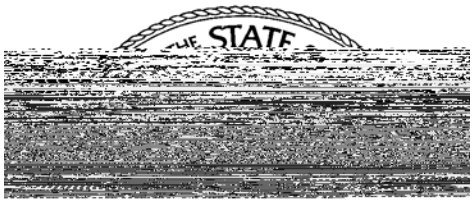

STATE OF NORTH CAROLINA

WESTERN CAROLINA UNIVERSITY

CULLOWHEE, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2007

OFFICE OF THE STATE AUDITOR

LESLIE W. MERRITT, JR., CPA, CFP

STATE AUDITOR

WESTERN CAROLINA UNIVERSITY

CULLOWHEE, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2007

BOARD OF GOVERNORS

THE UNIVERSITY OF NORTH CAROLINA

ERSKINE B. BOWLES, PRESIDENT

BOARD OF TRUSTEES

STEVE WARREN, CHAIRMAN

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STATE OF NORTH CAROLINA
Office of the State Auditor

2 S. Salisbury Street
20601 Mail Service Center

Leslie W. Merritt, Jr., CPA, CFP
State Auditor

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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

Leslie W. Merritt, Jr., CPA, CFP
State Auditor

INDEPENDENT AUDITOR'S REPORT

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, 2007, which collectively comprise the University's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Western Carolina 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 represent 5 percent, 7 percent, and 3 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 report thereon has been furnished to us, and our opinions, insofar as they relate to the amounts included for that entity, are based on the report 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 provides 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, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for

Introduction

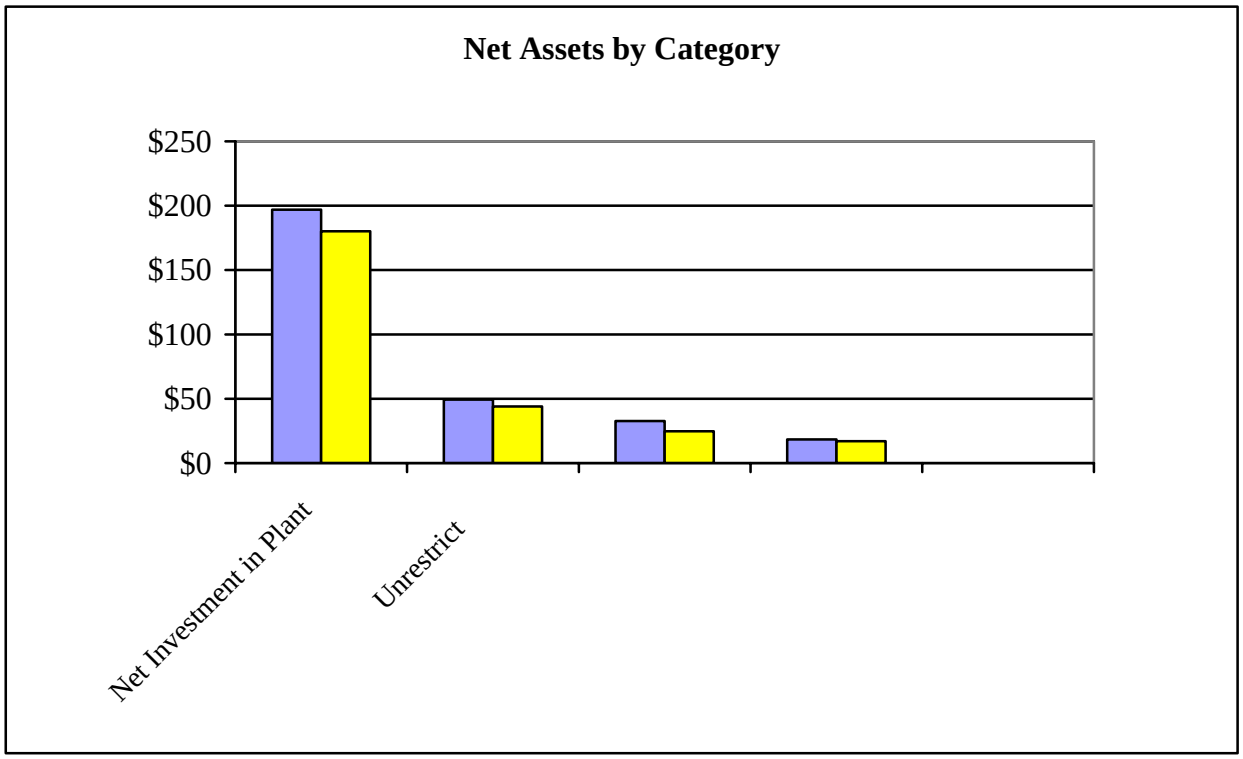
The University's financial report includes three financial statements and the *Notes to the Financial Statements*. The *Statement of Net Assets* presents the assets, liabilities, and net assets of the institution as of the end of the fiscal year; the *Statement of Revenues, Expenses, and Changes in Net 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 year ended June 30, 2007, and not its component unit. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follow this section.

