are no longer reimbursed by DIPNC for the benefits that were effective on or after July 1, 2019.



The actuarial assumptions used in the December 31, 2022 valuations were generally based on the results of an actuarial experience study prepared as of December 31, 2019, as amended for updates to certain assumptions (such as medical claims and medical trend rate assumptions) implemented based on annual reviews that have occurred since that experience study.

**Discount Rate:** The discount rate used to measure the total OPEB liability for RHBF was 3.65% at June 30, 2023 compared to 3.54% at June 30, 2022. The projection of cash flow used to determine the discount rate assumed that contributions from employers would be made at the current statutorily determined contribution rate. Based on the above assumptions, the plan's fiduciary net position was not projected to be available to make projected future benefit payments to current plan members. As a result, a municipal bond rate of 3.65% was used as the discount rate used to measure the total OPEB liability. The 3.65% rate is based on the Bond Buyer 20-year General Obligation Index as of June 30, 2023.

The discount rate used to measure the total OPEB liability for DIPNC was 3.00% at June 30, 2023 compared to 3.08% at June 30, 2022. The projection of cash flow used to determine the discount rate assumed that contributions from plan members would be made at the current contribution rate and that contributions from employers would be made at statutorily required rates, actuarially determined. Based on those assumptions, the plan's fiduciary net position was not projected to be available to make all projected future benefit payments to the current plan members. In order to develop the blended discount rate of 3.00%, 3.00% was used during the period that the plan was projected to have a fiduciary net position, and a municipal bond rate of 3.65% was used during the period that the plan was projected to have no fiduciary net position. The 3.65% rate is based on the Bond Buyer 20-year General Obligation Index as of June 30, 2023.

**Sensitivity of the Net OPEB Liability to Changes in the Discount Rate:** The following presents the University's proportionate share of the net OPEB liability of the plans, as well as what the plans' net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current discount rate:

		Net OPEB Liability		
		1% Decrease (2.65%)	Current Discount Rate (3.65%)	1% Increase (4.65%)
RHBF	\$	171,748,441.11	\$ 145,587,736.85	\$ 124,281,582.35
		1% Decrease (2.00%)	Current Discount Rate (3.00%)	1% Increase (4.00%)
DIPNC	\$	181,746.89	\$ 151,187.07	\$ 120,069.37

**Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates:** The following presents the net OPEB liability of the plans, as well as what the plans' net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

Net OPEB Liability		
1% Decrease (Medical - 4% - 5.5%, Pharmacy - 4% - 9%, Pharmacy Rebate - 4% - 6%, Med. Advantage - 0% - 4%, Administrative - 2%)	Current Healthcare Cost Trend Rates (Medical - 5% - 6.5%, Pharmacy - 5% - 10%, Pharmacy Rebate - 5% - 7%, Med. Advantage - 0% - 5%, Administrative - 3%)	1% Increase (Medical - 6% - 7.5%, Pharmacy - 6% - 11%, Pharmacy Rebate - 6% - 8%, Med. Advantage - 0% - 6%, Administrative - 4%)
RHBF	\$ 120,195,728.14	\$ 145,587,736.85
		\$ 178,330,199.74

Effective with the actuarial valuation as of December 31, 2021, the liability for the State's potential reimbursement of costs incurred by employers was removed because the reimbursement by DIPNC was eliminated for disabilities occurring on or after July 1, 2019. Thus sensitivity to changes in the healthcare cost trend rates is not applicable for DIPNC.

**OPEB Expense:** For the fiscal year ended June 30, 2024, the University recognized OPEB expense as follows:

OPEB Plan	Amount
RHBF	\$ 476,690.74
DIPNC	205,262.10
<b>Total OPEB Expense</b>	<b>\$ 681,952.84</b>

**Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB:** At June 30, 2024, the University reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

Employer Balances of Deferred Outflows of Resources Related to OPEB by Classification:			
	RHBF	DIPNC	Total
Differences Between Actual and Expected Experience	\$ 1,604,686.92	\$ 132,496.09	\$ 1,737,183.01
Changes of Assumptions	15,786,151.53	11,016.82	15,797,168.35
Net Difference Between Projected and Actual Earnings on OPEB Plan Investments	1,164,103.76	197,470.26	1,361,574.02
Changes in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	2,527,273.39	4,252.24	2,531,525.63
Contributions Subsequent to the Measurement Date	8,316,239.82	128,121.34	8,444,361.16
<b>Total</b>	<b>\$ 29,398,455.42</b>	<b>\$ 473,356.75</b>	<b>\$ 29,871,812.17</b>

