



# STATE OF NORTH CAROLINA

WESTERN CAROLINA UNIVERSITY

CULLOWHEE, NORTH CAROLINA

## FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2011

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR

**WESTERN CAROLINA UNIVERSITY**

**CULLOWHEE, NORTH CAROLINA**

**FINANCIAL STATEMENT AUDIT REPORT**

**FOR THE YEAR ENDED JUNE 30, 2011**

**BOARD OF GOVERNORS**

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

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

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**AUDITOR'S TRANSMITTAL**

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The Honorable Beverly E. Perdue, 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, 2011, 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 of Beth A. Wood.

Beth A. Wood, CPA  
State Auditor

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**INDEPENDENT AUDITOR'S REPORT**

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Board of Trustees  
Western Carolina University  
Cullowhee, North Carolina

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, and its discretely presented component unit, as of and for the year ended June 30, 2011, which collectively comprise the University's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the University's management. 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 represents 5 percent, 7 percent, and 2 percent, respectively, of the assets, net assets, and revenues of the University; nor the financial statements of Western Carolina University Research and Development Corporation, the University's discretely presented component unit. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for those entities, are based 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 of material misstatement. The financial statements of Western Carolina University Research and Development Corporation were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our report and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of Western Carolina University and its discretely presented component unit as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

## **INDEPENDENT AUDITOR'S REPORT (CONCLUDED)**

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In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2011 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, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis, as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



Beth A. Wood, CPA  
State Auditor

December 12, 2011

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**WESTERN CAROLINA UNIVERSITY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

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## **Introduction**

The University's financial report includes three financial statements and the *Notes to the Financial Statements*. The *Statement of Net Assets* presents the assets, liabilities, and net assets of the institution as of the end of the fiscal year; the *Statement of Revenues, Expenses, and Changes in Net Assets* 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.

Also included in the University's financial report are the *Statement of Financial Position* and *Statement of Activities* for the Western Carolina University Research and Development Corporation, a discretely presented component unit. The following discussion and analysis provides an overview of the financial position and activities only for Western Carolina University (the "University") for the years ended June 30, 2011 and 2010 and not its component unit. 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 Assets**

The *Statement of Net Assets* presents the financial position of the University at the end of the fiscal year and includes all assets and liabilities of the University classified as either current or noncurrent. This statement is a point in time financial statement and provides a fiscal snapshot of the University at June 30, 2011. The difference between total assets and total liabilities - net assets - is one measure of the current financial condition of the University. The change in net assets is an indicator of whether the overall financial condition has improved or worsened during the year.

Data presented in the *Statement of Net Assets* helps readers determine the assets available to continue the operations of the University and how much the University owes vendors, investors, and lending institutions. In addition, the Net Assets section of the statement reflects the residual value of the University's assets after liabilities are deducted and their availability for expenditure.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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### Condensed Statement of Net Assets

	<u>2011</u>	<u>2010</u>	<u>\$ Change</u>	<u>% Change</u>
<b>Assets</b>				
Current Assets	\$ 67,905,980.54	75,102,233.52	(7,196,252.98)	(9.58)%
Capital Assets, Net	349,716,533.59	303,257,920.74	46,458,612.85	15.32%
Other Noncurrent Assets	55,063,021.49	43,690,737.24	11,372,284.25	26.03%
<b>Total Assets</b>	<u>472,685,535.62</u>	<u>422,050,891.50</u>	<u>50,634,644.12</u>	12.00%
<b>Liabilities</b>				
Current Liabilities	16,077,026.94	13,482,547.40	2,594,479.54	19.24%
Noncurrent Liabilities	114,524,175.50	96,978,450.70	17,545,724.80	18.09%
<b>Total Liabilities</b>	<u>130,601,202.44</u>	<u>110,460,998.10</u>	<u>20,140,204.34</u>	18.23%
<b>Net Assets</b>				
Invested in Capital Assets, Net of Related Debt	243,024,872.29	216,144,401.80	26,880,470.49	12.44%
Restricted – Nonexpendable	32,844,136.26	27,605,403.13	5,238,733.13	18.98%
Restricted – Expendable	21,219,695.69	19,401,676.29	1,818,019.40	9.37%
Unrestricted	44,995,628.94	48,438,412.18	(3,442,783.24)	(7.11)%
<b>Total Net Assets</b>	<u>\$ 342,084,333.18</u>	<u>\$ 311,589,893.40</u>	<u>\$ 30,494,439.78</u>	9.79%

### **Assets**

Current assets, which consist primarily of cash, short-term investments, accounts and notes receivable and operating inventories, decreased by \$7.1 million. This decrease was partially due to \$2.5 million prior year receivable in due from primary government for the amount of bond proceeds owed by the State to the University for expenses accrued at June 30, 2010 for the Health and Human Sciences Building. This receivable was collected during the fiscal year ended June 30, 2011. Other significant changes in current assets include a \$4.5 million decrease in current cash and cash equivalents (\$3.3 million decrease in unrestricted, and \$1.2 million decrease in restricted) and a \$.7 million decrease in restricted short-term investments due to normal fluctuations in operating cash needs.

Net capital assets increased \$46.4 million. Machinery and equipment, net of depreciation increased \$1.9 million. The biggest factors in this change were the completion of Blue Ridge Residence Hall (\$24.1 million) and the net increase in nondepreciable construction in progress of \$24 million in 2011. Construction in progress is composed chiefly of two projects. The first is the new building for the Health and Gerontological Sciences located on the Millennial Campus in Cullowhee. The second project is the NC Center for Aging Building in Asheville. Both of these projects should be completed during the 2011-2012 fiscal year.

Other noncurrent assets increased \$11.3 million. Restricted noncurrent cash increased \$3.1 million. Additions to permanent endowments of \$2.5 million and favorable market fluctuations resulted in an increase of \$8.8 million in endowment investments. Notes receivable decreased \$.7 million because of a decrease in the federal loan programs balance, coupled with an increase in the allowance for doubtful accounts for the same.

### **Liabilities**

Current liabilities increased by \$2.5 million. Accounts payable and accrued liabilities increased by \$2.6 million. Contract retainage increased \$1.2 million due to continuing construction of the Health and Gerontological building in Cullowhee and the NC Center for

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

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Aging in Asheville. General accounts payable increased \$1.6 million partially due to an allotment holdback for fiscal month twelve. The current portion of long-term liabilities decreased by \$.5 million because of amortization of long-term debt.

Noncurrent liabilities increased by \$17.5 million. This change is primarily due to the completion of Blue Ridge Residence Hall that is financed with a capital lease payable of \$20.4 million to the Western Carolina University Research and Development Corporation. Noncurrent liabilities were offset by principal payments of \$2.9 million during the fiscal year.

### **Net Assets**

Net assets represent residual interest in the University's assets after all liabilities are deducted. For reporting purposes, they are divided into three major components:

- “Invested in Capital Assets, Net of Related Debt” represents the University’s investment in capital assets such as movable equipment, buildings, land, infrastructure, and improvements, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets. At June 30, 2011, \$243 million (71% of total net assets) of the \$342 million in net assets was attributable to the University’s investment in capital assets.
- Restricted net assets are subject to externally imposed restrictions governing their use and are further divided into two categories: nonexpendable and expendable. “Restricted - Nonexpendable” net assets primarily include the University’s permanent endowment funds received from donors for the purpose of creating present and future income. These funds must be held inviolate and in perpetuity and are, therefore, not expendable. Earnings on these funds support various programs determined by donors. The nonexpendable category makes up approximately \$32 million (9.6% of total net assets) of the \$342 million net assets total. “Restricted - Expendable” net assets are available for expenditure in accordance with externally imposed restrictions. Examples include funds for scholarships, debt service, and capital projects. At June 30, 2011, expendable net assets totaled \$21 million (6.2% of total net assets) of the \$342 million in net assets.
- “Unrestricted” net assets are not subject to externally imposed restrictions, although management has designated these funds for various academic and research programs and initiatives, as well as capital projects. This year, unrestricted net assets totaled \$44 million (13.1% of total net assets) of the \$342 million in net assets.