Statement of Net Assets

The *Statement of Net Assets* presents the financial position of the University at the end of the fiscal year and includes all assets and liabilities of the University. The difference between total assets and total liabilities - net assets - is one indicator 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. Assets and liabilities are generally measured using current values; however, one notable exception are capital assets, which are stated at historical cost less an allowance for depreciation.

The following chart displays the contribution of each category to the total in both 2007 and 2006:



legislature directly receiving commensurate goods and services in return for those revenues. Nonoperating expenses include interest expense and other expenses not incurred in the normal operations of the University.

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

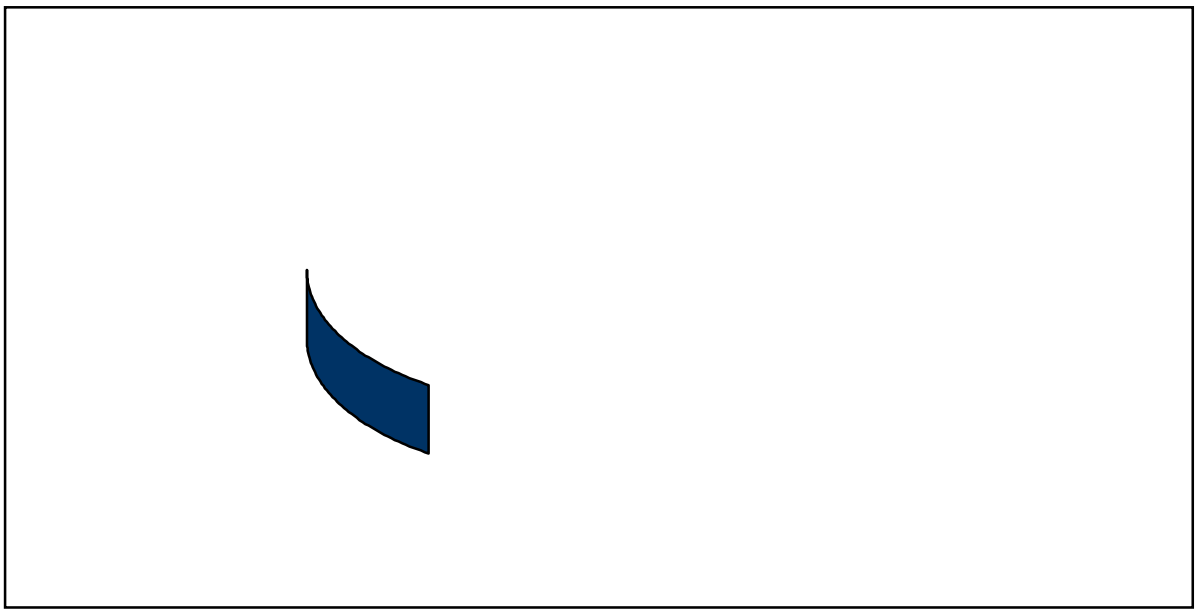
The following is a condensed *Statement of Revenues, Expenses, and Changes in Net Assets* for Western Carolina University as of June 30, 2007, compared with that of 2006.