## Employer Balances of Deferred Inflows of Resources Related to OPEB by Classification:

	RHBF	DIPNC	Total
Differences Between Actual and Expected Experience	\$ 142,778.78	\$ 83,739.42	\$ 226,518.20
Changes of Assumptions	38,877,510.31	25,807.53	38,903,317.84
Changes in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	4,730,412.02	17,096.33	4,747,508.35
<b>Total</b>	<b>\$ 43,750,701.11</b>	<b>\$ 126,643.28</b>	<b>\$ 43,877,344.39</b>

Amounts reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as reductions of the net OPEB liabilities related to RHBF and DIPNC in the fiscal year ending June 30, 2025. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized as OPEB expense as follows:

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

Year Ending June 30:	RHBF	DIPNC
2025	\$ (8,066,173.48)	\$ 68,630.36
2026	(10,786,701.41)	42,301.89
2027	(5,830,883.49)	66,161.71
2028	2,015,273.83	22,131.08
2029	(0.96)	10,566.31
Thereafter	-	8,800.78
<b>Total</b>	<b>\$ (22,668,485.51)</b>	<b>\$ 218,592.13</b>

## Note 16 - 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 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. See Note 15, Other Postemployment Benefits, for additional information regarding retiree health benefits.

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

Term life insurance (death benefits) of \$25,000 to \$50,000 is provided to eligible workers who enroll in the Teachers' and State Employees' Retirement System. This Death Benefit Plan is administered by the State Treasurer and funded via employer contributions. The employer contribution rate was 0.13% for the current fiscal year.

## **3. Disability Income Plan**

Short-term and long-term disability benefits are provided to University employees through the Disability Income Plan of North Carolina (DIPNC), part of the State's Pension and Other Employee Benefit Trust Funds. Short-term benefits are paid by the University for up to twelve months. The Board of Trustees of the DIPNC may extend the short-term disability benefits for up to an additional twelve months. During the extended period of short-term disability benefits, payments are made directly by the DIPNC to the beneficiary. As discussed in Note 15, long-term disability benefits are payable as other postemployment benefits from DIPNC after the conclusion of the short-term disability period or after salary continuation payments cease, whichever is later, for as long as an employee is disabled.

## **B. Other Risk Management and Insurance Activities**

### **1. Automobile, Fire, and Other Property Losses**

The University is required to maintain all risk coverage on all state-owned buildings and contents through the State Property Fire Insurance Fund (Fund), an internal service fund of the State. Fire and lightning 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 fire and lightning coverage. Coverage for all remaining risks for all buildings is charged to the University. Losses covered by the Fund are subject to a \$5,000 per occurrence deductible. However, the University has chosen a \$10,000 deductible for a reduction in premium.

The University also purchased through the Fund All Risk – Special Form coverage for all University owned buildings and contents which covers windstorm and hail damage, among other risks. The All Risk – Special Form coverage deductible is \$10,000 per occurrence. Optional All Risk – Computer/Miscellaneous coverage is purchased for selected University owned business equipment such as high value equipment and computers. All Risk – Computer/Miscellaneous losses are subject to a \$10,000 deductible per occurrence. Flood insurance is purchased for the Camp Building Gym which is within a flood zone.

The Corporation and University housing maintained property coverage with a private broker of \$145,741,113 and \$30,142,750, respectively. Both the Corporation and University housing maintained liability coverage of \$1,000,000 per occurrence with a \$2,000,000 aggregate limit, and an additional excess liability policy of \$10,000,000 per occurrence with a \$10,000,000 aggregate limit.

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.

### **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 \$2,000,000 per claim and \$10,000,000 in the aggregate per fiscal year via contract with private insurance companies. The University pays the premium, based on a composite rate, directly to the private insurer.

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

The University, Foundation, and Corporation are 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. The University and its component units are charged a premium by the private insurance company. The coverage limit for the University for employee theft is \$5,000,000 per occurrence with a \$100,000 deductible. The Foundation's and Corporation's coverage limit is \$1,000,000 with a \$25,000 deductible. The University is also protected against fraudulently induced transfers with a coverage limit of \$5,000,000 and a deductible of \$100,000.

### **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 *Annual Comprehensive 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. The Corporation retained blanket coverage across several locations in the amount of \$14,784,872 to cover potential loss of income due to a necessary suspension of business operations during the period of restoration. These coverages were affected and placed by the North Carolina Department of Insurance through the State's agent of record.

**Note 17 - 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 \$7,969,254.92 and on other purchases were \$2,877,433.86 at June 30, 2024.

