STATE OF
NORTH CAROLINA

ELIZABETH CITY STATE UNIVERSITY

ELIZABETH CITY, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2012

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR

A Constituent Institution of the University of North Carolina System and a Component Unit of the State of North Carolina

ELIZABETH CITY STATE UNIVERSITY

ELIZABETH CITY, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2012

STATE OF NORTH CAROLINA
Office of the State Auditor

Beth A. Wood, CPA
State Auditor

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AUDITOR'S TRANSMITTAL

The Honorable Beverly E. Perdue, Governor
The General Assembly of North Carolina
Board of Trustees, Elizabeth City State University

We have completed a financial statement audit of Elizabeth City State 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.

Beth A. Wood, CPA
State Auditor

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Elizabeth City State University
Elizabeth City, North Carolina

We have audited the accompanying basic financial statements of Elizabeth City State University, a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina, as of and for the year ended June 30, 2012, as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of Elizabeth City State University Foundation, Inc., and Subsidiary, which represent 10.6 percent, 5.1 percent, and 2.3 percent, respectively, of the assets, net assets, and revenues of the University. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for Elizabeth City State University Foundation, Inc., and Subsidiary, is 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. 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 report of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of Elizabeth City State University as of June 30, 2012, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 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

Beth A. Wood, CPA
State Auditor

December 17, 2012

This section of the Elizabeth City State University (the University) annual financial report presents our discussion and analysis of the financial performance of the University during the fiscal year ended June 30, 2012. This discussion has been prepared by University management along with the financial statements and notes to the financial statements and should be read in conjunction with, and is qualified in its entirety by, the financial statements and notes. The Management's Discussion and Analysis has comparative data for the applicable years (past and current) with emphasis on the current year. The financial statements, notes, and this discussion are the responsibility of University management.

Using the Annual Report

This annual report consists of a series of financial statements, prepared in accordance with the standards of the Governmental Accounting Standards Board (GASB). GASB statements establish standards for external financial reporting for public colleges and universities and require that financial statements be presented on a consolidated basis for the University as a whole, with resources classified for accounting and reporting purposes into four net asset categories. One of the most important questions asked is whether the University, as a whole, is better or worse off as a result of the year's activities. The key to understanding this question is the Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets and the Statement of Cash Flows. These statements present financial information in a form similar to that used by corporations. They are prepared under the accrual basis of accounting, whereby revenues and assets are recognized when the service is provided and expenses and liabilities are recognized when others provide the service, regardless of when cash is exchanged.

The Statement of Net Assets includes all assets and liabilities. The University's net assets (the difference between assets and liabilities) are an indicator of the University's financial health. Over time, increases or decreases in net assets is one indicator of the improvement or erosion of the University's financial health when considered with nonfinancial facts such as enrollment levels and the condition of the facilities.

The Statement of Revenues, Expenses, and Changes in Net Assets presents the revenues earned and expenses incurred during the year. Activities are reported as either operating or nonoperating. All things being equal, a public University's dependency on state appropriations and gifts will result in operating deficits, because GASB Statement No. 35 classifies state appropriations and gifts as nonoperating revenues.

The Statement of Cash Flows provides information relative to the University's sources and uses of cash for operating activities, noncapital financing activities, capital and related financing activities, and investing activities. The statement provides a reconciliation of beginning cash balances to ending cash balances and is representative of the activity reported on the Statement of Revenues, Expenses, and Changes in Net Assets as adjusted for changes in the beginning and ending balances of noncash accounts on the Statement of Net Assets.

Reporting Entity

The financial statements report information about the University as a whole using accounting methods similar to those used by private-sector companies. The University's supporting organization, the Elizabeth City State University Foundation, Inc., and Subsidiary, (the "Foundation"), is an independent nonprofit corporation formed for the exclusive benefit of the University. In accordance with accounting principles prescribed by the Governmental Accounting Standards Board, the Foundation meets the requirements to be blended in these financial statements.

Financial Highlights

During fiscal year 2011-2012, the University saw an increase in state appropriations. State appropriations accounts for the majority of the University's operating budget and they are critical revenues that support instruction and key academic operations. Due to over projected full time equivalents (FTE) from the Enrollment Growth Funding Model and a decline in student enrollment, the University anticipated a tuition revenue shortfall. In preparation for the shortfall, the University also imposed an additional internal budget reduction of $1.8 million in order to issue a sound budget for spending.

For fiscal year 2011-2012, the University implemented a tuition increase of 6.5% for undergraduate, graduate and distance education rates for North Carolina residents, a flat rate increase of $250.00 (4%) for non-resident undergraduate tuition and $500.00 (8%) for non-resident graduate tuition. The varied increases were implemented to minimize the potential adverse impact of high out-of-state tuition and to retain a diverse mix of in-state and out-of-state students.

Despite the budget reductions and decline in student enrollment, the University's financial position at June 30, 2012, remained strong with total current assets of $21.5 million, which is sufficient to cover current liabilities of $9.4 million by 2.29 times. This scenario indicates the University's ability to pay current liabilities as they become due. Net assets, which represent the residual interest in the University's assets after deducting liabilities, were $143.7 million at June 30, 2012. During the fiscal year, the University's net assets increased by $8.6 million. This is primarily attributable to university construction projects, while controlling spending levels in order to decrease operating expenses based on a decline of projected revenues.

Condensed Financial Information

Statement of Net Assets

The Statement of Net Assets presents the assets (current and noncurrent), liabilities (current and noncurrent), and the net assets (total assets less total liabilities) of the University. This financial statement provides a comparative University fiscal snapshot as of June 30, 2012 and June 30, 2011. This provides the readers of this statement with information on assets available to continue operations.

Comparative Condensed Statements of Net Assets
June 30, 2012 and June 30, 2011

	2012	2011 (restated)	$ Change	% Change
Assets				
Current Assets	$ 21,553,613.72	$ 21,147,907.10	$ 405,706.62	2%
Noncurrent Assets				
Capital	152,890,455.69	132,126,927.91	20,763,527.78	16%
Other	17,313,231.04	25,280,452.11	(7,967,221.07)	-32%
Total Assets	191,757,300.45	178,555,287.12	13,202,013.33	7%
Liabilities				
Current Liabilities	9,412,577.03	9,008,523.74	404,053.29	4%
Noncurrent Liabilities	38,578,992.83	34,402,374.68	4,176,618.15	12%
Total Liabilities	47,991,569.86	43,410,898.42	4,580,671.44	11%
Net Assets*				
Invested in Capital Assets, Net of Related Debt	117,361,559.19	115,884,956.67	1,476,602.52	1%
Restricted:				
Nonexpendable	6,369,939.40	5,766,090.42	603,848.98	10%
Expendable	10,833,218.20	7,979,793.27	2,853,424.93	36%
Unrestricted	9,201,013.80	5,513,548.34	3,687,465.46	67%
Total Net Assets	$ 143,765,730.59	$ 135,144,388.70	$ 8,621,341.89	6%

*Net Asset categories are defined in Note 1-L of the Notes to the Financial Statements.

The total assets of the University increased by $13.2 million for the year, with increases in current assets and capital and other noncurrent assets of $0.4 million and $12.8 million, respectively. The increase in current assets of $0.4 million resulted mainly from an increase of $3.1 million in current cash and cash equivalents, offset against a decrease in net receivables of $2.5 million.

Of the total increase in current cash and cash equivalents, $1.2 million is primarily due to the University's auxiliary fee services (such as Student Housing, Bookstore, Food Services, etc.) reducing spending levels in order to maintain additional cash on hand. Another factor contributing to the increase in current cash and cash equivalents is a $1 million cash carry forward from the prior year.

The decrease in receivables of $2.5 million resulted mainly from a decrease in receivables from federal agencies of $1.5 million and a decrease in student's accounts receivables of $0.7 million. The decrease in amounts due from federal agencies of $1.5 million was the result of the University expediting collections at year-end. The decreases in student accounts receivables of $0.7 million is attributable due to receivables being written off of approximately $0.4 million and the collection of major receivables for Federal financial aid awards by June 30, 2012.

Noncurrent assets increased mainly due to an increase in capital assets of $20.7 million, offset with a decrease in noncurrent restricted cash and cash equivalents of $8.1 million. The $20.7 million increase resulted mainly from increases of $16.9 million due to the capital asset acquisition for the School of Education Building and Moore Hall Renovation projects. In addition, there was an increase of approximately $6.3 million in current construction in projects for the New Student Housing and Energy Conservation projects, offset against the current year's depreciation of $3.8 million. The $8.1 million decrease in restricted cash and cash equivalents is a result of the University's increase in construction costs due to a full year of disbursements and debt service payments for the new 2010 Series of General Revenue Bonds. The decrease is offset by the cash proceeds received of $5.6 million from a new notes payable for the Energy Conservation project with Honeywell and a new endowment professorship in the amount of $0.5 million.

The total liabilities of the University increased $4.5 million for the year, with a significant increase of $4.1 million in noncurrent liabilities. The increase in current liabilities of $0.4 million was primarily the result of increases in accounts payable and accrued liabilities and the current portion of long-term liabilities of $0.7 million and $0.3 million, respectively, offset against a decrease of $0.6 million in unearned revenue. Accounts payable and accrued liabilities increases are mainly due to an increase of contract retainage payables for construction projects. The unearned revenue decrease is due to a decline in summer school enrollment, which resulted in less revenue received in fiscal year 2012.

The increase in noncurrent liabilities was mainly due to the University entering into a notes payable in the amount of $5.6 million to fund the Energy Conversation capital improvements to various buildings on campus during the year, offset against a decrease of $0.7 million due to the retirement of capital debt and a $0.2 million decrease in compensated absences.

Net assets represent the value of the University's assets after liabilities are deducted. The University's net assets were $143.7 million at June 30, 2012, an increase of $8.6 million over the prior year. The account net assets invested in capital assets, net of related debt, represents the University's total capital assets, net of outstanding debt obligations related to those capital assets and reflects an increase of $1.4 million over last year due to construction projects and new debt issued. The increase of restricted nonexpendable is due to additions to endowments to the University and Foundation. The unrestricted net assets increased primarily due to the increase in current cash related to a carry forward and to auxiliary services experiencing a cash increase due to reduced spending levels.

Statement of Revenues, Expenses, and Changes in Net Assets

The Statement of Revenues, Expenses, and Changes in Net Assets reports the revenues earned and expenses incurred during the fiscal year. A summarized comparison for the two fiscal years is presented below.

Comparative Condensed Statement of Revenues, Expenses, and Changes in Net Assets
For the Year Ended June 30, 2012 and June 30, 2011

	2012	2011 (restated)	$ Change	% Change
Operating Revenues:				
Student Tuition and Fees, Net	$ 8,715,208.18	$ 9,264,316.08	$ (549,107.90)	-6%
Grants and Contracts	2,190,871.05	1,833,777.44	357,093.61	19%
Sales and Services, Net	7,530,733.21	7,981,798.78	(451,065.57)	-6%
Other	426,653.42	528,146.13	(101,492.71)	-19%
Total Operating Revenues	18,863,465.86	19,608,038.43	(744,572.57)	-4%
Operating Expenses:				
Salaries and Benefits	46,510,167.40	46,537,280.79	(27,113.39)	0%
Supplies and Materials	5,636,881.88	6,767,996.52	(1,131,114.64)	-17%
Services	14,439,008.71	15,502,814.44	(1,063,805.73)	-7%
Scholarships and Fellowships	6,654,890.33	8,484,498.64	(1,829,608.31)	-22%
Utilities	2,861,603.27	3,029,791.89	(168,188.62)	-6%
Depreciation	3,839,961.03	3,567,969.41	271,991.62	8%
Total Operating Expenses	79,942,512.62	83,890,351.69	(3,947,839.07)	-5%
Operating Loss	(61,079,046.76)	(64,282,313.26)	3,203,266.50	-5%
Nonoperating Revenues and Expenses:				
State Appropriations	35,189,583.68	34,143,599.21	1,045,984.47	3%
State Aid - Federal Recovery Funds		1,649,016.00	(1,649,016.00)	-100%
Noncapital Grants - Student Financial Aid	13,383,327.00	16,625,928.81	(3,242,601.81)	-20%
Other Noncapital Grants	10,212,198.02	11,180,557.00	(968,358.98)	-9%
Noncapital Gifts	1,104,199.74	864,886.12	239,313.62	28%
Investment Income (Net of Expense)	198,286.82	880,007.76	(681,720.94)	-77%
Interest and Fees on Debt	(1,469,111.64)	(1,246,603.50)	(222,508.14)	18%
Federal Interest Subsidy on Debt	419,054.94	107,093.11	311,961.83	291%
Other Nonoperating Revenues and Expenses	(46,871.10)	(16,731.85)	(30,139.25)	180%
Net Nonoperating Revenues	58,990,667.46	64,187,752.66	(5,197,085.20)	-8%
Loss Before Other Revenues (Expenses)	(2,088,379.30)	(94,560.60)	(1,993,818.70)	2109%
Refund of Prior Year Capital Appropriations	(11,734.26)	(17,596.01)	5,861.75	-33%
Capital Grants	9,974,060.68	14,785,582.92	(4,811,522.24)	-33%
Capital Gifts	142,100.00	11,400.00	130,700.00	1146%
Additions to Endowment	605,294.77	619,306.77	(14,012.00)	-2%
Total Other Revenues	10,709,721.19	15,398,693.68	(4,688,972.49)	-30%
Increase in Net Assets	8,621,341.89	15,304,133.08	(6,682,791.19)	-44%
Net Assets at the Beginning of the Year	135,144,388.70	119,840,255.62	15,304,133.08	13%
Net Assets at the End of the Year	$ 143,765,730.59	$ 135,144,388.70	$ 8,621,341.89	6%

The increase or decrease of revenues over expenses directly affects (increases/decreases) the total net assets reported on the Statement of Net Assets. These transactions are classified as operating or nonoperating. Operating revenues primarily consist of student tuition and fees reported net of discounts and scholarships allowances, federal grants and contracts, and auxiliary sales and services revenues. Operating expenses primarily consist of salaries, supplies, services, scholarships, utilities and depreciation.

Operating revenues of $18.8 million at June 30, 2012, decreased by $0.7 million when compared to 2011. The significant contributing factors to this decrease are represented by a decrease in student tuition and fees and sales and services revenues of $0.5 million and $0.4 million, respectively, offset with a $0.3 million increase in grants and contracts revenues. The tuition and fees decrease of $0.5 million is a result of declining student enrollment due to new admissions standards, offset against increases in tuition and fees for resident, nonresident undergraduate and nonresident graduate students of 6.5%, 4% and 8%, respectively. Another contributing factor to the decrease in tuition and fees was due to the decline in Summer School enrollment of approximately $0.8 million, offset against the change in scholarship allowance of approximately $0.3 million. Of the $0.4 million decrease in sales and services revenues, $0.3 million is mainly a decrease in residential life revenues due to a decline in the number of students living on-campus. In the current year, approximately 2,850 students lived on-campus during the fall and spring semesters compared to 3,282 students in the prior year. Other contributing decreases to sales and services were decreased revenues of approximately $0.2 million for food services and bookstore, offset against an increase in other supporting revenues of approximately $0.1 million. The categories that make up the $0.1 million decrease in other operating revenues decreased mainly due to interest income collected from the Perkins Loan program.

Operating expenses totaled $79.9 million for the year compared to $83.8 million from the previous year, a decrease of $3.9 million. The most significant decreases in expenses occurred in scholarships and fellowships ($1.8 million), supplies and materials ($1.1 million), and services ($1.0 million). The decreases in scholarships and fellowships are a direct result of the decline in enrollment and fewer students receiving aid awarded by the way of Federal Pell grants, appropriated grants, and UNC Need Based grants along with a mixture of other financial aid and scholarships awarded to students during the academic year. Decreases in supplies and materials and services were primarily due to budget reductions and a tuition revenue shortfall, which resulted in fewer funds being available for these spending purposes.

Nonoperating revenues and expenses stem from transactions that occur outside of the primary scope of the University's operations and for which no goods or services are provided. State appropriations, noncapital grants and gifts, investment income/expenses, and capital-related interest primarily represent the nonoperating revenues and expenses. Of the nonoperating revenues, there were significant changes in state appropriations, state aid - federal recovery funds, noncapital grants, noncapital gifts, and investment income (net of expense).

State appropriations' increased $1.0 million as a result of spending restrictions being imposed in 2011, new recurring and nonrecurring budget adjustments and increased receipt collections in 2012. In addition, the University did not receive federal recovery funds this year, which were funds used to stabilize the State's budget in the prior year.

The Noncapital grants – student financial aid caption decreased by $3.2 million. Of the $3.2 million decrease, federal Pell grants and state grants decreased by $1.2 million and $1.5 million, respectively. These decreases are a direct result of a decline in student enrollment, which contributed to less aid being awarded to students and to new regulations limiting Federal Pell grants to students during Summer School sessions. The Noncapital gifts increase of $0.2 million is a result of increases in unrestricted and restricted gifts to the University. The decrease in investment income of $0.6 million is mainly due to the decline in market values for the University and Foundation investments. Interest and fees on debt and federal interest subsidy on debt increases are primarily derived from transactions associated with the 2010 bonds issued in the prior year.

The University capital grants decreased by $4.8 million as a result of the many construction projects winding down or completed projects at the end of fiscal year 2012, which represented a reduction in state aid received from the State. The Capital gifts increase is as a result of donated land to the Foundation.

Capital Asset and Debt Administration

The major projects remaining in construction in progress were the new Student Housing Building ($12.7 million), the Aviation Building ($1.5 million), the School of Education Building ($1.1 million) and expenses for the Energy Performance capital improvements project ($5.0 million). With these construction projects, the amount committed to contractors at June 30 decreased to a total of $16.1 million, as reflected in the change in construction commitments from $18.7 million in 2011 to $2.6 million in 2012.

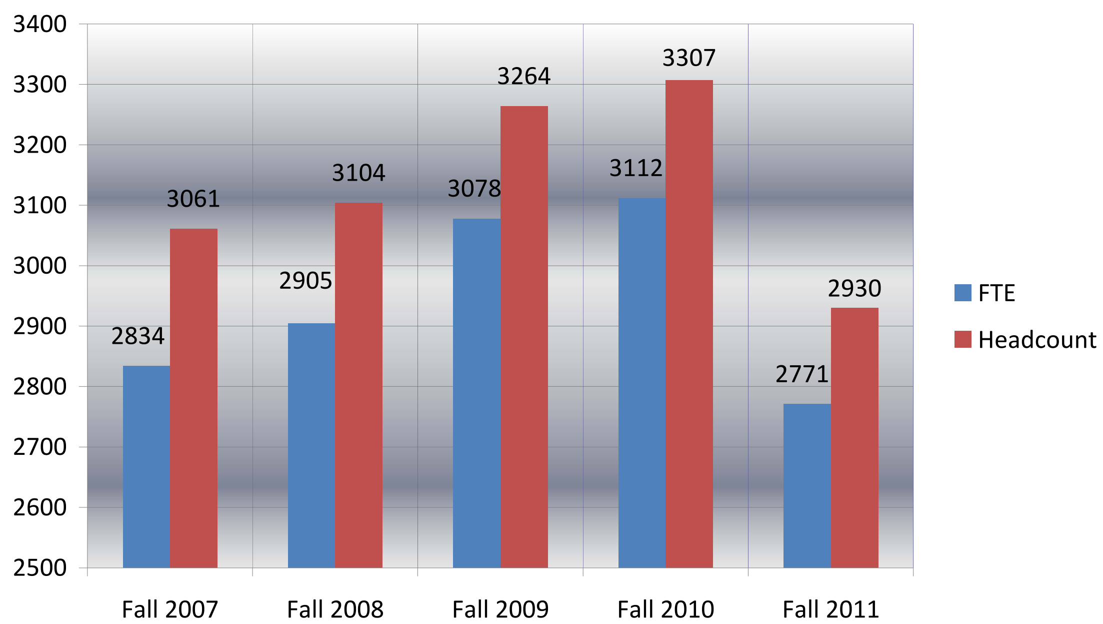
The University's capital assets, net of accumulated depreciation at June 30, 2012, were $152.8 million. For more information about the University's asset holdings, refer to Note 5 of the Notes to the Financial Statements.

The University had $38.9 million in total long-term liabilities at June 30, 2012, and continues to make all of its debt payments in a timely manner. The University incurred new debt during the 2011-2012 fiscal year of $5.6 million. Refer to Note 7 of the Notes to the Financial Statements for more detailed information about the University's debt obligations.

Comparative Enrollment Data

During the academic year, the University experienced a 377 student decrease in total enrollment when comparing fall 2011 with fall 2010. The University may experience another drop in enrollment due to new admission standards that are effective for fall 2013. However, the University will continue to focus its efforts in recruiting talented students and in retaining current students in order to maintain or exceed projected enrollment.

FTE and Headcount from 2007 to 2011



Factors Impacting Future Periods

Several factors impact a positive economic outlook for the University, such as research funding, private gifts, student enrollment, admission requirements and support from the State of North Carolina.

Current economic events continue to adversely impact state revenues. One of the University's greatest strengths is the diverse streams of revenues, which supplement its student tuition and fees, including voluntary private support from individuals, foundations, and corporations, along with government and other sponsored programs, state appropriations and investment income. University management believes that increased research activity, prioritization of current funding and fundraising efforts will provide the resources necessary to maintain and enhance academic programs and the campus life experience for the students. The University has and will continue to seek funding aggressively from all possible sources to supplement student tuition and manage the financial resources realized from these efforts to fund its operating activities.

The total FTE enrollment was 2,771 for fall 2011 and the decline was primarily a result of the University's implementation of the University of North Carolina's Board of Governors new mandated admission standards. In an effort to increase future enrollment, for those students who fail to meet the minimum admission requirements, the University will continue to help them gain admission to the University at a later date. School representatives will continue to make use of an extensive outsourced communications campaign and will communicate to students through emails and/or post cards and remind them of their earlier interest in the University with hopes that they will attend the University once they meet the minimum requirements.

For 2013, the University was successful in mitigating most of the loss of students by making use of the extensive outsourced communications campaign. Despite the fact that 2012 year was the pilot year to outsource the communications initiative, the University was able to increase freshman enrollment. For 2013 the University admitted 544 first-time new freshmen when compared to 392 in 2012 and 582 in 2011. The University continues to focus on the retention of first-time (full-time) freshman students in efforts to maximize enrollment. The 2013 retention rate was 79.6% compared 77.3% in 2012 as a result of these efforts. University Management will continue to monitor enrollment and retention rates with plans that it will also stabilize the Enrollment Growth Funding Model outcomes for the University.

Even though the economy is slowly rebounding, the University will see budget reductions again in the 2012-2013 fiscal year. The University received management flexibility and Enrollment Growth Funding Model budget cuts for a total of $1.56 million. In response to the unstable economy, the University will continue to strategically manage vacant positions, reorganize and restructure departmental units to be more efficient, review low performing programs, purchase only critical goods and services, negotiate lower prices on services and enhance fundraising strategies for private contributions. The University is dedicated to provide the most powerful academic experience possible and the highest quality of education possible for our students. The University will continue with ongoing efforts of prudent fund allocations, cost containment measures, implementation of efficiencies and continual reassessment of the resources available to successfully meet our core mission and goals.

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Elizabeth City State University
Statement of Net Assets
June 30, 2012

ASSETS		
Current Assets:		
Cash and Cash Equivalents	$	10,724,846.50
Restricted Cash and Cash Equivalents		7,233,024.23
Restricted Short-Term Investments		18,317.54
Receivables, Net (Note 4)		2,332,781.94
Inventories		1,190,533.52
Notes Receivable (Note 4)		54,109.99
Total Current Assets		21,553,613.72
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		6,043,074.53
Receivables, Net (Note 4)		64,492.50
Endowment Investments		4,525,735.67
Restricted Investments		4,030,970.51
Other Investments		15,113.26
Bond Issue Cost		1,163,028.06
Notes Receivable, Net (Note 4)		1,470,816.51
Capital Assets - Nondepreciable (Note 5)		22,927,094.33
Capital Assets - Depreciable, Net (Note 5)		129,963,361.36
Total Noncurrent Assets		170,203,686.73
Total Assets		191,757,300.45
LIABILITIES		
Current Liabilities:		
Accounts Payable and Accrued Liabilities (Note 6)		6,609,383.84
Due to Primary Government		25,639.51
Unearned Revenue		1,212,663.29
Interest Payable		396,199.19
Long-Term Liabilities - Current Portion (Note 7)		1,168,691.20
Total Current Liabilities		9,412,577.03
Noncurrent Liabilities:		
Deposits Payable		60,756.86
Funds Held for Others		56,807.31
U. S. Government Grants Refundable		676,292.73
Long-Term Liabilities (Note 7)		37,785,135.93
Total Noncurrent Liabilities		38,578,992.83
Total Liabilities		47,991,569.86

Elizabeth City State University
Statement of Net Assets
June 30, 2012

Exhibit A-1
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NET ASSETS

Invested in Capital Assets, Net of Related Debt		117,361,559.19
Restricted for:		
Nonexpendable:		
Scholarships and Fellowships		2,208,439.40
Endowed Professorships		4,010,000.00
Departmental Uses		151,500.00
Expendable:		
Scholarships and Fellowships		3,729,085.95
Endowed Professorships		653,777.74
Loans		640,681.68
Capital Projects		2,780,131.42
Debt Service		3,029,541.41
Unrestricted		9,201,013.80
Total Net Assets	$	143,765,730.59

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

Elizabeth City State 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)	$	8,715,208.18
Federal Grants and Contracts		1,961,180.97
State and Local Grants and Contracts		229,690.08
Sales and Services, Net (Note 9)		7,530,733.21
Interest Earnings on Loans		88,329.35
Other Operating Revenues		338,324.07
Total Operating Revenues		18,863,465.86
EXPENSES		
Operating Expenses:		
Salaries and Benefits		46,510,167.40
Supplies and Materials		5,636,881.88
Services		14,439,008.71
Scholarships and Fellowships		6,654,890.33
Utilities		2,861,603.27
Depreciation		3,839,961.03
Total Operating Expenses		79,942,512.62
Operating Loss		(61,079,046.76)
NONOPERATING REVENUES (EXPENSES)		
State Appropriations		35,189,583.68
Noncapital Grants - Student Financial Aid		13,383,327.00
Other Noncapital Grants		10,212,198.02
Noncapital Gifts, Net (Note 9)		1,104,199.74
Investment Income (Net of Investment Expense of $38,774.33)		198,286.82
Interest and Fees on Debt		(1,469,111.64)
Federal Interest Subsidy on Debt		419,054.94
Other Nonoperating Expenses		(46,871.10)
Net Nonoperating Revenues		58,990,667.46
Loss Before Other Revenues and Expenses		(2,088,379.30)
Refund of Prior Years Capital Appropriations		(11,734.26)
Capital Grants		9,974,060.68
Capital Gifts		142,100.00
Additions to Endowments		605,294.77
Increase in Net Assets		8,621,341.89
NET ASSETS		
Net Assets - July 1, 2011		135,144,388.70
Net Assets - June 30, 2012	$	143,765,730.59

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

CASH FLOWS FROM OPERATING ACTIVITIES		
Received from Customers	$	20,786,736.99
Payments to Employees and Fringe Benefits		(46,243,474.56)
Payments to Vendors and Suppliers		(23,774,970.03)
Payments for Scholarships and Fellowships		(6,654,890.33)
Loans Issued		(143,577.92)
Collection of Loans		78,863.25
Interest Earned on Loans		66,490.79
Net Cash Used by Operating Activities		(55,884,821.81)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State Appropriations		35,189,583.68
Noncapital Grants - Student Financial Aid		13,383,327.00
Noncapital Grants		10,212,198.02
Noncapital Gifts		1,115,659.56
Additions to Endowments		605,294.77
William D. Ford Direct Lending Receipts		18,300,937.00
William D. Ford Direct Lending Disbursements		(18,300,937.00)
Related Activity Agency Disbursements		(30,198.48)
Net Cash Provided by Noncapital Financing Activities		60,475,864.55
CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES		
Proceeds from Capital Debt		5,564,918.57
Refund of Prior Years Capital Appropriations		(11,734.26)
Capital Grants		9,990,566.05
Proceeds from Sale of Capital Assets		1,934.75
Acquisition and Construction of Capital Assets		(23,583,314.19)
Principal Paid on Capital Debt		(755,000.00)
Interest and Fees Paid on Capital Debt		(1,444,791.35)
Federal Interest Subsidy on Debt Received		419,054.64
Net Cash Used by Capital Financing and Related Financing Activities		(9,818,365.79)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Sales and Maturities of Investments		6,715,432.19
Investment Income		72,759.45
Purchase of Investments and Related Fees		(6,869,257.25)
Net Cash Used by Investing Activities		(81,065.61)
Net Decrease in Cash and Cash Equivalents		(5,308,388.66)
Cash and Cash Equivalents - July 1, 2011		29,309,333.92
Cash and Cash Equivalents - June 30, 2012	$	24,000,945.26

RECONCILIATION OF NET OPERATING EXPENSES TO NET CASH USED BY OPERATING ACTIVITIES

Operating Loss	$	(61,079,046.76)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense		3,839,961.03
Allowances and Write-Offs		(181,651.66)
Changes in Assets and Liabilities:		
Receivables (Net)		2,819,697.81
Due from Primary Government		16,505.37
Inventories		(112,015.58)
Notes Receivable		(64,714.67)
Accounts Payable and Accrued Liabilities		(179,331.32)
Due to Primary Government		(17,761.52)
Unearned Revenue		(658,159.51)
Compensated Absences		(268,305.00)
Net Cash Used by Operating Activities	$	(55,884,821.81)

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:		
Cash and Cash Equivalents	$	10,724,846.50
Restricted Cash and Cash Equivalents		7,233,024.23
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		6,043,074.53
Total Cash and Cash Equivalents - June 30, 2012	$	24,000,945.26

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through a Gift	$	142,100.00
Change in Fair Value of Investments		125,428.37
Loss on Disposal of Capital Assets		(20,179.64)

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

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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. Elizabeth City State 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.*

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 unit is blended 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.

Blended Component Unit - Although legally separate, Elizabeth City State University Foundation, Inc., and Subsidiary (Foundation), a component unit of the University, is reported as if it were part of the University.

The accompanying financial statements present all funds belonging to the University and its component unit. While the Board of Governors of the Foundation is governed by a 25-member board consisting of the Chancellor, 12 ex officio directors appointed by the Chancellor and 12 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 selected by the members appointed by the Chancellor and the Foundation's sole purpose is to benefit Elizabeth City State University, its financial statements have been blended with those of the University.

Separate financial statements for the Foundation may be obtained from the University Controller's Office, 1704 Weeksville Road, Elizabeth City, NC 27909**,** or by calling 252-335-3211**.** Other related foundations and similar nonprofit corporations for which the University is not financially accountable are not part of the accompanying financial statements.

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 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, cash on deposit with fiscal agents, 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 in the fair value of investments is recognized as a component of investment income.

Money market mutual funds are reported at cost, if purchased, or at fair value or appraised value at date of gift, if donated.

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

F. **Receivables** - Receivables consist of tuition and fees charged to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from the federal government, state and local governments, private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants, and pledges that are verifiable, measurable, and expected to be collected and available for expenditures for which the resource provider's conditions have been satisfied. Receivables are recorded net of estimated uncollectible amounts.

G. **Inventories** - Inventories, consisting of expendable supplies, are valued at cost using the first-in, first-out method. Merchandise for resale is valued at the lower of cost or market using the retail inventory method. Textbooks for rental are valued at the lower of cost or market.

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 and/or units of output method over the estimated useful lives of the assets, generally 10 to 75 years for general infrastructure, 50 to 100 years for buildings, 5 to 25 years for equipment.

I. **Restricted Assets** - Certain resources are reported as restricted assets because restrictions on asset use change the nature or normal understanding of the availability of the asset. Resources that are not available for current operations and are reported as restricted include resources restricted for the acquisition or construction of capital assets and resources legally segregated for the payment of principal and interest as required by debt covenants.

J. **Noncurrent Long-Term Liabilities** - Noncurrent long-term liabilities include principal amounts of revenue bonds payable, notes payable, and compensated absences payable 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 bond premiums/discounts over the life of the bonds using the straight-line. The deferred losses on refundings are amortized over the life of the new debt using the straight-line method. Issuance costs are expensed when not material. The issuance costs associated with the Elizabeth City State University Housing Foundation are capitalized and amortized using the straight-line method over the life of the bond which is 30 years.

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

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

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

L. **Net Assets** - The University's net assets are classified as follows:

Invested in Capital Assets, Net of Related Debt - This represents the University's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.

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

Restricted Net Assets - Expendable - Expendable restricted net assets include resources for which the University is legally or contractually obligated to spend in accordance with restrictions imposed by external parties.

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

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

M. Scholarship Discounts - Student tuition and fees revenues and certain other revenues from University charges are reported net of scholarship discounts in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. The scholarship discount is the difference between the actual charge for goods and services provided by the University and the amount that is paid by students or by third parties on the students' behalf. Student financial assistance grants, such as Pell grants, and other federal, state, or nongovernmental programs, are recorded as nonoperating revenues in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. To the extent that revenues from these programs are used to satisfy tuition, fees, and other charges, the University has recorded a scholarship discount.

N. Revenue and Expense Recognition - The University classifies its revenues and expenses as operating or nonoperating in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the University's principal ongoing operations. Operating revenues include activities that have characteristics of exchange transactions, such as (1) student tuition and fees, (2) sales and services of auxiliary enterprises, (3) certain federal, state, and local grants and contracts that are essentially contracts for services, and (4) interest earned on loans. Operating expenses are all expense transactions incurred other than those related to capital and noncapital financing or investing activities as defined by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*.

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

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

NOTE 2 - DEPOSITS AND INVESTMENTS

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

At June 30, 2012, the amount shown on the Statement of Net Assets as cash and cash equivalents includes $23,996,977.26 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 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 $1,400.00. The carrying amount of the University's deposits not with the State Treasurer, including certificates of deposit, was $2,568.00 and the bank balance was $1,857,558.86. 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 Uncollateralized	$ 1,604,991.86

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 condition placed by the donor upon that part of the Endowment Fund to be invested.

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

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

Investments are subject to the following risks.

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

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

Custodial Credit Risk: Custodial credit risk is the risk that, in the event of the failure of the counterparty, the University will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The University does not have a formal policy for custodial 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 market value basis. The investment strategy, including the selection of investment managers, is based on the directives of the University's Endowment Board.

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	1 to 5	6 to 10	More than 10
Investment Type					
Debt Securities					
Debt Mutual Funds	$ 2,332,045.85	$ 0.00	$ 364,495.62	$ 1,623,259.30	$ 344,290.93
Money Market Mutual Funds	137,583.51	137,583.51			
Total Debt Securities	2,469,629.36	$ 137,583.51	$ 364,495.62	$ 1,623,259.30	$ 344,290.93
Other Securities					
International Mutual Funds	370,637.91				
Equity Mutual Funds	1,787,177.30				
Real Estate Investment Trust	234,121.11				
Total Long-Term Investment Pool	$ 4,861,565.68				

At June 30, 2012, investments in the Long-Term Investment Pool had the following credit quality distribution for securities with credit exposure:

	Fair Value	AAA Aaa	AA Aa	A	BBB Baa	BB/Ba and below	Unrated
Debt Mutual Funds	$ 2,332,045.85	$ 186,974.07	$ 151,878.41	$ 80,026.14	$ 46,700.40	$ 101,627.63	$ 1,764,839.20
Money Market Mutual Funds	137,583.51	137,583.51					

Rating Agency: Moody's

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

	Fair Value	Investment Maturities (in Years): Less Than 1	1 to 5
Investment Type			
Debt Securities			
U.S. Treasuries	$ 283,133.64	$ 0.00	$ 283,133.64
Commercial Paper	373,437.07	373,437.07	
Money Market Mutual Funds	3,053,683.05	3,053,683.05	
Total Debt Securities	3,710,253.76	$ 3,427,120.12	$ 283,133.64
Other Securities			
Domestic Stocks	18,317.54		
Total Non-Pooled Investments	$ 3,728,571.30		

At June 30, 2012, the University's non-pooled investments had the following credit quality distribution for securities with credit exposure:

	Fair Value	AAA Aaa
Commercial Paper	$ 373,437.07	$ 373,437.07
Money Market Mutual Funds	3,053,683.05	3,053,683.05

Rating Agency: Moody's

At June 30, 2012, the University's non-pooled investments were exposed to custodial credit risk as follows:

Investment Type	Held by Counterparty
U. S. Treasuries	$ 283,133.64
Commercial Paper	373,437.07
Domestic Stocks	18,317.54
Total	$ 674,888.25

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

	Fair Value
Investment Type	
Debt Securities	
U.S. Treasuries	$ 283,133.64
Commercial Paper	373,437.07
Debt Mutual Funds	2,332,045.85
Money Market Mutual Funds	3,191,266.56
Other Securities	
International Mutual Funds	370,637.91
Equity Mutual Funds	1,787,177.30
Real Estate Investment Trust	234,121.11
Domestic Stocks	18,317.54
Total Investments	$ 8,590,136.98

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	$	1,400.00
Amount of Deposits with Private Financial Institutions		2,568.00
Deposits in the Short-Term Investment Fund		23,996,977.26
Long-Term Investment Pool		4,861,565.68
Non-Pooled Investments		3,728,571.30
Total Deposits and Investments	$	32,591,082.24

Deposits		
Current:		
Cash and Cash Equivalents	$	10,724,846.50
Restricted Cash and Cash Equivalents		7,233,024.23
Noncurrent:		
Restricted Cash and Cash Equivalents		6,043,074.53
Total Deposits	$	24,000,945.26

Investments		
Current:		
Restricted Short-Term Investments	$	18,317.54
Noncurrent:		
Endowment Investments		4,525,735.67
Restricted Investments		4,030,970.51
Other Investments		15,113.26
Total Investments	$	8,590,136.98

NOTE 3 - ENDOWMENT INVESTMENTS

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

Investment return of the University's endowment funds is predicated on the total return concept (yield plus appreciation). The non-mandatory spending policy is to take annual withdrawals on August 1 of each year in the annual amount of 5% of a three-year rolling average of the market value of the endowment. The investment manager is expected to liquidate such investments as may be necessary to accomplish this objective, while still maintaining a balance portfolio. At June 30, 2012, endowment net assets of $1,349,978.95 were available to be spent, of which $1,311,049.00 was classified in net assets as restricted: expendable: scholarships and fellowships and endowed professorships as it is restricted to specific purposes. The remaining portion of net appreciation available to be spent is classified as unrestricted net assets.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2012, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	$ 1,085,554.62	$ 732,547.32	$ 353,007.30
Accounts	227,173.33		227,173.33
Intergovernmental	941,038.34		941,038.34
Interest on Loans	397,630.22		397,630.22
Other	413,932.75		413,932.75
Total Current Receivables	$ 3,065,329.26	$ 732,547.32	$ 2,332,781.94
Noncurrent Receivables:			
Pledges	$ 85,990.00	$ 21,497.50	$ 64,492.50
Notes Receivable:			
Notes Receivable - Current:			
Federal Loan Programs	$ 48,015.22	$ 0.00	$ 48,015.22
Institutional Student Loan Programs	6,094.77		6,094.77
Total Notes Receivable - Current	$ 54,109.99	$ 0.00	$ 54,109.99
Notes Receivable - Noncurrent:			
Federal Loan Programs	$ 969,174.86	$ 478,511.80	$ 490,663.06
Institutional Student Loan Programs	1,027,088.01	46,934.56	980,153.45
Total Notes Receivable - Noncurrent	$ 1,996,262.87	$ 525,446.36	$ 1,470,816.51

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	Increases	Decreases	Balance June 30, 2012
Capital Assets, Nondepreciable:				
Land and Permanent Easements	$ 2,242,272.20	$ 142,100.00	$ 0.00	$ 2,384,372.20
Construction in Progress	14,209,623.52	23,247,526.27	16,914,427.66	20,542,722.13
Total Capital Assets, Nondepreciable	16,451,895.72	23,389,626.27	16,914,427.66	22,927,094.33
Capital Assets, Depreciable:				
Buildings	136,244,348.58	16,957,977.66		153,202,326.24
Machinery and Equipment	10,939,578.22	1,192,426.93	781,728.45	11,350,276.70
General Infrastructure	10,130,481.02			10,130,481.02
Total Capital Assets, Depreciable	157,314,407.82	18,150,404.59	781,728.45	174,683,083.96
Less Accumulated Depreciation for:				
Buildings	32,661,288.24	2,573,789.09		35,235,077.33
Machinery and Equipment	5,490,886.67	794,651.83	759,614.06	5,525,924.44
General Infrastructure	3,487,200.72	471,520.11		3,958,720.83
Total Accumulated Depreciation	41,639,375.63	3,839,961.03	759,614.06	44,719,722.60
Total Capital Assets, Depreciable, Net	115,675,032.19	14,310,443.56	22,114.39	129,963,361.36
Capital Assets, Net	$ 132,126,927.91	$ 37,700,069.83	$ 16,936,542.05	$ 152,890,455.69

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	Amount
Accounts Payable	$ 2,931,876.07
Accrued Payroll	1,938,777.39
Contract Retainage	1,620,510.23
Other	118,220.15
Total Accounts Payable and Accrued Liabilities	$ 6,609,383.84

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, 2012, is presented as follows:

	Balance July 1, 2011	Additions	Reductions	Balance June 30, 2012	Current Portion
Revenue Bonds Payable	$ 32,060,000.00	$ 0.00	$ 755,000.00	$ 31,305,000.00	$ 880,000.00
Add/Deduct Premium/Discount	(206,831.77)		(8,638.95)	(198,192.82)	
Deduct Deferred Charge on Refunding	(248,609.30)		(16,213.68)	(232,395.62)	
Total Revenue Bonds Payable	31,604,558.93		730,147.37	30,874,411.56	880,000.00
Notes Payable		5,564,918.57		5,564,918.57	62,971.77
Compensated Absences	2,782,802.00	1,847,634.52	2,115,939.52	2,514,497.00	225,719.43
Total Long-Term Liabilities	$ 34,387,360.93	$ 7,412,553.09	$ 2,846,086.89	$ 38,953,827.13	$ 1,168,691.20

B. Revenue Bonds Payable and Certificates of Participation - 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	See Table Below
Revenue Bonds Payable							
Dormitory System Revenues Bonds of 1981							
Wamack Hall and Mitchell-Lewis Hall	A	3.00%	10/01/2017	$ 675,000.00	$ 525,000.00	$ 150,000.00	(1)
Wamack Hall and Mitchell-Lewis Hall	B	3.00%	10/01/2020	1,680,000.00	1,110,000.00	570,000.00	(1)
Total Dormitory System Revenue Bonds of 1981				2,355,000.00	1,635,000.00	720,000.00	
Educational Facilities Revenue Bonds							
Elizabeth City Housing Foundation	A	2.00% - 5.25%	06/01/2033	13,895,000.00	2,045,000.00	11,850,000.00	(2)
Total Educational Facilities Revenue Bonds				13,895,000.00	2,045,000.00	11,850,000.00	
General Revenue Bonds Series 2010							
Refund UNC System Pool Revenue Bonds, Series 2002B	2010A	3.0%-5.50%	04/01/2027	4,525,000.00	715,000.00	3,810,000.00	
Student Housing Project (BAB)	2010B **	6.386% - 8.347%	04/01/2040	14,720,000.00		14,720,000.00	
Financing Issuance	2010C	4.98%	04/01/2015	205,000.00		205,000.00	
Total General Revenue Bonds				19,450,000.00	715,000.00	18,735,000.00	
Total Revenue Bonds Payable				$ 35,700,000.00	$ 4,395,000.00	31,305,000.00	
Less: Unamortized Loss on Refunding						(232,395.62)	
Less: Unamortized Discount						(254,904.53)	
Plus: Unamortized Premium						56,711.71	
Total Revenue Bonds Payable						$ 30,874,411.56	

** The University has elected to treat these bonds as federally taxable "Build America Bonds" for the purposes of the American Recovery and Reinvestment Act and to receive a cash subsidy from the U.S. Treasury equal to 35% of the interest payable on these bonds. For these bonds, the interest rate included is the taxable rate, which does not factor in the cash subsidy from the U.S. Treasury.