	2007	2006	$ Change	% Change
Student Tuition and Fees, Net	$ 31,240,			

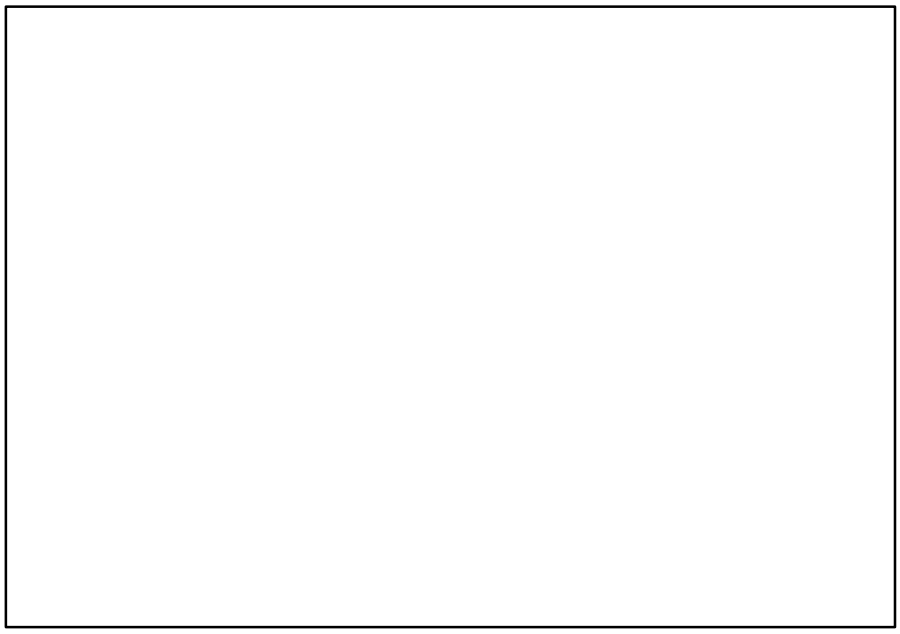
in investment income in 2007 of $3.7 million was largely attributable to favorable market fluctuations.

Capital grants totaled $16.9 million and $14.6 million for the years ended June 30, 2007, and June 30, 2006, respectively. The primary sources of this revenue were state general obligation bond proceeds of $13 million in both 2007 and 2006. In 2000, the voters of North Carolina approved the issuance of general obligation bonds to provide funds for capital improvements on the University of North Carolina campuses. The Office of State Budget and Management allots these funds based on the University's projected cash requirements related to the construction projects funded by this bond issue.

The following is a graphic illustration of expenses (both operating and nonoperating) by their natural (object) classification:



totaled $6.1 million. The following chart displays the relationship of each category to capital assets as a whole.



comprehensive master plan was approved by the campus and Board of Trustees to serve as a guide for the development of this property. The 2007 General Assembly approved $46.2 million in funding for a new 145,200 square foot health and gerontological sciences building that will be the first construction project on the Millennial Initiative property. The new building will house classrooms, offices and laboratories for the University's School of Nursing and programs in social work, physical therapy, athletic training, clinical laboratory sciences, environmental health, health information administration, nutrition and dietetics, emergency medical care, recreational therapy, and communication sciences and disorders. It is expected to become the cornerstone for a mixed-use "neighborhood of interest" focusing on retirement, aging and health, where students and faculty would work with partners from private business and industry. The target completion date for the new health sciences building is June 2010.

Helder Residence Hall, a four-story, 400-bed residence hall constructed in 1966, was demolished in Summer 2007 as part of a group of construction and renovation projects designed to create more of a "college quad" feel on campus with green space and a pedestrian-friendly environment. A new two-story, 53,000 square-foot dining hall will be constructed on this site, with construction expected to be completed in Fall 2008. At that time Dodson Cafeteria and Leatherwood Residence Hall will be taken down to make way for a new residence hall.

The University acquired a 2.18 acres strip of commercial property that currently houses a number of commercial establishments strategically located in the middle of campus for $1.6 million. The University plans to maintain it as a business district in keeping with the Millennial Initiative.

The University's financial statements indicate $24.4 million in bonds payable, $1.3 million in notes payable, and $20.9 million in capital leases payable at June 30, 2007. Total annual debt service payments were $4 million in 2007 and $4.2 million in 2006.