**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 18 - Blended Component Units**

Condensed combining information for the University's blended component units for the year ended June 30, 2024, is presented as follows:

**Condensed Statement of Net Position**  
**June 30, 2024**

	University	WCU Foundation	WCU R&D Corporation	Eliminations	Total
<b>ASSETS</b>					
Current Assets	\$ 215,538,135.85	\$ 12,754,350.86	\$ 3,750,691.78	\$ -	\$ 232,043,178.49
Capital Assets, Net	692,704,453.41	248,802.19	-	-	692,953,255.60
Other Noncurrent Assets	72,837,456.34	77,724,672.09	5,118,761.45	-	155,680,889.88
Component Unit Receivable from Primary Government	-	-	37,750,790.32	(37,750,790.32)	-
Total Assets	981,080,045.60	90,727,825.14	46,620,243.55	(37,750,790.32)	1,080,677,323.97
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	66,839,887.81	-	1,999,676.03	-	68,839,563.84
<b>LIABILITIES</b>					
Current Liabilities	21,938,021.51	39,825.05	2,633,683.42	-	24,611,529.98
Long-Term Liabilities, Net	409,921,140.82	-	40,008,770.03	-	449,929,910.85
Other Noncurrent Liabilities	4,604,730.12	-	-	-	4,604,730.12
Primary Government Payable to Component Unit	37,750,790.32	-	-	(37,750,790.32)	-
Total Liabilities	474,214,682.77	39,825.05	42,642,453.45	(37,750,790.32)	479,146,170.95
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	69,482,455.28	126,381.89	607,217.64	-	70,216,054.81
<b>NET POSITION</b>					
Net Investment in Capital Assets	424,738,137.26	248,802.19	-	-	424,986,939.45
Restricted - Nonexpendable	23,040,440.64	39,019,798.17	-	-	62,060,238.81
Restricted - Expendable	52,822,777.86	49,562,745.62	4,634,117.43	-	107,019,640.91
Unrestricted	3,621,439.60	1,730,272.22	736,131.06	-	6,087,842.88
Total Net Position	\$ 504,222,795.36	\$ 90,561,618.20	\$ 5,370,248.49	\$ -	\$ 600,154,662.05

## Notes to the Financial Statements

### Condensed Statement of Revenues, Expenses, and Changes in Net Position For the Fiscal Year Ended June 30, 2024

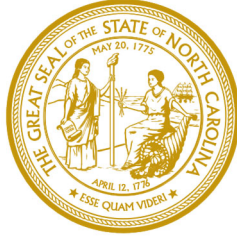
	University	WCU Foundation	WCU R & D Corporation	Eliminations	Total
<b>OPERATING REVENUES</b>					
Total Operating Revenues	\$ 113,275,327.40	\$ 10,870.12	\$ 925,220.92	\$ (761,144.47)	\$ 113,450,273.97
<b>OPERATING EXPENSES</b>					
Operating Expenses	274,076,876.63	2,908,183.66	391,011.82	(761,144.47)	276,614,927.64
Depreciation/Amortization	14,993,061.23	4,622.95	-	-	14,997,684.18
Total Operating Expenses	289,069,937.86	2,912,806.61	391,011.82	(761,144.47)	291,612,611.82
Operating Income (Loss)	(175,794,610.46)	(2,901,936.49)	534,209.10	-	(178,162,337.85)
<b>NONOPERATING REVENUES (EXPENSES)</b>					
State Appropriations	164,838,489.74	-	-	-	164,838,489.74
Student Financial Aid	25,275,369.02	-	-	-	25,275,369.02
Noncapital Contributions, Net	3,290,480.08	7,797,919.66	-	-	11,088,399.74
Investment Income (Net of Investment Expense)	14,903,591.61	8,872,359.27	233,286.95	-	24,009,237.83
Interest Earned on Leases	-	-	1,352,751.25	(1,352,751.25)	-
Interest and Fees on Debt	(8,017,473.16)	-	(1,536,053.49)	1,352,751.25	(8,200,775.40)
Other Nonoperating Revenues (Expenses)	(590,878.25)	662.22	-	-	(590,216.03)
Net Nonoperating Revenues	199,699,579.04	16,670,941.15	49,984.71	-	216,420,504.90
Capital Appropriations	3,897,210.00	-	-	-	3,897,210.00
Capital Contributions	460,386.61	24,000.00	-	-	484,386.61
Transfers to University/Athletics	3,049,440.33	(3,049,440.33)	-	-	-
Additions to Endowments	746,219.48	1,911,969.29	-	-	2,658,188.77
Total Other Revenues (Expenses)	8,153,256.42	(1,113,471.04)	-	-	7,039,785.38
Increase in Net Position	32,058,225.00	12,655,533.62	584,193.81	-	45,297,952.43
<b>NET POSITION</b>					
Net Position, July 1, 2023	472,164,570.36	77,906,084.58	4,786,054.68	-	554,856,709.62
Net Position, June 30, 2024	\$ 504,222,795.36	\$ 90,561,618.20	\$ 5,370,248.49	\$ -	\$ 600,154,662.05

