

STATE OF NORTH CAROLINA

ELIZABETH CITY STATE UNIVERSITY

ELIZABETH CITY, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2013

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR

ELIZABETH CITY STATE UNIVERSITY

ELIZABETH CITY, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2013

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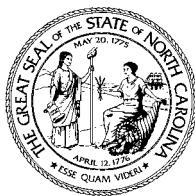
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Beth A. Wood, CPA
State Auditor

STATE OF NORTH CAROLINA
Office of the State Auditor

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AUDITOR'S TRANSMITTAL

The Honorable Pat McCrory, 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, 2013, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

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

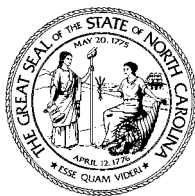
North Carolina General Statutes require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.

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

Beth A. Wood, CPA
State Auditor

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying 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, 2013, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Elizabeth City State University Foundation and Subsidiary, which represent 6 percent and 1 percent, respectively, of the assets and revenues of the University. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Elizabeth City State University Foundation and Subsidiary, is based solely 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the University's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, based on our audit and the report of the 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, 2013, and the changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters – Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report December 17, 2013, on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.



Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

December 17, 2013

ELIZABETH CITY STATE UNIVERSITY MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2013. 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 position 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 Position and the Statement of Revenues, Expenses, and Changes in Net Position 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 Position includes all assets and liabilities. The University's net position (the difference between assets and liabilities) is an indicator of the University's financial health. Over time, increases or decreases in net position 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 Position presents the revenues earned and expenses incurred during the year. Activities are reported as either operating or nonoperating. 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 Position as adjusted for changes in the beginning and ending balances of noncash accounts on the Statement of Net Position.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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 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 2012-2013, the University had a slight 2% increase in state appropriations as shown in the Comparative Condensed Statement of Revenues, Expenses and Changes in Net Position below. State appropriations account for the majority of the University's operating budget and is a critical revenue that supports 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 continues to experience tuition revenue shortfalls and budget reductions. Although it was practiced in previous years, General Administration, the University's governing body, is no longer holding the University harmless as a result of not meeting enrollment standards. In preparation for the shortfall and hold harmless provision, the University also imposed an additional internal budget reduction of \$2.7 million in order issue a sound budget for spending.

For fiscal year 2012-2013, the University implemented a tuition increase of 7.5% for undergraduate, graduate and distance education rates for North Carolina residents and a 2.5% increase for non-resident undergraduate and 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, 2013, remained strong with total current assets of \$16.0 million which is sufficient to cover current liabilities of \$5.5 million by 2.9 times. This indicates the University's ability to pay current liabilities as they become due.

Net position, which was \$143.5 million at June 30, 2013, represents the residual interest in the University's assets after deducting liabilities. During the fiscal year, the University's net position decreased by \$0.2 million which was primarily the result of an asset write down on donated land that the University recorded before an appraisal was completed and total revenues for the year being less than total expenditures for the year.

Condensed Financial Information

Statement of Net Position

The Statement of Net Position presents the assets (current and noncurrent), liabilities (current and noncurrent), and the net position (total assets less total liabilities) of the University. This financial statement provides a comparative University fiscal snapshot as of June 30, 2013 and June 30, 2012. This provides the readers of this statement with information on assets that are available to continue operations.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Comparative Condensed Statements of Net Position June 30, 2013 and June 30, 2012

	2013	2012	\$ Change	% Change
Assets				
Current Assets	\$ 16,016,537.41	\$ 21,553,613.72	\$ (5,537,076.31)	-26%
Noncurrent Assets				
Capital	152,915,178.99	152,890,455.69	24,723.30	0.02%
Other	18,074,650.21	17,313,231.04	761,419.17	4%
Total Assets	187,006,366.61	191,757,300.45	(4,750,933.84)	-2%
Liabilities				
Current Liabilities	5,552,662.84	9,412,577.03	(3,859,914.19)	-41%
Noncurrent Liabilities	37,891,176.03	38,578,992.83	(687,816.80)	-2%
Total Liabilities	43,443,838.87	47,991,569.86	(4,547,730.99)	-9%
Net Position *				
Net Investment in Capital Asset	117,659,352.52	117,361,559.19	297,793.33	0.3%
Restricted:				
Nonexpendable	6,869,436.70	6,369,939.40	499,497.30	8%
Expendable	11,681,123.13	10,833,218.20	847,904.93	8%
Unrestricted	7,352,615.39	9,201,013.80	(1,848,398.41)	-20%
Total Net Position	\$ 143,562,527.74	\$ 143,765,730.59	\$ (203,202.85)	-0.1%

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

The total assets of the University decreased by \$4.7 million for the year, with decreases in current assets of \$5.5 million offset by an increase in noncurrent assets of \$0.8 million. The decrease in current assets of \$5.5 million resulted mainly from a decrease of \$2.8 million in current cash and cash equivalents and \$3.5 million in restricted cash and cash equivalents. As in 2012, noncurrent assets did not experience significant changes for the year; however, the \$0.8 million increase is primarily from new endowments received during the year.

The \$2.8 million decrease in current cash and cash equivalents is primarily due to a \$1.7 million decrease in cash in the Student Housing fund. The University transferred \$1.7 million to fund the C.W. Griffin Hall office renovation project for Student Affairs. The University did not expend all state appropriations in fiscal year 2011 and \$1.3 million of the remaining funds were approved to be used in fiscal year 2012. However, only \$0.6 was left from 2012 to be used in the 2013 fiscal year. This accounted for \$0.6 million of the decrease in cash. The remaining \$0.2 million is a result of increase in purchases as a result of the University updating to new textbook editions and \$0.1 million are a host of spending decreases from multiple funds within the University's portfolio.

The \$3.5 million decrease in restricted cash and cash equivalents is a direct result of the University completing three major projects during the year and reduced construction payables; therefore, only \$0.2 million of noncurrent restricted cash was used to cover current construction payables for the year.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Total liabilities decreased by \$4.5 million (\$3.8 million decrease for current liabilities and a \$0.7 million decrease in noncurrent liabilities) from the prior year. This overall decrease in total liabilities consists primarily of a \$0.8 million decrease in bonds payable and a \$3.7 million decrease in accounts payable and accrued liabilities. The University did not issue any new debt in fiscal year 2013, thus the decrease in bonds payable is attributable to payments of principal on and amortizations related to outstanding University debt. The decrease in accounts payable and accrued liabilities is due to less construction activity as the University completed three major projects that were outstanding at June 30, 2012. For additional information on construction in progress, see the Capital Asset and Debt Administration section below. In addition, the University had less vendor payables than in the prior year.

