



# STATE OF NORTH CAROLINA

**WESTERN CAROLINA UNIVERSITY**

**CULLOWHEE, NORTH CAROLINA**

**FINANCIAL STATEMENT AUDIT REPORT**

**FOR THE YEAR ENDED JUNE 30, 2014**

**OFFICE OF THE STATE AUDITOR**

**BETH A. WOOD, CPA**

**STATE AUDITOR**



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

STATE OF NORTH CAROLINA

## Office of the State Auditor

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### AUDITOR'S TRANSMITTAL

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

We have completed a financial statement audit of Western Carolina University for the year ended June 30, 2014, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

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

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

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

Beth A. Wood, CPA  
State Auditor

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# Office of the State Auditor



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## INDEPENDENT AUDITOR'S REPORT

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Board of Trustees  
Western Carolina University  
Cullowhee, North Carolina

### Report on the Financial Statements

We have audited the accompanying financial statements of Western Carolina University, a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Western Carolina University Foundation, which represent 5.76 percent, 7.52 percent, and 3.26 percent, respectively, of the assets, net position, and revenues of the University; nor the financial statements of Western Carolina University Research and Development Corporation, which represent less than one percent of the respective assets, net position, and revenues of the University. Those statements were audited by other auditors, whose reports have been furnished to us, and our opinions, insofar as they relate to the amounts included for those entities, are based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of Western Carolina University Foundation and Western Carolina University Research and Development Corporation were not audited in accordance with *Government Auditing Standards*.

## INDEPENDENT AUDITOR'S REPORT (CONTINUED)

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

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

### Opinions

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of Western Carolina University, as of June 30, 2014, and the changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### Emphasis of Matter

During the year ended June 30, 2014, Western Carolina University adopted Governmental Accounting Standards Board (GASB) Statement No. 65 – *Items Previously Reported as Assets and Liabilities*. See Note 17 in the accompanying financial statements for an explanation of the standard and the impact of the University's implementation. Our opinion is not modified with respect to this matter.

### Other Matters – Required Supplementary Information

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

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

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

In accordance with *Government Auditing Standards*, we have also issued our report dated November 19, 2014 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.



Beth A. Wood, CPA  
State Auditor

Raleigh, North Carolina

November 19, 2014

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## WESTERN CAROLINA UNIVERSITY MANAGEMENT'S DISCUSSION AND ANALYSIS

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### Introduction

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

### Statement of Net Position

The *Statement of Net Position* presents assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position as of the date of the fiscal year end (June 30). This statement assists in the determination of the financial condition of the University. As part of the implementation of GASB Statement No. 65 in fiscal year 2014, the deferred loss on refundings has been classified as Deferred Outflows of Resources, and the unamortized portion of bond issuance costs has been restated against beginning net position. Prior year amounts in the condensed *Statement of Net Position* have been restated to reflect this change in accounting standards.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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, creditors, 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				
	2014	2013 (as restated)	\$ Change	% Change
<b>Assets</b>				
Current Assets	\$ 84,290,059.64	81,985,890.22	2,304,169.42	2.81%
Capital Assets, Net	379,347,323.11	383,318,438.34	(3,971,115.23)	-1.04%
Other Noncurrent Assets	75,591,999.70	59,180,202.50	16,411,797.20	27.73%
<b>Total Assets</b>	539,229,382.45	524,484,531.06	14,744,851.39	2.81%
<b>Deferred Outflows of Resources</b>	389,133.61	425,053.63	(35,920.02)	-8.45%
<b>Liabilities</b>				
Current Liabilities	10,928,590.84	10,366,178.02	562,412.82	5.43%
Long-Term Liabilities, Net	112,924,324.21	116,325,675.45	(3,401,351.24)	-2.92%
Other Noncurrent Liabilities	5,881,694.11	5,907,676.27	(25,982.16)	-0.44%
<b>Total Liabilities</b>	129,734,609.16	132,599,529.74	(2,864,920.58)	-2.16%
<b>Deferred Inflows of Resources</b>	0.00	0.00	0.00	0.00%
<b>Net Position</b>				
Net Investment in Capital Assets	268,764,641.82	269,456,510.60	(691,868.78)	-0.26%
Restricted – Nonexpendable	37,571,570.91	36,172,094.18	1,399,476.73	3.87%
Restricted – Expendable	37,970,993.37	28,995,468.67	8,975,524.70	30.95%
Unrestricted	65,576,700.80	57,685,981.50	7,890,719.30	13.68%
<b>Total Net Position</b>	\$ 409,883,906.90	\$ 392,310,054.95	\$ 17,573,851.95	4.48%

### Assets

Current assets, which consist primarily of cash, accounts and notes receivable and operating inventories, increased by \$2.3 million. This increase was due in great part to a \$5.5 million increase in unrestricted cash and cash equivalents. The increase in current cash balances is the result of certain fees that were unspent at year-end being moved from State Funds to Trust Funds in the amount of \$2.0 million, an increase in the distribution of indirect costs to departments that were unspent of \$0.1 million, and an increase in auxiliary funds of \$3.0 million. Restricted cash decreased by \$1.7 million due in large part to a \$1.4 million increase in awards of Perkins loans. The balance of the decrease of current restricted cash decreased through allocations to administrative fee funds in the Endowments and the Foundation. Receivables decreased by \$1.8 million. The greatest part of this reduction was because in the prior year, the University changed investment advisors. An investment was liquidated but not received by the University as of June 30, 2013. This amount was received during the 2014 fiscal year, and resulted in a \$1.8 million decrease in receivables. The balance of the increase in current assets is a result of inventories increasing by \$0.3 million.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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Net capital assets decreased approximately \$4.0 million. This is the result of depreciation and disposals being more than the acquisition of capital assets in the current year. During the year, non-depreciable capital assets included land acquisitions of \$1.0 million. Construction-in-progress had a net increase of \$0.2 million, and development-in-progress had a net decrease of \$1.0 million. Depreciation expense for the year was \$8.3 million. Additions to depreciable capital assets totaled \$5.1 million. Disposals and write-downs netted to a \$1.9 million decrease during the year. The largest portion of disposals and write-downs is related to buildings which were destroyed by fire in November 2013.

Other noncurrent assets increased \$16.4 million. Noncurrent cash increased \$1.0 million as a result of an increase in allotted and unallotted cash for capital projects, offset by a reduction in cash that was converted to investments during 2014. Endowment investments increased almost \$14.4 million largely as a result of a positive market value change, while restricted investments decreased \$0.2 million. Prepaid bond insurance decreased approximately \$0.1 million. Notes receivable increased by \$1.3 million because of an increase in Perkins student loans, as previously discussed.

### **Deferred Outflows of Resources**

As previously discussed, the deferred loss on refundings has been restated as a deferred outflow of resources. Over time the deferred outflow is amortized as a component of interest and fees on debt over the shorter of the remaining life of the old debt or the life of the new debt.

### **Liabilities**

Current liabilities increased by \$0.5 million. Accounts payable and accrued liabilities increased by \$0.6 million mainly due to contractual payments and maintenance costs. The current portion of long-term liabilities increased by \$0.2 million because of the acquisition of capital assets through leases and notes payable. These increases were offset by combined decreases in funds held for others, unearned revenue, and interest payable totaling \$0.3 million.

Long-term liabilities, net decreased by \$3.4 million. This decrease resulted from the payment of \$3.4 million in bond principal indebtedness.

### **Net Position**

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

- "Net Investment in Capital Assets" represents the University's investment in capital assets such as movable equipment, buildings, land, infrastructure, and improvements, net of accumulated depreciation and amortization and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets. Additionally, deferred outflows of resources that are attributable to the acquisition, construction, or improvement of capital assets or related debt are also included in this

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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component of net position. At June 30, 2014, \$268.7 million (65.57% of total net position) of the \$409.8 million in net position was attributable to the University's investment in capital assets.

- Restricted net position is subject to externally imposed restrictions governing use and is further divided into two categories: nonexpendable and expendable. "Restricted - Nonexpendable" net position primarily includes the University's permanent endowment funds received from donors for the purpose of creating present and future income. These funds must be held inviolate and in perpetuity and are, therefore, not expendable. Earnings on these funds support various programs determined by donors. The nonexpendable category makes up \$37.5 million (9.18% of total net position) of the \$409.8 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, 2014, expendable net position totaled \$37.9 million (9.25% of total net position) of the \$409.8 million in net position.
- "Unrestricted" net position is not subject to externally imposed restrictions, although management has designated these funds for various academic, institutional, and research programs and initiatives. This year, unrestricted net position totaled \$65.5 million (16.00% of total net position) of the \$409.8 million in net position.

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

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

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

Nonoperating revenues are revenues received for which goods and services are not provided. For example, state appropriations, while budgeted for operations, are reported as nonoperating revenue because they are provided by the state legislature without the legislature directly receiving commensurate goods and services in return for those revenues. Nonoperating expenses include interest expense, extraordinary items, and other expenses not incurred in the normal operations of the University.

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

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

The following is a condensed *Statement of Revenues, Expenses, and Changes in Net Position* for Western Carolina University as of June 30, 2014, with restated data for 2013.