### Condensed Statement of Cash Flows For the Fiscal Year Ended June 30, 2024

	University	WCU Foundation	WCU R&D Corporation	Eliminations	Total
Net Cash Provided (Used) by Operating Activities	\$ (163,994,435.92)	\$ (2,860,459.86)	\$ 21,227.81	\$ -	\$ (166,833,667.97)
Net Cash Provided by Noncapital Financing Activities	195,828,514.58	4,151,930.33	-	-	199,980,444.91
Net Cash Used by Capital Financing and Related Financing Activities	(16,582,778.15)	-	(4,030,437.46)	(3,798,806.71)	(24,412,022.32)
Net Cash Provided by Investing Activities	2,340,270.88	3,048,007.21	4,032,105.79	3,798,806.71	13,219,190.59
Net Increase in Cash and Cash Equivalents	17,591,571.39	4,339,477.68	22,896.14	-	21,953,945.21
Cash and Cash Equivalents, July 1, 2023	189,846,217.45	7,899,657.55	5,559,875.86	-	203,305,750.86
Cash and Cash Equivalents, June 30, 2024	\$ 207,437,788.84	\$ 12,239,135.23	\$ 5,582,772.00	\$ -	\$ 225,259,696.07

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.





# **Required Supplementary Information**

**Western Carolina University**  
**Required Supplementary Information**  
**Schedule of the Proportionate Share of the Net Pension Liability**  
**Cost-Sharing, Multiple-Employer, Defined Benefit Pension Plan**  
**Last Ten Fiscal Years\***

**Exhibit B-1**

Teachers' and State Employees' Retirement System	2024	2023	2022	2021	2020
Proportionate Share Percentage of Collective Net Pension Liability	0.35709%	0.33769%	0.34087%	0.33382%	0.32315%
Proportionate Share of TSERS Collective Net Pension Liability	\$ 57,432,162.15	\$ 48,192,939.23	\$ 15,452,945.41	\$ 39,235,025.25	\$ 32,601,597.89
Covered Payroll	\$ 60,887,094.21	\$ 55,181,061.00	\$ 53,434,942.76	\$ 52,484,354.74	\$ 49,336,165.26
Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	94.33%	87.34%	28.92%	74.76%	66.08%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	82.97%	84.14%	94.86%	85.98%	87.56%
	2019	2018	2017	2016	2015
Proportionate Share Percentage of Collective Net Pension Liability	0.31678%	0.31243%	0.30324%	0.29963%	0.29312%
Proportionate Share of TSERS Collective Net Pension Liability	\$ 30,655,170.85	\$ 24,125,823.71	\$ 27,169,225.90	\$ 10,775,670.85	\$ 3,436,600.00
Covered Payroll	\$ 46,741,640.17	\$ 45,748,629.96	\$ 43,396,253.67	\$ 43,031,562.83	\$ 42,705,248.19
Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	65.58%	52.74%	62.61%	25.04%	8.05%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	87.61%	89.51%	87.32%	94.64%	98.24%

Note: Information is presented for all years that were measured in accordance with the requirements of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - An Amendment of GASB Statement No. 27*, as amended.

\* The amounts presented for each fiscal year were determined as of the prior fiscal year ended June 30.

**Western Carolina University**  
**Required Supplementary Information**  
**Schedule of University Contributions**  
**Cost-Sharing, Multiple-Employer, Defined Benefit Pension Plan**  
**Last Ten Fiscal Years**

**Exhibit B-2**

Teachers' and State Employees' Retirement System	2024	2023	2022	2021	2020
Contractually Required Contribution	\$ 11,441,023.31	\$ 10,582,176.97	\$ 9,038,657.79	\$ 7,897,684.54	\$ 6,807,220.81
Contributions in Relation to the Contractually Determined Contribution	11,441,023.31	10,582,176.97	9,038,657.79	7,897,684.54	6,807,220.81
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Covered Payroll	\$ 64,858,408.77	\$ 60,887,094.21	\$ 55,181,061.00	\$ 53,434,942.76	\$ 52,484,354.74
Contributions as a Percentage of Covered Payroll	17.64%	17.38%	16.38%	14.78%	12.97%
	2019	2018	2017	2016	2015
Contractually Required Contribution	\$ 6,063,414.71	\$ 5,038,748.81	\$ 4,565,713.26	\$ 3,970,757.21	\$ 3,937,388.00
Contributions in Relation to the Contractually Determined Contribution	6,063,414.71	5,038,748.81	4,565,713.26	3,970,757.21	3,937,388.00
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Covered Payroll	\$ 49,336,165.26	\$ 46,741,640.17	\$ 45,748,629.96	\$ 43,396,253.67	\$ 43,031,562.83
Contributions as a Percentage of Covered Payroll	12.29%	10.78%	9.98%	9.15%	9.15%