The University's net position was \$143.5 million at June 30, 2013, a decrease of \$0.2 million from the prior year. The combination of the decrease in total assets of \$4.7 million and the decrease in total liabilities of \$4.5 million yields an overall decrease in total net positions of \$0.2 million. This change consists of an increase in the category of net investment in capital assets of \$0.2 million, an increase in the category of nonexpendable net position of \$0.5 million, an increase in the category of restricted expendable net position of \$0.8 million, and a decrease in the category of unrestricted net position of \$1.8 million. The increase in the nonexpendable net position category is primarily due to increases in additions to permanent endowments. The increase in the expendable net position category is related to the reductions in debt service. The decrease in the unrestricted net asset category is due to decreases in institutional trust funds and sales and services resulting from a decrease in the number of students enrolled at the University while reducing spending levels.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Statement of Revenues, Expenses, and Changes in Net Position

The Statement of Revenues, Expenses, and Changes in Net Position 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 Position For the Year Ended June 30, 2013 and June 30, 2012

	2013	2012	\$ Change	% Change
Operating Revenues:				
Student Tuition and Fees, Net	\$ 9,408,971.78	\$ 8,715,208.18	\$ 693,763.60	8%
Grants and Contracts	2,809,065.56	2,190,871.05	618,194.51	28%
Sales and Services, Net	7,034,244.47	7,530,733.21	(496,488.74)	-7%
Other	379,245.13	426,653.42	(47,408.29)	-11%
Total Operating Revenues	19,631,526.94	18,863,465.86	768,061.08	4%
Operating Expenses:				
Salaries and Benefits	46,701,224.89	46,510,167.40	191,057.49	0.4%
Supplies and Materials	8,609,215.78	5,636,881.88	2,972,333.90	53%
Services	13,045,610.79	14,439,008.71	(1,393,397.92)	-10%
Scholarships and Fellowships	5,457,938.91	6,654,890.33	(1,196,951.42)	-18%
Utilities	3,000,448.63	2,861,603.27	138,845.36	5%
Depreciation	4,211,398.21	3,839,961.03	371,437.18	10%
Total Operating Expenses	81,025,837.21	79,942,512.62	1,083,324.59	1%
Operating Loss	(61,394,310.27)	(61,079,046.76)	(315,263.51)	1%
Nonoperating Revenues and Expenses:				
State Appropriations	35,925,027.00	35,189,583.68	735,443.32	2%
Noncapital Grants - Student Financial Aid	12,063,697.42	13,383,327.00	(1,319,629.58)	-10%
Other Noncapital Grants	9,359,729.62	10,212,198.02	(852,468.40)	-8%
Noncapital Gifts	752,059.86	1,104,199.74	(352,139.88)	-32%
Investment Income (Net of Expense)	394,928.39	198,286.82	196,641.57	99%
Interest and Fees on Debt	(909,851.68)	(1,469,111.64)	559,259.96	-38%
Federal Interest Subsidy on Debt	400,830.88	419,054.94	(18,224.06)	-4%
Other Nonoperating Expenses	(57,156.38)	(46,871.10)	(10,285.28)	22%
Net Nonoperating Revenues	57,929,265.11	58,990,667.46	(1,061,402.35)	-2%
Loss Before Other Revenues and Expenses	(3,465,045.16)	(2,088,379.30)	(1,376,665.86)	66%
Refund of Prior Year Capital Appropriations	(12,497.25)	(11,734.26)	(762.99)	7%
Capital Grants	2,670,174.06	9,974,060.68	(7,303,886.62)	-73%
Capital Gifts	-	142,100.00	(142,100.00)	-100%
Additions to Endowment	604,165.50	605,294.77	(1,129.27)	-0.2%
Total Other Revenues	3,261,842.31	10,709,721.19	(7,447,878.88)	-70%
Increase (Decrease) in Net Position	(203,202.85)	8,621,341.89	(8,824,544.74)	-102%
Net Position at the Beginning of the Year	143,765,730.59	135,144,388.70	8,621,341.89	6%
Net Position at the End of the Year	\$ 143,562,527.74	\$ 143,765,730.59	\$ (203,202.85)	-0.1%

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

The increase or decrease of revenues over expenses directly affects (increases/decreases) the total net assets reported on the Statement of Net Position. 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.

Student tuition and fees (\$9.4 million) and sales and services from auxiliary enterprises (\$7.0 million) accounted for 83% of the University's operating revenue. Tuition and fee revenues increased as a result of a 7.5% tuition increase for in-state and 2.5% tuition increase for out-of-state students and an overall 8% increase in student fees. The primary decrease in sales and services of \$0.5 million is the result of higher tuition discounts, caused by more students receiving financial aid, which offsets student fees revenue. Grants and contracts revenue increased due to an increase in various state grant awards and better collections on grant receivables. An increase of other revenues is due to interest earnings on Perkins loans.

The \$2.9 million increase in supplies and materials expenditures primarily reflects expenditures related to the new dormitory, Viking Towers, and other repair and renovation projects that are not capitalized. The decrease of services (\$1.4 million) is related to decreased costs related to auxiliary and student services as a result of budget reductions and controlled spending levels. The \$1.2 million decrease in scholarship spending resulted from declining enrollment, which reduces financial aid to students.

The University received less financial aid funding this year, due to a decrease in enrollment, which contributed to the \$1.3 million decrease in noncapital grants-student financial aid. Noncapital gifts decreased by \$0.3 million, due to decreases in giving compared to the prior year. Investment income increased (\$0.1 million) primarily due to the increase in endowments investments and other investments' market values. Interest and fees on debt decreased this year and is the result of not issuing new debt for the fiscal year.

The University's capital grants decreased by \$7.3 million as a result of construction projects winding down or completed projects at the end of fiscal year 2013, which represented a reduction in state capital grants received from the State. The capital gifts category decreased as the University and the Foundation did not receive any of donated capital gifts during the year.