While the future cannot be predicted with certainty, m

Western Carolina University
Statement of Net Assets
June 30, 2007

Exhibit A-1

ASSETS		
Current Assets:		
Cash and Cash Equivalents	$	41,014,816.99
Restricted Cash and Cash Equivalents		13,313,639.61
Restricted Short-Term Investments		682,676.12
Receivables, Net (Note 4)		6,504,165.32
Due from State of North Carolina Component Units		40,000.00
Due from University Component Units		1,423,539.00
Inventories		3,731,529.66
Notes Receivable, Net (Note 4)		397,326.93
Other Assets		28,922.00
Total Current Assets		67,136,615.63
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		19,504,712.98
Receivables, Net (Note 4)		321,369.26
Restricted Due from Primary Government		10,101,171.70
Endowment Investments		32,279,530.87
Other Investments		1,536,630.41
Notes Receivable, Net (Note 4)		5,184,051.09
Capital Assets - Nondepreciable (Note 5)		61,000,814.22
Capital Assets - Depreciable, Net (Note 5)		173,174,546.25
Total Noncurrent Assets		303,102,826.78
Total Assets		370,239,442.41
LIABILITIES		
Current Liabilities:		
Accounts Payable and Accrued Liabilities (Note 6)		9,589,453.04
Due to Primary Government		30,942.23
Funds Held for Others		61,656.00
Unearned Revenue		4,062,673.61
Interest Payable		494,013.83
Long-Term Liabilities - Current Portion (Note 7)		2,811,122.36
Total Current Liabilities		17,049,861.07
Noncurrent Liabilities:		
Deposits Payable		73,159.49
Funds Held for Others		503,508.24
U. S. Government Grants Refundable		5,365,601.88
Long-Term Liabilities (Note 7)		49,989,422.36
Total Noncurrent Liabilities		55,931,691.97
Total Liabilities		72,981,553.04

NET ASSETS		
Invested in Capital Assets, Net of Related Debt		196,974,311.32
Restricted for:		
Nonexpendable:		
Scholarships and Fellowships		8,648,043.02
Endowed Professorships		9,702,942.91
Expendable:		
Scholarships and Fellowships		14,780,799.23
Research		1,474,960.63
Endowed Professorships		3,162,081.60
Departmental Uses		1,831,277.41
Loans		1,463,089.60
Capital Projects		6,494,809.57
Debt Service		3,427,962.99
Unrestricted		49,297,611.09
Total Net Assets	$	297,257,889.37

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, 2007

Exhibit A-2

REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net (Note 9)	$	31,240,066.21
Federal Grants and Contracts		9,467,754.25
State and Local Grants and Contracts		5,199,593.11
Nongovernmental Grants and Contracts		1,589,910.71
Sales and Services, Net (Note 9)		24,736,218.22
Interest Earnings on Loans		9,826.48
Other Operating Revenues		1,154,802.01
Total Operating Revenues		73,398,170.99
EXPENSES		
Operating Expenses:		
Salaries and Benefits		93,885,045.66
Supplies and Materials		21,885,497.49
Services		25,565,951.01
Scholarships and Fellowships		5,848,751.92
Utilities		5,043,606.23
Depreciation		6,134,931.06
Total Operating Expenses		158,363,783.37
Operating Loss		(84,965,612.38)
NONOPERATING REVENUES (EXPENSES)		
State Appropriations		80,794,783.84
Noncapital Grants		212,517.23
Noncapital Gifts		3,750,482.87
Investment Income (Net of Investment Expense of $86,601.16)		8,418,395.39
Interest and Fees on Debt		(2,654,294.92)
Other Nonoperating Revenues		53,523.95
Net Nonoperating Revenues		90,575,408.36
Income Before Other Revenues		5,609,795.98
Capital Appropriations		6,223,900.00
Capital Grants		16,913,403.86
Additions to Endowments		597,540.53
Increase in Net Assets		29,344,640.37
NET ASSETS		
Net Assets - July 1, 2006		267,913,249.00
Net Assets - June 30, 2007	$	297,257,889.37