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

The *Statement of Revenues, Expenses, and Changes in Net Assets* 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 assets.

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

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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. In addition, as of fiscal year 2008-2009, the University reports federal student financial aid such as Pell Grants and SEOG (Supplemental Educational Opportunity Grants) and state student financial aid administered by the North Carolina State Education Assistance Authority as nonoperating, rather than operating revenue. Nonoperating expenses include interest expense and other expenses not incurred in the normal operations of the University.

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

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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The following is a condensed *Statement of Revenues, Expenses, and Changes in Net Assets* for Western Carolina University as of June 30, 2011, compared with that of 2010.

**Condensed Summary of Revenues, Expenses, and Changes in Net Assets**

	<b>2011</b>	<b>2010</b>	<b>\$ Change</b>	<b>% Change</b>
<b>Operating Revenues</b>				
Student Tuition and Fees, Net	\$ 38,017,716.55	\$ 33,373,573.11	\$ 4,644,143.44	13.92%
Grants and Contracts	5,312,766.54	5,006,536.94	306,229.60	6.12%
Sales and Services, Net	29,944,041.42	26,775,784.96	3,168,256.46	11.83%
Other Operating Revenues	1,419,793.07	1,505,561.21	(85,768.14)	(5.70)%
Total Operating Revenues	<u>74,694,317.58</u>	<u>66,661,456.22</u>	<u>8,032,861.36</u>	12.05%
<b>Operating Expenses</b>				
Salaries and Benefits	105,400,680.37	102,629,791.00	2,770,889.37	2.70%
Supplies and Materials	16,482,141.23	15,184,082.60	1,298,058.63	8.55%
Services	28,785,637.50	25,618,867.61	3,166,769.89	12.36%
Scholarships and Fellowships	11,191,329.90	10,553,239.81	638,090.09	6.05%
Utilities	4,787,238.63	4,647,966.12	139,272.51	3.00%
Depreciation	6,137,475.00	4,992,738.04	1,144,736.96	22.93%
Total Operating Expenses	<u>172,784,502.63</u>	<u>163,626,685.18</u>	<u>9,157,817.45</u>	5.60%
Operating Loss	<u>(98,090,185.05)</u>	<u>(96,965,228.96)</u>	<u>(1,124,956.09)</u>	1.16%
<b>Nonoperating Revenues (Expenses)</b>				
State Appropriations	72,476,474.35	76,806,185.54	(4,329,711.19)	(5.64)%
State Aid - Federal Recovery Funds	5,495,885.00	5,472,031.00	23,854.00	0.44%
Noncapital Grants - Student Financial Aid	23,947,251.11	19,969,293.13	3,977,957.98	19.92%
Noncapital Gifts and Grants	2,452,437.78	1,869,543.50	582,894.28	31.18%
Investment Income (Includes Investment Expenses)	7,495,802.09	3,688,832.15	3,806,969.94	103.20%
Interest and Fees on Debt	(5,350,681.32)	(4,116,558.90)	(1,234,122.42)	29.98%
Other Nonoperating Expenses	(450,194.27)	(511,632.60)	61,438.33	(12.01)%
Net Nonoperating Revenues	<u>106,066,974.74</u>	<u>103,177,693.82</u>	<u>2,889,280.92</u>	2.80%
Income Before Other Revenues	7,976,789.69	6,212,464.86	1,764,324.83	28.40%
Refund of Prior Years Capital Appropriations		(36,457.00)	36,457.00	(100.00)%
Capital Gifts and Grants	19,996,845.06	12,558,291.21	7,438,553.85	59.23%
Additions to Permanent Endowments	2,520,805.03	1,135,265.17	1,385,539.86	122.05%
Total Other Revenue	<u>22,517,650.09</u>	<u>13,657,099.38</u>	<u>8,860,550.71</u>	64.88%
<b>Change in Net Assets</b>	<b>30,494,439.78</b>	<b>19,869,564.24</b>	<b>10,624,875.54</b>	53.47%
<b>Beginning Net Assets</b>	<b>311,589,893.40</b>	<b>291,720,329.16</b>	<b>19,869,564.24</b>	6.81%
<b>Ending Net Assets</b>	<b><u>\$ 342,084,333.18</u></b>	<b><u>\$ 311,589,893.40</u></b>	<b><u>\$ 30,494,439.78</u></b>	9.79%

### Revenues

Operating revenues increased \$8 million based on the following:

- Student tuition and fees increased by \$4.6 million as a result of increases in tuition and fee rates.

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## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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- Grants and contracts revenues increased \$.3 million due to the addition of some new grants.
- Sales and services revenues increased \$3.1 million due to increases in fee rates for housing, dining, and other auxiliary services.

Nonoperating revenues increased by \$2.8 million, based on the following:

- State appropriations decreased by \$4.3 million. In response to serious economic and financial adversity experienced by the State, the North Carolina Office of State Budget and Management required a reversion of 3.5% of the University's budget. Additionally, the allotment for month 12 of the fiscal year was changed to be the average monthly expenditure for the previous 11 months, rather than the remaining unexpended budget.
- The University received federal recovery funds due to the State's decision to utilize a portion of the federal funds available through the State Fiscal Stabilization Fund, a nonrecurring appropriation under the American Recovery and Reinvestment Act (ARRA) to partially offset faculty salary and benefits in the 2010-2011 fiscal year. The University received \$5.4 million of these federal recovery funds in fiscal year 2011 as well as in fiscal year 2010.
- Noncapital grants for student financial aid increased by \$3.9 million primarily due to increases in Pell grant and North Carolina need based grant revenue.
- Investment income increased by \$3.8 million after an increase of \$8.2 million in the prior fiscal year. The total investment income was composed in part of realized gains of \$.8 million, and unrealized gains of \$5.7 million. These increases are a reflection of favorable market fluctuations during the fiscal year 2011. Short-Term Investment Fund interest income was down \$.3 million from the prior year.
- Interest and fees on debt increased by \$1.2 million. Interest payments decreased on bonds slightly and increased on capital leases by \$1.3 million. This increase is mainly attributable to the capital lease addition of Blue Ridge Residence Hall.

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

### **Operating Expenses**

Operating expenses increased \$9.1 million based on the following:

- Salaries and benefits for the faculty and staff of the University increased by \$2.7 million. The University's health insurance premium per eligible employee increased 8.9%. The University's retirement contribution to the TSERS (Teachers and State Employees Retirement System) increased by 1.76% and the contribution to the

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## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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ORP (Optional Retirement Program) increased .4%. Wages increased by \$.8 million in part because of an increase in student temporary pay and severance payouts.

- Supplies and materials increased by \$1.2 million. The increases result from an increase of general supplies of \$.4 million, items for resale of \$.6 million, and noncapitalized capital outlay items of \$.2 million.
- Services increased by \$3.1 million due to increases in rental expense, maintenance agreements, insurance, and electronic commerce fees. These increases were offset by decreases in travel and other expenses.
- Scholarships and fellowships, net of scholarship discounts, increased by \$.6 million. Before application of the \$19.8 million discount, scholarships increased by \$4.6 million, partly due to increases of \$3 million in funds granted by the State of North Carolina for University of North Carolina Need Based Grants and federal Pell grants. The scholarship discount increased by a total of \$4.4 million this fiscal year, offsetting the \$4.6 million increase.
- Utilities expense increased by \$.1 million because of an increase in fuel oil prices.
- Depreciation expense increased by \$1.1 million due an increase in building depreciation. The increase is a result of the capitalized leases of Blue Ridge and Balsam residences being depreciated over the term of the leases versus a longer useful life for other buildings on campus.

Capital gifts and grants increased by \$7.4 million attributable primarily to \$19 million in proceeds received from the State for the construction of the Health and Human Sciences Building and the NC Center for Health and Aging.

The \$1.3 million increase in additions to permanent endowments was largely a result of two gifts to establish endowed professorships and two matching gifts for endowed professorships.

