

# STATE OF NORTH CAROLINA

**WESTERN CAROLINA UNIVERSITY**

**CULLOWHEE, NORTH CAROLINA**

**FINANCIAL STATEMENT AUDIT REPORT**

**FOR THE YEAR ENDED JUNE 30, 2012**

**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, 2012**

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**THE UNIVERSITY OF NORTH CAROLINA**

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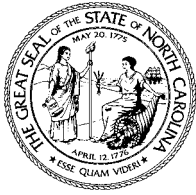
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**Beth A. Wood, CPA**  
State Auditor

STATE OF NORTH CAROLINA  
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2 S. Salisbury Street  
20601 Mail Service Center  
Raleigh, NC 27699-0601  
Telephone: (919) 807-7500  
Fax: (919) 807-7647  
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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, 2012, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

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

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

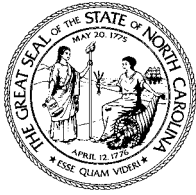
A handwritten signature in cursive script that reads "Beth A. Wood".

Beth A. Wood, CPA  
State Auditor

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**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, 2012, 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, 6 percent, and 1 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 Foundation and 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 audit 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, 2012, 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 5, 2012 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.

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



Beth A. Wood, CPA  
State Auditor

December 5, 2012

## 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, 2012 and 2011 and not its component unit. The June 30, 2011 *Statement of Net Assets* has been restated to reflect inclusion of the North Carolina Arboretum and the prior period correction of capital assets. 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, 2012. 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 and creditors. 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.

Effective July 1, 2011, the General Assembly ratified House Bill 200 stating that pursuant to G.S. 116-242, administration and state appropriations for The North Carolina Arboretum would move from The University of North Carolina at Asheville to Western Carolina University. Prior year net assets have been restated to reflect the move representing an increase in net assets of \$14.6 million as well as another restatement relating to capital assets in the amount of \$0.3 million.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

### Condensed Statement of Net Assets

	2012	2011 (as restated)	\$ Change	%
<b>Assets</b>				
Current Assets	\$ 74,570,096.20	\$ 67,982,041.63	\$ 6,588,054.57	9.69%
Capital Assets, Net	384,126,579.22	364,932,556.29	19,194,022.93	5.26%
Other Noncurrent Assets	55,629,744.51	55,101,549.85	528,194.66	0.96%
<b>Total Assets</b>	<b>514,326,419.93</b>	<b>488,016,147.77</b>	<b>26,310,272.16</b>	<b>5.39%</b>
<b>Liabilities</b>				
Current Liabilities	13,669,595.15	16,136,901.97	(2,467,306.82)	-15.29%
Noncurrent Liabilities	124,671,498.96	114,752,776.50	9,918,722.46	8.64%
<b>Total Liabilities</b>	<b>138,341,094.11</b>	<b>130,889,678.47</b>	<b>7,451,415.64</b>	<b>5.69%</b>
<b>Net Assets</b>				
Invested in Capital Assets, Net of Related Debt	266,321,950.06	258,240,894.99	8,081,055.07	3.13%
Restricted – Nonexpendable	35,012,171.56	32,869,136.26	2,143,035.30	6.52%
Restricted – Expendable	22,623,915.58	21,233,675.46	1,390,240.12	6.55%
Unrestricted	52,027,288.62	44,782,762.59	7,244,526.03	16.18%
<b>Total Net Assets</b>	<b>\$ 375,985,325.82</b>	<b>\$ 357,126,469.30</b>	<b>\$ 18,858,856.52</b>	<b>5.28%</b>

### Assets

Current assets, which consist primarily of cash, short-term investments, accounts and notes receivable and operating inventories, increased by \$6.5 million. This increase was due in great part to a \$7.6 million increase in unrestricted cash and cash equivalents. The increase in current unrestricted cash balance is the partial result of the University not being required to revert as much cash this year as last to the state's general fund. Additionally, in the prior year, unrestricted cash and cash equivalents in the amount of \$1.4 million was used to pay for capital improvements. The remainder of the cash increase is attributable to a conservative spending approach during the fiscal year. Restricted short-term investments increased \$0.4 million and inventories increased \$0.3 million.

Net capital assets increased \$19.1 million, the result of Capital Assets, Depreciable increasing by \$47.4 million and Capital Assets, Nondepreciable decreasing by \$28.1 million. Two new buildings were completed during the 2011-12 fiscal year. The first building is the Health and Gerontological Sciences Building located on the Millennial Campus in Cullowhee. The second building is the NC Center for Health and Aging Building in Asheville.

Other noncurrent assets increased \$0.5 million. This increase was driven by an increase in Endowment Investments of \$0.8 million and Receivables, net of \$0.1 million, but offset by a decrease in restricted cash and cash equivalents of \$0.3 million.

### Liabilities

Current liabilities decreased by \$2.4 million. Accounts payable and accrued liabilities decreased by \$2.8 million. Contract retainage decreased \$0.3 million due to fewer outstanding capital improvement projects at year end. The current portion of long-term



## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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liabilities increased by \$0.5 million because of the addition of bonded indebtedness during the fiscal year. Unearned revenue increased by \$0.2 million.

Noncurrent liabilities increased by \$9.9 million. This increase results primarily from the issue of bonded indebtedness to renovate the Harrill Dormitory in the amount of \$13.6 million. Existing bonds of just over \$7.0 million were defeased for interest rate savings. Noncurrent liabilities were offset by principal payments of \$3.0 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, 2012, \$266.3 million (70.8% of total net assets) of the \$375.9 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 \$35.0 million (9.3% of total net assets) of the \$375.9 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, 2012, expendable net assets totaled \$22.6 million (6.0% of total net assets) of the \$375.9 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 \$52.0 million (13.8% of total net assets) of the \$375.9 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.

## **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 service 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, the University reports federal student financial aid such as Pell Grants, SEOG, and state student financial aid administered by the North Carolina State Education Assistance Authority as nonoperating revenue. Nonoperating expenses include interest expense and other expenses not incurred in the normal operations of the University.

Capital grants, capital 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)

The following is a condensed *Statement of Revenues, Expenses, and Changes in Net Assets* for Western Carolina University as of June 30, 2012, compared with that of 2011.