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, 2007

Exhibit A-3

CASH FLOWS FROM OPERATING ACTIVITIES		
Received from Customers	$	72,005,429.43
Payments to Employees and Fringe Benefits		(93,468,347.20)
Payments to Vendors and Suppliers		(50,526,363.23)
Payments for Scholarships and Fellowships		(5,848,751.92)
Loans Issued		(1,929,131.13)
Collection of Loans		1,502,453.89
Interest Earned on Loans		23,767.17
Student Deposits Received		687,603.89
Student Deposits Returned		(667,364.30)
Net Cash Used by Operating Activities		(78,220,703.40)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State Appropriations		80,794,783.84
Noncapital Grants		229,027.09
Noncapital Gifts		3,278,671.99
Additions to Endowments		597,540.53
William D. Ford Direct Lending Receipts		28,724,288.00
William D. Ford Direct Lending Disbursements		(28,724,288.00)
Related Activity Agency Receipts		110,995.35
Related Activity Agency Disbursements		(10,241.00)
Other Receipts		83,598.14
Net Cash Provided by Noncapital Financing Activities		85,084,375.94
CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES		
Proceeds from Capital Debt		10,636,755.00
State Capital Appropriations		6,223,900.00
Capital Grants		11,267,997.36
Proceeds from Sale of Capital Assets		9,831.27
Acquisition and Construction of Capital Assets		(20,157,768.26)
Principal Paid on Capital Debt and Leases		(12,678,832.55)
Interest and Fees Paid on Capital Debt and Leases		(2,574,642.26)
Payment to Bond Escrow Agent		(7,683.75)
Net Cash Used by Capital Financing and Related Financing Activities		(7,280,443.19)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Sales and Maturities of Investments		5,346,983.18
Investment Income		5,089,148.14
Purchase of Investments and Related Fees		(4,459,562.96)
Net Cash Provided by Investing Activities		5,976,568.36
Net Increase in Cash and Cash Equivalents		5,559,797.71
Cash and Cash Equivalents - July 1, 2006		68,273,371.87
Cash and Cash Equivalents - June 30, 2007	$	73,833,169.58

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

Operating Loss	$	(84,965,612.38)
Adjustments to Reconcile Operating (Loss) to Net Cash Used by Operating Activities:		
Depreciation Expense		6,134,931.06
Allowances, Write-Offs, and Amortizations		257,441.84
Nonoperating Other Income		25,152.94
Changes in Assets and Liabilities:		
Receivables (Net)		(881,044.07)
Due from State of North Carolina Component Units		160,000.00
Due from University Component Units		(1,423,539.00)
Inventories		(242,594.96)
Accounts Payable and Accrued Liabilities		

Western Carolina University Research and Development Corporation
Statement of Financial Position
June 30, 2007

Exhibit B-1

ASSETS		
Current Assets:		
Cash and Cash Equivalents	$	1,760,938.00
Net Investment in Capital Leases, Net of Unearned Interest Income		371,430.00
Total Current Assets		2,132,368.00
Property, Plant and Equiopment:		
Construction in Progress		2,062,512.00
Other Assets:		
Certificate Issuance Costs, Net of Accumulated Amortization		1,078,373.00
Net Investment in Capital Leases, Net of Unearned Interest Income		19,296,248.00
Total Other Assets		20,374,621.00
Total Assets	$	24,569,501.00
LIABILITIES		
Current Liabilities:		
Current Portion of Long-Term Debt	$	525,000.00
Short-Term Note Payable		1,423,539.00
Construction Contracts Payable		638,973.00
Accrued Interest Payable		73,343.00
Total Current Liabilites		2,660,855.00
Noncurrent Liabilities:		
Certificates of Participation Payable		21,360,000.00
Total Liabilities		24,020,855.00
NET ASSETS		
Unrestricted		548,646.00
Total Liabilities and Net Assets	$	24,569,501.00

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, 2007

Exhibit B-2

REVENUES		
Management Fee	$	149,331.00
Investment Interest Income		78,817.00
Interest Earned from Investments is Capital Leases		1,095,532.00
Total Revenues		1,323,680.00
EXPENSES		
Amortization of Certificate Issuance Costs		40,499.00
Insurance		98,924.00
Interest		937,382.00
Professional Fees		23,490.00
Other Operating		225.00
Total Expenses		1,100,520.00
CHANGE IN NET ASSETS		223,160.00
Net Assets, Beginning of Year		325,486.00
Net Assets, End of Year	$	548,646.00

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

WESTERN CAROLINA UNIVERSITY

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 and 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 Corporation's purpose is to aid and promote education and charitable functions of the University.

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 Foundation's financial information in the University's financial reporting entity for these differences.

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

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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.

G. Inventories – Inventories, consisting of expendable supplies and merchandise for resale, are valued at the last invoice cost.