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

At June 30, 2011, the University had approximately \$436.7 million invested in capital assets, and accumulated depreciation of \$87 million. Depreciation charges for the current year totaled \$6.1 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 federal and state capital grants, debt proceeds, gifts, and unrestricted net assets designated for capital purposes.

The Millennial Initiative is an ambitious and comprehensive regional economic improvement strategy that will enable the University to partner with business, industry, and government. A comprehensive master plan was approved by the campus and Board of Trustees to serve as a guide for the development of 344 acres adjacent to the University's main campus that was recently acquired. The 2007 General Assembly approved \$46.2 million in funding for a new 145,200 square foot health and gerontological sciences building that will be the first

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

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construction project on the Millennial Initiative property. The new building will house classrooms, offices and laboratories for the University's School of Nursing and programs in social work, physical therapy, athletic training, clinical laboratory sciences, environmental health, health information administration, nutrition and dietetics, emergency medical care, recreational therapy, and communication sciences and disorders. It is expected to become the cornerstone for a mixed-use "neighborhood of interest" focusing on retirement, aging and health, where students and faculty would work with partners from private business and industry. Construction of the new health sciences building began in May 2009, and is scheduled to be completed in February 2012.

Helder Residence Hall, a four-story, 400-bed residence hall constructed in 1966, was demolished in Summer 2007, Leatherwood Residence Hall was demolished in March 2009, and Dodson Cafeteria was demolished in Summer 2009. Demolition of these three buildings was necessary to provide room for construction of a new dining facility and two new residence halls that, together with the Campus Recreation Center, form a quadrangle arranged around a formal lawn that is the centerpiece of the University's campus. The new two-story, 53,000 square-foot dining hall was completed in July 2009. The two new residence halls, Blue Ridge and Balsam, are connected by an archway and provide a living and learning community for 801 students enrolled in the Honors College and the North Carolina Teaching Fellows Program. The residence hall project is funded through student room fees.

The University's financial statements indicate \$41.3 million in bonds payable, \$12 thousand in notes payable, and \$64.8 million in capital leases payable at June 30, 2011.

For additional information on capital assets 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. Enrollment growth targets for the next 8 to 10 years have been established, and the university continues vigorously to pursue growth in all categories of enrollment - resident credit and distance learning enrollments, at both the undergraduate and graduate levels. Total enrollment for Fall 2011 is 9,352 as compared to 9,407 in the Fall 2010. 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 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

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

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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.

While the national recession ended in the summer of 2009, there are few signs of an economic recovery. The recovery phase continues to be slow and prolonged due to the problems that occurred in the housing and financial markets and the length of the recession. Unemployment continues to be above 9%.

As a result of these continued economic struggles, the State has already imposed budget reductions for fiscal year 2011-2012. The University's share of these cuts is 16.4%, with an offset for enrollment growth monies, for a net budget reduction of 13.3%. Over the last three fiscal years, the University has had a combined budget reduction of approximately \$30 million.

Management believes that the University has taken strong measures to ensure fiscal survival during weak economic times. These measures have involved spending cuts as well as a reduction in work force. These measures have been balanced against the need to provide a quality education and services to the students it serves.

**Western Carolina University**  
**Statement of Net Assets**  
**June 30, 2011**

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

**ASSETS**

Current Assets:

Cash and Cash Equivalents	\$ 45,619,299.94
Restricted Cash and Cash Equivalents	14,542,029.51
Restricted Short-Term Investments	97,233.82
Receivables, Net (Note 4)	3,042,392.23
Due from State of North Carolina Component Units	8,180.00
Inventories	3,599,482.02
Notes Receivable, Net (Note 4)	906,701.92
Other Assets	90,661.10
 Total Current Assets	 <u>67,905,980.54</u>

Noncurrent Assets:

Restricted Cash and Cash Equivalents	4,412,680.91
Receivables, Net (Note 4)	42,385.50
Endowment Investments	45,756,670.25
Other Investments	968,687.00
Notes Receivable, Net (Note 4)	3,882,597.83
Capital Assets - Nondepreciable (Note 5)	53,123,870.26
Capital Assets - Depreciable, Net (Note 5)	296,592,663.33
 Total Noncurrent Assets	 <u>404,779,555.08</u>
 Total Assets	 <u>472,685,535.62</u>

**LIABILITIES**

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 6)	7,773,823.08
Due to Primary Government	18,278.21
Funds Held for Others	36,148.11
Unearned Revenue	4,060,797.04
Interest Payable	730,732.52
Long-Term Liabilities - Current Portion (Note 7)	3,457,247.98
 Total Current Liabilities	 <u>16,077,026.94</u>

Noncurrent Liabilities:

Deposits Payable	83,647.13
Funds Held for Others	595,704.70
U. S. Government Grants Refundable	5,127,145.71
Long-Term Liabilities (Note 7)	108,717,677.96
 Total Noncurrent Liabilities	 <u>114,524,175.50</u>
 Total Liabilities	 <u>130,601,202.44</u>

**Western Carolina University**  
**Statement of Net Assets**  
**June 30, 2011**

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

**NET ASSETS**

Invested in Capital Assets, Net of Related Debt	243,024,872.29
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	14,934,606.96
Endowed Professorships	16,658,568.71
Departmental Uses	410,829.51
Loans	840,131.08
Expendable:	
Scholarships and Fellowships	12,236,722.26
Research	944,003.64
Endowed Professorships	4,116,825.21
Departmental Uses	1,922,125.13
Loans	635,888.26
Debt Service	893,316.54
Other	470,814.65
Unrestricted	<u>44,995,628.94</u>
Total Net Assets	<u>\$ 342,084,333.18</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 Assets**  
**For the Fiscal Year Ended June 30, 2011**

**Exhibit A-2**

**REVENUES**

Operating Revenues:

Student Tuition and Fees, Net (Note 9)	\$ 38,017,716.55
Federal Grants and Contracts	4,116,073.86
State and Local Grants and Contracts	337,184.40
Nongovernmental Grants and Contracts	859,508.28
Sales and Services, Net (Note 9)	29,944,041.42
Interest Earnings on Loans	13,201.59
Other Operating Revenues	<u>1,406,591.48</u>
Total Operating Revenues	<u>74,694,317.58</u>

**EXPENSES**

Operating Expenses:

Salaries and Benefits	105,400,680.37
Supplies and Materials	16,482,141.23
Services	28,785,637.50
Scholarships and Fellowships	11,191,329.90
Utilities	4,787,238.63
Depreciation	<u>6,137,475.00</u>
Total Operating Expenses	<u>172,784,502.63</u>
Operating Loss	<u>(98,090,185.05)</u>

**NONOPERATING REVENUES (EXPENSES)**

State Appropriations	72,476,474.35
State Aid - Federal Recovery Funds	5,495,885.00
Noncapital Grants - Student Financial Aid	23,947,251.11
Other Noncapital Grants	21,878.81
Noncapital Gifts, Net (Note 9)	2,430,558.97
Investment Income (Net of Investment Expense of \$176,929.20)	7,495,802.09
Interest and Fees on Debt	(5,350,681.32)
Other Nonoperating Expenses	<u>(450,194.27)</u>

Net Nonoperating Revenues 106,066,974.74

Income Before Other Revenues 7,976,789.69

Capital Grants	19,695,715.06
Capital Gifts	301,130.00
Additions to Endowments	<u>2,520,805.03</u>

Increase in Net Assets 30,494,439.78

**NET ASSETS**

Net Assets - July 1, 2010,	<u>311,589,893.40</u>
Net Assets - June 30, 2011	<u>\$ 342,084,333.18</u>