Note: Changes of 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**  
**Cost-Sharing, Multiple-Employer, Defined Benefit Pension Plan**  
**For the Fiscal Year Ended June 30, 2024**

*Changes of Benefit Terms:*

Teachers' and State Employees' Retirement System	Cost of Living Increase									
	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
	N/A	N/A	N/A	N/A	N/A	1.00%	N/A	N/A	N/A	1.00%

Beginning in fiscal year 2015, with the implementation of GASB Statement No. 68, the above table reflects Cost of Living Adjustments (COLA) in the period of the legislative session or Board of Trustees meeting when it was passed. The COLA is effective as of July 1 of that period and the fiscal year end plan liability is affected at June 30 of that year because the COLA is included in the actuarial assumptions used to calculate the plan net pension liability.

Effective July 1, 2017, the definition of law enforcement officer related to TSERS members was changed by the General Assembly to include Probation/Parole officers for retirement benefit purposes. The change includes officers with respect to service rendered on or after July 1, 2017, and provides for unreduced retirement at age 55 with five years of service as a law enforcement officer or reduced retirement at age 50 with 15 years of service as a law enforcement officer.

Effective July 1, 2017, retirees and beneficiaries of deceased retirees receiving benefits from the TSERS as of July 1, 2016, received a 1% cost-of-living adjustment. Retirees and beneficiaries of retirees with retirement effective dates between July 1, 2016 and before June 30, 2017 received a prorated amount. These benefit enhancements reflect legislation enacted by the North Carolina General Assembly.

In December 2021 for the fiscal year ended June 30, 2022, retirees and beneficiaries of deceased retirees receiving benefits from the TSERS as of September 1, 2021, received a one-time cost-of-living supplement payment, equal to 2% of the beneficiary's annual retirement allowance.

Benefit recipients of the TSERS received a one-time benefit supplement payment equal to 4% of the member's annual benefit amount, paid in October 2022, as granted by the North Carolina General Assembly for the fiscal year ended June 30, 2023. The one-time supplement does not change the ongoing monthly benefits, and absent additional action by governing authorities, the payments will not recur in future years.

Benefit recipients of the TSERS will receive a one-time benefit supplement payment equal to 4% of the member's annual benefit amount, paid in November 2023, as granted by the North Carolina General Assembly for the fiscal year ended June 30, 2024. The one-time supplement does not change the ongoing monthly benefits, and absent additional action by governing authorities, the payments will not recur in future years.

*Methods and Assumptions Used in Calculations of Actuarially Determined Contributions:* An actuarial valuation is performed for each year for the plan. The actuarially determined contribution rates in the Schedule of University Contributions are calculated by the actuary as a projection of the required employer contribution for the fiscal year beginning 18 months following the date of the valuation results. See Note 14 for more information on the specific assumptions for the plan. The actuarially determined contributions for those items with covered payroll were determined using the actuarially determined contribution rate from the actuary and covered payroll as adjusted for timing differences and other factors such as differences in employee class. Other actuarially determined contributions are disclosed in the schedule as expressed by the actuary in reports to the plans.

*Changes of Assumptions:* In January 2021, the actuarial assumptions for the TSERS were updated to more closely reflect actual experience.

In 2020, the North Carolina Retirement Systems' consulting actuaries performed the quinquennial investigation of the TSERS 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 the TSERS experience during the period between January 1, 2015, and December 31, 2019. Based on the findings, the Boards of Trustees of the TSERS adopted a number of new actuarial assumptions and methods. The most notable changes to the assumptions include updates to the mortality tables and mortality improvements. These assumptions were adjusted to be based on the Pub-2010 mortality tables reflecting the mortality projection scale MP-2019, released by the Society of Actuaries in 2019. In addition, the assumed rates of retirement, salary increases, and rates of termination from active employment were updated to more closely reflect actual experience.

The discount rate for the TSERS was lowered from 7.00% to 6.50% effective for the December 31, 2020 valuation, with the resulting effect on minimum actuarially determined employer contribution rates (or amounts) to be gradually recognized over a five-year period beginning July 1, 2022.