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 in excess of $5,000 at the date of acquisition and an estimated useful life of more than one year. Library books are generally not considered to have a useful life of mo

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 sup l o

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

NOTE 2 - DEPOSITS AND INVESTMENTS

A. Deposits – Unless specifically exempt, the University is required by *North Carolina General Statute* 147-77 to deposit moneys received with the State Treasurer or with a depository institution in the name of the State Treasurer. In addition, the University of North Carolina Board of Governors, pursuant to G.S. 116-36.1, requires the University to deposit its institutional trust funds, except for funds received for services rendered by health care professionals, with the State Treasurer. Although specifically exempted, the University may voluntarily deposit endowment funds, special funds, revenue bond proceeds, debt service funds, and funds received for services rendered by health care professionals with the State Treasurer. Special funds consist of moneys for intercollegiate athletics and agency funds held directly by the University.

At June 30, 2007, the amount shown on the Statement of Net Assets as cash and cash equivalents includes $73,777,138.27 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 1.6 years as of June 30, 2007. 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 accessing the North Carolina Office of the State Controller's Internet home page http://www.ncosc.net/ and clicking on "Financial Reports," or

by calling the State Controller's Financial Reporting Section at (919) 981-5454.

Cash on hand at June 30, 2007 was $46,837.81. The carrying amount of the University's deposits not with the State Treasurer was $9,193.50 and the bank balance was $274,917.11. Custodial credit risk is the risk that in the event of a bank failure, the University's deposits may not be returned

sound discretion, without regard to any statute or rule of law relating to the investment of funds by fiduciaries but in compliance with any lawful condition placed by the donor upon that part of the Endowment Fund to be invested.

Investments of the University's component unit, the Western Carolina University Foundation, are subject to and restricted by G.S. 36B "Uniform Management of Institutional Funds Act" (UMIFA) 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 has a f

Non-Pooled Investments - The following table presents the fair value of investments by type and investments subject to interest rate risk at June 30, 2007, for the University's non-pooled investments.

Non-Pooled Investments

	Fair Value	Investment Maturities Less Than 1 Year
Investment Type		
Debt Securities		
Money Market Mutual Funds	$ 682,676.12	$ 682,676.12
Other Securities		
Mutual Funds	93,800.00	
Investments		

expenditure the net appreciation, realized and unrealized, of the investments of the 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 4.5% of a three-year average of market values as of December 31. The Board of Trustees reviews

NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2007, is presented as f

NOTE 7 - LONG-TERM LIABILITIES

A. Changes in Long-Term Liabilities - A summary of changes in the long-term liabilities for the year ended June 30, 2007, is presented as follows:

	Balance July 1, 2006	Additions	Reductions	Balance June 30, 2007	Current Portion
Bonds Payable	25,664,000.00	10,470,000.00	11,655,000.00	24,479,000.00	1,034,000.00
Notes Payable	1,525,347.14	166,755.00	348,181.35	1,343,920.79	330,296.49
Capital Leases Payable	21,626,069.27		675,651.20	20,950,418.07	704,357.03
Compensated Absences	5,197,286.66	6,026,878.79	5,647,074.03	5,577,091.42	656,424.00

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C. Annual Requirements - The annual requirements to pay principal and interest on the long-term obligations at June 30, 2007, are as follows:

irrevocable trust to provide for all future debt service payments on the

Component Unit

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

Long-term debt at June 30, 2007, consists of the following:

2003 certificates of participation with a balance of $11,340,000, 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
2008	$ 260,000.00	2.375%
2009	265,000.00	2.750%
2010	270,000.00	3.000%
2011	280,000.00	3.375%
2012	290,000.00	3.500%
Thereafter	9,975,000.00	3.625% - 5.000%
	$ 11,340,000.00	

2005 certificates of participation with a balance of $10,545,000, 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
2008	$ 265,000.00	3.000%
2009	270,000.00	4.000%
2010	280,000.00	4.000%
2011	295,000.00	3.000%
2012	300,00	

NOTE 8 - LEASE OBLIGATIONS

A. Capital Lease Obligations - OTE

NOTE 9 - REVENUES

A summary of eliminations and allowances by revenue classification and revenues pledged as security for revenue bonds is presented as follows:

	Gross Revenues	Internal Sales Eliminations	Less Scholarship Discounts	Less Allowance for Uncollectibles	Net Revenues	Revenues Pledged as Security for Debt
Operating Revenues:						
Student Tuition and Fees	$ 37,189,848.82	$ 7,216.06	$ 5,721,096.83	$ 221,469.72	$ 31,240,066.21	$ 0.00
Sales and Services:						
Sales and Services of Affiliar						

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

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. The Board has authorized the following carriers: Teachers' Insurance and Annuity Association - College Retirement Equities Fund (TIAA-CREF), Lincoln Life Insurance Company, Variable Annuity Life Insurance Company (VALIC), and Fidelity Investments. Participants may elect to allocate their contributions and the University contributions to the carrier of their choice. Each carrier offers a variety of investment funds, including both fixed and variable account investment options and mutual funds.