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

	2014	2013 (as restated)	\$ Change	% Change
<b>Operating Revenues</b>				
Student Tuition and Fees, Net	\$ 51,390,654.70	\$ 46,456,243.84	\$ 4,934,410.86	10.62%
Grants and Contracts	4,215,119.48	4,862,108.53	(646,989.05)	-13.31%
Sales and Services, Net	35,762,418.27	34,014,523.87	1,747,894.40	5.14%
Other Operating Revenues	1,682,025.23	1,580,161.77	101,863.46	6.45%
<b>Total Operating Revenues</b>	<b>93,050,217.68</b>	<b>86,913,038.01</b>	<b>6,137,179.67</b>	<b>7.06%</b>
<b>Operating Expenses</b>				
Salaries and Benefits	113,543,344.14	111,495,985.51	2,047,358.63	1.84%
Supplies and Materials	21,046,092.82	19,085,916.28	1,960,176.54	10.27%
Services	34,885,559.69	34,294,250.88	591,308.81	1.72%
Scholarships and Fellowships	11,446,429.45	10,561,455.60	884,973.85	8.38%
Utilities	5,410,822.11	5,206,453.06	204,369.05	3.93%
Depreciation/ Amortization	8,350,779.70	7,813,861.41	536,918.29	6.87%
<b>Total Operating Expenses</b>	<b>194,683,027.91</b>	<b>188,457,922.74</b>	<b>6,225,105.17</b>	<b>3.30%</b>
<b>Operating Loss</b>	<b>(101,632,810.23)</b>	<b>(101,544,884.73)</b>	<b>(87,925.50)</b>	<b>0.09%</b>
<b>Nonoperating Revenues (Expenses)</b>				
State Appropriations	82,461,935.32	83,122,918.00	(660,982.68)	-0.80%
Noncapital Grants - Student Financial Aid	23,350,231.65	22,773,737.56	576,494.09	2.53%
Noncapital Grants	903,436.13	678,468.14	224,967.99	33.16%
Noncapital Gifts, Net	3,347,201.34	3,291,181.04	56,020.30	1.70%
Investment Income (Includes Investment Expenses)	9,331,115.73	5,474,447.19	3,856,668.54	70.45%
Interest and Fees on Debt	(5,145,708.61)	(5,503,431.86)	357,723.25	-6.50%
Other Nonoperating Expenses	(299,256.64)	(545,954.05)	246,697.41	-45.19%
<b>Net Nonoperating Revenues</b>	<b>113,948,954.92</b>	<b>109,291,366.02</b>	<b>4,657,588.90</b>	<b>4.26%</b>
<b>Income Before Other Revenues</b>	<b>12,316,144.69</b>	<b>7,746,481.29</b>	<b>4,569,663.40</b>	<b>58.99%</b>
Capital Appropriations	2,566,307.00	390,800.00	2,175,507.00	556.68%
Capital Grants	283,581.80	4,011,444.46	(3,727,862.66)	-92.93%
Capital Gifts	483,760.00	300,000.00	183,760.00	61.25%
Additions to Permanent Endowments	1,924,058.46	1,396,997.98	527,060.48	37.73%
<b>Change in Net Position</b>	<b>17,573,851.95</b>	<b>13,845,723.73</b>	<b>3,728,128.22</b>	<b>26.93%</b>
<b>Beginning Net Position, as restated</b>	<b>392,310,054.95</b>	<b>378,464,331.22</b>	<b>13,845,723.73</b>	<b>3.66%</b>
<b>Ending Net Position</b>	<b>\$ 409,883,906.90</b>	<b>\$ 392,310,054.95</b>	<b>\$ 17,573,851.95</b>	<b>4.48%</b>
<b><u>Reconciliation of Change in Net Position</u></b>				
Total Revenues	\$ 217,701,845.11	\$ 208,353,032.38	\$ 9,348,812.73	4.49%
Less: Total Expenses	200,127,993.16	194,507,308.65	5,620,684.51	2.89%
<b>Change in Net Position</b>	<b>\$ 17,573,851.95</b>	<b>\$ 13,845,723.73</b>	<b>\$ 3,728,128.22</b>	<b>26.93%</b>

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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### Operating Revenues

Operating revenues increased \$6.1 million, based on the following:

- Student tuition and fees increased by \$4.9 million as a result of increases in tuition and fee rates, together with an increase in enrollment.
- Grants and contracts revenues decreased \$0.6 million. Federal contracts and grants composed the greatest portion of the decrease with \$0.5 million. These fluctuations are considered normal as grant activity does vary from year to year, with old grants terminating and new grants being sought.
- Sales and services revenue increased \$1.7 million due to increases in fee rates for housing, dining, and other auxiliary services, together with an increase in enrollment.
- The remaining increase of \$0.1 million is due to other operating revenues, offset by a slight decrease in interest earnings on loans.

### Nonoperating Revenues

Nonoperating revenues, net increased by \$4.6 million, based on the following:

- State appropriations decreased by \$0.6 million. This decrease resulted because of budget cuts enacted by the legislature. Cuts to the regular appropriation were offset by funds the University received for enrollment growth and funding credits for academic efficiencies.
- Noncapital grants for student financial aid increased \$0.5 million due primarily to increases in Pell grants of \$0.9 million, offset by a reduction in North Carolina need based grants \$0.7 million, and an increase in the NC SEAA scholarship of \$0.4 million. More students qualified for Pell grants and NC SEAA scholarships during the current fiscal year.
- Noncapital grants and gifts increased by \$0.2 million over the prior year, mainly due to a pass through grant received through inter-institutional transfers.
- Investment income increased by \$3.8 million because of positive market conditions. The total investment income was composed in part by realized gains of \$0.7 million, and unrealized gains of \$7.9 million. Realized losses were minimal, while unrealized losses totaled \$0.2 million. These increases are a reflection of favorable market fluctuations during the 2014 fiscal year. State Treasurer's Investment Fund (STIF) interest income was \$0.3 million for the year. Endowment income was approximately \$0.6 million for the year.
- Interest and fees on debt decreased by \$0.3 million. The decrease is due to normal amortization.
- Other nonoperating expenses decreased by \$0.2 million. This category is composed of loss on the disposal of assets of \$0.6 million, offset by miscellaneous income of \$0.4 million.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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Among the University's greatest strengths are the diverse revenue streams that supplement student tuition and fees. These include gifts from individuals, foundations, and corporations, along with state appropriations, investment income, and federal, state, and private grants and contracts. The University has sought and will continue to seek funding from available sources that are consistent with its mission and will continue to prudently manage the financial resources realized from these efforts in order to supplement tuition and fee revenues and fund its operating activities.

### **Operating Expenses**

Operating expenses increased approximately \$6.2 million, based on the following:

- Salaries and benefits for the faculty and staff of the University increased by \$2.0 million. The University's retirement contribution to the retirement system (TSERS) increased to 8.69% from 8.33% and the contribution to the Optional Retirement Plan remained constant at 6.84%. EPA raises were granted during the year. The University made a conscious effort to bring some SPA employees' salaries to 72.5% of the market rate for their respective positions.
- Supplies and materials increased by \$1.9 million. The increases result from increased spending for data processing equipment (noncapitalized) of \$1.0 million, contingency funds of \$0.6 million, and repair supplies of \$0.4 million.
- Services increased by \$0.5 million due to additional spending for contract food services of \$1.1 million, offset by decreases of \$0.6 million in other service areas.
- Scholarships and fellowships, net of scholarship discount, increased by \$0.8 million. Before application of the \$22.3 million discount, scholarships increased by \$1.4 million, partly due to increases in NC SEAA scholarships and increases in spending for federal Pell grants. The scholarship discount increased by a total of \$0.5 million this fiscal year.
- Utilities expense increased slightly this year by \$0.2 million.
- Depreciation expense increased \$0.5 million this year.

### **Other Revenues**

Capital grants decreased by \$3.7 million because of the continued completion of capital improvement projects on campus.

The additions to permanent endowments increased \$0.5 million this fiscal year due to increased fundraising efforts during the year.

Capital appropriations increased by \$2.1 million because of the release of repair and renovation funds by the state to the University.

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

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

At June 30, 2014, the University had approximately \$496.0 million invested in capital assets, and accumulated depreciation of \$116.6 million. Depreciation and amortization charges for the current year totaled \$8.3 million.

A critical factor for achieving quality in the University's academic endeavors, while enriching the quality of all students' campus experience, is the development and renewal of capital assets. The University continues to implement a long-range plan for modernizing its older teaching, research, and student life facilities, balanced with new construction. Capital asset additions and improvements during the current fiscal year were funded with state capital grants, state appropriations, debt proceeds, gifts, grants, and unrestricted net position designated for capital purposes.

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

Two capital projects the University will be pursuing in the near future are the renovation of the Brown Building, for additional dining facilities and student activity space, and a new residence hall on the upper part of campus. Other future plans include a parking deck and construction of a new entrance to the University. A structure owned by the University Endowments burned in November, 2013. The Endowment Board approved the demolition of the structure, rather than replacing it. In addition, a decision was made to remove all structures currently located along the commercial strip and lease the parcel of land to a private developer to build a mixed-use facility as a replacement for the grazed structures. After a competitive process determined by the University, the Endowment Board will lease the parcel of land to the selected private developer, with a goal of occupancy in August, 2016.