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

Ref	Revenue Source	Total Future Revenues Pledged	Current Year: Revenues Net of Expenses	Current Year: Principal	Current Year: Interest	Estimate of % of Revenues Pledged
(1)	Housing Revenues	$ 813,600	$ 988,268	$ 75,000	$ 22,725	16%
(2)	Housing Revenues	19,381,500	1,368,591	325,000	598,958	74%

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

	Annual Requirements			
	Revenue Bonds Payable		Notes Payable	
Fiscal Year	Principal	Interest	Principal	Interest
2013	$ 880,000.00	$ 1,974,235.06	$ 62,971.77	$ 228,133.23
2014	880,000.00	1,938,449.06	179,967.33	222,365.22
2015	960,000.00	1,902,414.66	198,575.82	214,680.73
2016	1,035,000.00	1,859,911.76	215,333.23	206,304.77
2017	1,105,000.00	1,814,474.26	232,956.80	197,230.28
2018-2022	5,100,000.00	8,326,806.60	1,462,303.41	822,970.17
2023-2027	5,960,000.00	6,771,134.52	2,057,572.49	468,569.23
2028-2032	7,095,000.00	4,727,397.84	1,155,237.72	60,108.18
2033-2037	5,140,000.00	2,462,960.62		
2038-2042	3,150,000.00	535,042.72		
Total Requirements	$ 31,305,000.00	$ 32,312,827.10	$ 5,564,918.57	$ 2,420,361.81

D. Prior Year Defeasances - During prior years, the University defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the University's financial statements. At June 30, 2012, the outstanding balance of prior year defeased bonds was $3,196,977.

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

Purpose	Financial Institution	Interest Rate/ Ranges	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2012	Principal Outstanding June 30, 2012
Energy Conservation Improvement	Banc of America Public Capital Corp.	4.09%	09/20/2029	$ 5,564,918.54	$ 0.00	$ 5,564,918.54

NOTE 8 - OPERATING LEASE OBLIGATIONS

The University entered into operating leases for copiers. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2012:

Fiscal Year		Amount
2013	$	16,503.92
Total Minimum Lease Payments	$	16,503.92

Rental expense for all operating leases during the year was $463,445.22.

NOTE 9 - REVENUES

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

	Gross Revenues	Internal Sales Eliminations	Less Scholarship Discounts	Change in Allowance for Uncollectibles	Net Revenues
Operating Revenues:					
Student Tuition and Fees	$ 16,309,851.46	$ 0.00	$ 7,345,724.57	$ 248,918.71	$ 8,715,208.18
Sales and Services:					
Sales and Services of Auxiliary Enterprises:					
Residential Life	$ 6,630,033.05	$ 0.00	$ 2,857,971.24	$ 64,086.61	$ 3,707,975.20
Dining	3,306,849.46		1,455,454.91	(16,900.80)	1,868,295.35
Bookstore	1,523,232.19		414,907.43	(29,432.53)	1,137,757.29
Parking	4,086.90				4,086.90
Athletic	149,302.00			(17,179.10)	166,481.10
Vending	60,585.49				60,585.49
Other	1,354,578.08	769,026.20			585,551.88
Total Sales and Services	$ 13,028,667.17	$ 769,026.20	$ 4,728,333.58	$ 574.18	$ 7,530,733.21
Nonoperating - Noncapital Gifts	$ 1,125,697.24	$ 0.00	$ 0.00	$ 21,497.50	$ 1,104,199.74

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	$ 19,086,435.77	$ 145,139.01	$ 361,606.45	$ 0.00	$ 16,566.99	$ 0.00	$ 19,609,748.22
Research	1,203,120.50	313,940.19	1,511,118.71				3,028,179.40
Public Service	765,533.51	27,045.61	456,765.12				1,249,344.24
Academic Support	4,195,127.92	913,479.07	322,542.47				5,431,149.46
Student Services	4,792,127.21	1,401,177.45	2,138,362.07		7,575.57		8,339,242.30
Institutional Support	7,710,204.70	296,825.33	2,177,062.55		179.10		10,184,271.68
Operations and Maintenance of Plant	4,662,318.93	1,328,260.58	463,337.67		1,973,665.69		8,427,582.87
Student Financial Aid				6,654,890.33			6,654,890.33
Auxiliary Enterprises	4,095,298.86	1,211,014.64	7,008,213.67		863,615.92		13,178,143.09
Depreciation						3,839,961.03	3,839,961.03
Total Operating Expenses	$ 46,510,167.40	$ 5,636,881.88	$ 14,439,008.71	$ 6,654,890.33	$ 2,861,603.27	$ 3,839,961.03	$ 79,942,512.62

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 $36,534,111.91, of which $24,996,147.39 was covered under the Teachers' and State Employees' Retirement System. Total employer and employee contributions for pension benefits for the year were $1,859,713.37 and $1,499,768.84, respectively.

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 $1,859,713.37, $1,229,306.66, and $876,277.73, 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 $36,534,111.91, of which $6,867,447.03 was covered under the Optional Retirement Program. Total employer and employee contributions for pension benefits for the year were $469,733.38 and $412,046.82, 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 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 $70,312.00 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 $25,508.01. The voluntary contributions by employees amounted to $334,297.54 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 Fidelity and TIAA-CREF. No costs are incurred by the University. The voluntary contributions by employees amounted to $103,160.00 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 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 $1,593,179.72, $1,558,687.84, and $1,376,559.42, respectively. The University assumes no liability for retiree health care benefits provided by the programs other than its required contribution.

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

B. Disability Income - The University participates in the Disability Income Plan of North Carolina (DIPNC), a cost-sharing, multiple-employer defined benefit plan, to provide short-term and long-term disability benefits to eligible members of the Teachers' and State Employees' 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, were .52% and .52%, respectively. The University made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2012, 2011, and 2010, which were $165,690.69, $165,411.77, and $159,069.09, 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 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 $5,000 per occurrence deductible. However, some agencies have chosen a higher deductible for a reduction in premium. The extended coverage applies to all campus buildings and contents with coverage amounts varying based on the value of each building and its contents.

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.

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.

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 $2,692,034.42 and on other purchases were $221,518.30 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.

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

Board of Trustees
Elizabeth City State University
Elizabeth City, North Carolina

We have audited the financial statements of Elizabeth City State University, a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina, as of and for the year ended June 30, 2012, and have issued our report thereon dated December 17, 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 Elizabeth City State University Foundation, Inc., and Subsidiary, as described in our report on the University's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

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

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)

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

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

Compliance and Other Matters

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

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

Beth A. Wood

Beth A. Wood, CPA
State Auditor

December 17, 2012

ORDERING INFORMATION

Audit reports issued by the Office of the State Auditor can be obtained from the web site at 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

This audit required 1,111 audit hours at an approximate cost of $79,992. The cost represents 0.042% of the University's total assets and 0.098% of total expenses subjected to audit.