Capital Asset and Debt Administration

The major construction in progress projects from 2012, the Student Housing Building, the School of Education Building and the Energy Performance capital improvement projects were capitalized during the year. At June 30, 2013, there was a total of \$1.8 million remaining in construction in progress. The three projects remaining were the Aviation Building (\$1.5 million), the G. R. Library renovation (\$0.1 million) and C. W. Griffin Hall (\$0.2 million). With these construction projects, the amount committed to contractors at June 30 decreased by a total of \$2.3 million, as reflected in the change in construction commitments from \$2.6 million in 2012 to \$288,502 in 2013.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

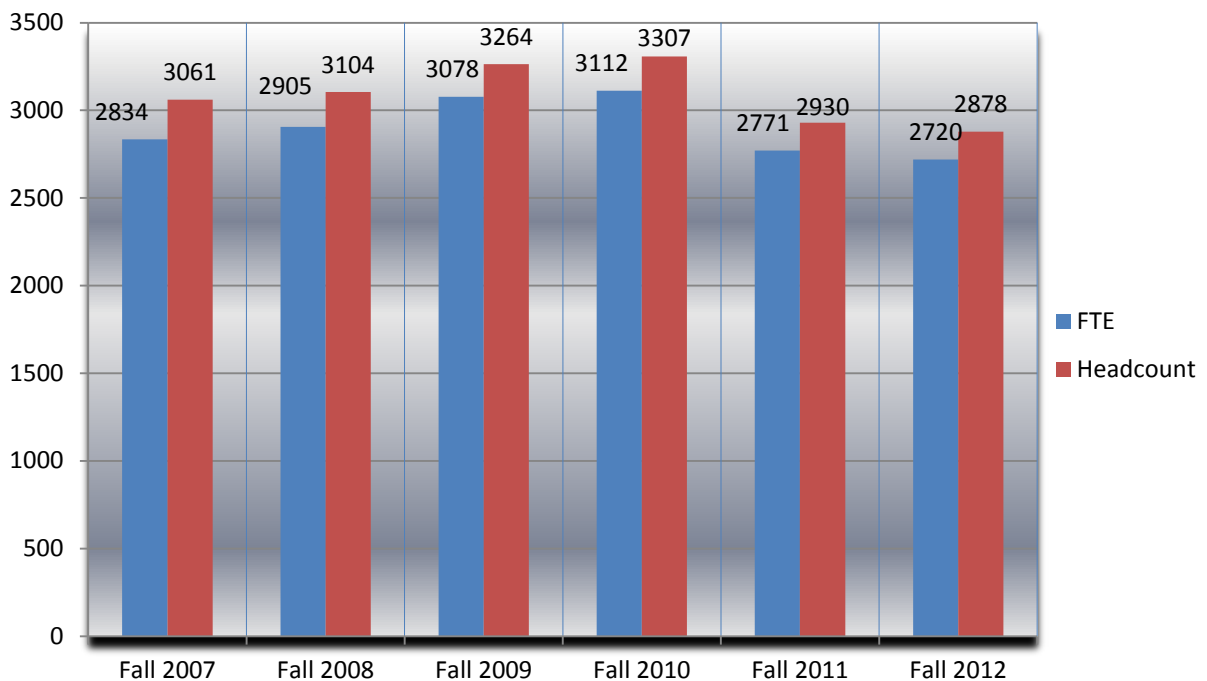
The University's capital assets, net of accumulated depreciation at June 30, 2013, were \$152.9 million. For more information about the University's asset holdings, refer to Note 5 of the Notes to the Financial Statements.

The University had \$38.3 million in total long-term liabilities at June 30, 2013, and continues to make all of its debt payments in a timely manner. 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 52 student decrease in total enrollment when comparing fall 2012 with fall 2011. 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 2012



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,

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

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 headcount was 2,878 for fall 2012. The decline was primarily a result of the smaller sophomore, junior and unclassified classes and the University of North Carolina's Board of Governors new mandated admission standards for 2013. However, the University was successful in mitigating most of the loss of students by making use of the extensive outsourced communications campaign. In addition, for those students who failed to meet the minimum admission requirements, the University continued to help them gain admission at a later date. As a result of these efforts, the University admitted 525 new freshmen and 189 new transfers for fall 2012 when compared to 390 new freshmen and 167 new transfers in fall 2011. University management will continue to monitor enrollment, with an aim toward stabilizing the Enrollment Growth Funding Model outcomes for the University.

Even though the economy is slowly rebounding and because the General Administration's "hold harmless" provision is no longer active, the University will see increased budget reductions again in the 2013-2014. The University anticipates a total of management flexibility and Enrollment Growth Funding Model budget cuts of approximately \$4.7 million. In response to the budget reductions, 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. In addition to the preceding strategic management techniques, the University plans to execute a reduction in force in order accomplish the total required reductions.

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.

Elizabeth City State University
Statement of Net Position
June 30, 2013

Exhibit A-1
Page 1 of 2

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 7,873,545.58
Restricted Cash and Cash Equivalents	3,706,493.53
Receivables, Net (Note 4)	3,184,030.16
Inventories	1,236,255.91
Prepaid Items	7,254.13
Notes Receivable (Note 4)	8,958.10
Total Current Assets	<u>16,016,537.41</u>

Noncurrent Assets:

Restricted Cash and Cash Equivalents	6,331,567.10
Receivables, Net (Note 4)	30,514.80
Restricted Due From Primary Government	97,957.65
Endowment Investments	5,086,626.80
Restricted Investments	3,922,639.69
Other Investments	2,292.86
Notes Receivable, Net (Note 4)	1,495,593.23
Bond Issuance Costs	1,107,458.08
Capital Assets - Nondepreciable (Note 5)	4,165,334.59
Capital Assets - Depreciable, Net (Note 5)	<u>148,749,844.40</u>
Total Noncurrent Assets	<u>170,989,829.20</u>

Total Assets	<u>187,006,366.61</u>
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DEFERRED OUTFLOWS OF RESOURCES

Total Deferred Outflow of Resources	<u>0.00</u>
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LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 6)	2,940,589.30
Due to Primary Government	15,455.14
Unearned Revenue	980,953.40
Interest Payable	389,561.61
Long-Term Liabilities - Current Portion (Note 7)	<u>1,226,103.39</u>
Total Current Liabilities	<u>5,552,662.84</u>

Noncurrent Liabilities:

Deposits Payable	60,756.86
Funds Held for Others	89,819.93
U. S. Government Grants Refundable	659,335.65
Long-Term Liabilities (Note 7)	<u>37,081,263.59</u>
Total Noncurrent Liabilities	<u>37,891,176.03</u>

Total Liabilities	<u>43,443,838.87</u>
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DEFERRED INFLOWS OF RESOURCES

Total Deferred Inflows of Resources	<u>0.00</u>
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Elizabeth City State University
Statement of Net Position
June 30, 2013

Exhibit A-1
Page 2 of 2

NET POSITION

Net Investment in Capital Assets	117,659,352.52
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	2,207,936.70
Endowed Professorships	4,510,000.00
Departmental Uses	151,500.00
Expendable:	
Scholarships and Fellowships	3,783,812.92
Endowed Professorships	802,545.68
Loans	631,108.07
Capital Projects	2,478,603.12
Debt Service	3,985,053.34
Unrestricted	7,352,615.39
Total Net Position	<u><u>\$ 143,562,527.74</u></u>

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 Position
For the Fiscal Year Ended June 30, 2013

Exhibit A-2

REVENUES

Operating Revenues:

Student Tuition and Fees, Net (Note 9)	\$ 9,408,971.78
Federal Grants and Contracts	1,898,819.11
State and Local Grants and Contracts	827,576.74
Nongovernmental Grants and Contracts	82,669.71
Sales and Services, Net (Note 9)	7,034,244.47
Interest Earnings on Loans	17,445.75
Other Operating Revenues	361,799.38
Total Operating Revenues	<u>19,631,526.94</u>

EXPENSES

Operating Expenses:

Salaries and Benefits	46,701,224.89
Supplies and Materials	8,609,215.78
Services	13,045,610.79
Scholarships and Fellowships	5,457,938.91
Utilities	3,000,448.63
Depreciation	4,211,398.21
Total Operating Expenses	<u>81,025,837.21</u>

Operating Loss	<u>(61,394,310.27)</u>
----------------	------------------------

NONOPERATING REVENUES (EXPENSES)

State Appropriations	35,925,027.00
Noncapital Grants - Student Financial Aid	12,063,697.42
Noncapital Grants	9,359,729.62
Noncapital Gifts, Net (Note 9)	752,059.86
Investment Income (Net of Investment Expense of \$42,672.57)	394,928.39
Interest and Fees on Debt	(909,851.68)
Federal Interest Subsidy on Debt	400,830.88
Other Nonoperating Expenses	(57,156.38)

Net Nonoperating Revenues	<u>57,929,265.11</u>
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Loss Before Other Revenues and Expenses	(3,465,045.16)
-----------------------------------------	----------------

Refund of Prior Years Capital Appropriations	(12,497.25)
Capital Grants	2,670,174.06
Additions to Endowments	604,165.50

Decrease in Net Position	(203,202.85)
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NET POSITION

Net Position - July 1, 2012	<u>143,765,730.59</u>
Net Position - June 30, 2013	<u>\$ 143,562,527.74</u>

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

Elizabeth City State University
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2013

Exhibit A-3

Page 1 of 2

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 19,057,899.53
Payments to Employees and Fringe Benefits	(46,520,400.07)
Payments to Vendors and Suppliers	(24,958,764.59)
Payments for Scholarships and Fellowships	(5,457,938.91)
Loans Issued	(108,613.89)
Collection of Loans	90,857.35
Interest Earned on Loans	17,445.75
Other Receipts	25,255.19
	<hr/>
Net Cash Used by Operating Activities	(57,854,259.64)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Appropriations	35,925,027.00
Noncapital Grants - Student Financial Aid	12,063,697.42
Noncapital Grants	8,957,712.22
Noncapital Gifts	682,576.99
Additions to Endowments	604,165.50
William D. Ford Direct Lending Receipts	15,521,059.00
William D. Ford Direct Lending Disbursements	(15,521,059.00)
	<hr/>
Net Cash Provided by Noncapital Financing Activities	58,233,179.13

CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES

Refund of Prior Years Capital Appropriations	(12,497.25)
Capital Grants	2,670,174.06
Proceeds from Sale of Capital Assets	8,994.35
Acquisition and Construction of Capital Assets	(7,199,957.93)
Principal Paid on Capital Debt	(999,873.06)
Interest and Fees Paid on Capital Debt	(1,223,862.48)
Federal Interest Subsidy on Debt Received	400,830.88
	<hr/>
Net Cash Used by Capital Financing and Related Financing Activities	(6,356,191.43)

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from Sales and Maturities of Investments	2,709,391.15
Investment Income	235,586.29
Purchase of Investments and Related Fees	(3,057,044.55)
	<hr/>
Net Cash Used by Investing Activities	(112,067.11)
	<hr/>
Net Decrease in Cash and Cash Equivalents	(6,089,339.05)
Cash and Cash Equivalents - July 1, 2012	24,000,945.26
	<hr/>
Cash and Cash Equivalents - June 30, 2013	\$ 17,911,606.21

Elizabeth City State University
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2013

Exhibit A-3

Page 2 of 2

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

Operating Loss	\$ (61,394,310.27)
Adjustments to Reconcile Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	4,211,398.21
Allowances and Write-Offs	20,685.96
Nonoperating Other Expenses	(23,199.22)
Changes in Assets and Liabilities:	
Receivables (Net)	(589,864.66)
Inventories	(45,722.39)
Prepaid Items	(7,254.13)
Notes Receivable (Net)	(310.79)
Bond Issuance Costs	55,569.98
Accounts Payable and Accrued Liabilities	(358,782.50)
Due to Primary Government	(10,184.37)
Funds Held for Others	33,012.62
U. S. Grant Refundable	(16,957.08)
Compensated Absences	271,659.00
Net Cash Used by Operating Activities	<u><u>\$ (57,854,259.64)</u></u>

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	\$ 7,873,545.58
Restricted Cash and Cash Equivalents	3,706,493.53
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	<u>6,331,567.10</u>
Total Cash and Cash Equivalents - June 30, 2013	<u><u>\$ 17,911,606.21</u></u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through the Assumption of a Liability	\$ 214,712.02
Assets Acquired through a Gift	12,384.52
Change in Fair Value of Investments	235,371.37
Loss on Disposal of Capital Assets	(33,957.16)
Amortization of Bond Premiums/Discounts	(24,852.62)
Increase in Receivables Related to Nonoperating Income	325,363.51

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

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ELIZABETH CITY STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013

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*.

The accompanying financial statements present all funds belonging to the University and its component unit. While the Board of Governors of the University of North Carolina System has ultimate responsibility, the Chancellor, the Board of Trustees, and the Board of Trustees of the Endowment Fund have delegated responsibilities for financial accountability of the University's funds. The University's component 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 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. The Foundation is governed by a 22-member board. There are 18 voting directors consisting of the University's Chancellor, 6 directors appointed by the Chancellor, 10 elected directors, and 1 ex-officio director. The Foundation also has 4 nonvoting ex-officio members. 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 University directly or indirectly appoints the Foundation Board and the Foundation's sole purpose is to benefit Elizabeth City State University, its financial statements have been blended with those of the University.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

Condensed combining information regarding the blended component unit is provided in Note 14.

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

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 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 method over the estimated useful lives of the assets, generally 10 to 75 years for general infrastructure, 50 to 100 years for buildings, and 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

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

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 Position. The scholarship discount is the difference between the actual charge for goods and services provided by the University and the amount that is paid by students or by third parties on the students' behalf. Student financial assistance grants, such as Pell grants, and other federal, state, or nongovernmental programs, are recorded as nonoperating revenues in the accompanying Statement of Revenues, Expenses, and Changes in Net Position. To the extent that revenues from these programs are used to satisfy tuition, fees, and other charges, the University has recorded a scholarship discount.
- N. Revenue and Expense Recognition** - The University classifies its revenues and expenses as operating or nonoperating in the accompanying Statement of Revenues, Expenses, and Changes in Net Position. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the University's principal ongoing operations. Operating revenues include activities that have characteristics of exchange transactions, such as (1) student tuition and fees, (2) sales and services of auxiliary enterprises, (3) certain federal, state, and local grants and contracts that are essentially contracts for services, and (4) interest earned on loans. Operating expenses are all expense transactions incurred other than those related to capital and

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 2013, the amount shown on the Statement of Net Position as cash and cash equivalents includes \$17,901,948.29 which represents the University's equity position in the State Treasurer's STIF. The STIF (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Commission and does not have a credit rating) had a weighted average maturity of 1.6 years as of June 30, 2013. Assets and shares of the STIF are valued at amortized cost, which approximates fair value. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's STIF) are included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.nc.gov/> and clicking on "Reports" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

Cash on hand at June 30, 2013 was \$1,400. The carrying amount of the University's deposits not with the State Treasurer was \$8,257.92 and the bank balance was \$8,257.65. 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.

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

Investments of the University's component unit, the Foundation, 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, 2013, for the Long-Term Investment Pool.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Long-Term Investment Pool

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less Than 1	1 to 5	6 to 10	More than 10
Debt Securities					
Debt Mutual Funds	\$ 2,381,198.90	\$ 0.00	\$ 934,625.90	\$ 1,137,085.87	\$ 309,487.13
Money Market Mutual Funds	198,269.89	198,269.89			
Total Debt Securities	2,579,468.79	\$ 198,269.89	\$ 934,625.90	\$ 1,137,085.87	\$ 309,487.13
Other Securities					
International Mutual Funds	445,856.30				
Equity Mutual Funds	2,065,197.00				
Real Estate Investment Trust	238,479.87				
Total Long-Term Investment Pool	\$ 5,329,001.96				

At June 30, 2013, 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	\$ 2,381,198.90	\$ 44,714.88	\$ 0.00	\$ 4,584.26	\$ 41,988.57	\$ 320,808.21	\$ 1,969,102.98
Money Market Mutual Funds	198,269.89	198,269.89					
Totals	\$ 2,579,468.79	\$ 242,984.77	\$ 0.00	\$ 4,584.26	\$ 41,988.57	\$ 320,808.21	\$ 1,969,102.98

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, 2013, for the University's non-pooled investments.

Non-Pooled Investments

Investment Type	Fair Value	Investment Maturities (in Years)
		Less Than 1
Debt Securities		
U.S. Treasuries	\$ 278,183.48	\$ 278,183.48
Money Market Mutual Funds	3,404,373.91	3,404,373.91
Total Non-Pooled Investments	\$ 3,682,557.39	\$ 3,682,557.39

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

At June 30, 2013, the University's non-pooled investments had the following credit quality distribution for securities with credit exposure:

	Fair Value	AAA Aaa
Money Market Mutual Funds	\$ 3,404,373.91	\$ 3,404,373.91

Rating Agency: Moody's

At June 30, 2013, the University's non-pooled investments were exposed to custodial credit risk as follows

Investment Type	Held by Counterparty
U.S. Treasury	\$ 278,183.48

Total Investments - The following table presents the fair value of the total investments at June 30, 2013:

Investment Type	Fair Value
Debt Securities	
U.S. Treasuries	\$ 278,183.48
Debt Mutual Funds	2,381,198.90
Money Market Mutual Funds	3,602,643.80
Other Securities	
International Mutual Funds	445,856.30
Equity Mutual Funds	2,065,197.00
Real Estate Investment Trust	238,479.87
Total Investments	\$ 9,011,559.35

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

C. Reconciliation of Deposits and Investments - A reconciliation of deposits and investments for the University as of June 30, 2013, is as follows:

Cash on Hand	\$ 1,400.00
Amount of Deposits with Private Financial Institutions	8,257.92
Deposits in the Short-Term Investment Fund	17,901,948.29
Long-Term Investment Pool	5,329,001.96
Non-Pooled Investments	3,682,557.39
Total Deposits and Investments	\$ 26,923,165.56
Deposits	
Current:	
Cash and Cash Equivalents	\$ 7,873,545.58
Restricted Cash and Cash Equivalents	3,706,493.53
Noncurrent:	
Restricted Cash and Cash Equivalents	6,331,567.10
Total Deposits	\$ 17,911,606.21
Investments	
Noncurrent:	
Endowment Investments	\$ 5,086,626.80
Restricted Investments	3,922,639.69
Other Investments	2,292.86
Total Investments	\$ 9,011,559.35
Total Deposits and Investments	\$ 26,923,165.56

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 2013, endowment net position of \$2,153,245.28 was available to be spent, of which \$2,096,969.07 was classified in net position as restricted: 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 position.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2013, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	\$ 1,455,857.67	\$ 578,084.67	\$ 877,773.00
Accounts	287,696.84		287,696.84
Intergovernmental	1,111,345.85		1,111,345.85
Pledges	91,076.05		91,076.05
Interest on Loans	415,075.97		415,075.97
Other	401,062.45		401,062.45
Total Current Receivables	<u>\$ 3,762,114.83</u>	<u>\$ 578,084.67</u>	<u>\$ 3,184,030.16</u>
Noncurrent Receivables:			
Pledges	<u>\$ 52,886.40</u>	<u>\$ 22,371.60</u>	<u>\$ 30,514.80</u>
Notes Receivable:			
Notes Receivable - Current:			
Institutional Student Loan Programs	<u>\$ 8,958.10</u>	<u>\$ 0.00</u>	<u>\$ 8,958.10</u>
Notes Receivable - Noncurrent:			
Federal Loan Programs	\$ 958,451.76	\$ 501,711.02	\$ 456,740.74
Institutional Student Loan Programs	<u>1,085,787.05</u>	<u>46,934.56</u>	<u>1,038,852.49</u>
Total Notes Receivable - Noncurrent	<u>\$ 2,044,238.81</u>	<u>\$ 548,645.58</u>	<u>\$ 1,495,593.23</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2013, is presented as follows:

	Balance July 1, 2012 Restated	Increases	Decreases	Balance June 30, 2013
Capital Assets, Nondepreciable:				
Land and Permanent Easements	\$ 2,384,372.20	\$ 0.00	\$ 104,100.00	\$ 2,280,272.20
Art, Literature, and Artifacts		5,503.81		5,503.81
Construction in Progress	20,542,722.13	1,126,741.92	19,789,905.47	1,879,558.58
Total Capital Assets, Nondepreciable	22,927,094.33	1,132,245.73	19,894,005.47	4,165,334.59
Capital Assets, Depreciable:				
Buildings	153,202,326.24	15,758,291.66	10,000.00	168,950,617.90
Machinery and Equipment	11,350,276.70	655,240.22	344,450.68	11,661,066.24
General Infrastructure	10,130,481.02	6,627,300.88		16,757,781.90
Total Capital Assets, Depreciable	174,683,083.96	23,040,832.76	354,450.68	197,369,466.04
Less Accumulated Depreciation for:				
Buildings	35,256,631.33	2,737,370.43	10,000.00	37,984,001.76
Machinery and Equipment	5,465,481.94	827,977.80	301,499.17	5,991,960.57
General Infrastructure	3,997,609.33	646,049.98		4,643,659.31
Total Accumulated Depreciation	44,719,722.60	4,211,398.21	311,499.17	48,619,621.64
Total Capital Assets, Depreciable, Net	129,963,361.36	18,829,434.55	42,951.51	148,749,844.40
Capital Assets, Net	\$ 152,890,455.69	\$ 19,961,680.28	\$ 19,936,956.98	\$ 152,915,178.99

The July 1, 2012, accumulated depreciation balances were restated to correct some minor classification errors. In addition, the decrease in land and permanent easements is to correct the value of donated land based on a current appraisal.

During the year ended June 30, 2013, the University incurred \$1,197,314.26 in interest costs related to the acquisition and construction of capital assets. Of this total, \$808,187.13 was charged in interest expense, and \$389,127.13 was capitalized.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2013, were as follows:

	Amount
Current Accounts Payable and Accrued Liabilities	
Accounts Payable	\$ 1,311,229.12
Accrued Payroll	1,340,850.40
Contract Retainage	16,056.79
Other	272,452.99
Total	\$ 2,940,589.30

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, 2013, is presented as follows:

	Balance July 1, 2012	Additions	Reductions	Balance June 30, 2013	Current Portion
Revenue Bonds Payable	\$ 31,305,000.00	\$ 0.00	\$ 880,000.00	\$ 30,425,000.00	\$ 880,000.00
Add/Deduct Premium/Discount	(198,192.82)		(8,638.94)	(189,553.88)	
Deduct Unamortized Cost on Refunding	(232,395.62)		(16,213.68)	(216,181.94)	
Total Revenue Bonds Payable	30,874,411.56	0.00	855,147.38	30,019,264.18	880,000.00
Notes Payable	5,564,918.57	56,901.29	119,873.06	5,501,946.80	179,967.31
Compensated Absences	2,514,497.00	1,939,986.66	1,668,327.66	2,786,156.00	166,136.08
Total Long-Term Liabilities	\$ 38,953,827.13	\$ 1,996,887.95	\$ 2,643,348.10	\$ 38,307,366.98	\$ 1,226,103.39

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

Purpose	Series	Interest Rate/ Ranges	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2013	Principal Outstanding June 30, 2013	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	\$ 550,000.00	\$ 125,000.00	(1)
Wamack Hall and Mitchell-Lewis Hall	B	3.00%	10/01/2020	1,680,000.00	1,165,000.00	515,000.00	(1)
Total Dormitory System Revenue Bonds of 1981				2,355,000.00	1,715,000.00	640,000.00	
Educational Facilities Revenue Bonds							
Elizabeth City Housing Foundation	A	2.00%-5.25%	06/01/2033	13,895,000.00	2,380,000.00	11,515,000.00	(2)
Total Educational Facilities Revenue Bonds				13,895,000.00	2,380,000.00	11,515,000.00	
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	1,080,000.00	3,445,000.00	
Student Housing Project (BAB)	2010B	* 6.386%-8.347%	04/01/2040	14,720,000.00		14,720,000.00	
Financing Issuance	2010C	4.976%	04/01/2015	205,000.00	100,000.00	105,000.00	
Total General Revenue Bonds				19,450,000.00	1,180,000.00	18,270,000.00	
Total Revenue Bonds Payable				\$ 35,700,000.00	\$ 5,275,000.00		
Less: Unamortized on Refunding						(216,181.94)	
Less: Unamortized Discount						(242,442.33)	
Plus: Unamortized Premium						52,888.45	
Total Revenue Bonds Payable						\$ 30,019,264.18	

* 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			Estimate of % of Revenues Pledged
			Revenues Net of Expenses	Principal	Interest	
(1)	Housing Revenues	\$ 713,200.00	\$ 2,002,885.71	\$ 80,000.00	\$ 20,400.00	16%
(2)	Housing Revenues	18,460,542.50	1,275,297.51	335,000.00	585,957.50	74%

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

C. Annual Requirements - The annual requirements to pay principal and interest on the long-term obligations at June 30, 2013, are as follows:

Fiscal Year	Annual Requirements			
	Revenue Bonds Payable		Notes Payable	
	Principal	Interest	Principal	Interest
2014	\$ 880,000.00	\$ 1,938,449.06	\$ 179,967.31	\$ 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	1,095,000.00	1,769,161.76	251,485.16	187,421.24
2019-2023	5,070,000.00	8,055,248.10	1,570,032.32	761,527.15
2024-2028	6,175,000.00	6,392,530.42	2,194,913.97	382,329.76
2029-2033	7,460,000.00	4,270,911.38	658,682.19	20,369.43
2034-2038	4,490,000.00	2,063,378.42		
2039-2040	2,155,000.00	272,112.22		
Total Requirements	\$ 30,425,000.00	\$ 30,338,592.04	\$ 5,501,946.80	\$ 2,192,228.58

D. 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, 2013	Principal Outstanding June 30, 2013
Energy Conservation Improvement	Banc of America Public Capital Corp.	4.09%	09/20/2029	<u>\$ 5,621,819.86</u>	<u>\$ 119,873.06</u>	<u>\$ 5,501,946.80</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 8 - 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	\$ 17,174,701.56	\$ 0.00	\$ 7,920,192.43	\$ (154,462.65)	\$ 9,408,971.78
Sales and Services:					
Sales and Services of Auxiliary Enterprises:					
Residential Life	\$ 6,877,499.94	\$ 0.00	\$ 2,920,487.80	\$ 87,144.13	\$ 3,869,868.01
Dining	3,314,844.83		1,867,355.61	73,875.63	1,373,613.59
Bookstore	1,416,437.02		409,781.90	25,780.07	980,875.05
Parking	1,387.50				1,387.50
Athletic	284,248.48			(10,096.76)	294,345.24
Vending	39,772.27				39,772.27
Other	1,247,804.11	712,546.56		60,874.74	474,382.81
Total Sales and Services	\$ 13,181,994.15	\$ 712,546.56	\$ 5,197,625.31	\$ 237,577.81	\$ 7,034,244.47
Nonoperating - Noncapital Gifts	\$ 752,933.96	\$ 0.00	\$ 0.00	\$ 874.10	\$ 752,059.86

* Note: The Allowance for Uncollectibles is equivalent to the change in the Allowance for Doubtful Accounts, excluding items such as direct write-offs.

NOTE 9 - 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	\$ 18,459,179.14	\$ 111,936.80	\$ 406,754.75	\$ 0.00	\$ 0.00	\$ 0.00	\$ 18,977,870.69
Research	1,299,076.25	316,844.43	1,360,467.03				2,976,387.71
Public Service	757,245.27	34,646.61	308,431.95				1,100,323.83
Academic Support	4,234,399.82	1,005,961.10	252,174.13				5,492,535.05
Student Services	4,917,970.14	1,106,546.71	1,888,817.51		27,402.46		7,940,736.82
Institutional Support	8,377,503.99	389,569.76	2,141,526.13		36.00		10,908,635.88
Operations and Maintenance of Plant	4,629,333.81	3,173,794.71	427,377.34		1,993,281.51		10,223,787.37
Student Financial Aid				5,457,938.91			5,457,938.91
Auxiliary Enterprises	4,026,516.47	2,469,915.66	6,260,061.95		979,728.66		13,736,222.74
Depreciation						4,211,398.21	4,211,398.21
Total Operating Expenses	\$ 46,701,224.89	\$ 8,609,215.78	\$ 13,045,610.79	\$ 5,457,938.91	\$ 3,000,448.63	\$ 4,211,398.21	\$ 81,025,837.21

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 10 - 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 (TSERS) is a cost-sharing multiple-employer defined benefit pension plan established by the State to provide pension benefits for employees of the State, its component units, and local boards of education. TSERS is administered by a 14-member Board of Trustees, with the State Treasurer serving as Chairman of the Board.

Benefit and contribution provisions for the TSERS are established by *North Carolina General Statutes* 135-5 and 135-8 and may be amended only by the North Carolina General Assembly. Employer and member contribution rates are set each year by the North Carolina General Assembly based on annual actuarial valuations. For the year ended June 30, 2013, these rates were set at 8.33% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the University had a total payroll of \$35,941,063.25, of which \$25,144,234.15 was covered under the TSERS. Total employer and employee contributions for pension benefits for the year were \$2,094,514.70 and \$1,508,654.05, respectively.

Required employer contribution rates for the years ended June 30, 2012, and 2011, were 7.44% and 4.93%, respectively, while employee contributions were 6% each year. The University made 100% of its annual required contributions for the years ended June 30, 2013, 2012, and 2011, which were \$2,094,514.70, \$1,859,713.37, and \$1,229,306.66, 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Program instead of the TSERS. The Board of Governors of The University of North Carolina is responsible for the administration of the Program and designates the companies authorized to offer investment products or the trustee responsible for the investment of contributions under the Program and approves the form and contents of the contracts and trust agreements.

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

Participant eligibility and contributory requirements are established by General Statute 135-5.1. Employer and member contribution rates are set each year by the North Carolina General Assembly. For the year ended June 30, 2013, 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 \$35,941,063.25, of which \$6,618,208.20 was covered under the Optional Retirement Program. Total employer and employee contributions for pension benefits for the year were \$452,685.44 and \$397,092.49, 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 \$96,342.00 for the year ended June 30, 2013.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 2013, were \$25,646.99. The voluntary contributions by employees amounted to \$320,318.52 for the year ended June 30, 2013.

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 \$136,373.20 for the year ended June 30, 2013.

NOTE 11 - 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 Chapter 135, Article 3B, of the General Statutes, and may be amended only by the North Carolina General Assembly. The Plan does not provide for automatic post-retirement benefit increases.

By General Statute, a Retiree Health Benefit Fund (the Fund) has been established as a fund in which accumulated contributions from employers and any earnings on those contributions shall be used to provide health benefits to retired and disabled employees and applicable beneficiaries. By statute, the Fund is administered by the Board of Trustees of the Teachers' and State Employees' Retirement System and contributions to the Fund are irrevocable. Also by law, Fund assets are dedicated to

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

providing benefits to retired and disabled employees and applicable beneficiaries and are not subject to the claims of creditors of the employers making contributions to the Fund. Contribution rates to the Fund, which are intended to finance benefits and administrative expenses on a pay-as-you-go basis, are established by the General Assembly.

For the current fiscal year the University contributed 5.30% 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, 2012, and 2011, were 5.0% and 4.9%, respectively. The University made 100% of its annual required contributions to the Plan for the years ended June 30, 2013, 2012, and 2011, which were \$1,683,409.44, \$1,593,179.72, and \$1,558,687.84, 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, 2013, the University made a statutory contribution of .44% of covered payroll under the Teachers' and State Employees' Retirement System and the Optional Retirement Program to the DIPNC. Required contribution rates for the years ended June 30, 2012, and 2011, were .52% and .52%, respectively. The University made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2013, 2012, and 2011, which were \$139,754.75, \$165,690.69, and \$165,411.77, 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*.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 12 - 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.

The University purchased other authorized coverage from private insurance companies through the North Carolina Department of Insurance and State's Agent of Record. Examples of insurance policies purchases include, but are not limited to fine arts, boiler and machinery, pharmacist professional liability, aviation, boat, and music related equipment.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 13 - 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 \$288,502.22 and on other purchases were \$1,575,530.06 at June 30, 2013.
- 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 14 - BLENDED COMPONENT UNIT

Condensed information for the University's blended component unit for the year ended June 30, 2013, is presented as follows:

Condensed Statement of Net Position June 30, 2013

	Elizabeth City State University Foundation	Eliminations	Total
ASSETS			
Current Assets	\$ 2,486,682	\$ (210,425)	\$ 2,276,257
Capital Assets	49,400		49,400
Other Noncurrent Assets	18,142,085	(10,051,642)	8,090,443
Total Assets	<u>20,678,167</u>	<u>(10,262,067)</u>	<u>10,416,100</u>
LIABILITIES			
Current Liabilities	500,480		500,480
Noncurrent Liabilities	12,651,341	(1,593,376)	11,057,965
Total Liabilities	<u>13,151,821</u>	<u>(1,593,376)</u>	<u>11,558,445</u>
NET POSITION			
Restricted - Nonexpendable	2,080,513		2,080,513
Restricted - Expendable	5,230,561	(8,668,691)	(3,438,130)
Unrestricted	215,272		215,272
Total Net Position	<u>\$ 7,526,346</u>	<u>\$ (8,668,691)</u>	<u>\$ (1,142,345)</u>

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

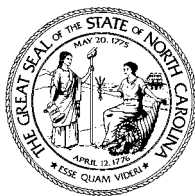
Condensed Statement of Revenues, Expenses, and Changes in Net Position For the Fiscal Year Ended June 30, 2013

	Elizabeth City State University Foundation	Eliminations	Total
OPERATING REVENUES			
Private Gifts	\$ 483,820	\$ (483,820)	\$ 0
Other Receipts	3,770		3,770
Donated Services	262,039	(262,039)	
Special Events	120,867	(120,867)	
Donated Facilities	43,577	(43,577)	
	<u>914,073</u>	<u>(910,303)</u>	<u>3,770</u>
Total Operating Revenues			
OPERATING EXPENSES			
Operating Expenses	1,102,486		1,102,486
	<u>1,102,486</u>		<u>1,102,486</u>
Total Operating Expenses			
	<u>(188,413)</u>	<u>(910,303)</u>	<u>(1,098,716)</u>
Operating Loss			
NONOPERATING REVENUES (EXPENSES)			
Noncapital Gifts		604,687	604,687
Investment income (Net of Investment Expense of \$17,518)	207,479		207,479
Installment Gain on Direct Financing Lease	724,568	(724,568)	
Interest and Fees on Debt	(637,696)		(637,696)
	<u>294,351</u>	<u>(119,881)</u>	<u>174,470</u>
Net Nonoperating Revenues (Expenses)			
	105,938		(924,246)
Income (Loss) Before Other Revenues			
Additions to Endowments	97,496		97,496
	<u>203,434</u>	<u>(1,030,184)</u>	<u>(826,750)</u>
Increase (Decrease) in Net Position			
NET POSITION			
Net Position, July 1, 2012	7,322,912	(7,638,507)	(315,595)
Net Position, June 30, 2013	<u>\$ 7,526,346</u>	<u>\$ (8,668,691)</u>	<u>\$ (1,142,345)</u>

Condensed Statement of Cash Flows For the Fiscal Year Ended June 30, 2013

	Elizabeth City State University Foundation	Reclassifications	Total
Net Cash Used by Operating Activities	\$ (133,401)	\$ 316,377	\$ 182,976
Net Cash Provided by Noncapital Financing Activities	97,496	604,687	702,183
Net Cash Provided by Capital and Related Financing Activities	263,261	(921,064)	(657,803)
Net Cash Used by Investing Activities	(382,693)		(382,693)
	<u>(155,337)</u>	<u>0</u>	<u>(155,337)</u>
Net Decrease in Cash and Cash Equivalents			
	2,450,856		2,450,856
Cash and Cash Equivalents, July 1, 2012			
Cash and Cash Equivalents, June 30, 2013	<u>\$ 2,295,519</u>		<u>\$ 2,295,519</u>

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Beth A. Wood, CPA
State Auditor

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of 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, 2013, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon December 17, 2013. Our report includes a reference to other auditors who audited the financial statements of the Elizabeth City State University Foundation 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

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

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

**INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
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or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

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

Purpose of this Report

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



Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

December 17, 2013

ORDERING INFORMATION

Copies of this report may be obtained by contacting the:

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