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

**Western Carolina University  
Statement of Cash Flows  
For the Fiscal Year Ended June 30, 2011**

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

**CASH FLOWS FROM OPERATING ACTIVITIES**

Received from Customers	\$ 73,083,408.38
Payments to Employees and Fringe Benefits	(105,578,171.96)
Payments to Vendors and Suppliers	(47,655,039.12)
Payments for Scholarships and Fellowships	(11,191,329.90)
Loans Issued	(1,741,382.20)
Collection of Loans	1,745,858.66
Interest Earned on Loans	106,613.87
Student Deposits Received	805,034.42
Student Deposits Returned	(774,707.51)
Other Receipts	<u>1,406,591.48</u>
Net Cash Used by Operating Activities	<u>(89,793,123.88)</u>

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

State Appropriations	72,476,474.35
State Aid - Federal Recovery Funds	5,495,885.00
Noncapital Grants - Student Financial Aid	23,947,251.11
Noncapital Grants	21,878.81
Noncapital Gifts	1,769,527.30
Additions to Endowments	2,520,805.03
William D. Ford Direct Lending Receipts	44,380,252.00
William D. Ford Direct Lending Disbursements	(44,380,252.00)
Related Activity Agency Receipts	12,072.38
Related Activity Agency Disbursements	(18,986.25)
Other Receipts	<u>8,625.04</u>
Net Cash Provided by Noncapital Financing Activities	<u>106,233,532.77</u>

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

Capital Grants	22,243,180.10
Capital Gifts	549,884.40
Proceeds from Sale of Capital Assets	4,811.58
Acquisition and Construction of Capital Assets	(31,867,134.89)
Principal Paid on Capital Debt and Leases	(3,096,009.38)
Interest and Fees Paid on Capital Debt and Leases	(5,274,231.56)
Payment to Bond Escrow Agent	<u>(6,274.69)</u>
Net Cash Used by Capital Financing and Related Financing Activities	<u>(17,445,774.44)</u>

**CASH FLOWS FROM INVESTING ACTIVITIES**

Proceeds from Sales and Maturities of Investments	11,330,749.90
Investment Income	1,995,998.91
Purchase of Investments and Related Fees	<u>(13,762,536.47)</u>
Net Cash Used by Investing Activities	<u>(435,787.66)</u>
Net Decrease in Cash and Cash Equivalents	(1,441,153.21)
Cash and Cash Equivalents - July 1, 2010	<u>66,015,163.57</u>
Cash and Cash Equivalents - June 30, 2011	<u>\$ 64,574,010.36</u>

**Western Carolina University  
Statement of Cash Flows  
For the Fiscal Year Ended June 30, 2011**

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

**RECONCILIATION OF NET OPERATING REVENUES (EXPENSES)  
TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES**

Operating Loss	\$ (98,090,185.05)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	6,137,475.00
Allowances, Write-Offs, and Amortizations	86,821.68
Nonoperating Other Expenses	454,606.29
Noncash Contributed Expenses	29,445.79
Changes in Assets and Liabilities:	
Receivables (Net)	(380,203.99)
Due from State of North Carolina Component Units	68,820.00
Inventories	(53,850.06)
Notes Receivable (Net)	498,650.71
Accounts Payable and Accrued Liabilities	1,411,378.97
Due to Primary Government	(116,148.54)
Unearned Revenue	326,916.09
Compensated Absences	(1,464.04)
Deposits Payable	30,326.91
US Government Grants Refundable	<u>(195,713.64)</u>
Net Cash Used by Operating Activities	<u>\$ (89,793,123.88)</u>

**RECONCILIATION OF CASH AND CASH EQUIVALENTS**

Current Assets:	
Cash and Cash Equivalents	\$ 45,619,299.94
Restricted Cash and Cash Equivalents	14,542,029.51
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	<u>4,412,680.91</u>
Total Cash and Cash Equivalents - June 30, 2011	<u>\$ 64,574,010.36</u>

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

Assets Acquired through the Assumption of a Liability	\$ 20,403,827.24
Assets Acquired through a Gift	461,707.24
Change in Fair Value of Investments	5,676,732.38
Reinvested Distributions	1,189,983.79
Loss on Disposal of Capital Assets	918,861.73

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

**Western Carolina University Research  
and Development Corporation  
Statement of Financial Position  
June 30, 2011**

**Exhibit B-1**

**ASSETS**

Current Assets:

Cash and Cash Equivalents	\$ 758,174
Net Investment in Capital Leases, Net of Unearned Interest Income	1,071,360
Accounts Receivable	191,117
	<hr/>

Total Current Assets \$ 2,020,651

Other Assets:

Other Investments	15,000
Certificate Issuance Costs, Net of Accumulated Amortization	2,404,283
Net Investment in Capital Leases, Net of Unearned Interest Income	62,485,738
	<hr/>

Total Other Assets \$ 64,905,021

Total Assets \$ 66,925,672

**LIABILITIES**

Current Liabilities:

Current Portion of Long-Term Debt	\$ 1,220,000
Construction Contracts Payable	32,976
Construction Retainage Payable	377,993
Accrued Interest Payable	238,195
	<hr/>

Total Current Liabilities \$ 1,869,164

Noncurrent Liabilities:

Certificates of Participation Payable	\$ 62,950,000
	<hr/>

Total Liabilities \$ 64,819,164

**NET ASSETS**

Unrestricted

Total Liabilities and Net Assets \$ 66,925,672

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

***Western Carolina University Research  
and Development Corporation  
Statement of Activities  
For the Fiscal Year Ended June 30, 2011***

***Exhibit B-2***

**REVENUES**

Management Fee	\$ 431,805
Interest Income	8,699
Interest Earned from Investments in Capital Leases	<u>3,549,879</u>
Total Revenues	<u>3,990,383</u>

**EXPENSES**

Amortization of Certificate Issuance Costs	96,728
Insurance	197,024
Interest	2,680,629
Professional Fees	14,460
Other Operating	<u>161,831</u>
Total Expenses	<u>3,150,672</u>

**CHANGE IN NET ASSETS**

Net Assets, Beginning of Year	839,711
Net Assets, End of Year	<u>1,266,797</u>
	<u>\$ 2,106,508</u>

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

**WESTERN CAROLINA UNIVERSITY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2011**

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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 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 either blended or discretely presented in the University's financial statements. The blended component unit, although legally separate, is, in substance, part of the University's operations and therefore, is reported as if it were part of the University. Discretely presented component unit financial data are reported in separate financial statements because of its use of different GAAP reporting models and to emphasize its legal separateness.

**Blended Component Unit** - Although legally separate, Western Carolina University Foundation (Foundation), a component unit of the University, is reported as if it were part of the University.

The Foundation is governed by a 31-member board consisting of 4 ex officio directors and 27 elected directors. The Foundation's purpose is to aid, support, and promote teaching, research, and service in the various educational, scientific, scholarly, professional, artistic, and creative endeavors of the University. Because the elected directors of the Foundation are appointed by the members of the Western Carolina University Board of Trustees and the Foundation's sole purpose is to benefit Western Carolina University, its financial statements have been blended with those of the University.

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## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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Separate financial statements for the Foundation 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.

**Discretely Presented Component Unit** - Western Carolina University Research & Development Corporation (Corporation) is a legally separate not-for-profit corporation and is reported as a discretely presented component unit based on the nature and significance of its relationship to the University.

The mission of the Corporation is to aid and promote the education and charitable purposes and lawful activities of the University. The Corporation board consists of five directors, one of which is appointed the Chancellor of the University. Because the resources held by the Corporation can only be used by, or for the benefit of the University, the Corporation is considered a component unit of the University and is reported in separate financial statements because of the difference in its reporting model, as described below.

The Corporation is a private not-for-profit organization that reports its financial results under Financial Accounting Standards Board (FASB) Statements. As such, certain revenue recognition criteria and presentation features are different from the Governmental Accounting Standards Board (GASB) revenue recognition criteria and presentation features. No modifications have been made to the Corporation's financial information in the University's financial reporting entity for these differences.

Complete financial statements for the Corporation can be obtained from the University Controller's Office, HFR 315, Cullowhee, NC 28723, or by calling 828-227-7323.

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

Pursuant to the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended by GASB Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities*, 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.