The Notes to Required Supplementary Information reflect information included in the State of North Carolina's 2023 *Annual Comprehensive Financial Report*.

N/A - Not Applicable

**Western Carolina University**  
**Required Supplementary Information**  
**Schedule of the Proportionate Share of the Net OPEB Liability or Asset**  
**Cost-Sharing, Multiple-Employer, Defined Benefit OPEB Plans**  
**Last Eight Fiscal Years\***

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

<b>Retiree Health Benefit Fund</b>	<b>2024</b>	<b>2023</b>	<b>2022</b>	<b>2021</b>	<b>2020</b>
Proportionate Share Percentage of Collective Net OPEB Liability	0.56687%	0.57424%	0.58779%	0.58088%	0.57892%
Proportionate Share of Collective Net OPEB Liability	\$ 145,587,736.85	\$ 131,119,200.51	\$ 175,928,216.76	\$ 156,756,961.98	\$ 178,250,942.12
Covered Payroll	\$ 110,670,889.66	\$ 105,475,747.28	\$ 100,620,105.87	\$ 98,972,289.34	\$ 95,681,397.79
Proportionate Share of the Net OPEB Liability as a Percentage of Covered Payroll	131.55%	124.31%	174.84%	158.38%	186.30%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	10.73%	10.58%	7.72%	6.92%	4.40%
	<b>2019</b>	<b>2018</b>	<b>2017</b>		
Proportionate Share Percentage of Collective Net OPEB Liability	0.56171%	0.52031%	0.58611%		
Proportionate Share of Collective Net OPEB Liability	\$ 155,538,498.67	\$ 166,024,534.98	\$ 248,150,644.98		
Covered Payroll	\$ 92,022,328.93	\$ 88,250,047.80	\$ 84,503,746.43		
Proportionate Share of the Net OPEB Liability as a Percentage of Covered Payroll	169.02%	188.13%	293.66%		
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	4.40%	3.52%	2.41%		

**Western Carolina University**  
**Required Supplementary Information**  
**Schedule of the Proportionate Share of the Net OPEB Liability or Asset**  
**Cost-Sharing, Multiple-Employer, Defined Benefit OPEB Plans**  
**Last Eight Fiscal Years\***

**Exhibit B-3**  
**Page 2 of 2**

<b>Disability Income Plan of North Carolina</b>	<b>2024</b>	<b>2023</b>	<b>2022</b>	<b>2021</b>	<b>2020</b>
Proportionate Share Percentage of Collective Net OPEB Liability (Asset)	0.58926%	0.58506%	0.58225%	0.59279%	0.58260%
Proportionate Share of Collective Net OPEB Liability (Asset)	\$ 151,187.07	\$ 167,349.68	\$ (92,074.36)	\$ (283,684.56)	\$ (244,644.17)
Covered Payroll	\$ 110,670,889.66	\$ 105,475,747.28	\$ 100,620,105.87	\$ 98,972,289.34	\$ 95,681,397.79
Proportionate Share of the Net OPEB Liability (Asset) as a Percentage of Covered Payroll	0.14%	0.16%	0.09%	0.29%	0.26%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	90.61%	90.34%	105.18%	115.57%	113.00%
	<b>2019</b>	<b>2018</b>	<b>2017</b>		
Proportionate Share Percentage of Collective Net OPEB Liability (Asset)	0.58300%	0.57400%	0.55705%		
Proportionate Share of Collective Net OPEB Liability (Asset)	\$ (172,129.84)	\$ (341,435.42)	\$ (336,665.65)		
Covered Payroll	\$ 92,022,328.93	\$ 88,250,047.80	\$ 84,503,746.43		
Proportionate Share of the Net OPEB Liability (Asset) as a Percentage of Covered Payroll	0.19%	0.39%	0.40%		
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	108.47%	116.23%	116.06%		

Note: Information is presented for all years that were measured in accordance with the requirements of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, as amended.

\* The amounts presented for each fiscal year were determined as of the prior fiscal year ended June 30.