The University's financial statements indicate \$110.2 million in bonds payable and certificates of participation, approximately \$0.2 million in notes payable, and almost \$0.2 million in capital leases payable at June 30, 2014. The indebtedness includes the debt of the Corporation, which is blended with the University indebtedness for financial presentation purposes.

For additional information on capital assets, leases, and debt administration, see Notes 5, 7, and 8 to the financial statements.

### **Enrollment**

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 2013 to Fall 2014

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

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decreased slightly from 78.7% to 78%. Enrollment growth targets for the coming years have been established, and the university continues to vigorously pursue strategic growth in all categories of enrollment - resident credit and distance learning enrollments, at both the undergraduate and graduate levels. Total enrollment for Fall 2014 is 10,382 as compared to 10,107 in Fall 2013. The hope is for increases in enrollment that will generate increases in revenues such as tuition and fees, sales and services, and state appropriations as well as the corresponding operating expenses incurred by serving larger numbers of students.

### **Economic Outlook**

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

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

The economy in North Carolina is showing signs of a slow recovery. The unemployment rate has dropped over the past year to 6.9 percent. However, the State continues to impose restraints on budgets. Over the last several fiscal years, the University has had a combined budget reduction of approximately \$39 million. These reductions have forced the University to evaluate spending and be diligent in continuing efforts toward cost reductions and revenue diversity.

As Western Carolina University celebrates 125 years of providing exceptional education, the University continues to move forward in implementing the recently drafted master plan items, in continuing with the 2020 Strategic Plan and in cultivating relationships with businesses to provide internships, resources and public/private partnerships on the Millennial Campus. WCU continues to implement new programs in conjunction with the needs of the community and local businesses such as the Engineering program beginning the Fall Semester of 2014 at Biltmore Park. WCU supports growth of current programs with new faculty in the high-demand and critical support disciplines and the University is working to implement step two of a salary plan which would raise the salary floor for all employees to 75 percent of the salary labor market rate by position.

Management believes that the University has taken strong measures to ensure fiscal stability during weak economic times. These measures have involved spending cuts, program reviews,

## **MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)**

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cultivating outside resource support, and, maximizing total returns on investments, while protecting university assets. The University continues to examine all functions in order to make informed decisions about how to use limited resources toward the goal of maintaining the growth, vitality and excellence of the University and WCU's ability to provide a quality education and services to the students and the people of North Carolina.

University management believes that enrollment growth, increased research activity, and fundraising efforts will also help provide the resources necessary to maintain and enhance academic programs and campus life experiences. Western Carolina is a university with a proud tradition and a future of extraordinary possibilities. By sharpening our focus, we are better positioned to live up to the legacy of our past, meet the challenges of our present and embrace the opportunities of our future.

**Western Carolina University**  
**Statement of Net Position**  
**June 30, 2014**

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

**ASSETS**

Current Assets:

Cash and Cash Equivalents	\$ 62,798,685.75
Restricted Cash and Cash Equivalents	12,673,489.33
Receivables, Net (Note 4)	3,170,377.36
Inventories	4,713,562.08
Notes Receivable, Net (Note 4)	878,262.65
Other Assets	55,682.47

Total Current Assets	84,290,059.64
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Noncurrent Assets:

Restricted Cash and Cash Equivalents	6,358,608.35
Receivables, Net (Note 4)	46,080.84
Endowment Investments	62,289,525.08
Restricted Investments	1,181,591.54
Other Investments	29,032.00
Notes Receivable, Net (Note 4)	4,902,375.96
Prepaid Bond Insurance	784,785.93
Capital Assets - Nondepreciable (Note 5)	13,101,609.25
Capital Assets - Depreciable, Net (Note 5)	366,245,713.86

Total Noncurrent Assets	454,939,322.81
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Total Assets	539,229,382.45
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**DEFERRED OUTFLOWS OF RESOURCES**

Deferred Loss on Refunding	389,133.61
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**LIABILITIES**

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 6)	2,790,889.66
Due to Primary Government	15,150.28
Unearned Revenue	3,084,724.59
Interest Payable	768,400.66
Long-Term Liabilities - Current Portion (Note 7)	4,269,425.65

Total Current Liabilities	10,928,590.84
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Noncurrent Liabilities:

Deposits Payable	109,791.94
Funds Held for Others	710,451.84
U. S. Government Grants Refundable	5,061,450.33
Long-Term Liabilities, Net (Note 7)	112,924,324.21

Total Noncurrent Liabilities	118,806,018.32
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Total Liabilities	129,734,609.16
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**DEFERRED INFLOWS OF RESOURCES**

Total Deferred Inflows of Resources	0.00
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**Western Carolina University**  
**Statement of Net Position**  
**June 30, 2014**

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

**NET POSITION**

Net Investment in Capital Assets	268,764,641.82
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	16,720,686.33
Endowed Professorships	19,323,938.22
Departmental Uses	699,928.88
Loans	827,017.48
Expendable:	
Scholarships and Fellowships	17,840,976.36
Endowed Professorships	8,890,261.95
Departmental Uses	2,431,116.44
Loans	549,301.28
Capital Projects	5,572,266.78
Debt Service	2,197,782.00
Other	489,288.56
Unrestricted	<u>65,576,700.80</u>
Total Net Position	<u><u>\$ 409,883,906.90</u></u>

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

**Western Carolina University**  
**Statement of Revenues, Expenses, and**  
**Changes in Net Position**  
**For the Fiscal Year Ended June 30, 2014**

**Exhibit A-2**

**REVENUES**

Operating Revenues:

Student Tuition and Fees, Net (Note 9)	\$ 51,390,654.70
Federal Grants and Contracts	3,446,142.13
State and Local Grants and Contracts	148,688.25
Nongovernmental Grants and Contracts	620,289.10
Sales and Services, Net (Note 9)	35,762,418.27
Interest Earnings on Loans	10,653.56
Other Operating Revenues	1,671,371.67
	<hr/>
Total Operating Revenues	93,050,217.68

**EXPENSES**

Operating Expenses:

Salaries and Benefits	113,543,344.14
Supplies and Materials	21,046,092.82
Services	34,885,559.69
Scholarships and Fellowships	11,446,429.45
Utilities	5,410,822.11
Depreciation/ Amortization	8,350,779.70
	<hr/>
Total Operating Expenses	194,683,027.91

Operating Loss (101,632,810.23)

**NONOPERATING REVENUES (EXPENSES)**

State Appropriations	82,461,935.32
Noncapital Grants - Student Financial Aid	23,350,231.65
Noncapital Grants	903,436.13
Noncapital Gifts, Net (Note 9)	3,347,201.34
Investment Income (Net of Investment Expense of \$266,766.22)	9,331,115.73
Interest and Fees on Debt	(5,145,708.61)
Other Nonoperating Expenses	(299,256.64)
	<hr/>
Net Nonoperating Revenues	113,948,954.92

Income Before Other Revenues 12,316,144.69

Capital Appropriations	2,566,307.00
Capital Grants	283,581.80
Capital Gifts	483,760.00
Additions to Endowments	1,924,058.46
	<hr/>
Increase in Net Position	17,573,851.95

**NET POSITION**

Net Position - July 1, 2013, as Restated (Note 18)	<hr/> 392,310,054.95
Net Position - June 30, 2014	<hr/> <hr/> \$ 409,883,906.90

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, 2014**

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

**CASH FLOWS FROM OPERATING ACTIVITIES**

Received from Customers	\$ 91,550,509.77
Payments to Employees and Fringe Benefits	(113,440,192.54)
Payments to Vendors and Suppliers	(59,953,842.01)
Payments for Scholarships and Fellowships	(11,394,360.53)
Loans Issued	(2,834,842.91)
Collection of Loans	1,167,371.12
Interest Earned on Loans	91,933.72
Student Deposits Received	741,445.39
Student Deposits Returned	(704,100.73)
Other Receipts	1,671,371.67
	<hr/>
Net Cash Used by Operating Activities	(93,104,707.05)

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

State Appropriations	82,461,935.32
Noncapital Grants - Student Financial Aid	23,350,231.65
Noncapital Grants	903,436.13
Noncapital Gifts	1,911,907.48
Additions to Endowments	1,924,058.46
William D. Ford Direct Lending Receipts	58,077,281.00
William D. Ford Direct Lending Disbursements	(58,077,281.00)
Related Activity Agency Receipts	40,461.63
Related Activity Agency Disbursements	(25,865.33)
Other Payments	(327,752.83)
	<hr/>
Net Cash Provided by Noncapital Financing Activities	110,238,412.51

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

State Capital Appropriations	2,566,307.00
Capital Grants	296,355.32
Capital Gifts	483,760.00
Proceeds from Sale of Capital Assets	28,496.19
Acquisition and Construction of Capital Assets	(4,317,699.26)
Principal Paid on Capital Debt and Leases	(3,503,954.26)
Interest and Fees Paid on Capital Debt and Leases	(5,146,223.69)
	<hr/>
Net Cash Used by Capital Financing and Related Financing Activities	(9,592,958.70)

**CASH FLOWS FROM INVESTING ACTIVITIES**

Proceeds from Sales and Maturities of Investments	4,587,143.84
Investment Income	1,917,694.93
Purchase of Investments and Related Fees	(9,207,858.30)
	<hr/>
Net Cash Used by Investing Activities	(2,703,019.53)
Net Increase in Cash and Cash Equivalents	4,837,727.23
Cash and Cash Equivalents - July 1, 2013	76,993,056.20
	<hr/>
Cash and Cash Equivalents - June 30, 2014	\$ 81,830,783.43

**Western Carolina University**  
**Statement of Cash Flows**  
**For the Fiscal Year Ended June 30, 2014**

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

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

Operating Loss	\$ (101,632,810.23)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation/ Amortization Expense	8,350,779.70
Allowances, Write-Offs, and Amortizations	134,009.82
Nonoperating Other Expenses	(19,335.06)
Noncash Contributed Expenses	695,309.23
Changes in Assets and Liabilities:	
Receivables, Net	(140,744.74)
Inventories	(307,410.93)
Notes Receivable, Net	(1,273,051.58)
Prepaid Assets	32,253.23
Accounts Payable and Accrued Liabilities	739,981.50
Due to Primary Government	850.37
Unearned Revenue	190,886.15
Compensated Absences	67,895.77
Deposits Payable	56,679.72
	<hr/>
Net Cash Used by Operating Activities	<u>\$ (93,104,707.05)</u>

**RECONCILIATION OF CASH AND CASH EQUIVALENTS**

Current Assets:	
Cash and Cash Equivalents	\$ 62,798,685.75
Restricted Cash and Cash Equivalents	12,673,489.33
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	6,358,608.35
	<hr/>
Total Cash and Cash Equivalents - June 30, 2014	<u>\$ 81,830,783.43</u>

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

Assets Acquired through the Assumption of a Liability	\$ 801,383.40
Assets Acquired through a Gift	17,507.10
Change in Fair Value of Investments	7,709,970.93
Reinvested Distributions	1,699,336.70
Loss on Disposal of Capital Assets	604,870.87
Amortization of Bond Premiums/Discounts	30,460.45
Decrease in Receivables Related to Nonoperating Income	101,366.36

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

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**WESTERN CAROLINA UNIVERSITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES**

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

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

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

The Foundation is governed by a 30-member board consisting of 4 ex officio directors and 26 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 6-member board consisting of 1 appointed director and 5 elected directors. The mission of the Corporation is to aid and promote the education and charitable purpose

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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and lawful activities of the University. Because the University indirectly appoints the Corporation's board, and the total debt outstanding of the Corporation is expected to be repaid entirely with the resources of the University, its financial statements have been blended with those of the University.

Separate financial statements for the Foundation and the Corporation may be obtained from the University Controller's Office, HFR 315, Cullowhee, NC 28723, or by calling 828-227-7323. Other related foundations and similar nonprofit corporations for which the University is not financially accountable are not part of the accompanying financial statements.

Condensed combining information regarding blended component units is provided in Note 16.

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

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

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

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

- D. Cash and Cash Equivalents** - This classification includes undeposited receipts, petty cash, cash on deposit with private bank accounts, cash on deposit with fiscal agents, and deposits held by the State Treasurer in the Short-Term Investment Fund (STIF). The STIF maintained by the State Treasurer has the general characteristics of a demand deposit account in

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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that participants may deposit and withdraw cash at any time without prior notice or penalty.

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

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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constructed includes all material direct and indirect construction costs. Interest costs incurred are capitalized during the period of construction.

The University capitalizes assets that have a value or cost of \$5,000 or greater at the date of acquisition and an estimated useful life of more than one year except for other intangible assets which are capitalized when the value or cost is \$100,000 or greater, and electric resale assets which are capitalized in accordance with the guidelines from the North Carolina Utilities Commission.

Depreciation and amortization are computed using the straight-line method for all assets, except for the electric resale assets which are computed using the composite rate method. These methods calculate depreciation and amortization over the estimated useful lives of the assets, generally 10 to 50 years for general infrastructure, 20 to 100 years for buildings, 3 to 30 years for equipment, 20 years for computer software, and 10 years for other intangibles.

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

- I. Restricted Assets** - Certain resources are reported as restricted assets because restrictions on asset use change the nature or normal understanding of the availability of the asset. Resources that are not available for current operations and are reported as restricted include resources restricted for the acquisition or construction of capital assets, resources legally segregated for the payment of principal and interest as required by debt covenants, unspent debt proceeds, and endowment and other restricted investments.
- J. Noncurrent Long-Term Liabilities** - Noncurrent long-term liabilities include principal amounts of revenue bonds payable, certificates of participation, a note payable, capital lease obligations, annuity and life income payable, and compensated absences that will not be paid within the next fiscal year.

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

- K. Compensated Absences** - The University's policy is to record the cost of vacation leave when earned. The policy provides for a maximum

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

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

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

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

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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- O. Internal Sales Activities** - Certain institutional auxiliary operations provide goods and services to University departments, as well as to its customers. These institutional auxiliary operations include activities such as dining, residential living and printing services. In addition, the University has other miscellaneous sales and service units that operated either on a reimbursement or charge basis. All internal sales activities to University departments from auxiliary operations and sales and service units have been eliminated in the accompanying financial statements. These eliminations are recorded by removing the revenue and expense in the auxiliary operations and sales and service units and, if significant, allocating any residual balances to those departments receiving the goods and services during the year.

### NOTE 2 - DEPOSITS AND INVESTMENTS

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

At June 30, 2014, the amount shown on the Statement of Net Position as cash and cash equivalents includes \$81,181,375.51 which represents the University's equity position in the State Treasurer's STIF. The STIF (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission and does not have a credit rating) had a weighted average maturity of 1.3 years as of June 30, 2014. Assets and shares of the STIF are valued at amortized cost, which approximates fair value. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's STIF) are included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.nc.gov/> and clicking on "Reports" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

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Cash on hand at June 30, 2014 was \$39,289.75. The carrying amount of the University's deposits not with the State Treasurer was \$610,118.17 and the bank balance was \$679,258.98. 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, 2014, the University's bank balance was exposed to custodial credit risk as follows:

Uninsured and Uncollateralized	\$	1,011.26
Uninsured and Collateral Held by Pledging Bank's Trust Department not in the University's Name		245,639.27
	\$	<u>246,650.53</u>

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

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

Investments are subject to the following risks.

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The following table presents the fair value of investments by type and investments subject to interest rate risk at June 30, 2014, for the Long-Term Investment Pool.

### *Long-Term Investment Pool*

Investment Type	Fair Value	Investment Maturities (in Years)	
		Less Than 1	1 to 5
<b>Debt Securities</b>			
Debt Mutual Funds	\$ 5,915,737.73	\$ 0.00	\$ 5,915,737.73
Money Market Mutual Funds	489,017.55	489,017.55	
<b>Total Debt Securities</b>	6,404,755.28	<u>\$ 489,017.55</u>	<u>\$ 5,915,737.73</u>
<b>Other Securities</b>			
UNC Investment Fund	30,304,958.01		
Balanced Mutual Funds	3,930,361.75		
International Mutual Funds	1,545,768.42		
Equity Mutual Funds	3,464,490.10		
Private Equity Limited Partnerships	447,210.00		
Domestic Stocks	6,068,157.55		
Foreign Stocks (denominated in US dollars)	2,964,305.34		
Exchange Traded Funds	4,773,971.46		
Other	1,444,436.94		
<b>Total Long-Term Investment Pool</b>	<u>\$ 61,348,414.85</u>		

At June 30, 2014, investments in the Long-Term Investment Pool had the following credit quality distribution for securities with credit exposure:

	Fair Value	BB	Unrated
Debt Mutual Funds	\$ 5,915,737.73	\$ 1,483,876.19	\$ 4,431,861.54
Money Market Mutual Funds	489,017.55		489,017.55
<b>Totals</b>	<u>\$ 6,404,755.28</u>	<u>\$ 1,483,876.19</u>	<u>\$ 4,920,879.09</u>

Rating Agency: Morningstar and Standard & Poors

**UNC Investment Fund, LLC** - At June 30, 2014, the University's long-term investment pool includes \$30,304,958.01 which represents the University's equity position in the UNC Investment Fund, LLC (UNC Investment Fund). The UNC Investment Fund is an external investment pool that is not registered with the Securities and Exchange Commission, does not have a credit rating, and is not subject to any regulatory oversight. Asset and ownership interests of the UNC Investment Fund are determined on a market unit valuation basis each month. Investment risks associated with the UNC Investment Fund are included in audited financial statements of the UNC Investment Fund, LLC which may be

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

**Non-Pooled Investments** - The following table presents the fair value of investments by type and investments subject to interest rate risk at June 30, 2014, for the University's non-pooled investments.

### *Non-Pooled Investments*

Investment Type	Fair Value	Investment Maturities (in Years)		
		Less Than 1	1 to 5	6 to 8
Debt Securities				
Debt Mutual Funds	\$ 1,337,088.57	\$ 0.00	\$ 467,125.21	\$ 869,963.36
Money Market Mutual Funds	15,571.75	15,571.75		
<b>Total Debt Securities</b>	1,352,660.32	<u>\$ 15,571.75</u>	<u>\$ 467,125.21</u>	<u>\$ 869,963.36</u>
Other Securities				
International Mutual Funds	207,730.86			
Equity Mutual Funds	409,549.93			
Investments in Real Estate	93,800.00			
Private Equity Limited Partnerships	29,039.10			
Domestic Stock	38,727.18			
Other	20,226.38			
<b>Total Non-Pooled Investments</b>	<u>\$ 2,151,733.77</u>			

At June 30, 2014, the University's non-pooled investments had the following credit quality distribution for securities with credit exposure:

	Fair Value	A-1	B	BB	BBB	Unrated
Debt Mutual Funds	\$ 1,337,088.57	\$ 0.00	\$ 313,240.75	\$ 489,473.76	\$ 447,446.12	\$ 86,927.93
Money Market Mutual Funds	15,571.75	15,571.75				
<b>Totals</b>	<u>\$ 1,352,660.32</u>	<u>\$ 15,571.75</u>	<u>\$ 313,240.75</u>	<u>\$ 489,473.76</u>	<u>\$ 447,446.12</u>	<u>\$ 86,927.93</u>

Rating Agency: Morningstar and Standard & Poor's

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

**Total Investments** - The following table presents the fair value of the total investments at June 30, 2014:

Investment Type	Fair Value
Debt Securities	
Debt Mutual Funds	\$ 7,252,826.30
Money Market Mutual Funds	504,589.30
Other Securities	
UNC Investment Fund	30,304,958.01
Balanced Mutual Fund	3,930,361.75
International Mutual Funds	1,753,499.28
Equity Mutual Funds	3,874,040.03
Investments in Real Estate	93,800.00
Private Equity Limited Partnerships	476,249.10
Domestic Stocks	6,106,884.73
Foreign Stocks (denominated in US dollars)	2,964,305.34
Exchange Traded Funds	4,773,971.46
Other	1,464,663.32
<b>Total Investments</b>	<b>\$ 63,500,148.62</b>

**C. Reconciliation of Deposits and Investments** - A reconciliation of deposits and investments for the University as of June 30, 2014, is as follows:

Cash on Hand	\$ 39,289.75
Amount of Deposits with Private Financial Institutions	610,118.17
Deposits in the Short-Term Investment Fund	81,181,375.51
Long-Term Investment Pool	61,348,414.85
Non-Pooled Investments	2,151,733.77
<b>Total Deposits and Investments</b>	<b>\$ 145,330,932.05</b>
Deposits	
Current:	
Cash and Cash Equivalents	\$ 62,798,685.75
Restricted Cash and Cash Equivalents	12,673,489.33
Noncurrent:	
Restricted Cash and Cash Equivalents	6,358,608.35
<b>Total Deposits</b>	<b>81,830,783.43</b>
Investments	
Noncurrent:	
Endowment Investments	62,289,525.08
Restricted Investments	1,181,591.54
Other Investments	29,032.00
<b>Total Investments</b>	<b>63,500,148.62</b>
<b>Total Deposits and Investments</b>	<b>\$ 145,330,932.05</b>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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### NOTE 3 - ENDOWMENT INVESTMENTS

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

Investment return of the University's endowment funds is predicated on the total return concept (yield plus appreciation). The current spending policy for the University's pooled endowment funds provides 5% of the endowment pool's twelve quarter rolling average market value, discarding the highest and lowest quarter's value as of June 30. The Board of Trustees annually reviews the spending policy and makes adjustments accordingly. At June 30, 2014, net appreciation of \$27,588,288.63 was available to be spent, of which \$23,595,800.63 was classified in net position as restricted for specific purposes (e.g. scholarships, fellowships, and professorships). The remaining portion of net appreciation available to be spent is classified as unrestricted net position.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 4 - RECEIVABLES

Receivables at June 30, 2014, were as follows:

	<u>Gross Receivables</u>	<u>Less Allowance for Doubtful Accounts</u>	<u>Net Receivables</u>
<b>Current Receivables:</b>			
Students	\$ 2,050,150.66	\$ 554,743.04	\$ 1,495,407.62
Student Sponsors	65,716.53		65,716.53
Accounts	925,952.18		925,952.18
Intergovernmental	364,811.16		364,811.16
Pledges	160,968.84	15,904.95	145,063.89
Interest on Loans	77,913.44		77,913.44
Other	95,512.54		95,512.54
<b>Total Current Receivables</b>	<u>\$ 3,741,025.35</u>	<u>\$ 570,647.99</u>	<u>\$ 3,170,377.36</u>
<b>Noncurrent Receivables:</b>			
Pledges	<u>\$ 51,149.78</u>	<u>\$ 5,068.94</u>	<u>\$ 46,080.84</u>
<b>Notes Receivable:</b>			
<b>Notes Receivable - Current:</b>			
Federal Loan Programs	\$ 844,119.25	\$ 0.00	\$ 844,119.25
Institutional Student Loan Programs	<u>36,971.16</u>	<u>2,827.76</u>	<u>34,143.40</u>
<b>Total Notes Receivable - Current</b>	<u>\$ 881,090.41</u>	<u>\$ 2,827.76</u>	<u>\$ 878,262.65</u>
<b>Notes Receivable - Noncurrent:</b>			
Federal Loan Programs	\$ 5,942,004.47	\$ 1,043,984.00	\$ 4,898,020.47
Institutional Student Loan Programs	<u>4,355.49</u>		<u>4,355.49</u>
<b>Total Notes Receivable - Noncurrent</b>	<u>\$ 5,946,359.96</u>	<u>\$ 1,043,984.00</u>	<u>\$ 4,902,375.96</u>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2014, is presented as follows:

	Balance July 1, 2013 (as restated)	Increases	Decreases	Balance June 30, 2014
Capital Assets, Nondepreciable:				
Land and Permanent Easements	\$ 9,335,407.75	\$ 1,054,814.30	\$ 0.00	\$ 10,390,222.05
Art, Literature, and Artifacts	1,266,098.70			1,266,098.70
Construction in Progress	1,185,504.43	2,153,856.52	1,894,072.45	1,445,288.50
Development in Progress	1,023,961.24	166,257.52	1,190,218.76	
<b>Total Capital Assets, Nondepreciable</b>	<b>12,810,972.12</b>	<b>3,374,928.34</b>	<b>3,084,291.21</b>	<b>13,101,609.25</b>
Capital Assets, Depreciable:				
Buildings	396,120,253.39	613,971.50	488,586.34	396,245,638.55
Machinery and Equipment	35,292,709.14	2,573,662.29	1,493,607.68	36,372,763.75
General Infrastructure	48,029,853.83	747,282.93		48,777,136.76
Computer Software	260,730.85	6,650.00		267,380.85
Other Intangible Assets		1,190,218.76		1,190,218.76
<b>Total Capital Assets, Depreciable</b>	<b>479,703,547.21</b>	<b>5,131,785.48</b>	<b>1,982,194.02</b>	<b>482,853,138.67</b>
Less Accumulated Depreciation/Amortization for:				
Buildings	79,683,971.99	5,610,408.76	71,959.86	85,222,420.89
Machinery and Equipment	12,214,268.70	1,328,318.22	867,476.02	12,675,110.90
General Infrastructure	17,291,322.03	1,339,346.84		18,630,668.87
Computer Software	6,518.27	13,194.94		19,713.21
Other Intangible Assets		59,510.94		59,510.94
<b>Total Accumulated Depreciation/Amortization</b>	<b>109,196,080.99</b>	<b>8,350,779.70</b>	<b>939,435.88</b>	<b>116,607,424.81</b>
<b>Total Capital Assets, Depreciable, Net</b>	<b>370,507,466.22</b>	<b>(3,218,994.22)</b>	<b>1,042,758.14</b>	<b>366,245,713.86</b>
<b>Capital Assets, Net</b>	<b>\$ 383,318,438.34</b>	<b>\$ 155,934.12</b>	<b>\$ 4,127,049.35</b>	<b>\$ 379,347,323.11</b>

During the year ended June 30, 2014, the University incurred \$5,109,611.21 in interest costs related to the acquisition and construction of capital assets, all of which was charged to interest expense.

Operating expenses include an impairment loss of \$409,391.08 due to the University suffering a fire loss of three buildings on November 21, 2013. The University acquired the buildings in 2006 at a cost of \$931,356.00. The fire destroyed approximately 51% of the commercial strip. After reviewing cost estimates, tax assessments and anticipated insurance settlement proceeds, the Board of Trustees of the Endowment Fund of the University decided against replacing or repairing the establishments destroyed by fire. The resolution was approved February 5, 2014 by the Endowment Fund Board authorizing the University officers to demolish the damaged buildings.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2014, were as follows:

	Amount
<b>Current Accounts Payable and Accrued Liabilities</b>	
Accounts Payable	\$ 1,379,210.93
Accrued Payroll	633,848.17
Contract Retainage	461,895.80
Intergovernmental Payables	83,787.27
Other	232,147.49
<b>Total Current Accounts Payable and Accrued Liabilities</b>	<b>\$ 2,790,889.66</b>

### NOTE 7 - LONG-TERM LIABILITIES

**A. Changes in Long-Term Liabilities** - A summary of changes in the long-term liabilities for the year ended June 30, 2014, is presented as follows:

	Balance July 1, 2013 (As Restated)	Additions	Reductions	Balance June 30, 2014	Current Portion
Revenue Bonds Payable	\$ 51,890,000.00	\$ 0.00	\$ 1,880,000.00	\$ 50,010,000.00	\$ 1,900,000.00
Certificates of Participation	61,330,000.00		1,460,000.00	59,870,000.00	1,600,000.00
Plus: Unamortized Premium	789,428.37		48,278.13	741,150.24	
Less: Unamortized Discount	(424,055.50)		(17,817.68)	(406,237.82)	
<b>Total Revenue Bonds and Certificates of Participation Payable, Net</b>	<b>113,585,372.87</b>		<b>3,370,460.45</b>	<b>110,214,912.42</b>	<b>3,500,000.00</b>
Note Payable		238,578.45	61,056.98	177,521.47	58,246.96
Capital Leases Payable	203,909.43	89,235.25	102,897.28	190,247.40	102,296.16
Compensated Absences	6,460,094.53	4,458,010.65	4,390,114.88	6,527,990.30	605,739.00
Annuity and Life Income Payable	89,203.27		6,125.00	83,078.27	3,143.53
<b>Total Long-Term Liabilities</b>	<b>\$ 120,338,580.10</b>	<b>\$ 4,785,824.35</b>	<b>\$ 7,930,654.59</b>	<b>\$ 117,193,749.86</b>	<b>\$ 4,269,425.65</b>

Additional information regarding capital lease obligations is included in Note 8.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### B. Revenue Bonds Payable and Certificates of Participation - The University was indebted for revenue bonds payable and certificates of participation for the purposes shown in the following table:

Purpose	Series	Interest Rate Ranges	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2014	Principal Outstanding June 30, 2014
<b>Revenue Bonds Payable</b>						
<b>The University of North Carolina System Pool Revenue Bonds</b>						
Athletic Facilities	(A)	4.13 - 5.25%	04/01/2028	\$ 1,510,000.00	\$ 1,225,000.00	\$ 285,000.00
Student Recreation Center	(A)	4.13 - 5.25%	04/01/2028	11,610,000.00	9,460,000.00	2,150,000.00
Student Center Refund	(B)	4.00 - 5.00%	10/01/2025	4,335,000.00	1,190,000.00	3,145,000.00
Athletic Facility Refund	(B)	4.00 - 5.00%	10/01/2026	6,135,000.00	625,000.00	5,510,000.00
Student Recreation Center	(C)	4.00 - 5.00%	10/01/2033	4,355,000.00	530,000.00	3,825,000.00
Dining Hall Facility	(C)	4.00 - 5.00%	10/01/2033	17,545,000.00	2,135,000.00	15,410,000.00
Student Housing - Harrill	(D)	3.00 - 4.50%	04/01/2041	13,605,000.00	555,000.00	13,050,000.00
Facility Refund 03	(D)	3.00 - 4.00%	04/01/2025	831,726.00	70,028.00	761,698.00
Student Recreation Center Refund 03	(D)	3.00 - 4.00%	04/01/2025	6,413,274.00	539,972.00	5,873,302.00
<b>Total Revenue Bonds</b>				<b>66,340,000.00</b>	<b>16,330,000.00</b>	<b>50,010,000.00</b>
<b>Certificates of Participation</b>						
WCU Student Housing Project, Series 2005		3.50 - 4.35%	06/01/2039	11,050,000.00	2,550,000.00	8,500,000.00
WCU Student Housing Project, Series 2008		4.00 - 5.25%	06/01/2032	45,000,000.00	2,735,000.00	42,265,000.00
Refunding Limited Obligation Bonds, Series 2013		2.00 - 5.00%	03/01/2033	9,400,000.00	295,000.00	9,105,000.00
<b>Total Certificates of Participation</b>				<b>65,450,000.00</b>	<b>5,580,000.00</b>	<b>59,870,000.00</b>
<b>Total Revenue Bonds Payable and Certificates of Participation (principal only)</b>				<b>\$ 131,790,000.00</b>	<b>\$ 21,910,000.00</b>	<b>109,880,000.00</b>
Less: Unamortized Discount						(406,237.82)
Plus: Unamortized Premium						741,150.24
<b>Total Revenue Bonds Payable and Certificates of Participation, Net</b>						<b>\$ 110,214,912.42</b>

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

### C. Annual Requirements - The annual requirements to pay principal and interest on the long-term obligations at June 30, 2014, are as follows:

Fiscal Year	Annual Requirements					
	Revenue Bonds Payable		Certificates of Participation		Note Payable	
	Principal	Interest	Principal	Interest	Principal	Interest
2015	\$ 1,900,000.00	\$ 2,202,087.52	\$ 1,600,000.00	\$ 2,772,103.78	\$ 58,246.96	\$ 2,810.02
2016	1,965,000.00	2,127,437.52	1,665,000.00	2,708,047.52	59,168.95	1,888.02
2017	2,055,000.00	2,043,112.52	1,735,000.00	2,638,672.52	60,105.56	951.42
2018	2,140,000.00	1,951,587.52	1,790,000.00	2,574,322.52		
2019	2,245,000.00	1,851,237.52	1,870,000.00	2,503,647.52		
2020-2024	12,750,000.00	7,732,190.75	10,625,000.00	11,239,631.32		
2025-2029	12,790,000.00	4,766,859.45	13,160,000.00	8,694,012.52		
2030-2034	9,310,000.00	2,306,018.76	14,500,000.00	5,295,777.50		
2035-2039	3,310,000.00	804,956.24	12,925,000.00	2,001,750.00		
2040-2041	1,545,000.00	105,075.00				
<b>Total Requirements</b>	<b>\$ 50,010,000.00</b>	<b>\$ 25,890,562.80</b>	<b>\$ 59,870,000.00</b>	<b>\$ 40,427,965.20</b>	<b>\$ 177,521.47</b>	<b>\$ 5,649.46</b>

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

**D. Note Payable** - The University was indebted for a note payable for the purposes shown in the following table:

Purpose	Financial Institution	Interest Rate	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2014	Principal Outstanding June 30, 2014
Equipment	Bank of America	1.58%	11/25/2016	\$ 238,578.45	\$ 61,056.98	\$ 177,521.47

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

Annuity liabilities are recorded for the required life annuity payments at the present value of expected cash payments discounted using current interest rates and actuarial assumptions for those annuities that have not been reinsured. The annuity obligations are adjusted each year for changes in the life expectancy of the beneficiaries and are reduced either as payments are made to the donor or as annuities are reinsured. The present value of future payment liabilities of charitable gift annuities is \$83,078.27 at June 30, 2014.

### NOTE 8 - LEASE OBLIGATIONS

**A. Capital Lease Obligations** - Capital lease obligations relating to machinery and equipment are recorded at the present value of the minimum lease payments. Future minimum lease payments under capital lease obligations consist of the following at June 30, 2014:

<u>Fiscal Year</u>	<u>Amount</u>
2015	\$ 103,746.21
2016	81,246.20
2017	7,049.04
2018	587.42
Total Minimum Lease Payments	192,628.87
Amount Representing Interest (0 - 3.04% Rate of Interest)	2,381.47
<b>Present Value of Future Lease Payments</b>	<b>\$ 190,247.40</b>

Machinery and equipment acquired under capital lease amounted to \$437,163.04 at June 30, 2014.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Depreciation for the capital assets associated with capital leases is included in depreciation expense, and accumulated depreciation for assets acquired under capital lease totaled \$153,645.47 at June 30, 2014.

- B. Operating Lease Obligations** - The University entered into operating leases for automobiles, equipment, housing, land, classroom space, and contracts for software licensing. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2014:

Fiscal Year	Amount
2015	\$ 1,307,494.41
2016	1,960,080.66
2017	1,744,299.23
2018	816,046.15
2019	809,333.67
2020-2024	3,402,224.36
<b>Total Minimum Lease Payments</b>	<b>\$ 10,039,478.48</b>

Rental expense for all operating leases during the year was \$1,907,636.05.

### NOTE 9 - REVENUES

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

	Gross Revenues	Internal Sales Eliminations	Less Scholarship Discounts	Less Allowance for Uncollectibles	Net Revenues
<b>Operating Revenues:</b>					
<b>Student Tuition and Fees</b>	\$ 66,525,428.40	\$ 5,750.00	\$ 14,789,812.13	\$ 339,211.57	\$ 51,390,654.70
<b>Sales and Services:</b>					
Sales and Services of Auxiliary Enterprises:					
Residential Life	\$ 17,736,369.88	\$ 198,115.67	\$ 4,068,812.94	\$ 145,422.44	\$ 13,324,018.83
Dining	14,562,238.36	927,065.42	3,051,052.94	62,817.72	10,521,302.28
Book Rental	1,697,839.61		360,781.44	37,665.59	1,299,392.58
Bookstore	2,221,772.19	136,475.17		1,045.04	2,084,251.98
Print Shop	1,342,850.83	1,158,507.49			184,343.34
Athletic	2,040,390.45	11,339.00			2,029,051.45
Other	1,949,075.98	96,578.67		7,303.48	1,845,193.83
Sales and Services of Education and Related Activities	3,745,336.23	2,886,109.80		153.52	859,072.91
Independent Operations	3,920,263.66	304,472.59			3,615,791.07
<b>Total Sales and Services</b>	\$ 49,216,137.19	\$ 5,718,663.81	\$ 7,480,647.32	\$ 254,407.79	\$ 35,762,418.27
<b>Nonoperating - Noncapital Gifts</b>	\$ 3,368,175.23	\$ 0.00	\$ 0.00	\$ 20,973.89	\$ 3,347,201.34

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 10 - OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation/ Amortization	Total
Instruction	\$ 57,778,449.74	\$ 2,502,438.25	\$ 5,184,544.63	\$ 0.00	\$ 14,753.70	\$ 0.00	\$ 65,480,186.32
Research	805,810.00	144,477.24	260,898.13		41,545.25		1,252,730.62
Public Service	4,017,274.59	685,419.24	845,580.31		132,120.62		5,680,394.76
Academic Support	9,941,924.49	2,428,944.80	1,796,331.68		22,405.37		14,189,606.34
Student Services	4,476,456.55	434,251.87	2,091,471.70				7,002,180.12
Institutional Support	11,499,851.61	3,589,322.57	4,991,670.90		6,190.35		20,087,035.43
Operations and Maintenance of Plant	9,322,084.92	3,005,535.13	1,886,574.83		3,760,775.97		17,974,970.85
Student Financial Aid	107,104.23		45,883.63	11,446,429.45			11,599,417.31
Auxiliary Enterprises	15,140,158.97	5,226,315.79	17,641,761.07		1,433,030.85		39,441,266.68
Independent Operations	454,229.04	3,029,387.93	140,842.81				3,624,459.78
Depreciation/ Amortization						8,350,779.70	8,350,779.70
<b>Total Operating Expenses</b>	<u>\$ 113,543,344.14</u>	<u>\$ 21,046,092.82</u>	<u>\$ 34,885,559.69</u>	<u>\$ 11,446,429.45</u>	<u>\$ 5,410,822.11</u>	<u>\$ 8,350,779.70</u>	<u>\$ 194,683,027.91</u>

### NOTE 11 - PENSION PLANS

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

The Teachers' and State Employees' Retirement System (TSERS) is a cost-sharing multiple-employer defined benefit pension plan established by the State to provide pension benefits for employees of the State, its component units, and local boards of education. TSERS is administered by a 14-member Board of Trustees, with the State Treasurer serving as Chairman of the Board.

Benefit and contribution provisions for the TSERS are established by *North Carolina General Statutes* 135-5 and 135-8 and may be amended only by the North Carolina General Assembly. Employer and member contribution rates are set each year by the North Carolina General Assembly based on annual actuarial valuations. For the year ended June 30, 2014, these rates were set at 8.69% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the University had a total payroll of \$88,485,077.43, of which \$42,705,248.19 was covered under the TSERS. Total employer and employee contributions for pension benefits for the year were \$3,711,086.07 and \$2,562,314.89, respectively.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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Required employer contribution rates for the years ended June 30, 2013, and 2012, were 8.33% and 7.44%, respectively, while employee contributions were 6% each year. The University made 100% of its annual required contributions for the years ended June 30, 2014, 2013, and 2012, which were \$3,711,086.07, \$3,515,270.87, and \$2,992,318.90, respectively.

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

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

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

Participant eligibility and contributory requirements are established by General Statute 135-5.1. Employer and member contribution rates are set each year by the North Carolina General Assembly. For the year ended June 30, 2014, these rates were set at 6.84% of covered payroll for employers and 6% of covered payroll for members. The University assumes no liability other than its contribution.

For the current fiscal year, the University had a total payroll of \$88,485,077.43, of which \$36,780,449.13 was covered under the Optional Retirement Program. Total employer and employee contributions for pension benefits for the year were \$2,515,782.72 and \$2,206,826.95, respectively.

### **NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS**

**A. Health Benefits** - The University participates in the Comprehensive Major Medical Plan (the Plan), a cost-sharing, multiple-employer defined benefit health care plan that provides postemployment health insurance to eligible former employees. Eligible former employees include long-term

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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disability beneficiaries of the Disability Income Plan of North Carolina and retirees of the Teachers' and State Employees' Retirement System or the Optional Retirement Program. Coverage eligibility varies depending on years of contributory membership service in their retirement system prior to disability or retirement.

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

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

For the current fiscal year the University contributed 5.40% of the covered payroll under the Teachers' and State Employees' Retirement System and the Optional Retirement Program to the Fund. Required contribution rates for the years ended June 30, 2013, and 2012, were 5.30% and 5.0%, respectively. The University made 100% of its annual required contributions to the Plan for the years ended June 30, 2014, 2013, and 2012, which were \$4,292,227.66, \$4,099,870.46, and \$3,727,787.00, respectively. The University assumes no liability for retiree health care benefits provided by the programs other than its required contribution.

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

- B. Disability Income** - The University participates in the Disability Income Plan of North Carolina (DIPNC), a cost-sharing, multiple-employer defined benefit plan, to provide short-term and long-term disability benefits to eligible members of the Teachers' and State Employees'

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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Retirement System and the Optional Retirement Program. Benefit and contribution provisions are established by Chapter 135, Article 6, of the General Statutes, and may be amended only by the North Carolina General Assembly. The Plan does not provide for automatic post-retirement benefit increases.

Disability income benefits are funded by actuarially determined employer contributions that are established by the General Assembly. For the fiscal year ended June 30, 2014, the University made a statutory contribution of .44% of covered payroll under the Teachers' and State Employees' Retirement System and the Optional Retirement Program to the DIPNC. Required contribution rates for the years ended June 30, 2013, and 2012, were .44% and .52%, respectively. The University made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2014, 2013, and 2012, which were \$349,737.07, \$340,366.60, and \$387,689.85, respectively. The University assumes no liability for long-term disability benefits under the Plan other than its contribution.

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

### **NOTE 13 - RISK MANAGEMENT**

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

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

The University is required to maintain fire and lightning coverage on all state-owned buildings and contents through the State Property Fire Insurance Fund (Fund), an internal service fund of the State. Such coverage is provided at no cost to the University for operations supported by the State's General Fund. Other operations not supported by the State's General Fund are charged for the coverage. Losses covered by the Fund are subject to a \$10,000 per occurrence deductible except for the Highlands Biological Station which still maintains a

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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\$5,000 per occurrence deductible. The Corporation maintains coverage with a private broker of \$85,120,425 in property coverage and liability coverage of \$1,000,000 per occurrence with a \$10,000,000 aggregate in liability coverage. The Foundation maintains \$304,000 in property coverage with \$500,000 in land lord liability coverage.

The University also purchased through the Fund extended coverage for all University owned buildings which covers windstorm and hail damage. The extended coverage deductible is \$50,000 per occurrence. Optional "All Risk" coverage is purchased for selected University owned business equipment such as high value equipment and computers. "All Risk" losses are subject to a \$5,000 deductible per occurrence. Flood insurance is purchased for the Camp Building Gym which is within a flood zone.

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

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

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

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

The North Carolina Workers' Compensation Program provides benefits to workers injured on the job. All employees of the State and its component units are included in the program. When an employee is injured, the University's primary responsibility is to arrange for and provide the necessary treatment for

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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work related injury. The University is responsible for paying medical benefits and compensation in accordance with the North Carolina Workers' Compensation Act. The University retains the risk for workers' compensation.

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

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

### NOTE 14 - COMMITMENTS AND CONTINGENCIES

**A. Commitments** - The University has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were \$1,170,949.87 and on other purchases were \$2,330,819.42 at June 30, 2014.

**B. Pending Litigation and Claims** - The University is a party to litigation and claims in the ordinary course of its operations. Since it is not possible to predict the ultimate outcome of these matters, no provision for any liability has been made in the financial statements. University management is of the opinion that the liability, if any, for any of these matters will not have a material adverse effect on the financial position of the University.

### NOTE 15 - RELATED PARTIES

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

The Highlands Biological Foundation, Inc. was incorporated in North Carolina on July 21, 1930 for the purpose of supporting through grants and scholarships the activities of Highlands Biological Station, an inter-institutional center of the University of North Carolina system that is managed by the University. This support approximated \$144,165.26 for the year ended June 30, 2014.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Forest Stewards, Inc. was incorporated in North Carolina on May 5, 2008 for the purpose of providing educational and charitable support to the University. This support approximated \$10,500.00 for the year ended June 30, 2014.

The North Carolina Arboretum Society, Inc. was incorporated in North Carolina on July 27, 1990 for the purpose to promote and provide financial and volunteer assistance to the North Carolina Arboretum, inter-institutional center of the University of North Carolina system that is administered by the University. This support approximated \$1,278,242.83 for the year ended June 30, 2014, including \$665,541.83 of non-cash gifts.

### NOTE 16 - BLENDED COMPONENT UNITS

Condensed combining information for the University's blended component units for the year ended June 30, 2014, is presented as follows:

#### *Condensed Statement of Net Position June 30, 2014*

	University	WCU Foundation	WCU R & D Corp.	Eliminations	Total
<b>ASSETS</b>					
Current Assets	\$ 79,910,887.03	\$ 4,144,666.61	\$ 234,506.00	\$ 0.00	\$ 84,290,059.64
Capital Assets	379,138,414.92	208,908.19			379,347,323.11
Other Noncurrent Assets	46,358,901.85	26,712,257.85	2,520,840.00		75,591,999.70
Component Unit Receivable from Primary Government			59,899,842.00	(59,899,842.00)	
Total Assets	<u>505,408,203.80</u>	<u>31,065,832.65</u>	<u>62,655,188.00</u>	<u>(59,899,842.00)</u>	<u>539,229,382.45</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	<u>389,133.61</u>				<u>389,133.61</u>
<b>LIABILITIES</b>					
Current Liabilities	8,957,901.69	151,041.15	1,819,648.00		10,928,590.84
Long-Term Liabilities, Net	54,417,781.47	79,934.74	58,426,608.00		112,924,324.21
Other Noncurrent Liabilities	5,881,694.11				5,881,694.11
Primary Government Payable to Component Unit	59,899,842.00			(59,899,842.00)	
Total Liabilities	<u>129,157,219.27</u>	<u>230,975.89</u>	<u>60,246,256.00</u>	<u>(59,899,842.00)</u>	<u>129,734,609.16</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	<u>0.00</u>				<u>0.00</u>
<b>NET POSITION</b>					
Net Investment in Capital Assets	268,555,733.63	208,908.19			268,764,641.82
Restricted - Nonexpendable	22,650,206.38	14,921,364.53			37,571,570.91
Restricted - Expendable	20,513,367.14	15,259,844.23	2,197,782.00		37,970,993.37
Unrestricted	64,920,810.99	444,739.81	211,150.00		65,576,700.80
Total Net Position	<u>\$ 376,640,118.14</u>	<u>\$ 30,834,856.76</u>	<u>\$ 2,408,932.00</u>	<u>\$ 0.00</u>	<u>\$ 409,883,906.90</u>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### *Condensed Statement of Revenues, Expenses, and Changes in Net Position For the Fiscal Year Ended June 30, 2014*

	University	WCU Foundation	WCU R & D Corp.	Eliminations	Total
<b>OPERATING REVENUES</b>					
Operating Revenue	\$ 92,870,470.79	\$ 179,746.89	\$ 623,656.00	\$ (623,656.00)	\$ 93,050,217.68
<b>OPERATING EXPENSES</b>					
Operating Expenses	185,554,512.78	1,128,506.43	272,885.00	(623,656.00)	186,332,248.21
Depreciation/ Amortization	8,343,641.57	7,138.13			8,350,779.70
Total Operating Expenses	<u>193,898,154.35</u>	<u>1,135,644.56</u>	<u>272,885.00</u>	<u>(623,656.00)</u>	<u>194,683,027.91</u>
Operating Income (Loss)	<u>(101,027,683.56)</u>	<u>(955,897.67)</u>	<u>350,771.00</u>		<u>(101,632,810.23)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>					
State Appropriations	82,461,935.32				82,461,935.32
Noncapital Grants - Student Financial Aid	23,350,231.65				23,350,231.65
Noncapital Grants	903,436.13				903,436.13
Noncapital Gifts, Net	1,061,123.45	2,286,077.89			3,347,201.34
Investment Income (Net of Investment Expenses)	5,641,123.51	3,684,504.22	5,488.00		9,331,115.73
Interest Earned from Investment in Capital Leases			2,934,791.00	(2,934,791.00)	
Interest and Fees on Debt	(5,223,970.61)		(2,856,529.00)	2,934,791.00	(5,145,708.61)
Other Nonoperating Revenue (Expenses)	(372,165.93)	68,751.29	4,158.00		(299,256.64)
Net Nonoperating Revenues	<u>107,821,713.52</u>	<u>6,039,333.40</u>	<u>87,908.00</u>		<u>113,948,954.92</u>
Capital Appropriations	2,566,307.00				2,566,307.00
Capital Grants	283,581.80				283,581.80
Capital Gifts	483,760.00				483,760.00
Transfers to University/Athletics	1,439,066.23	(1,439,066.23)			
Additions to Endowments	1,049,646.45	874,412.01			1,924,058.46
Increase in Net Position	<u>12,616,391.44</u>	<u>4,518,781.51</u>	<u>438,679.00</u>		<u>17,573,851.95</u>
<b>NET POSITION</b>					
Net Position, July 1, 2013 as Restated	364,023,726.70	26,316,075.25	1,970,253.00		392,310,054.95
Net Position, June 30, 2014	<u>\$ 376,640,118.14</u>	<u>\$ 30,834,856.76</u>	<u>\$ 2,408,932.00</u>	<u>\$</u>	<u>\$ 409,883,906.90</u>

### *Condensed Statement of Cash Flows June 30, 2014*

	University	WCU Foundation	WCU R & D Corp.	Total
Net Cash Provided (Used) by Operating Activities	\$ (92,612,973.76)	\$ (874,758.29)	\$ 383,025.00	\$ (93,104,707.05)
Net Cash Provided by Noncapital Financing Activities	108,779,696.97	1,458,715.54		110,238,412.51
Net Cash Used by Capital and Related Financing Activities	(5,247,630.70)		(4,335,138.00)	(9,592,958.70)
Net Cash Provided (Used) by Investing Activities	(5,217,625.85)	(1,804,942.68)	4,319,549.00	(2,703,019.53)
Net Increase (Decrease) in Cash and Cash Equivalents	<u>5,701,466.66</u>	<u>(1,231,175.43)</u>	<u>367,436.00</u>	<u>4,837,727.23</u>
Cash and Cash Equivalents, July 1, 2013	70,017,870.04	5,439,277.16	1,535,909.00	76,993,056.20
Cash and Cash Equivalents, June 30, 2014	<u>\$ 75,719,336.70</u>	<u>\$ 4,208,101.73</u>	<u>\$ 1,903,345.00</u>	<u>\$ 81,830,783.43</u>

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

## NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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### NOTE 17 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2014, the University implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, issued by the Governmental Accounting Standards Board (GASB). This standard requires reclassification of certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources. The standard also requires bond issuance costs to be expensed rather than amortized. See Note 18 for net position restatement as a result of this GASB statement.

### NOTE 18 - NET POSITION RESTATEMENTS

As of July 1, 2013, net position as previously reported was restated as follows:

Implementation of GASB 65, *Items Previously Reported as Assets and Liabilities*, requires that bond issuance costs be expensed in the period incurred. The Corporation had bond issuance costs that were previously unamortized. These costs have been expensed against beginning net position.

A prior period correction of depreciable capital asset classification, useful lives, and depreciation resulted in the net accumulated depreciation increase recorded against beginning net position.

	Amount
July 1, 2013 Net Position as Previously Reported	\$ 392,868,070.40
Restatements:	
Expense previously unamortized bond issuance costs pursuant to GASB 65 requirements	(497,699.07)
Prior period correction of capital assets	(60,316.38)
<b>July 1, 2013 Net Position as Restated</b>	<b>\$ 392,310,054.95</b>

### NOTE 19 - SUBSEQUENT EVENT

In September 2014, the University entered into an Energy Savings Improvement Financing and Debt Service Funding Agreement with the UNC Board of Governors. This agreement stipulates that the University will be responsible for paying its portion of the system-wide debt. The debt will be used to fund an energy savings project consisting of replacing or retrofitting existing light fixtures, the purchase of replacement light bulbs, and the installation of lighting control sensors in various buildings and recreational facilities across campus. The University's obligation will be \$3,327,434.04 and will be recorded as a long-term liability in fiscal year 2015 with repayment scheduled to begin in May 2016.

**Office of the State Auditor**

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

2 S. Salisbury Street  
20601 Mail Service Center  
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**INDEPENDENT AUDITOR'S REPORT  
ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN  
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

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Board of Trustees  
Western Carolina University  
Cullowhee, North Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Western Carolina University, a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated November 19, 2014. Our report includes a reference to other auditors who audited the financial statements of Western Carolina University Foundation and Western Carolina University Research and Development Corporation, as described in our report on the University's financial statements. The financial statements of those entities were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with those entities.

Internal Control Over Financial Reporting

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

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

**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 (CONCLUDED)**

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prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

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

Purpose of this Report

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



Beth A. Wood, CPA  
State Auditor

Raleigh, North Carolina

November 19, 2014

## ORDERING INFORMATION

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Copies of this report may be obtained by contacting the:

Office of the State Auditor  
State of North Carolina  
2 South Salisbury Street  
20601 Mail Service Center  
Raleigh, North Carolina 27699-0601

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For additional information contact:

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