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

	2012	2011	\$ Change	% Change
<b>Operating Revenues</b>				
Student Tuition and Fees, Net	\$ 41,572,707.95	\$ 38,017,716.55	\$ 3,554,991.40	9.35%
Grants and Contracts	6,347,506.34	5,312,766.54	1,034,739.80	19.48%
Sales and Services, Net	31,718,640.30	29,944,041.42	1,774,598.88	5.93%
Other Operating Revenues	1,542,270.75	1,419,793.07	122,477.68	8.63%
<b>Total Operating Revenues</b>	<b>81,181,125.34</b>	<b>74,694,317.58</b>	<b>6,486,807.76</b>	<b>8.68%</b>
<b>Operating Expenses</b>				
Salaries and Benefits	105,309,260.98	105,400,680.37	(91,419.39)	-0.09%
Supplies and Materials	17,234,905.97	16,482,141.23	752,764.74	4.57%
Services	31,259,378.85	28,785,637.50	2,473,741.35	8.59%
Scholarships and Fellowships	10,287,023.64	11,191,329.90	(904,306.26)	-8.08%
Utilities	4,910,667.38	4,787,238.63	123,428.75	2.58%
Depreciation	7,778,352.83	6,137,475.00	1,640,877.83	26.74%
<b>Total Operating Expenses</b>	<b>176,779,589.65</b>	<b>172,784,502.63</b>	<b>3,995,087.02</b>	<b>2.31%</b>
<b>Operating Loss</b>	<b>(95,598,464.31)</b>	<b>(98,090,185.05)</b>	<b>2,491,720.74</b>	<b>-2.54%</b>
<b>Nonoperating Revenues (Expenses)</b>				
State Appropriations	80,114,791.05	72,476,474.35	7,638,316.70	10.54%
State Aid-Federal Recovery Funds		5,495,885.00	(5,495,885.00)	-100.00%
Noncapital Grants - Student Financial Aid	20,683,778.07	23,947,251.11	(3,263,473.04)	-13.63%
Noncapital Grants	384,428.78	21,878.81	362,549.97	1657.08%
Noncapital Gifts, Net	2,968,599.68	2,430,558.97	538,040.71	22.14%
Investment Income (Includes Investment Expenses)	157,478.14	7,495,802.09	(7,338,323.95)	-97.90%
Interest and Fees on Debt	(5,120,933.28)	(5,350,681.32)	229,748.04	-4.29%
Other Nonoperating Expenses	(342,210.18)	(450,194.27)	107,984.09	-23.99%
<b>Net Nonoperating Revenues</b>	<b>98,845,932.26</b>	<b>106,066,974.74</b>	<b>(7,221,042.48)</b>	<b>-6.81%</b>
<b>Income Before Other Revenues</b>	<b>3,247,467.95</b>	<b>7,976,789.69</b>	<b>(4,729,321.74)</b>	<b>-59.29%</b>
Capital Grants	13,661,294.92	19,695,715.06	(6,034,420.14)	-30.64%
Capital Gifts, Net	342,673.77	301,130.00	41,543.77	13.80%
Additions to Permanent Endowments	1,607,419.88	2,520,805.03	(913,385.15)	-36.23%
<b>Total Other Revenue</b>	<b>15,611,388.57</b>	<b>22,517,650.09</b>	<b>(6,906,261.52)</b>	<b>-30.67%</b>
<b>Change in Net Assets</b>	<b>18,858,856.52</b>	<b>30,494,439.78</b>	<b>(11,635,583.26)</b>	<b>-38.16%</b>
<b>Beginning Net Assets, as restated</b>	<b>357,126,469.30</b>	<b>326,632,029.52</b>	<b>30,494,439.78</b>	<b>9.34%</b>
<b>Ending Net Assets</b>	<b>\$ 375,985,325.82</b>	<b>\$ 357,126,469.30</b>	<b>\$ 18,858,856.52</b>	<b>5.28%</b>

## Revenues

Operating revenues increased \$6.4 million, based on the following:

- Student tuition and fees increased by \$3.5 million as a result of increases in tuition and fee rates.
- Grants and contracts revenues increased \$1.0 million. The biggest part of the increase was \$0.5 million for a state grant. The other increases were \$0.2 million in

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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federal grants and \$0.1 million in nongovernmental contracts and grants. These fluctuations are considered normal as grant activity does vary from year to year.

- Sales and services revenues increased \$1.7 million due to increases in fee rates for housing, dining, and other auxiliary services.

Nonoperating revenues decreased by \$7.2 million, based on the following:

- State appropriations increased by \$7.6 million. This increase resulted because there was a reversion in the prior fiscal year. The University also received funding for the North Carolina Arboretum not received in the prior fiscal year in the amount of \$2.5 million. Additionally, the University received funding for growth.
- State aid - In the prior year, the University received \$5.4 million in 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 non-recurring appropriation under the American Recovery and Reinvestment Act (ARRA), to partially offset faculty salary and benefits in the 2010-2011 fiscal year. The University did not receive any funding from this source in 2011-2012.
- Noncapital grants for student financial aid decreased by \$3.2 million due primarily to a \$2.0 million dollar decrease in North Carolina need based grant revenue. The balance of the decrease is attributable to decreases in Pell Grant and SEOG funding.
- Noncapital grants increased by \$0.3 million over the prior year. The reason for this increase is the addition of a fund belonging to the North Carolina Arboretum.
- Noncapital Gifts, net increased by \$0.5 million. This increase is attributable to a fund belonging to the North Carolina Arboretum.
- Investment income decreased by \$7.3 million after an increase of \$3.8 million in the prior fiscal year. The total investment income was composed in part by realized gains of \$0.1 million, and unrealized gains of \$0.1 million. Realized losses totaled \$0.6 million and unrealized losses totaled \$0.5 million. These decreases are a reflection of unfavorable market fluctuations during the 2012 fiscal year. STIF interest income was \$0.4 million for the year. Endowment income was approximately \$0.6 million for the year.
- Interest and fees on debt decreased by \$0.2 million. The decrease is due to continued normal amortization of bonded indebtedness and leases payable.

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.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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### Operating Expenses

Operating expenses increased \$3.9 million, based on the following:

- Salaries and benefits for the faculty and staff of the University remained fairly constant. The University's retirement contribution to the TSERS increased to 7.4% from 4.9% and the contribution to the ORP remained constant at 6.8%. Teaching wages decreased by \$2.5 million in part because of the elimination of some teaching positions. This amount offset increases in benefits cost.
- Supplies and materials increased by \$0.7 million. The increases result from an increase of data processing supplies of \$0.3 million, janitorial supplies of \$0.2 million, and gasoline of \$0.3 million, educational supplies of \$0.8 million, offset by decreases in administrative supplies of \$0.5 million and hardware supplies of \$0.4 million.
- Services increased by \$2.4 million due to increases in repairs, registration fees, maintenance agreements, and contractual services.
- Scholarships and fellowships, net of scholarship discount, decreased by \$0.9 million. Before application of the \$18.4 million discount, scholarships decreased by \$2.3 million, partly due to decreases of \$2.0 million in funds granted by the State of North Carolina for University of North Carolina Need Based Grants and a decrease in federal Pell Grants. The scholarship discount decreased by a total of \$0.7 million this fiscal year.
- Utilities expense increased slightly this year by \$0.1 million.
- Depreciation expense increased \$1.6 million as a result of the addition of capital assets from the North Carolina Arboretum to the University and the addition of capital assets to the University.