**Western Carolina University**  
**Required Supplementary Information**  
**Schedule of University Contributions**  
**Cost-Sharing, Multiple-Employer, Defined Benefit OPEB Plans**  
**Last Ten Fiscal Years**

**Exhibit B-4**  
**Page 1 of 2**

<b>Retiree Health Benefit Fund</b>	<b>2024</b>	<b>2023</b>	<b>2022</b>	<b>2021</b>	<b>2020</b>
Contractually Required Contribution	\$ 8,316,239.82	\$ 7,625,224.30	\$ 6,634,424.50	\$ 6,721,423.07	\$ 6,403,507.12
Contributions in Relation to the Contractually Determined Contribution	8,316,239.82	7,625,224.30	6,634,424.50	6,721,423.07	6,403,507.12
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered Payroll	\$ 116,473,947.06	\$ 110,670,889.66	\$ 105,475,747.28	\$ 100,620,105.87	\$ 98,972,289.34
Contributions as a Percentage of Covered Payroll	7.14%	6.89%	6.29%	6.68%	6.47%
	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
Contractually Required Contribution	\$ 5,999,223.64	\$ 5,567,350.90	\$ 5,127,327.78	\$ 4,732,209.80	\$ 4,543,212.02
Contributions in Relation to the Contractually Determined Contribution	5,999,223.64	5,567,350.90	5,127,327.78	4,732,209.80	4,543,212.02
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered Payroll	\$ 95,681,397.79	\$ 92,022,328.93	\$ 88,250,047.80	\$ 84,503,746.43	\$ 82,754,317.30
Contributions as a Percentage of Covered Payroll	6.27%	6.05%	5.81%	5.60%	5.49%



**Western Carolina University**  
**Required Supplementary Information**  
**Schedule of University Contributions**  
**Cost-Sharing, Multiple-Employer, Defined Benefit OPEB Plans**  
**Last Ten Fiscal Years**

**Exhibit B-4**  
**Page 2 of 2**

<b>Disability Income Plan of North Carolina</b>	<b>2024</b>	<b>2023</b>	<b>2022</b>	<b>2021</b>	<b>2020</b>
Contractually Required Contribution	\$ 128,121.34	\$ 110,670.89	\$ 94,928.17	\$ 90,558.10	\$ 98,972.29
Contributions in Relation to the Contractually Determined Contribution	128,121.34	110,670.89	94,928.17	90,558.10	98,972.29
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered Payroll	\$ 116,473,947.06	\$ 110,670,889.66	\$ 105,475,747.28	\$ 100,620,105.87	\$ 98,972,289.34
Contributions as a Percentage of Covered Payroll	0.11%	0.10%	0.09%	0.09%	0.10%
	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
Contractually Required Contribution	\$ 133,953.96	\$ 128,831.26	\$ 336,350.18	\$ 346,465.36	\$ 339,292.70
Contributions in Relation to the Contractually Determined Contribution	133,953.96	128,831.26	336,350.18	346,465.36	339,292.70
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered Payroll	\$ 95,681,397.79	\$ 92,022,328.93	\$ 88,250,047.80	\$ 84,503,746.43	\$ 82,754,317.30
Contributions as a Percentage of Covered Payroll	0.14%	0.14%	0.38%	0.41%	0.41%

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

**Western Carolina University**  
**Notes to Required Supplementary Information**  
**Schedule of University Contributions**  
**Cost-Sharing, Multiple-Employer, Defined Benefit OPEB Plans**  
**For the Fiscal Year Ended June 30, 2024**

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*Changes of Benefit Terms:* Effective January 1, 2016, benefit terms related to copays, out-of-pocket maximums, and deductibles were changed for three of five options of the Retiree Health Benefit Fund (RHBF). Most of the changes were an increase in the amount from the previous year.

Effective January 1, 2017, benefit terms related to copays, coinsurance maximums, out-of-pocket maximums, and deductibles were changed for two of five options of the RHBF. Most of the changes were an increase in the amount from the previous year.

Effective January 1, 2019, benefit terms related to copays, out-of-pocket maximums, and deductibles were changed for one of four options of the RHBF. Out-of-pocket maximums increased while certain specialist copays decreased related to option benefits.

Effective January 1, 2020, benefit terms related to copays, out-of-pocket maximums, and deductibles were changed for the 70/30 PPO option of the RHBF. Only the copays were adjusted for 80/20 PPO option of the RHBF.

Effective January 1, 2021, members first hired on and after January 1, 2021 will not be eligible to receive retiree medical benefits.

Effective January 1, 2022, the structure of employer contributions to the RHBF was altered by legislation. Previously, non-Medicare-eligible retirees had the same employer contribution rate as active employees. As a result of the legislative change, non-Medicare-eligible retirees have the same employer contribution rate as Medicare-eligible retirees.

Beginning with the Disability Income Plan of North Carolina (DIPNC) actuarial valuation as of December 31, 2017, the valuation included a liability for the State's potential reimbursement of costs incurred by employers for income benefits and health insurance premiums during the second six months of the first year of employee's short-term disability benefit period. Effective with the actuarial valuation as of December 31, 2021, this liability was removed from the actuarial valuation because the reimbursement from DIPNC was eliminated for disabilities occurring on or after July 1, 2019.