In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the University does not apply Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless the GASB amends its pronouncements to specifically adopt FASB pronouncements issued after that date.

- 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 includes 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, and deposits held by the State Treasurer in the Short-Term Investment Fund. The Short-Term Investment Fund maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.

- E. Investments** - Investments generally are reported at fair value, as determined by quoted market prices or estimated amounts determined by management if quoted market prices are not available. 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

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## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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endowment capacity (i.e. quasi-endowments), along with accumulated investment earnings on such amounts.

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

The University capitalizes assets that have a value or cost of \$5,000 or greater at the date of acquisition and an estimated useful life of more than one year. Library books are generally not considered to have a useful life of more than one year unless part of a collection and are expensed in the year of acquisition.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 10 to 50 years for general infrastructure, 27 to 100 years for buildings, and 3 to 30 years for equipment.

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 and resources legally segregated for the payment of principal and interest as required by debt covenants.
- J. **Noncurrent Long-Term Liabilities** - Noncurrent long-term liabilities include principal amounts of bonds payable, notes payable, capital lease

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## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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obligations, annuity and life income payable, and compensated absences that will not be paid within the next fiscal year.

Bond issuance costs, premiums, and discounts are considered immaterial and 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 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 Assets** - The University's net assets are classified as follows:

**Invested in Capital Assets, Net of Related Debt** - 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 invested in capital assets, net of related debt.

**Restricted Net Assets - Nonexpendable** - Nonexpendable restricted net assets include 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 Assets - Expendable** - Expendable restricted net assets include resources for which the University is legally or contractually

obligated to spend in accordance with restrictions imposed by external parties.

**Unrestricted Net Assets** - Unrestricted net assets include resources derived from student tuition and fees, sales and services, unrestricted gifts, royalties, and interest income.

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

**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 Assets. 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 Assets. 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 Assets. 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

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## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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.

- 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 life, 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. In addition, the University of North Carolina Board of Governors, pursuant to G.S. 116-36.1, requires the University to deposit its institutional trust funds, except for funds received for services rendered by health care professionals, with the State Treasurer. Although specifically exempted, the University may voluntarily deposit 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, 2011, the amount shown on the Statement of Net Assets as cash and cash equivalents includes \$64,339,775.11 which represents the University's equity position in the State Treasurer's Short-Term Investment Fund. The Short-Term Investment Fund (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 1.9 years as of June 30, 2011. Assets and shares of the Short-Term Investment Fund 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 Short-Term Investment Fund) are

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## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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) 981-5454.

Cash on hand at June 30, 2011 was \$37,357.87. The carrying amount of the University's deposits not with the State Treasurer was \$196,877.38 and the bank balance was \$479,477.64. Custodial credit risk is the risk that in the event of a bank failure, the University's deposits may not be returned to it. Pursuant to G.S. 116-36.1, funds received for health care services not deposited with the State Treasurer shall be fully secured in the manner as prescribed by the State Treasurer for the security of public deposits. The University does not have a deposit policy for custodial credit risk. As of June 30, 2011, the University's bank balance was exposed to custodial credit risk as follows:

Uninsured and Collateral Held by Pledging Bank's Trust Department not in University's Name	\$ <u>217,490.74</u>
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### B. Investments

**University** - 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; time deposits of specified institutions; prime quality commercial paper; and asset-backed securities with specified ratings. Also, G.S. 147-69.1(c) authorizes the following: specified bills of exchange or time drafts and corporate bonds and notes with specified ratings. G.S. 147-69.2 authorizes the following: 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

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## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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before the date funds are expected to be required for expenditure or withdrawal.

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

Investments of the University's component unit, the Foundation is 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 Western Carolina University Foundation.

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

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The following table presents the fair value of investments by type and investments subject to interest rate risk at June 30, 2011 for the Long-Term Investment Pool.

***Long-Term Investment Pool***

Investment Type	Fair Value
UNC Investment Fund	\$ 20,131,579.85
Equity Mutual Funds	23,698,621.24
Investments in Real Estate	3,220.00
Private Equity Limited Partnerships	<u>1,496,477.00</u>
Total Long-Term Investment Pool	<u>\$ 45,329,898.09</u>

**UNC Investment Fund, LLC** - At June 30, 2011, the University's investments include \$20,131,579.85 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 and does not have a credit rating. Asset and ownership interests of the UNC Investment Fund are determined on a market unit valuation basis each month. Investment risks associated with the UNC Investment Fund are included in audited financial statements of the UNC Investment Fund, LLC which may be obtained from UNC Management Company, Inc., 1400 Environ Way, Chapel Hill, NC 27517.

**Non-Pooled Investments** - The following table presents the fair value of investments by type and investments subject to interest rate risk at June 30, 2011 for the University's non-pooled investments.

***Non-Pooled Investments***

Investment Type	Fair Value	Investment Maturities (in Years)	Less Than 1
Debt Securities			
Money Market Mutual Funds	\$ 97,233.82	\$ 97,233.82	<u>97,233.82</u>
Other Securities			
Mutual Funds	1,268,931.16		
Investments in Real Estate	93,800.00		
Domestic Stocks	28,806.00		
Other	<u>3,922.00</u>		
Total Non-Pooled Investments	<u>\$ 1,492,692.98</u>		

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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At June 30, 2011, the University's non-pooled investments with credit risk had a fair value of \$97,233.82. The credit quality rating of the money market mutual funds was AAAm and A-1+ as rated by Standard & Poor's.

**Total Investments** - The following table presents the fair value of the total investments at June 30, 2011:

<b>Investment Type</b>	<b>Fair Value</b>
Debt Securities	
Money Market Mutual Funds	\$ 97,233.82
Other Securities	
UNC Investment Fund	20,131,579.85
Equity Mutual Funds	24,967,552.40
Investments in Real Estate	97,020.00
Private Equity Limited Partnerships	1,496,477.00
Domestic Stocks	28,806.00
Other	<u>3,922.00</u>
Total Investments	<u>\$ 46,822,591.07</u>

**C. Reconciliation of Deposits and Investment** - A reconciliation of deposits and investments for the University as of June 30, 2011 is as follows:

Cash on Hand	\$ 37,357.87
Amount of Deposits with Private Financial Institutions	196,877.38
Deposits in the Short-Term Investment Fund	64,339,775.11
Investments in the UNC Investment Fund	20,131,579.85
Long-Term Investment Pool	25,198,318.24
Non-pooled Investments	<u>1,492,692.98</u>
Total Deposits and Investments	<u>\$ 111,396,601.43</u>
Deposits	
Current:	
Cash and Cash Equivalents	\$ 45,619,299.94
Restricted Cash and Cash Equivalents	14,542,029.51
Noncurrent:	
Restricted Cash and Cash Equivalents	<u>4,412,680.91</u>
Total Deposits	<u>\$ 64,574,010.36</u>
Investments	
Current:	
Restricted Short-Term Investments	\$ 97,233.82
Noncurrent:	
Endowment Investments	45,756,670.25
Other Investments	<u>968,687.00</u>
Total Investments	<u>\$ 46,822,591.07</u>

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## **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 a three-year moving average of market values as of June 30. The Board of Trustees annually reviews the spending policy and makes adjustments accordingly. At June 30, 2011, endowment net assets of \$19,277,588.90 were available to be spent, of which \$14,870,413.95 was restricted to specific purposes.