Capital grants decreased by \$6.0 million because of the completion of construction of the Health and Human Sciences Building and the NC Center for Health and Aging Building.

The \$1.6 million in additions to permanent endowments was largely a result of several gifts for scholarships and two matching gifts for a professorship.

### Capital Asset and Debt Administration

At June 30, 2012, the University had approximately \$487.0 million invested in capital assets, and accumulated depreciation of \$102.9 million. Depreciation charges for the current year totaled \$7.7 million.

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

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

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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 is the first building completed on the Millennial Campus. The new building houses 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. Features include multiple student collaborative learning spaces, three simulation labs, videoconferencing and tele-health capabilities, and a therapeutic pool for teaching and performing aquatic therapy. Faculty members will be able to view live video feeds of interaction between patients and students, and host guest speakers who are off-site. In addition, the building's size and parking will allow for growth of unique clinics that support community needs. It is expected to become the cornerstone for a mixed-use "neighborhood of interest" focusing on retirement, aging and health, where students and faculty will work with partners from private business and industry.

The University's financial statements indicate \$53.4 million in bonds payable and \$63.3 million in capital leases payable at June 30, 2012.

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 coming 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 2012 is 9,608 as compared to 9,352 in Fall 2011. 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 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

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

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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. The unemployment rate is above 8%.

As a result of these continued economic struggles, the State has imposed restraints on its budgets. Over the last four 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 methodical approach to filling job vacancies. 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, 2012**

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

**ASSETS**

Current Assets:

Cash and Cash Equivalents	\$ 53,271,522.53
Restricted Cash and Cash Equivalents	12,935,406.95
Restricted Short-Term Investments	526,230.55
Receivables, Net (Note 4)	3,081,783.54
Inventories	3,879,732.24
Notes Receivable, Net (Note 4)	875,420.39
	<hr/>
Total Current Assets	74,570,096.20

Noncurrent Assets:

Restricted Cash and Cash Equivalents	4,083,024.35
Receivables, Net (Note 4)	214,534.82
Restricted Due from Primary Government	10,897.08
Endowment Investments	46,577,984.11
Restricted Investments	933,136.09
Other Investments	17,500.00
Notes Receivable, Net (Note 4)	3,792,668.06
Capital Assets - Nondepreciable (Note 5)	25,957,223.89
Capital Assets - Depreciable, Net (Note 5)	358,169,355.33
	<hr/>
Total Noncurrent Assets	439,756,323.73

Total Assets	<hr/> <hr/> 514,326,419.93
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**LIABILITIES**

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 6)	4,907,730.66
Due to Primary Government	15,799.72
Funds Held for Others	28,845.44
Unearned Revenue	3,812,332.87
Interest Payable	908,689.25
Long-Term Liabilities - Current Portion (Note 7)	3,996,197.21
	<hr/>
Total Current Liabilities	13,669,595.15

Noncurrent Liabilities:

Deposits Payable	93,970.80
Funds Held for Others	623,355.74
U. S. Government Grants Refundable	5,165,957.23
Long-Term Liabilities (Note 7)	118,788,215.19
	<hr/>

Total Noncurrent Liabilities	124,671,498.96
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Total Liabilities	<hr/> <hr/> 138,341,094.11
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**Western Carolina University**  
**Statement of Net Assets**  
**June 30, 2012**

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

**NET ASSETS**

Invested in Capital Assets, Net of Related Debt	266,321,950.06
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	15,938,197.33
Endowed Professorships	17,659,263.74
Departmental Uses	485,698.49
Loans	929,012.00
Expendable:	
Scholarships and Fellowships	11,603,775.90
Research	1,467,657.60
Endowed Professorships	3,705,424.94
Departmental Uses	1,751,806.62
Loans	681,848.01
Capital Projects	1,666,820.60
Debt Service	1,244,861.95
Other	501,719.96
Unrestricted	<u>52,027,288.62</u>
Total Net Assets	<u><u>\$ 375,985,325.82</u></u>

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

**Western Carolina University**  
**Statement of Revenues, Expenses, and**  
**Changes in Net Assets**  
**For the Fiscal Year Ended June 30, 2012**

**Exhibit A-2**

**REVENUES**

Operating Revenues:	
Student Tuition and Fees, Net (Note 9)	\$ 41,572,707.95
Federal Grants and Contracts	4,411,120.60
State and Local Grants and Contracts	905,370.34
Nongovernmental Grants and Contracts	1,031,015.40
Sales and Services, Net (Note 9)	31,718,640.30
Interest Earnings on Loans	14,251.02
Other Operating Revenues	1,528,019.73
	<hr/>
Total Operating Revenues	81,181,125.34
	<hr/>

**EXPENSES**

Operating Expenses:	
Salaries and Benefits	105,309,260.98
Supplies and Materials	17,234,905.97
Services	31,259,378.85
Scholarships and Fellowships	10,287,023.64
Utilities	4,910,667.38
Depreciation	7,778,352.83
	<hr/>
Total Operating Expenses	176,779,589.65
	<hr/>
Operating Loss	(95,598,464.31)
	<hr/>

**NONOPERATING REVENUES (EXPENSES)**

State Appropriations	80,114,791.05
Noncapital Grants - Student Financial Aid	20,683,778.07
Other Noncapital Grants	384,428.78
Noncapital Gifts, Net (Note 9)	2,968,599.68
Investment Income (Net of Investment Expense of \$176,118.11)	157,478.14
Interest and Fees on Debt	(5,120,933.28)
Other Nonoperating Expenses	(342,210.18)
	<hr/>
Net Nonoperating Revenues	98,845,932.26
	<hr/>
Income Before Other Revenues	3,247,467.95
	<hr/>
Capital Grants	13,661,294.92
Capital Gifts	342,673.77
Additions to Endowments	1,607,419.88
	<hr/>
Increase in Net Assets	18,858,856.52
	<hr/>

**NET ASSETS**

Net Assets - July 1, 2011, as Restated (Note 16)	357,126,469.30
	<hr/>
Net Assets - June 30, 2012	\$ 375,985,325.82
	<hr/> <hr/>