*Method and Assumptions Used in Calculations of Actuarially Determined Contributions:* An actuarial valuation is performed for each plan each year. The actuarially determined contribution rates in the Schedule of University Contributions are calculated by the actuary as a projection of the required employer contribution for the fiscal year beginning six months preceding the date of the valuation results for the RHBF. The actuarially determined contribution rates in the Schedule of University Contributions are calculated by the actuary as a projection of the required employer contribution for the fiscal year beginning 18 months following the date of the valuation results for the DIPNC. See Note 15 for more information on the specific assumptions for each plan. The actuarially determined contributions were determined using the actuarially determined contribution rate from the actuary and covered payroll as adjusted for timing differences and other factors such as differences in employee class. Other actuarially determined contributions are disclosed in the schedule as expressed by the actuary in reports to the plans.

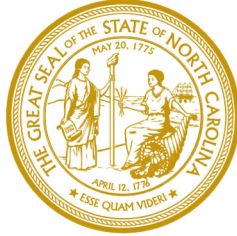
*Changes of Assumptions:* Consistent with prior years, for the actuarial valuation measured as of June 30, 2023 for the RHBF, a number of actuarial assumptions were reviewed and updated. The discount rate for the RHBF was updated to 3.65%, from 3.54% as of June 30, 2022. This update was to reflect the Bond Buyer 20-year General Obligation Index as of fiscal year end. Medical and prescription drug claims costs were changed based on most recent experience, and medical and prescription drug trend rates were changed to the current schedule. Enrollment assumptions were updated to model expected migrations among RHBF plan options over the next five years. The expected impact from the Inflation Reduction Act on assumed Medicare Advantage rates was included. The terms of the Pharmacy Benefits Management contract effective January 1, 2023 and the terms of the third party administrator contract effective January 1, 2025 were incorporated in the valuation.

For the actuarial valuation measured as of June 30, 2023 for DIPNC, the discount rate was updated to 3.00%, from 3.08% as of June 30, 2022. This was a result of an update to reflect the Bond Buyer 20-year General Obligation Index as of fiscal year end, combined with a change in the degree to which the plan's fiduciary net position was projected to be available to make all projected future benefit payments to the current plan members.

In 2020, the North Carolina Retirement Systems' consulting actuaries performed the quinquennial investigation of each retirement system's 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, 2015, and December 31, 2019. Based on the findings, the Boards of Trustees of the TSERS and the Committee on Actuarial Valuation of Retired Employees' Health Benefits adopted a number of new actuarial assumptions and methods for the RHBF and the DIPNC. The most notable changes to the assumptions include updates to the mortality tables and mortality improvements. These assumptions were adjusted to be based on the Pub-2010 mortality tables reflecting the mortality projection scale MP-2019, released by the Society of Actuaries in 2019. In addition, the assumed rates of retirement, salary increases, and rates of termination from active employment were updated to more closely reflect actual experience. Also in 2020, disability rates were adjusted to the non-grandfathered assumptions used in the TSERS actuarial valuation to better align with the anticipated incidence of disability.

For the DIPNC actuarial valuation as of December 31, 2018, for individuals who may become disabled in the future, the Social Security disability income benefit (which is an offset to the DIPNC benefit) was updated to be based on assumed Social Security calculation parameters in the year of the disability. The assumed costs related to the Patient Protection and Affordable Care Act regarding the Health Insurance Provider Fee for the fully insured plans and Excise Tax were removed when those pieces were repealed in December 2019 and first recognized in the 2020 OPEB report.

The Notes to Required Supplementary Information reflect information included in the State of North Carolina's 2023 *Annual Comprehensive Financial Report*.



# **Independent Auditor's Report**



## North Carolina Office of the State Auditor

Jessica N. Holmes, J.D., State Auditor

# Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

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Board of Trustees  
Western Carolina University  
Cullowhee, North Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Western Carolina University (University), a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina, as of and for the year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated December 3, 2024. 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 compliance and other matters 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) as a basis for designing 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.

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. 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 financial statements. 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.



Jessica N. Holmes, J.D.  
State Auditor

Raleigh, North Carolina

December 3, 2024

# Ordering Information

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Copies of this report may be obtained by contacting:

Office of the State Auditor  
State of North Carolina  
20601 Mail Service Center  
Raleigh, North Carolina 27699

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For additional information contact the  
North Carolina Office of the State Auditor at:

**919-807-7666**

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This audit required 504 hours at an approximate cost of \$78,120.