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, 2007, 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 year ended June 30, 2007, the University had a total payroll of $76,807,145.73, of which $29,408,199.64 was covered under the Optional Retirement Program. Total employee and employer contributions for pension benefits for the year were $1,764,491.98 and $2,011,520.86, respectively.

B. Deferred Compensation and Supplemental Retirement Income Plans - IRC Section 457 Plan - The State of North Carolina offers its permanent employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 through the North Carolina Public Employee Deferred Compensation Plan (the Plan). The Plan permits each participating employee to defer a portion of his or her salary until future years. The deferred compensation is available to employees upon separation from service, death, disability, retirement, or financial hardships if approved by the Board of Trustees of the Plan. The Board, a part of the North Carolina Department of Administration, maintains a separate fund for the exclusive benefit of the participating employees and their beneficiaries, *the North Carolina Public Employee Deferred Compensation Trust Fund*. The Board also contracts with an external third party to perform certain administrative requirements and to manage the trust fund's assets. All costs of administering and funding the Plan are

the responsibility of the Plan participants. No costs are incurred by the University. The voluntary contributions by employees amounted to $139,977.44 for the year ended June 30, 2007.

IRC Section 401(k) Plan - All members of the Teachers' and State Employees' Retirement System and the Optional Retirement Program are eligible to enroll in the Supplemental Retirement Income Plan, a defined contribution plan, created under Internal Revenue Code Section 401(k). All costs of administering the Plan are the responsibility of the Plan participants. No costs are incurred by the University except for a 5% employer contribution for the University's law enforcement officers, which is mandated under General Statute 143-166.30(e). Total employer contributions on behalf of University law enforcement officers for the year ended June 30, 2007, were $28,863.01. The voluntary contributions by employees amounted to $367,256.00 for the year ended June 30, 2007.

IRC Section 403(b) and 403(b)(7) Plans - Eligible University employees can participate in tax sheltered annuity plans created under Internal Revenue Code Sections 403(b) and 403(b)(7). The employee's eligible contributions, made through salary reduction agreements, are exempt from federal and State income taxes until the annuity is received or the contributions are withdrawn. These plans are exclusively for employees of universities and certain charitable and other nonprofit institutions. All costs of administering and funding these plans are the responsibility of the Plan participants. No costs are incurred by the University. The voluntary contributions by employees amounted to $1,112,238.83 for the year ended June 30, 2007.

NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS

A. Health Care for Long-Term Disability Beneficiaries and Retirees - The University participates in State-administered programs that provide postemployment health insurance to eligible former employees. Eligible former employees include long-term disability beneficiaries of the Disability Income Plan of North Carolina and retirees of the Teachers' and State Employees' Retirement System or the Optional Retirement Program. These benefits were established by Chapter 135, Article 3, Part 3, of the General Statutes and may be amended only by the North Carolina General Assembly. Funding for the health care benefit for long-term disability beneficiaries and retirees is financed on a pay-as-you-go basis. The University contributed 3.8% of the covered payroll under the Teachers' and State Employees' Retirement System and the Optional Retirement Program for these health care benefits. For the fiscal year

$2,576,162.17. 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.*

B. Disability Income - The University participates in the Disability Income Plan of North Carolina (DIPNC). Established by Chapter 135, Article 6, of the General Statutes, DIPNC provides short-term and long-term disability benefits to eligible members of the Teachers' and State Employees' Retirement System and the Optional Retirement Program. Long-term disability income benefits are advance funded on an actuarially determined basis using the one-year term cost method. The University contributes .52% of covered payroll under the Teachers' and State Employees' Retirement System and the Optional Retirement Program to the DIPNC. For the year ended June 30, 2007, the University's total contribution to the DIPNC was $352,527.45. 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.

Tort claims of up to $500,000 are self-insured under the authority of the State Tort Claims Act. In addition, the State provides excess public officers' and employees' liability insurance up to $5,000,000 via contract with a private insurance company. The University pays the premium, based on a composite rate, directly to the private insurer.