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

**Western Carolina University**  
**Statement of Cash Flows**  
**For the Fiscal Year Ended June 30, 2012**

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

**CASH FLOWS FROM OPERATING ACTIVITIES**

Received from Customers	\$ 80,167,471.32
Payments to Employees and Fringe Benefits	(105,388,789.06)
Payments to Vendors and Suppliers	(53,371,932.25)
Payments for Scholarships and Fellowships	(10,287,023.64)
Loans Issued	(1,814,026.39)
Collection of Loans	1,844,489.09
Interest Earned on Loans	129,492.03
Student Deposits Received	700,157.71
Student Deposits Returned	(693,076.88)
Other Receipts	1,528,019.73
	<hr/>
Net Cash Used by Operating Activities	(87,185,218.34)

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

State Appropriations	80,114,791.05
Noncapital Grants - Student Financial Aid	20,683,778.07
Noncapital Grants	384,428.78
Noncapital Gifts	1,503,783.71
Additions to Endowments	1,607,419.88
William D. Ford Direct Lending Receipts	41,072,149.00
William D. Ford Direct Lending Disbursements	(41,072,149.00)
Related Activity Agency Receipts	13,523.99
Related Activity Agency Disbursements	(7,302.67)
Other Receipts	26,138.91
	<hr/>
Net Cash Provided by Noncapital Financing Activities	104,326,561.72

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

Proceeds from Capital Debt	13,435,000.00
Capital Grants	13,650,397.84
Capital Gifts	300,000.00
Proceeds from Sale of Capital Assets	6,301.00
Acquisition and Construction of Capital Assets	(29,622,899.05)
Principal Paid on Capital Debt and Leases	(3,063,457.18)
Interest and Fees Paid on Capital Debt and Leases	(5,225,304.77)
	<hr/>
Net Cash Used by Capital Financing and Related Financing Activities	(10,519,962.16)

**CASH FLOWS FROM INVESTING ACTIVITIES**

Proceeds from Sales and Maturities of Investments	5,274,070.17
Investment Income	725,396.71
Purchase of Investments and Related Fees	(6,976,896.33)
	<hr/>
Net Cash Used by Investing Activities	(977,429.45)
	<hr/>
Net Increase in Cash and Cash Equivalents	5,643,951.77
Cash and Cash Equivalents - July 1, 2011, as Restated	64,646,002.06
	<hr/>
Cash and Cash Equivalents - June 30, 2012	\$ 70,289,953.83



**Western Carolina University Research and Development Corporation**  
**Statement of Financial Position**  
**June 30, 2012**

**Exhibit B-1**

**ASSETS**

Current Assets:

Cash and Cash Equivalents	\$ 1,167,951.00
Net Investment in Capital Leases, Net of Unearned Interest Income	1,207,531.00
Accounts Receivable	108.00
	<u>108.00</u>
Total Current Assets	<u>2,375,590.00</u>

Other Assets:

Other Investments	13,587.00
Certificate Issuance Costs, Net of Accumulated Amortization	2,307,555.00
Net Investment in Capital Leases, Net of Unearned Interest Income	61,278,206.00
	<u>61,278,206.00</u>
Total Other Assets	<u>63,599,348.00</u>

Total Assets	<u><u>\$ 65,974,938.00</u></u>
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**LIABILITIES**

Current Liabilities:

Current Portion of Long-Term Debt	\$ 1,345,000.00
Accrued Expenses	234,651.00
	<u>234,651.00</u>
Total Current Liabilities	<u>1,579,651.00</u>

Noncurrent Liabilities:

Certificates of Participation Payable	<u>61,605,000.00</u>
Total Liabilities	<u>63,184,651.00</u>

**NET ASSETS**

Unrestricted	<u>2,790,287.00</u>
Total Liabilities and Net Assets	<u><u>\$ 65,974,938.00</u></u>

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, 2012**

**Exhibit B-2**

<b>REVENUES</b>	
Management Fee	\$ 873,698.00
Interest Income	6,698.00
Interest Earned from Investments in Capital Leases	<u>3,134,557.00</u>
Total Revenues	<u>4,014,953.00</u>
<b>EXPENSES</b>	
Amortization of Certificate Issuance Costs	96,728.00
Insurance	204,364.00
Interest	3,014,676.00
Professional Fees	13,793.00
Pass-Through Losses from Investments	1,413.00
Other Operating	<u>200.00</u>
Total Expenses	<u>3,331,174.00</u>
<b>CHANGE IN NET ASSETS</b>	683,779.00
Net Assets, Beginning of Year	<u>2,106,508.00</u>
Net Assets, End of Year	<u>\$ 2,790,287.00</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, 2012**

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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. The discretely presented component unit's financial data is reported in separate financial statements because of its use of a different GAAP reporting model 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 32-member board consisting of 4 ex officio directors and 28 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.

## 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 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*



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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*Use Proprietary Fund Accounting*, the University does not apply 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, include state appropriations, certain grants, and donations. Revenues are recognized, net of estimated uncollectible amounts, as soon as all eligibility requirements imposed by the provider have been met, if probable of collection.

- D. Cash and Cash Equivalents** - This classification includes undeposited receipts, petty cash, cash on deposit with private bank accounts, 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 endowment capacity (i.e. quasi-endowments), along with accumulated investment earnings on such amounts.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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- 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.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 10 to 50 years for general infrastructure, 20 to 100 years for buildings, and 3 to 30 years for equipment.

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

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

Revenue bonds payable are reported net of unamortized premiums or discounts and deferred losses on refundings. The University amortizes

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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bond premiums/discounts over the life of the bonds using the straight-line method. The deferred losses on refundings are amortized over the life of the new debt using the straight-line method. Issuance costs are expensed.

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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**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 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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contributions are presented separately after nonoperating revenues and expenses.

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

### NOTE 2 - DEPOSITS AND INVESTMENTS

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

At June 30, 2012, the amount shown on the Statement of Net Assets as cash and cash equivalents includes \$69,940,547.06 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 1.5 years as of June 30, 2012. 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 included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by

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

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accessing the North Carolina Office of the State Controller’s Internet home page <http://www.osc.nc.gov/> and clicking on “Reports” or by calling the State Controller’s Financial Reporting Section at (919) 707-0500.

Cash on hand at June 30, 2012 was \$35,442.87. The carrying amount of the University’s deposits not with the State Treasurer was \$313,963.90 and the bank balance was \$346,409.79. Custodial credit risk is the risk that in the event of a bank failure, the University’s deposits may not be returned to it. The University does not have a deposit policy for custodial credit risk. As of June 30, 2012, 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>\$ 96,409.79</u>
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**B. Investments** - The University is authorized by The University of North Carolina Board of Governors pursuant to G.S. 116-36.2 and Section 600.2.4 of the Policy Manual of the University of North Carolina to invest its special funds and funds received for services rendered by health care professionals in the same manner as the State Treasurer is required to invest, as discussed below.

G.S. 147-69.1(c), applicable to the State’s General Fund, and G.S. 147-69.2, applicable to institutional trust funds, authorize the State Treasurer to invest in the following: obligations of or fully guaranteed by the United States; obligations of certain federal agencies; repurchase agreements; obligations of the state of North Carolina; 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 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 Director of the Western Carolina University Foundation.

The following table presents the fair value of investments by type and investments subject to interest rate risk at June 30, 2012, for the Long-Term Investment Pool.

### *Long-Term Investment Pool*

	Fair Value	Investment Maturities (in Years) Less Than 1
<b>Investment Type</b>		
Debt Securities		
Money Market Mutual Funds	\$ 522,196.55	<u>\$ 522,196.55</u>
Other Securities		
UNC Investment Fund	20,529,436.66	
Equity Mutual Funds	23,812,101.03	
Private Equity Limited Partnerships	<u>1,804,479.00</u>	
<b>Total Long-Term Investment Pool</b>	<u>\$ 46,668,213.24</u>	

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

At June 30, 2012, investments in the Long-Term Investment Pool with a credit risk had a fair value of \$522,196.22. The credit quality rating of the money market mutual funds was AAAM as rated by Standard & Poor's.

**UNC Investment Fund, LLC** - At June 30, 2012, the University's investments include \$20,529,436.66 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, 2012, for the University's non-pooled investments.

### *Non-Pooled Investments*

Investment Type	Fair Value	Investment Maturities (in Years) <u>Less</u> Than 1
Debt Securities		
Money Market Mutual Funds	\$ 4,034.00	<u>\$ 4,034.00</u>
Other Securities		
Equity Mutual Funds	1,243,373.51	
Investments in Real Estate	93,800.00	
Domestic Stocks	41,508.00	
Other	<u>3,922.00</u>	
<b>Total Non-Pooled Investments</b>	<u>\$ 1,386,637.51</u>	

At June 30, 2012, the University's non-pooled investments with credit risk had a fair value of \$4,034.00. The credit quality rating of the money market mutual funds was AAM as rated by Standard & Poor's.



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

**Total Investments** - The following table presents the fair value of the total investments at June 30, 2012:

Investment Type	Fair Value
Debt Securities	
Money Market Mutual Funds	\$ 526,230.55
Other Securities	
UNC Investment Fund	20,529,436.66
Equity Mutual Funds	25,055,474.54
Investments in Real Estate	93,800.00
Private Equity Limited Partnerships	1,804,479.00
Domestic Stocks	41,508.00
Other	3,922.00
	\$ 48,054,850.75
<b>Total Investments</b>	<b>\$ 48,054,850.75</b>

**C. Reconciliation of Deposits and Investments** - A reconciliation of deposits and investments for the University as of June 30, 2012, is as follows:

Cash on Hand	\$ 35,442.87
Amount of Deposits with Private Financial Institutions	313,963.90
Deposits in the Short-Term Investment Fund	69,940,547.06
Long-Term Investment Pool	46,668,213.24
Non-Pooled Investments	1,386,637.51
	\$ 118,344,804.58
<b>Total Deposits and Investments</b>	<b>\$ 118,344,804.58</b>
Deposits	
Current:	
Cash and Cash Equivalents	\$ 53,271,522.53
Restricted Cash and Cash Equivalents	12,935,406.95
Noncurrent:	
Restricted Cash and Cash Equivalents	4,083,024.35
	\$ 70,289,953.83
<b>Total Deposits</b>	<b>\$ 70,289,953.83</b>
Investments	
Current:	
Restricted Short-Term Investments	\$ 526,230.55
Noncurrent:	
Endowment Investments	46,577,984.11
Restricted Investments	933,136.09
Other Investments	17,500.00
	\$ 48,054,850.75
<b>Total Investments</b>	<b>\$ 48,054,850.75</b>

### 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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, 2012, net appreciation of \$18,372,277.15 was available to be spent, of which \$13,997,817.02 was classified in net assets as restricted for specific purposes (e.g. scholarships, fellowships, and professorships). The remaining portion of net appreciation available to be spent is classified as unrestricted net assets.

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, 2012 the amount of investment losses reported against the nonexpendable endowment balances was \$25,453.39.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 4 - RECEIVABLES

Receivables at June 30, 2012, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
<b>Current Receivables:</b>			
Students	\$ 1,606,365.54	\$ 574,025.56	\$ 1,032,339.98
Student Sponsors	71,234.83		71,234.83
Accounts	1,152,828.12		1,152,828.12
Intergovernmental	455,938.13		455,938.13
Pledges	203,079.58	62,872.35	140,207.23
Interest on Loans	82,249.32		82,249.32
Other	146,985.93		146,985.93
<b>Total Current Receivables</b>	<u>\$ 3,718,681.45</u>	<u>\$ 636,897.91</u>	<u>\$ 3,081,783.54</u>
<b>Noncurrent Receivables:</b>			
Pledges	<u>\$ 230,054.27</u>	<u>\$ 15,519.45</u>	<u>\$ 214,534.82</u>
<b>Notes Receivable:</b>			
<b>Notes Receivable - Current:</b>			
Federal Loan Programs	\$ 839,977.99	\$ 0.00	\$ 839,977.99
Institutional Student Loan Programs	39,874.74	4,432.34	35,442.40
<b>Total Notes Receivable - Current</b>	<u>\$ 879,852.73</u>	<u>\$ 4,432.34</u>	<u>\$ 875,420.39</u>
<b>Notes Receivable - Noncurrent:</b>			
Federal Loan Programs	\$ 4,943,869.57	\$ 1,155,557.00	\$ 3,788,312.57
Institutional Student Loan Programs	4,355.49		4,355.49
<b>Total Notes Receivable - Noncurrent</b>	<u>\$ 4,948,225.06</u>	<u>\$ 1,155,557.00</u>	<u>\$ 3,792,668.06</u>

### NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2012, is presented as follows:

	Balance July 1, 2011 (as restated)	Increases	Decreases	Balance June 30, 2012
<b>Capital Assets, Nondepreciable:</b>				
Land	\$ 7,278,174.07	\$ 1,730,745.75	\$ 18,352.27	\$ 8,990,567.55
Art, Literature, and Artifacts	1,266,098.70			1,266,098.70
Construction in Progress	45,585,236.77	24,589,644.69	54,474,323.82	15,700,557.64
<b>Total Capital Assets, Nondepreciable</b>	<u>54,129,509.54</u>	<u>26,320,390.44</u>	<u>54,492,676.09</u>	<u>25,957,223.89</u>
<b>Capital Assets, Depreciable:</b>				
Buildings	335,556,632.46	48,207,883.18	647,964.18	383,116,551.46
Machinery and Equipment	30,749,341.70	4,005,325.84	481,223.18	34,273,444.36
General Infrastructure	40,213,069.29	3,527,514.66	22,189.96	43,718,393.99
<b>Total Capital Assets, Depreciable</b>	<u>406,519,043.45</u>	<u>55,740,723.68</u>	<u>1,151,377.32</u>	<u>461,108,389.81</u>
<b>Less Accumulated Depreciation for:</b>				
Buildings	69,930,909.33	5,057,953.92	322,658.98	74,666,204.27
Machinery and Equipment	11,347,837.02	1,477,589.50	229,596.21	12,595,830.31
General Infrastructure	14,437,250.35	1,242,809.41	3,059.86	15,676,999.90
<b>Total Accumulated Depreciation</b>	<u>95,715,996.70</u>	<u>7,778,352.83</u>	<u>555,315.05</u>	<u>102,939,034.48</u>
<b>Total Capital Assets, Depreciable, Net</b>	<u>310,803,046.75</u>	<u>47,962,370.85</u>	<u>596,062.27</u>	<u>358,169,355.33</u>
<b>Capital Assets, Net</b>	<u>\$ 364,932,556.29</u>	<u>\$ 74,282,761.29</u>	<u>\$ 55,088,738.36</u>	<u>\$ 384,126,579.22</u>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2012, were as follows:

	Amount
Accounts Payable	\$ 2,441,229.72
Accrued Payroll	680,288.48
Contract Retainage	1,527,842.62
Intergovernmental Payables	258,369.84
<b>Total Accounts Payable and Accrued Liabilities</b>	<b>\$ 4,907,730.66</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, 2012, is presented as follows:

	July 1, 2011 (as restated)	Additions	Reductions	June 30, 2012	Current Portion
Revenue Bonds Payable	\$ 41,315,000.00	\$ 20,930,000.00	\$ 8,540,000.00	\$ 53,705,000.00	\$ 1,815,000.00
Add/Deduct Premium/Discount		228,284.25	11,312.73	216,971.52	
Deduct Deferred Charge on Refunding		(481,927.00)	(20,953.35)	(460,973.65)	
<b>Total Revenue Bonds Payable</b>	41,315,000.00	20,676,357.25	8,530,359.38	53,460,997.87	1,815,000.00
Notes Payable	12,355.54		12,355.54		
Capital Leases Payable	64,898,250.56		1,561,101.64	63,337,148.92	1,639,621.91
Compensated Absences	6,027,811.51	3,973,808.56	4,196,349.87	5,805,270.20	450,440.61
Annuity and Life Income Payable	170,285.33	114,063.08	103,353.00	180,995.41	91,134.69
<b>Total Long-Term Liabilities</b>	\$ 112,423,702.94	\$ 24,764,228.89	\$ 14,403,519.43	\$ 122,784,412.40	\$ 3,996,197.21

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

Purpose	Series	Interest Rate/ Ranges	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2012	Principal Outstanding June 30, 2012
<b>Revenue Bonds Payable</b>						
<u>The University of North Carolina System Pool Revenue Bonds</u>						
Athletic Facilities	(A)	3.7-4.75%	04/01/2028	\$ 1,510,000.00	\$ 1,175,000.00	\$ 335,000.00
Student Recreation Center	(A)	3.7-4.75%	04/01/2028	11,610,000.00	9,080,000.00	2,530,000.00
Student Center Refund	(B)	4.0-5.0%	10/01/2025	4,335,000.00	815,000.00	3,520,000.00
Athletic Facility Refund	(B)	4.0-5.0%	10/01/2026	6,135,000.00	35,000.00	6,100,000.00
Student Recreation Center	(C)	3.50-5.0%	10/01/2033	4,355,000.00	305,000.00	4,050,000.00
Dining Hall Facility	(C)	3.50-5.0%	10/01/2033	17,545,000.00	1,240,000.00	16,305,000.00
Student Housing - Harrill	(D)	2.0-4.5%	04/01/2041	13,605,000.00		13,605,000.00
Student Housing Refund 98	(D)	2.0-2.5%	04/01/2014	80,000.00		80,000.00
Facility Refund 03	(D)	2.0-4.0%	04/01/2025	831,726.00	7,462.00	824,264.00
Student Recreation Center Refund 03	(D)	2.0-4.0%	04/01/2025	6,413,274.00	57,538.00	6,355,736.00
Total Revenue Bonds Payable (principal only)				<u>\$ 66,420,000.00</u>	<u>\$ 12,715,000.00</u>	53,705,000.00
Less: Unamortized Loss on Refunding						(460,973.65)
Less: Unamortized Discount						(43,308.17)
Plus: Unamortized Premium						<u>260,279.69</u>
<b>Total Revenue Bonds Payable</b>						<u>\$ 53,460,997.87</u>

(A) The University of North Carolina System Pool Revenue Bonds, Series 2003A

(B) The University of North Carolina System Pool Revenue Bonds, Series 2006A

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

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

### C. Annual Requirements - The annual requirements to pay principal and interest on the long-term obligations at June 30, 2012, are as follows

Fiscal Year	Annual Requirements	
	Revenue Bonds Payable	
	Principal	Interest
2013	\$ 1,815,000.00	\$ 2,658,976.28
2014	1,880,000.00	2,150,300.02
2015	1,900,000.00	2,086,425.02
2016	1,965,000.00	2,011,775.02
2017	2,055,000.00	1,927,450.02
2018-2022	11,720,000.00	8,189,428.24
2023-2027	14,205,000.00	5,652,590.73
2028-2032	9,320,000.00	3,187,368.78
2033-2037	5,890,000.00	1,223,562.52
2038-2042	2,955,000.00	339,975.00
<b>Total Requirements</b>	<u>\$ 53,705,000.00</u>	<u>\$ 29,427,851.63</u>

### D. Bond Defeasances - The University has extinguished long-term debt obligations by the issuance of new long-term debt instruments as follows:

On December 1, 2011 the University issued \$80,000.00 in UNC System Pool Revenue Bonds, Series 2011B refunding bonds with an average interest rate of 2.32%. The bonds were issued for a current refunding

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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of \$80,000.00 of outstanding UNC System Pool Revenue Bonds, Series 1998B bonds with an average interest rate of 5.25%. The refunding was undertaken to reduce total debt service payments by \$2,930.00 over the next 1.8 years and resulted in an economic gain of \$4,588.29.

On December 1, 2011 the University issued \$7,245,000.00 in UNC System Pool Revenue Bonds, Series 2011B refunding bonds with an average interest rate of 3.475%. The bonds were issued to advance refund \$6,970,000.00 of outstanding UNC System Pool Revenue Bonds, Series 2003A bonds with an average interest rate of 4.72%. The net proceeds of the refunding bonds were used to purchase U.S. government securities. These proceeds were deposited into an irrevocable trust to provide for all future debt service payments on the refunded bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the University's Statement of Net Assets. This advance refunding was undertaken to reduce total debt service payments by \$494,912.11 over the next 8.1 years and resulted in an economic gain of \$389,195.05. At June 30, 2012, the outstanding balance was \$6,970,000.00 for the defeased UNC System Pool Revenue Bonds, Series 2003A bonds.

**Prior Year Defeasance** - 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, 2012, the outstanding balance of prior year defeased bonds was \$6,045,000.00.

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

Annuity liabilities are recorded for the required life annuity payments at the present value of expected cash payments discounted using current interest rates and actuarial assumptions for those annuities that have not been reinsured. The annuity obligations are adjusted each year for changes in the life expectancy of the beneficiaries and are reduced either as payments are made to the donor or as annuities are reinsured. The present value of future payment liabilities of charitable gift annuities is \$180,995 at June 30, 2012.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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### COMPONENT UNIT

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

Long-term debt at June 30, 2012 consists of the following:

2003 certificates of participation with a balance of \$9,975,000, evidences by undivided interest 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>
2013	\$ 300,000	3.625%
2014	310,000	3.875%
2015	320,000	4.000%
2016	335,000	4.000%
2017	350,000	4.125%
Thereafter	<u>8,360,000</u>	4.250-5.000%
	<u>\$ 9,975,000</u>	

2005 certificates of participation with a balance of \$9,135,000, 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>
2013	\$ 310,000	4.000%
2014	325,000	3.250%
2015	335,000	3.375%
2016	345,000	3.500%
2017	360,000	3.625%
Thereafter	<u>7,460,000</u>	3.750-4.350%
	<u>\$ 9,135,000</u>	

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2008 certificates of participation with a balance of \$43,840,000, 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
2013	\$ 735,000	3.500%
2014	840,000	3.500%
2015	915,000	5.000%
2016	960,000	5.000%
2017	1,005,000	4.000%
Thereafter	39,385,000	4.000-5.250%
	\$ 43,840,000	

### 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, 2012:

Fiscal Year	Amount
2013	\$ 4,770,211.44
2014	4,817,090.29
2015	4,430,485.02
2016	4,430,628.76
2017	4,433,653.76
2018-2022	22,157,435.04
2023-2027	22,160,444.80
2028-2032	22,159,787.59
2033-2037	15,690,700.20
2038-2042	5,969,750.00
Total Minimum Lease Payments	111,020,186.90
Amount Representing Interest (2.20 - 8.05% Rate of Interest)	47,683,037.98
<b>Present Value of Future Lease Payments</b>	<b>\$ 63,337,148.92</b>

Buildings recorded under capital lease amounted to \$73,073,760.69 at June 30, 2012. Machinery and equipment acquired under capital lease amounted to \$4,462,242.87 at June 30, 2012.

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



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

**B. Operating Lease Obligations** - The University entered into operating leases for automobiles, equipment, housing, classroom space, and contracts for software licensing. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2012:

<u>Fiscal Year</u>	<u>Amount</u>
2013	\$ 693,238.90
2014	708,642.26
2015	624,025.47
2016	462,531.12
2017	464,077.13
2018-2022	2,607,910.34
2023-2027	47,015.44
<b>Total Minimum Lease Payments</b>	<b>\$ 5,607,440.66</b>

Rental expense for all operating leases during the year was \$2,166,033.15.

### NOTE 9 - REVENUES

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

	<u>Gross Revenues</u>	<u>Internal Sales Eliminations</u>	<u>Less Scholarship Discounts</u>	<u>Less Allowance for Uncollectibles</u>	<u>Net Revenues</u>
<b>Operating Revenues:</b>					
<b>Student Tuition and Fees</b>	\$ 53,933,637.20	\$ 15,295.64	\$ 12,044,206.10	\$ 301,427.51	\$ 41,572,707.95
<b>Sales and Services:</b>					
Sales and Services of Auxiliary Enterprises:					
Residential Life	\$ 15,722,273.73	\$ 158,973.91	\$ 3,442,776.42	\$ 77,137.43	\$ 12,043,385.97
Dining	12,704,922.93	939,438.00	2,560,955.35	65,972.23	9,138,557.35
Book Rental	1,627,711.51	634.05	323,334.40	47,516.69	1,256,226.37
Bookstore	1,923,659.97	118,063.45		1,835.24	1,803,761.28
Print Shop	1,229,671.65	983,886.09		1.66	245,783.90
Athletic	1,202,663.76	4,705.58			1,197,958.18
Other	1,592,587.15	92,630.69		6,902.58	1,493,053.88
Sales and Services of Education and Related Activities	2,722,343.40	1,388,041.18			1,334,302.22
Independent Operations	3,277,712.49	72,101.34			3,205,611.15
<b>Total Sales and Services</b>	<b>\$ 42,003,546.59</b>	<b>\$ 3,758,474.29</b>	<b>\$ 6,327,066.17</b>	<b>\$ 199,365.83</b>	<b>\$ 31,718,640.30</b>
<b>Nonoperating - Noncapital Gifts</b>	<b>\$ 3,046,991.48</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 78,391.80</b>	<b>\$ 2,968,599.68</b>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 10 - OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	\$ 54,045,162.17	\$ 2,381,017.72	\$ 3,867,531.15	\$ 34,904.23	\$ 0.00	\$ 0.00	\$ 60,328,615.27
Research	913,122.54	190,800.80	327,727.48	2,060.65	24,160.51		1,457,871.98
Public Service	3,973,505.49	610,623.23	1,062,078.47	95,726.84	115,116.04		5,857,050.07
Academic Support	9,169,567.00	2,598,103.57	1,027,595.28	4,984.14	11,256.78		12,811,506.77
Student Services	4,317,013.11	337,601.21	2,442,463.61	1,257.15			7,098,335.08
Institutional Support	10,629,774.65	1,463,499.03	3,697,597.06	187,304.22	1,320.96		15,979,495.92
Operations and Maintenance of Plant	7,717,398.41	3,009,259.08	1,779,146.75		3,209,701.24		15,715,505.48
Student Financial Aid	110,657.32		8,833.70	8,814,428.56			8,933,919.58
Auxiliary Enterprises	13,984,620.35	4,023,632.93	16,906,140.10	1,146,357.85	1,549,111.85		37,609,863.08
Independent Operations	448,439.94	2,620,368.40	140,265.25				3,209,073.59
Depreciation						7,778,352.83	7,778,352.83
<b>Total Operating Expenses</b>	<b>\$ 105,309,260.98</b>	<b>\$ 17,234,905.97</b>	<b>\$ 31,259,378.85</b>	<b>\$ 10,287,023.64</b>	<b>\$ 4,910,667.38</b>	<b>\$ 7,778,352.83</b>	<b>\$ 176,779,589.65</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 (Plan) 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, 2012, these rates were set at 7.44% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the University had a total payroll of \$83,081,132.28, of which \$40,219,340.11 was covered under the Teachers' and State Employees' Retirement System. Total employer and employee contributions for pension benefits for the year were \$2,992,318.90 and \$2,413,160.41, respectively.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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Required employer contribution rates for the years ended June 30, 2011, and 2010, were 4.93% and 3.57%, respectively, while employee contributions were 6% each year. The University made 100% of its annual required contributions for the years ended June 30, 2012, 2011, and 2010, which were \$2,992,318.90, \$2,005,828.91, and \$1,446,088.32, respectively.

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

The Optional Retirement Program (Program) is a defined contribution retirement plan that provides retirement benefits with options for payments to beneficiaries in the event of the participant's death. Administrators and eligible faculty of the University may join the Program instead of the 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, 2012, 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 \$83,081,132.28, of which \$34,336,399.84 was covered under the Optional Retirement Program. Total employer and employee contributions for pension benefits for the year were \$2,348,609.75 and \$2,060,183.99, respectively.

- B. Deferred Compensation and Supplemental Retirement Income Plans** - Internal Revenue Code 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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 \$198,531.46 for the year ended June 30, 2012.

Internal Revenue Code 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, 2012, were \$42,221.26. The voluntary contributions by employees amounted to \$310,978.00 for the year ended June 30, 2012.

Internal Revenue Code 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. The plan administrators are TIAA-CREF. No costs are incurred by the University. The voluntary contributions by employees amounted to \$875,541.70 for the year ended June 30, 2012.

### 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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 the State Treasurer and the Board of Trustees of the State Health Plan for Teachers and State Employees as authorized by Chapter 135, Article 3B, of the General Statutes. 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 State Treasurer and the Board of Trustees of the State Health Plan for Teachers and State Employees.

For the current fiscal year the University contributed 5.0% 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, 2011, and 2010, were 4.9% and 4.5%, respectively. The University made 100% of its annual required contributions to the Plan for the years ended June 30, 2012, 2011, and 2010, which were \$3,727,787.00, \$3,672,878.01, and \$3,376,032.28, respectively. The University assumes no liability for retiree health care benefits provided by the programs other than its required contribution.

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

- B. Disability Income** - The University participates in the Disability Income Plan of North Carolina (DIPNC), a cost-sharing, multiple-employer

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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, 2012, 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. Required contribution rates for the years ended June 30, 2011, and 2010, was .52% for both years. The University made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2012, 2011, and 2010, which were \$387,689.85, \$389,774.81, and \$390,119.29, respectively. The University assumes no liability for long-term disability benefits under the Plan other than its contribution.

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

### NOTE 13 - RISK MANAGEMENT

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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deductible except for the Highlands Biological Station which still maintains a \$5,000 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.

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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 \$2,283,109.26 and on other purchases were \$1,288,268.15 at June 30, 2012.
- B. Pending Litigation and Claims** - The University is a party to litigation and claims in the ordinary course of its operations. Since it is not possible to predict the ultimate outcome of these matters, no provision for any liability has been made in the financial statements. University management is of the opinion that the liability, if any, for any of these matters will not have a material adverse effect on the financial position of the University.

### NOTE 15 - RELATED PARTIES

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

The Highlands Biological Foundation, Inc. was incorporated in North Carolina on July 21, 1930 for the purpose of supporting through grants and scholarships the activities of Highlands Biological Station, an inter-institutional center of the University of North Carolina system that is administered by Western Carolina University. This support approximated \$126,311.52 for the year ended June 30, 2012.

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 \$9,450.00 for the year ended June 30, 2012.

The North Carolina Arboretum Society, Inc. was incorporated in North Carolina on July 27, 1990 for the purpose to promote and provide financial and volunteer assistance to the North Carolina Arboretum, inter-institutional center of the University of North Carolina system that is administered by



## NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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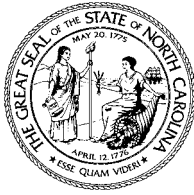
Western Carolina University. This support approximated \$650,046.21 for the year ended June 30, 2012.

### NOTE 16 - NET ASSET RESTATEMENTS

Pursuant to G.S. 116-242, as of July 1, 2011, the administration and State appropriations for The North Carolina Arboretum were moved from UNC Asheville to Western Carolina University. As a result, net assets previously reported on July 1, 2011 were restated to include the North Carolina Arboretum. Additionally, net assets reported on July 1, 2011 were restated for the correction of an error relating to capital assets. A summary of the restatements is as follows:

	<u>Amount</u>
July 1, 2011 Net Assets as Previously Reported	\$ 342,084,333.18
Restatements:	
Change in Reporting Entity - Transfer of NC Arboretum to Western Carolina University	14,666,319.54
Prior Period Correction of Capital Assets	<u>375,816.58</u>
<b>July 1, 2011 Net Assets as Restated</b>	<b><u><u>\$ 357,126,469.30</u></u></b>

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

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

2 S. Salisbury Street  
20601 Mail Service Center  
Raleigh, NC 27699-0601  
Telephone: (919) 807-7500  
Fax: (919) 807-7647  
Internet  
<http://www.ncauditor.net>

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

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Board of Trustees  
Western Carolina University  
Cullowhee, North Carolina

We have audited 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, 2012, which collectively comprise the University's basic financial statements and have issued our report thereon dated December 5, 2012. 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. The financial statements of Western Carolina University Foundation and the discretely presented component unit were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

The University's management is responsible for establishing and maintaining effective 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 deficiency, or a combination of deficiencies, in internal control such that there is a reasonable

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

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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 5, 2012

## 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:

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

Telephone: 919/807-7500

Facsimile: 919/807-7647

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This audit required 974 audit hours at an approximate cost of \$70,128. The cost represents .01% of the University's total assets and .04% of the University's total expenses subjected to audit.