During the current year, the University incurred investment losses that exceeded the related endowment's available accumulated income and net appreciation. These losses resulted in a reduction to the specific nonexpendable endowment balance. At June 30, 2011 the amount of investment losses reported against the nonexpendable endowment balances were \$13,681.56.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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### **NOTE 4 - RECEIVABLES**

Receivables at June 30, 2011 were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
<b>Current Receivables:</b>			
Students	\$ 1,623,320.59	\$ 679,933.81	\$ 943,386.78
Accounts	992,212.04		992,212.04
Intergovernmental	749,511.51		749,511.51
Pledges	77,912.86	13,871.08	64,041.78
Interest on Loans	110,272.28		110,272.28
Other	182,967.84		182,967.84
<b>Total Current Receivables</b>	<b>\$ 3,736,197.12</b>	<b>\$ 693,804.89</b>	<b>\$ 3,042,392.23</b>
<b>Noncurrent Receivables:</b>			
Pledges	\$ 45,492.65	\$ 3,107.15	\$ 42,385.50
<b>Notes Receivable:</b>			
<b>Notes Receivable - Current:</b>			
Federal Loan Programs	\$ 906,047.92	\$ 0.00	\$ 906,047.92
Institutional Student Loan Programs	39,846.58	39,192.58	654.00
<b>Total Notes Receivable - Current</b>	<b>\$ 945,894.50</b>	<b>\$ 39,192.58</b>	<b>\$ 906,701.92</b>
<b>Notes Receivable - Noncurrent:</b>			
Federal Loan Programs	\$ 5,271,606.34	\$ 1,393,364.00	\$ 3,878,242.34
Institutional Student Loan Programs	4,355.49		4,355.49
<b>Total Notes Receivable - Noncurrent</b>	<b>\$ 5,275,961.83</b>	<b>\$ 1,393,364.00</b>	<b>\$ 3,882,597.83</b>

### **NOTE 5 - CAPITAL ASSETS**

A summary of changes in the capital assets for the year ended June 30, 2011 is presented as follows:

	Balance July 1, 2010	Increases	Decreases	Balance June 30, 2011
<b>Capital Assets, Nondepreciable:</b>				
Land	\$ 6,841,607.65	\$ 0.00	\$ 8,433.58	\$ 6,833,174.07
Art, Literature, and Artifacts	1,081,276.00			1,081,276.00
Construction in Progress	21,179,799.60	27,895,448.32	3,865,827.73	45,209,420.19
<b>Total Capital Assets, Nondepreciable</b>	<b>29,102,683.25</b>	<b>27,895,448.32</b>	<b>3,874,261.31</b>	<b>53,123,870.26</b>
<b>Capital Assets, Depreciable:</b>				
Buildings	298,548,019.25	25,551,538.46	681,546.49	323,418,011.22
Machinery and Equipment	28,277,605.58	3,528,723.93	1,339,747.91	30,466,581.60
General Infrastructure	29,491,346.64	512,215.29	271,728.08	29,731,833.85
<b>Total Capital Assets, Depreciable</b>	<b>356,316,971.47</b>	<b>29,592,477.68</b>	<b>2,293,022.48</b>	<b>383,616,426.67</b>
<b>Less Accumulated Depreciation for:</b>				
Buildings	62,309,622.49	4,154,577.42	79,303.10	66,384,896.81
Machinery and Equipment	10,930,602.22	1,291,054.36	1,019,838.61	11,201,817.97
General Infrastructure	8,921,509.27	691,843.22	176,303.93	9,437,048.56
<b>Total Accumulated Depreciation</b>	<b>82,161,733.98</b>	<b>6,137,475.00</b>	<b>1,275,445.64</b>	<b>87,023,763.34</b>
<b>Total Capital Assets, Depreciable, Net</b>	<b>274,155,237.49</b>	<b>23,455,002.68</b>	<b>1,017,576.84</b>	<b>296,592,663.33</b>
<b>Capital Assets, Net</b>	<b>\$ 303,257,920.74</b>	<b>\$ 51,350,451.00</b>	<b>\$ 4,891,838.15</b>	<b>\$ 349,716,533.59</b>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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### **NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

Accounts payable and accrued liabilities at June 30, 2011 were as follows:

	Amount
Accounts Payable	\$ 5,216,913.93
Accrued Payroll	538,911.49
Contract Retainage	1,892,742.85
Intergovernmental Payables	<u>125,254.81</u>
<b>Total Accounts Payable and Accrued Liabilities</b>	<b>\$ 7,773,823.08</b>

### **NOTE 7 - LONG-TERM LIABILITIES**

#### **UNIVERSITY**

**A. Changes in Long-Term Liabilities** - A summary of changes in the long-term liabilities for the year ended June 30, 2011 is presented as follows:

	Balance July 1, 2010	Additions	Reductions	Balance June 30, 2011	Current Portion
Revenue Bonds Payable	\$ 42,880,000.00	\$ 0.00	\$ 1,565,000.00	\$ 41,315,000.00	\$ 1,425,000.00
Notes Payable	208,324.93		195,969.39	12,355.54	
Capital Leases Payable	45,829,463.31	20,403,827.24	1,335,039.99	64,898,250.56	1,560,904.35
Compensated Absences	5,780,498.55	3,782,454.87	3,783,918.91	5,779,034.51	372,943.25
Annuity and Life Income Payable	<u>251,474.44</u>		81,189.11	170,285.33	86,044.84
<b>Total Long-Term Liabilities</b>	<b>\$ 94,949,761.23</b>	<b>\$ 24,186,282.11</b>	<b>\$ 6,961,117.40</b>	<b>\$ 112,174,925.94</b>	<b>\$ 3,457,247.98</b>

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

**B. Revenue Bonds Payable** - The University was indebted for revenue bonds payable for the purposes shown in the following table:

Purpose	Series	Interest Rate	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2011	Principal Outstanding June 30, 2011	See Table Below
<b>Revenue Bonds Payable</b>							
The University of North Carolina System Pool Revenue Bonds							
Student Housing I	(A)	4.375*	10/01/2013	\$ 465,000.00	\$ 345,000.00	\$ 120,000.00	(1)
Athletic Facilities I	(B)	5.00*	10/01/2012	8,070,000.00	7,810,000.00	260,000.00	
Athletic Facilities II	(C)	3.375*	04/01/2028	1,510,000.00	330,000.00	1,180,000.00	
Student Recreation Center	(C)	3.375*	04/01/2028	11,610,000.00	2,545,000.00	9,065,000.00	
Student Center Refund	(D)	4.00*	10/01/2025	4,335,000.00	640,000.00	3,695,000.00	
Athletic Facility Refund	(D)	4.00*	10/01/2026	6,135,000.00	25,000.00	6,110,000.00	
Student Recreation Center	(E)	3.00*	10/01/2033	4,355,000.00	200,000.00	4,155,000.00	
Dining Hall Facility	(E)	3.00*	10/01/2033	17,545,000.00	815,000.00	16,730,000.00	
Total Revenue Bonds Payable (principal only)				<u>\$ 54,025,000.00</u>	<u>\$ 12,710,000.00</u>	<u>\$ 41,315,000.00</u>	

- (A) The University of North Carolina System Pool Revenue Bonds, Series 1998B
- (B) The University of North Carolina System Pool Revenue Bonds, Series 2002A
- (C) The University of North Carolina System Pool Revenue Bonds, Series 2003A
- (D) The University of North Carolina System Pool Revenue Bonds, Series 2006A
- (E) The University of North Carolina System Pool Revenue Bonds, Series 2008A

\* For variable rate debt, interest rates in effect at June 30, 2011 are included.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

Ref	Revenue Source	Total Future Revenues Pledged	Current Year			Estimate of % of Revenues Pledged
			Revenues Net of Expenses	Principal	Interest	
(1) Housing Revenues		\$ 129,450.00	\$ 6,879,359.64	\$ 225,000.00	\$ 9,103.02	0.61%

**C. Annual Requirements** - The annual requirements to pay principal and interest on the long-term obligations at June 30, 2011 are as follows:

Fiscal Year	Annual Requirements			
	Revenue Bonds Payable		Notes Payable	
	Principal	Interest	Principal	Interest
2012	\$ 1,425,000.00	\$ 1,931,638.76	\$ 12,355.54	\$ 119.18
2013	1,490,000.00	1,865,363.76		
2014	1,550,000.00	1,807,028.76		
2015	1,575,000.00	1,740,228.76		
2016	1,640,000.00	1,666,028.76		
2017 -2021	9,510,000.00	7,039,020.64		
2022-2026	11,995,000.00	4,550,811.92		
2027-2031	7,950,000.00	1,906,768.79		
2032-2034	4,180,000.00	320,500.00		
Total Requirements	\$ 41,315,000.00	\$ 22,827,390.15	\$ 12,355.54	\$ 119.18

Interest rates for variable rate are predefined in each of the bond covenants.

**D. Prior Year Defeasances** - During prior years, the University defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the University's financial statements. At June 30, 2011, the outstanding balance of prior year defeased bonds was \$6,045,000.00.

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

Purpose	Financial Institution	Interest Rate/ Ranges	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2011	Principal Outstanding June 30, 2011
Print Shop	BB&T	4.63%	10/26/2011	\$ 166,755.00	\$ 154,399.46	\$ 12,355.54

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## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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**F. Annuity and Life Income Payable** – In October 2003, joint donors entered into a charitable gift annuity agreement with the Foundation. Under the terms of the agreement, the Foundation received property with a fair market value of \$1,082,314.80. In consideration of this property transfer, the annuitants will receive, for their joint lives, an annual annuity of \$86,044.84, payable in quarterly installments. The obligation of the Foundation to make annuity payments, if any remain, shall terminate upon the deaths of the donors. Based on the donors' life expectancy and an expected 5.1061% rate of return, the liability at June 30, 2011 was adjusted to its present value as follows:

	Amount
Value of Annuity Liability at June 30, 2010	\$ 251,474.44
Interest Earned on Investment	7,164.49
Sum of Quarterly Payments	(86,044.84)
Present Value Adjustment at Year End	<u>(2,308.76)</u>
Value of Annuity Liability at June 30, 2011	<u>\$ 170,285.33</u>

### Component Unit

The Western Carolina University Research & Development Corporation, a discretely presented component unit of the University, has constructed four dormitories that are recognized as capital leases by the University. The long-term debt of the component unit represents the construction cost of the four dormitories.

Long-term debt at June 30, 2011 consists of the following:

2003 certificates of participation with a balance of \$10,265,000, evidenced by undivided interests in the rights to receive certain revenues, including the Base Rentals under the lease with the University for the facility. The maturities and interest rates of the certificates are as follows:

Due June 1	Principal Amount	Interest Rate
2012	\$ 290,000.00	3.500%
2013	300,000.00	3.625%
2014	310,000.00	3.875%
2015	320,000.00	4.000%
2016	335,000.00	4.000%
Thereafter	<u>8,710,000.00</u>	4.125-5.000%
	<u><u>\$ 10,265,000.00</u></u>	

2005 certificates of participation with a balance of \$9,435,000, evidenced by undivided interests in the rights to receive certain revenues, including

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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the Base Rentals under the lease with the University for the facility. The maturities and interest rates of the certificates are as follows:

<u>Due June 1</u>	<u>Principal Amount</u>	<u>Interest Rate</u>
2012	\$ 300,000.00	3.125%
2013	310,000.00	4.000%
2014	325,000.00	3.250%
2015	335,000.00	3.375%
2016	345,000.00	3.500%
Thereafter	<u>7,820,000.00</u>	3.625-4.350%
	<u><u>\$ 9,435,000.00</u></u>	

2008 certificates of participation with a balance of \$44,470,000, evidenced by undivided interests in the rights to receive certain revenues, including the Base Rentals under the lease with the University for the facility. The maturities and interest rates of the certificates are as follows:

<u>Due June 1</u>	<u>Principal Amount</u>	<u>Interest Rate</u>
2012	\$ 630,000.00	4.000%
2013	735,000.00	3.500%
2014	840,000.00	3.500%
2015	915,000.00	5.000%
2016	960,000.00	5.000%
Thereafter	<u>40,390,000.00</u>	4.000-5.250%
	<u><u>\$ 44,470,000.00</u></u>	

### NOTE 8 - LEASE OBLIGATIONS

**A. Capital Lease Obligations** - Capital lease obligations relating to buildings, 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, 2011:

<u>Fiscal Year</u>	<u>Amount</u>
2012	\$ 4,772,852.90
2013	4,770,409.41
2014	4,817,090.29
2015	4,430,485.02
2016	4,430,628.76
2017-2021	22,163,061.30
2022-2026	22,159,854.80
2027-2031	22,151,825.00
2032-2036	17,140,780.29
2037-2039	<u>8,956,250.00</u>
Total Minimum Lease Payments	115,793,237.77
Amount Representing Interest (2.10 - 8.05% Rate of Interest)	<u>50,894,987.21</u>
Present Value of Future Lease Payments	<u><u>\$ 64,898,250.56</u></u>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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Buildings recorded under capital lease amounted to \$71,073,760.69 at June 30, 2011. Machinery and equipment recorded under capital lease amounted to \$4,467,599.87 at June 30, 2011.

Depreciation for the capital assets associated with capital leases is included in depreciation expense.

**B. Operating Lease Obligations** - The University entered into operating leases for automobiles, equipment, and housing, and contracts for software licensing. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2011:

Fiscal Year	Amount
2012	\$ 617,017.19
2013	152,022.52
2014	109,768.08
2015	3,250.00
2016	3,000.00
2017-2021	<u>3,000.00</u>
 Total Minimum Lease Payments	 <u>\$ 888,057.79</u>

Rental expense for all operating leases during the year was \$1,384,467.79.

### 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>					
Student Tuition and Fees	<u>\$ 51,229,212.80</u>	<u>\$ 28,609.19</u>	<u>\$ 12,820,383.91</u>	<u>\$ 362,503.15</u>	<u>\$ 38,017,716.55</u>
<b>Sales and Services:</b>					
Sales and Services of Auxiliary Enterprises:					
Residential Life	\$ 15,688,930.29	\$ 67,449.22	\$ 3,896,963.41	\$ 104,559.60	\$ 11,619,958.06
Dining	12,370,997.49	948,849.98	2,799,513.58	81,468.92	8,541,165.01
Book Rental	1,621,282.70	899.45	367,397.96	56,156.22	1,196,829.07
Bookstore	1,914,037.17	129,891.41		2,826.74	1,781,319.02
Print Shop	1,290,913.46	990,232.13		6.09	300,675.24
Athletic	1,239,088.82	1,681.50			1,237,407.32
Other	1,422,364.42	191,164.58		10,526.15	1,220,673.69
Sales and Services of Education and Related Activities	2,476,903.28	1,464,478.87			1,012,424.41
Independent Operations	3,101,501.98	67,912.38			3,033,589.60
<b>Total Sales and Services</b>	<b><u>\$ 41,126,019.61</u></b>	<b><u>\$ 3,862,559.52</u></b>	<b><u>\$ 7,063,874.95</u></b>	<b><u>\$ 255,543.72</u></b>	<b><u>\$ 29,944,041.42</u></b>
<b>Nonoperating - Noncapital Gifts</b>	<b><u>\$ 2,447,537.20</u></b>	<b><u>\$ 0.00</u></b>	<b><u>\$ 0.00</u></b>	<b><u>\$ 16,978.23</u></b>	<b><u>\$ 2,430,558.97</u></b>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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### **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	Total
Instruction	\$ 56,679,112.80	\$ 2,398,158.24	\$ 5,181,368.14	\$ 60,122.86	\$ 665.06	\$ 0.00	\$ 64,319,427.10
Research	855,727.67	231,193.82	370,743.77		26,100.03		1,483,765.29
Public Service	1,957,729.57	98,951.72	576,672.66	115,767.66	5,134.67		2,754,256.28
Academic Support	4,932,280.68	326,248.54	2,215,754.77	9,150.67	119.05		7,483,553.71
Student Services	9,316,655.84	2,485,835.48	930,320.52	22,080.50	11,253.23		12,766,145.57
Institutional Support	10,523,657.53	1,167,115.24	3,115,148.00	201,991.82	1,641.58		15,009,554.17
Operations and Maintenance of Plant	8,360,945.50	2,819,158.62	1,423,499.72		2,951,376.45		15,554,980.29
Student Financial Aid	105,569.95		8,822.01	9,682,242.31			9,796,634.27
Auxiliary Enterprises	12,288,532.33	4,831,975.51	14,681,033.91	1,099,974.08	1,790,948.56		34,692,464.39
Independent Operations	380,468.50	2,123,504.06	282,274.00				2,786,246.56
Depreciation						6,137,475.00	6,137,475.00
<b>Total Operating Expenses</b>	<b>\$ 105,400,680.37</b>	<b>\$ 16,482,141.23</b>	<b>\$ 28,785,637.50</b>	<b>\$ 11,191,329.90</b>	<b>\$ 4,787,238.63</b>	<b>\$ 6,137,475.00</b>	<b>\$ 172,784,502.63</b>

### **NOTE 11 - PENSION PLANS**

**A. Retirement 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 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. The plan is administered by the North Carolina State Treasurer.

Benefit and contribution provisions for the Teachers' and State Employees' Retirement System 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, 2011, these rates were set at 4.93% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the University had a total payroll of \$83,819,820.02, of which \$40,686,184.25 was covered under the Teachers' and State Employees' Retirement System. Total employer and

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## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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employee contributions for pension benefits for the year were \$2,005,828.91 and \$2,441,171.09, respectively.

Required employer contribution rates for the years ended June 30, 2010, and 2009, were 3.57% and 3.36%, respectively, while employee contributions were 6% each year. The University made 100% of its annual required contributions for the years ended June 30, 2011, 2010, and 2009, which were \$2,005,828.91, \$1,446,088.32, and \$1,550,533.28, 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) 981-5454.

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 Teachers' and State Employees' Retirement System. 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, 2011, 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 \$83,819,820.02, of which \$34,270,509.30 was covered under the Optional Retirement Program. Total employer and employee contributions for pension benefits for the year were \$2,344,102.84 and \$2,056,230.56, respectively.

**B. Deferred Compensation and Supplemental Retirement Income Plans** - IRC Section 457 Plan - The State of North Carolina offers its permanent employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 through the North Carolina Public Employee Deferred Compensation Plan (the Plan). The Plan permits each participating employee to defer a portion of his or her salary until future years. The deferred compensation is available to employees upon separation from service, death, disability, retirement, or financial hardships if approved by the Board of Trustees of the Plan. The Board, a part of the North Carolina Department of Administration, maintains a separate fund for the exclusive benefit of the participating employees and their beneficiaries, *the North Carolina Public Employee Deferred Compensation Trust Fund*. The Board also contracts with an external third party to perform certain administrative requirements and to manage the trust fund's assets. All costs of administering and funding the Plan are the responsibility of the Plan participants. No costs are incurred by the University. The voluntary contributions by employees amounted to \$207,123.44 for the year ended June 30, 2011.

IRC Section 401(k) Plan - All members of the Teachers' and State Employees' Retirement System and the Optional Retirement Program are eligible to enroll in the Supplemental Retirement Income Plan, a defined contribution plan, created under Internal Revenue Code Section 401(k). All costs of administering the Plan are the responsibility of the Plan participants. No costs are incurred by the University except for a 5% employer contribution for the University's law enforcement officers, which is mandated under General Statute 143-166.30(e). Total employer contributions on behalf of University law enforcement officers for the year ended June 30, 2011, were \$34,846.31. The voluntary contributions by employees amounted to \$337,221.00 for the year ended June 30, 2011.

IRC Section 403(b) and 403(b)(7) Plans - Eligible University employees can participate in tax sheltered annuity plans created under Internal Revenue Code Sections 403(b) and 403(b)(7). The employee's eligible contributions, made through salary reduction agreements, are exempt from federal and State income taxes until the annuity is received or the contributions are withdrawn. These plans are exclusively for employees of universities and certain charitable and other nonprofit institutions. All costs of administering and funding these plans are the responsibility of the Plan participants. No costs are incurred by the University. The voluntary contributions by employees amounted to \$865,498.34 for the year ended June 30, 2011.

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## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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### 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 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 *North Carolina General Statute 135-7* and Chapter 135, Article 3A, 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 determined by the General Assembly.

For the current fiscal year the University contributed 4.9% 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, 2010, and 2009, were 4.5% and 4.1%, respectively. The University made 100% of its annual required contributions to the Plan for the years ended June 30, 2011, 2010, and 2009, which were \$3,672,878.01, \$3,376,032.28, and \$3,293,452.37, 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

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

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<http://www.ncosc.net/> and clicking on “Reports,” or by calling the State Controller’s Financial Reporting Section at (919) 981-5454.

- 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’ 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, 2011, the University made a statutory contribution of .52% of covered payroll under the Teachers’ and State Employees’ Retirement System and the Optional Retirement Program to the DIPNC. The required contribution rate for the years ended June 30, 2010 and 2009 was .52% for both years. The University made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2011, 2010, and 2009, which were \$389,774.81, \$390,119.29, and \$417,706.15, 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 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.

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## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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. The University also purchased through the Fund extended coverage for most buildings which covers windstorm or hail and "all risk" coverage for selected contents such as high value equipment and computers. The extended coverage deductible is \$50,000 per occurrence, except for high value equipment and "all risk" losses are subject to a \$5,000 deductible per occurrence for theft losses and all other losses.

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 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 arts coverage, general 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 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.

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

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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 0.16% 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 \$6,239,752.84 and on other purchases were \$944,000.60 at June 30, 2011.
- 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 two separately incorporated nonprofit foundations associated with the University. These foundations are the Highlands Biological Foundation, Inc. and the Forest Stewards, Inc.

The Highlands Biological Foundation, Inc. was incorporated in North Carolina on July 21, 1930, for the purpose of supporting through grants and scholarships the activities of Highlands Biological Station. This support approximated \$95,220.84 for the year ended June 30, 2011.

Forest Stewards, Inc. was incorporated in North Carolina on May 5, 2008 for the purpose of providing educational and charitable support to Western Carolina University. This support approximated \$19,847.50 for the year ended June 30, 2011.

### **NOTE 16 - SUBSEQUENT EVENTS**

Pursuant to G.S. 116-242, General Assembly House Bill 200, administration and State appropriations for the North Carolina Arboretum was moved from

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## **NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)**

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the University of North Carolina at Asheville to Western Carolina University, effective July 1, 2011. This change will result in an increase in Western Carolina University's net assets in the amount of \$14.9 million during the 2011-2012 fiscal year.

On December 7, 2011, the University participated in the University of North Carolina System Pool Revenue Bonds, Series 2011B for \$20,930,000.00 to provide funds for the renovation of Harrill Residence Hall (\$13,605,000.00) and the defeasance of existing bonds (\$7,325,000.00).



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

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

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

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Board of Trustees  
Western Carolina University  
Cullowhee, North Carolina

We have audited 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, and its discretely presented component unit, as of and for the year ended June 30, 2011, which collectively comprise the University's basic financial statements and have issued our report thereon dated December 12, 2011. Our report includes a reference to 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. Other auditors audited the financial statements of Western Carolina University Foundation and the discretely presented component unit, as described in our report on the University's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of the discretely presented component unit were not audited in accordance with *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the University's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over financial reporting.

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

**INDEPENDENT AUDITOR'S REPORT  
ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN  
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GOVERNMENT AUDITING STANDARDS (CONCLUDED)**

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deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the University's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the University's financial statements are free of 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*.

This report is intended solely for the information and use of management of the University, the Board of Governors, the Board of Trustees, the Audit Committee, others within the entity, the Governor, the General Assembly, and the State Controller, and is not intended to be and should not be used by anyone other than these specified parties.



Beth A. Wood, CPA  
State Auditor

December 12, 2011

## **ORDERING INFORMATION**

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Audit reports issued by the Office of the State Auditor can be obtained from the web site at [www.ncauditor.net](http://www.ncauditor.net). Also, parties may register on the web site to receive automatic email notification whenever reports of interest are issued. Otherwise, copies of audit reports may be obtained by contacting the:

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