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

deductible. The University also purchased through the Fund extended coverage for most buildings which covers windstorm or hail and "all risk" for selected contents such as high value equipment, computers, and fine art. The extended coverage deductible is $50,000 per occurrence, except for high value equipment losses which are subject to a $1,000 deductible per occurrence for theft losses and a $500 deductible per occurrence for all other covered 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 occurring in-State are $500,000 per claim and $5,000,000 per occurrence and out-of-State are $1,000,000 per claim and $5,000,000 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 with a $75,000 deductible and a 10% participation in each loss above the 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 and machinery 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 pension and other employee benefit trust fund 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 is self-insured for workers' compensation.

Term life insurance (death benefits) of $25,000 to $50,000 is provided to eligible workers. This Death Benefit Plan is administered by the State

Treasurer and funded via employer contributions. The employer contribution rate was .16% for the current fiscal year.

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

NOTE 14 - COMMITMENTS AND CONTINGENCIES

A. Commitments - The University has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were $33,900,244.07 and on other purchases were $1,304,113.15 at June 30, 2007.

B. Pending Litigation and Claims – The NC School Boards Association, et. al. filed a civil action against various State officials in their official capacity seeking a judicial determination as to whether the State Constitution requires certain monetary payments collected by State agencies to be paid to the local county school funds rather than statutorily designated recipients. In part, this civil action includes a determination of whether monetary payments collected pursuant to statutory authority by the University for violations of parking traffic regulations are "civil penalties" which the State Constitution requires to be paid to the school fund in the county where they are collected. On July 1, 2005, the NC Supreme Court held in favor of the school boards with regard to parking fines. The matter has been remanded back to the trial court for disposition in accordance with the Supreme Court's decision. At issue are transportation fines in the amount of $1,042,479.93 for the period December 1995 to June 30, 2005. A liability has been recorded by the University.

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

NOTE 15 - RELATED PARTIES

Foundations - There are two separately incorporated nonprofit foundations associated with the University. These foundations are The Development

Foundation of the North Carolina Center for the Advancement of Teaching, Inc. and The Highlands Biological Foundation, Inc. The University's financial statements do not include the assets or operational transactions of these foundations, except for support from the organization to the University.

The Development Foundation of the North Carolina Center for the Advancement of Teaching, Inc. was inco

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STATE OF NORTH CAROLINA
Office of the State Auditor

Leslie W. Merritt, Jr., CPA, CFP
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*

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 Carolin

weaknesses. However, as discussed below, we identified certain deficiencies in internal

General Assembly, and the State Controller, and is not intended to be and should not be used by anyone other than these specified parties.

Leslie W. Merritt, Jr., CPA, CFP
State Auditor

April 22, 2008

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AUDIT FINDINGS AND RESPONSES

Matters Related to Financial Reporting

The following audit findings were identified during the current audit and describe conditions that represent significant deficiencies in internal control or noncompliance with laws, regulations, contracts, grant agreements or other matters.

1. INAPPROPRIATE INFORMATION SYSTEM ACCESS

   The University did not maintain adequate internal control over access to its computer systems and data. This increases the risk of error or fraud.

   We identified three computer programmers with access to computer programs used in production, as well as data files. The ability to change programs should be segregated from responsibility for moving programs into production to prevent unauthorized changes. Also, access to data files should be limited to the greatest extent possible.

   We also identified accounting personnel with access rights that were inconsistent with their job duties. Personnel should only be granted the minimum access rights needed to perform their job.

   Finally, the University did not appropriately terminate access rights for all separated employees. We identified 5 former employees whose access to the accounting system and the overall computer network was terminated several weeks or months after they left the University and 13 other former employees who still had access at the time of our audit. Access should be terminated as soon as individuals leave employment.

   *Recommendation:*cess t Tm-plo32.92.2h00211 Tw 12 0 0 12 0 weeks 7ould bee7du801r03h911ID P4n6a

The University's Business and Financial Policies and Procedures state that "… an annual inventory is taken to verify the existence, condition, and location of the University's fixed assets. Each department should complete their inventory within the yearly quarter they have been assigned, and return the completed inventory sheets to the Purchasing Fixed Asset Coordinator. This inventory is then used to update property records and to provide documentation for annual financial reporting."

Recommendation: