

STATE OF NORTH CAROLINA

ELIZABETH CITY STATE UNIVERSITY

ELIZABETH CITY, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2014

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR



Beth A. Wood, CPA
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, 2014, 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, 2014, 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, which represent 5.9 percent, and 2.2 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, 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

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

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. 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.

Opinions

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, 2014, 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.

Emphasis of Matter

As discussed in Note 15 to the financial statements, during the year ended June 30, 2014, Elizabeth City State University adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 65 – *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Other Matters – Required Supplementary Information

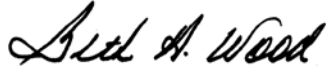
Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting 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 dated December 12, 2014 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

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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 12, 2014

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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, 2014. 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, deferred outflows of resources, liabilities and deferred inflows of resources. The University's net position (the difference between assets, deferred outflows of resources and liabilities and deferred inflows of resources) 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

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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.

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, (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 2013-2014, the University had a 6% decrease in state appropriations as shown in the Comparative Condensed Statement of Revenues, Expenses and Changes in Net Position below. State appropriations accounts 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. In fiscal year 2014, the University instituted mandated 2013 General Assembly reductions of \$0.4 million, a Management Flexibility reduction of \$0.8 million, and an Enrollment Growth Funding Model reduction of \$2.1 million and internal reductions of \$3.3 million. As budget reductions totaled \$6.6 million during the year, the University established a rightsizing plan, eliminated 4 programs (Geology, Marine Science, Studio Art and Physics) and 41 vacant positions, executed a reduction in force for 78 permanent employees and administered a number of other discontinuations, retirements, and separations in efforts of issuing a sound budget for spending.

Despite the budget reductions and decline in student enrollment, the University's financial position at June 30, 2014, remained strong with total current assets of \$15.9 million which is sufficient to cover current liabilities of \$6.1 million by 2.61 times. This scenario indicates the University's ability to pay current liabilities as they become due.

Net position, which was \$142.6 million at June 30, 2014, represents the residual interest in the University's assets after deducting liabilities. During the fiscal year, the University's net position decreased by \$0.7 million which resulted from total revenues 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), deferred resources (outflows and inflows), and the net position (total assets, plus deferred outflows, less total liabilities and deferred inflows) of the University. This financial statement provides a comparative university fiscal snapshot as of June 30, 2014 and

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2013. This provides the readers of this statement with information on assets available to continue operations.

Comparative Condensed Statements of Net Position June 30, 2014 and June 30, 2013

	2014	2013 (as restated)	\$ Change	% Chg
Assets				
Current Assets	\$ 15,904,807.35	\$ 16,016,537.41	\$ (111,730.06)	-1%
Noncurrent Assets				
Capital	150,776,201.80	152,915,178.99	(2,138,977.19)	-1%
Other	17,964,523.65	17,542,999.19	421,524.46	2%
Total Assets	<u>184,645,532.80</u>	<u>186,474,715.59</u>	<u>(1,829,182.79)</u>	-1%
Deferred Outflows of Resources	<u>199,968.26</u>	<u>216,181.94</u>	<u>(16,213.68)</u>	-8%
Liabilities				
Current Liabilities	6,058,349.20	5,552,662.84	505,686.36	9%
Noncurrent Liabilities	36,202,617.65	37,891,176.03	(1,688,558.38)	-4%
Total Liabilities	<u>42,260,966.85</u>	<u>43,443,838.87</u>	<u>(1,182,872.02)</u>	-3%
Deferred Inflows of Resources	<u>0</u>	<u>0</u>	<u>0</u>	0%
Net Position*				
Net Investment in Capital Assets	116,046,900.10	117,343,883.44	(1,296,983.34)	-1%
Restricted:				
Nonexpendable	6,995,042.48	6,869,436.70	125,605.78	2%
Expendable	11,787,108.05	11,681,123.13	105,984.92	1%
Unrestricted	7,755,483.58	7,352,615.39	402,868.19	5%
Total Net Position	<u>\$ 142,584,534.21</u>	<u>\$ 143,247,058.66</u>	<u>\$ (662,524.45)</u>	0%

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

During the fiscal year, total university assets decreased by \$1.8 million. Current assets decreased by \$0.1 million, noncurrent assets capital decreased by \$2.1 million and other noncurrent assets increased by \$0.4 million. The decrease in current assets and increase in other noncurrent assets were insignificant; however, there was a significant decrease in noncurrent capital assets of \$2.1 million.

The \$2.1 million decrease in noncurrent capital assets is a result of the University only having minor construction projects underway. The University capitalized just \$1.2 million in minor projects and equipment, increased construction in progress by \$1.3 million for the C.W. Griffin Hall renovation project, and depreciated assets by \$4.5 million.

The Governmental Accounting Standards Board (GASB) issued Statement No. 65, *Items Previously Reported as Assets and Liabilities* (GASB 65). GASB Statement No. 65 reclassifies certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources, and recognizes certain items that were previously reported as assets and liabilities as expenses/expenditures or revenues. The

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

University recorded deferred outflows of resources in the amount of \$0.2 million. To conform to the fiscal year 2013-2014 presentation standards and provide comparability, the prior year presentation has been adjusted.

Current liabilities increased by \$0.5 million and noncurrent liabilities decreased by \$1.7 million resulting in total liabilities decreasing by \$1.2 million from the prior year. The increase in current liabilities is the result of an increase in the current portion of bonds payable and an increase in payments due to various vendors and employees at June 30th. This increase amount is a direct result of the reduction in force, discontinuations, retirements and separations occurring at the University from low student enrollment and budget reductions. The decrease in noncurrent liabilities is the result of not incurring any new debt and making payments on the University's outstanding debt.

The University's net position was \$142.6 million at June 30, 2014, a decrease of \$0.7 million from the prior year. This change primarily consists of a decrease in the category of net investment in capital assets of \$1.3 million, an increase in the category of nonexpendable net position of \$0.1 million, an increase in expendable net position of \$0.1 million and an increase in the category of unrestricted net position of \$0.4 million.

The University experienced a significant decrease in capital assets depreciable in that no major building assets were capitalized during the year. After recording accumulated depreciation, a significant decrease in capital assets depreciable was realized when comparing 2013 to 2014. In addition to not capitalizing new buildings, the required debt related payments were executed.

The increase in the restricted nonexpendable net position category is primarily due to increases in investment income for endowed scholarship funds. The increase in the unrestricted net position category is primarily in the Auxiliary operation areas (Student Activities, Housing, Rental Property, Dining, and Education and Technology) along with other small institutional trust funds. The increase is a result of imposed budget reductions and reduced spending levels. Also contributing to the increase were new unrestricted gifts of \$0.4 million received by the Foundation.

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, 2014 and June 30, 2013

	2014	2013 (as restated)	Change	% Chg
Operating Revenues:				
Student Tuition and Fees, Net	\$ 7,044,900.17	\$ 9,408,971.78	\$ (2,364,071.61)	-25%
Grants and Contracts	2,425,545.96	2,809,065.56	(383,519.60)	-14%
Sales and Services, Net	7,449,719.63	7,034,244.47	415,475.16	6%
Other	385,549.30	379,245.13	6,304.17	2%
Total Operating Revenues	<u>17,305,715.06</u>	<u>19,631,526.94</u>	<u>(2,325,811.88)</u>	-12%
Operating Expenses:				
Salaries and Benefits	42,280,373.24	46,701,224.89	(4,420,851.65)	-9%
Supplies and Materials	5,591,839.32	8,609,215.78	(3,017,376.46)	-35%
Services	11,343,059.75	13,045,610.79	(1,702,551.04)	-13%
Scholarships and Fellowships	5,222,190.14	5,457,938.91	(235,748.77)	-4%
Utilities	2,940,137.06	3,000,448.63	(60,311.57)	-2%
Depreciation	4,482,351.02	4,211,398.21	270,952.81	6%
Total Operating Expenses	<u>71,859,950.53</u>	<u>81,025,837.21</u>	<u>(9,165,886.68)</u>	-11%
Operating Loss	(54,554,235.47)	(61,394,310.27)	(6,840,074.80)	-11%
Nonoperating Revenues and Expenses:				
State Appropriations	33,869,131.00	35,925,027.00	(2,055,896.00)	-6%
Noncapital Grants - Student Financial Aid	10,483,981.92	12,063,697.42	(1,579,715.50)	-13%
Other Noncapital Grants	7,650,394.10	9,359,729.62	(1,709,335.52)	-18%
Noncapital Gifts	1,016,939.85	752,059.86	264,879.99	35%
Investment Income (Net of Expense)	811,790.32	394,928.39	416,861.93	106%
Interest and Fees on Debt	(2,270,477.04)	(1,225,320.76)	1,045,156.28	85%
Federal Interest Subsidy on Debt	385,744.72	400,830.88	(15,086.16)	-4%
Other Nonoperating Revenues and Expenses	(151,853.72)	(57,156.38)	94,697.34	166%
Net Nonoperating Revenues	<u>51,795,651.15</u>	<u>57,613,796.03</u>	<u>(5,818,144.88)</u>	-10%
Loss Before Other Revenues and Expenses	(2,758,584.32)	(3,780,514.24)	(1,021,929.92)	-27%
Refund of Prior Year Capital Appropriations	(210.48)	(12,497.25)	(12,286.77)	-98%
Capital Grants	2,008,331.06	2,670,174.06	(661,843.00)	-25%
Additions to Endowment	87,939.29	604,165.50	(516,226.21)	-85%
Total Other Revenues	<u>2,096,059.87</u>	<u>3,261,842.31</u>	<u>(1,165,782.44)</u>	-36%
Decrease in Net Position	(662,524.45)	(518,671.93)	143,852.52	28%
Net Position at the Beginning of the Year	<u>143,247,058.66</u>	<u>143,765,730.59</u>	<u>(518,671.93)</u>	0%
Net Position at the End of the Year	<u>\$ 142,584,534.21</u>	<u>\$ 143,247,058.66</u>	<u>\$ (662,524.45)</u>	0%
Total Revenues	<u>\$ 73,619,756.84</u>	<u>\$ 81,789,642.42</u>	<u>\$ (8,169,885.58)</u>	-10%

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.

Total operating revenues for the University decreased by \$2.3 million when compared to 2013 which is directly related to the decrease in student tuition and fees revenues. Tuition and fee revenues decreased as a result of the low student enrollment at the University. Student headcount dropped by 457 students when compared to 2013 and resulted in a \$2.4 million decrease in receipts. For additional information on enrollment, see the Comparative Enrollment Data section below. There were no significant changes or transactions noted in the remaining operating revenue captions.

The University experienced significant decreases in operating expenses for the year. The \$4.4 million decrease in salaries and benefits, \$3.0 million in supplies and materials, and \$1.7 million in services are direct results of the University dissolving the Bookstore Retail and Rental operations, low student enrollment and required budgetary reductions imposed in order to rightsize the University. When evaluating the 9% decrease in salaries and benefits, the University executed a reduction in force for 78 employees, a host of temporary employees and eliminated 41 vacant positions as a part of the rightsizing. In addition to the budget reductions for supplies and materials, there were significant reductions in the construction project expenditures as only minor projects were in progress during the year. For the services expense caption, there were significant reductions in travel related expenses; again these were a result of budget reductions.

The University also experienced significant decreases in nonoperating revenues for the year. The \$2.1 million decrease in state appropriations and noncapital grants – student financial aid of \$1.6 million, are direct results of the University receiving less funding and receipts related to financial aid due to low student enrollment. Other noncapital grants decreased by \$1.7 million as a result of large grant projects concluding and a reduction in the number of noncapital grants within the University's portfolio.

Noncapital gifts increased by \$0.3 million. The increase is attributable to donations received by the University and the Foundation when compared to the prior year. The gifts received were primarily for Athletics, discretionary funds and for university scholarships. Investment income increased by \$0.4 million primarily due to an increase in endowment investments and better market conditions for the University and Foundation. Interest and fees on debt increased by \$1.0 million this year and is the net result of capitalizing interest on new debt in the prior year.

The University's capital grants decreased by \$0.7 million as a result of construction projects winding down at the end of fiscal year 2014, which represented a reduction in state aid received from the State.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

The University had an \$8.2 million decrease in total revenues in 2014 when compared to total revenues in 2013. The decrease is primarily from a decrease in student tuition and fees, contracts and grants, state appropriations, noncapital grants – student financial aid, other noncapital grants, capital grants, and additions to endowment. The total revenues decrease is primarily attributable to the low student enrollment, a reduction in the contracts and grants portfolio, reduced endowment gifts and the completion of capital projects.

Capital Asset and Debt Administration

As the University continues the winding down of capital projects, there were no major construction projects or debt related transactions during fiscal year 2014. At June 30, 2014, there was a total of \$3.2 million remaining in construction in progress. The two projects remaining were the Aviation Building (\$1.5 million) and C. W. Griffin Hall (\$1.7 million).

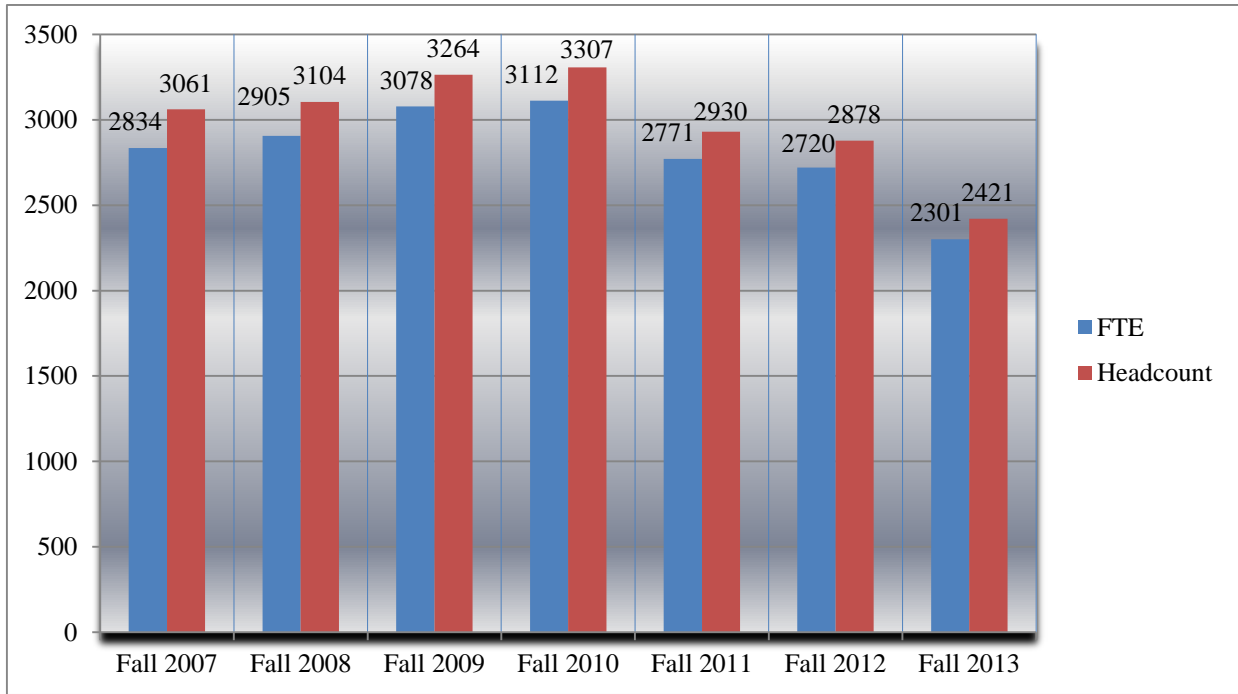
The University's capital assets, net of accumulated depreciation at June 30, 2014, were \$150.8 million. For more information about the University's asset holdings, refer to Note 5 of the Notes to the Financial Statements.

The University had \$36.8 million in total long-term liabilities at June 30, 2014, 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 457 student decrease in total enrollment when comparing Fall 2013 with Fall 2012. The decrease in enrollment is a direct result of enforcing academic policies and new admission standards. The University anticipates another drop in enrollment for Fall 2014. 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 2013



Factors Impacting Future Periods

Several factors impact a positive economic outlook for the University, such as leadership, research funding, private gifts, student enrollment, admission requirements and support from the State of North Carolina. The University hired a new Chancellor effective October 1, 2014.

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

The total headcount was 2,421 for Fall 2013. Due to the University of North Carolina's Board of Governors mandated admission standards, for Fall 2013, the University was not completely successful in mitigating a significant loss of students. As a result of declining enrollment, the University renewed its emphasis on recruitment and retention. Collaboration continues with educational partners, including high schools and community colleges and new relationships were built with the US Coast Guard and other military branches of service.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

The offices of admissions, retention, and financial aid were reorganized under the Department of Enrollment Management and Retention. Steps have been taken to fully engage the university community in an aggressive recruitment endeavor designed to increase the visibility to prospective students, to enhance the enrollment operations, and to improve customer service and the admission process. University officials are confident that the developed and implemented plans to increase student enrollment will be successful. In addition, the increased student enrollment will provide additional tuition and fee dollars to ease the budget shortfall and offset the reduction in state appropriated dollars in the future.

University officials spent the majority of fiscal year 2014 establishing and implementing a rightsizing plan and a budget that would accommodate the current student enrollment levels. However, as a result of enrollment and academic standards, the University anticipates additional management flexibility and Enrollment Growth Funding Model budget cuts of approximately \$5.0 million in the 2015-2016 fiscal year. In response to budget reductions, the University will continue to strategically manage vacant positions, reorganize, review low performing programs, purchase only critical goods and services, negotiate lower prices on services and enhance fundraising strategies for private contributions and restructure departmental units to be more efficient.

The University is dedicated to providing 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, 2014

Exhibit A-1
Page 1 of 2

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 9,035,095.08
Restricted Cash and Cash Equivalents	3,633,184.17
Receivables, Net (Note 4)	3,058,953.34
Inventories	113,782.97
Prepaid Items	1,673.19
Notes Receivable, Net (Note 4)	62,118.60

Total Current Assets	15,904,807.35
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Noncurrent Assets:

Restricted Cash and Cash Equivalents	5,777,950.56
Receivables, Net (Note 4)	19,952.00
Endowment Investments	6,004,503.27
Restricted Investments	4,009,143.24
Other Investments	2,406.69
Notes Receivable, Net (Note 4)	1,443,929.32
Prepaid Insurance	706,638.57
Capital Assets - Nondepreciable (Note 5)	5,434,457.79
Capital Assets - Depreciable, Net (Note 5)	145,341,744.01

Total Noncurrent Assets	168,740,725.45
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Total Assets	184,645,532.80
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DEFERRED OUTFLOWS OF RESOURCES

Deferred Loss on Refunding	199,968.26
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Total Deferred Outflows of Resources	199,968.26
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LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 6)	3,327,361.71
Due to Primary Government	48,626.68
Unearned Revenue	940,493.56
Interest Payable	389,040.27
Long-Term Liabilities - Current Portion (Note 7)	1,352,826.98

Total Current Liabilities	6,058,349.20
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Noncurrent Liabilities:

Deposits Payable	60,756.86
Funds Held for Others	53,790.92
U. S. Government Grants Refundable	657,717.50
Long-Term Liabilities, Net (Note 7)	35,430,352.37

Total Noncurrent Liabilities	36,202,617.65
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Total Liabilities	42,260,966.85
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DEFERRED INFLOWS OF RESOURCES

Total Deferred Inflows of Resources	0.00
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Elizabeth City State University
Statement of Net Position
June 30, 2014

Exhibit A-1
Page 2 of 2

NET POSITION

Net Investment in Capital Assets	116,046,900.10
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	2,333,542.48
Endowed Professorships	4,510,000.00
Departmental Uses	151,500.00
Expendable:	
Scholarships and Fellowships	3,997,206.48
Endowed Professorships	1,017,105.73
Loans	679,430.81
Capital Projects	1,835,372.31
Debt Service	4,257,992.72
Unrestricted	<u>7,755,483.58</u>
Total Net Position	<u><u>\$ 142,584,534.21</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, 2014

Exhibit A-2

REVENUES

Operating Revenues:

Student Tuition and Fees, Net (Note 8)	\$ 7,044,900.17
Federal Grants and Contracts	1,531,616.19
State and Local Grants and Contracts	829,683.47
Nongovernmental Grants and Contracts	64,246.30
Sales and Services, Net (Note 8)	7,449,719.63
Interest Earnings on Loans	92,022.72
Other Operating Revenues	293,526.58
	<hr/>
Total Operating Revenues	17,305,715.06

EXPENSES

Operating Expenses:

Salaries and Benefits	42,280,373.24
Supplies and Materials	5,591,839.32
Services	11,343,059.75
Scholarships and Fellowships	5,222,190.14
Utilities	2,940,137.06
Depreciation/ Amortization	4,482,351.02
	<hr/>
Total Operating Expenses	71,859,950.53

Operating Loss (54,554,235.47)

NONOPERATING REVENUES (EXPENSES)

State Appropriations	33,869,131.00
Noncapital Grants - Student Financial Aid	10,483,981.92
Noncapital Grants	7,650,394.10
Noncapital Gifts, Net (Note 8)	1,016,939.85
Investment Income (Net of Investment Expense of \$46,532.22)	811,790.32
Interest and Fees on Debt	(2,270,477.04)
Federal Interest Subsidy on Debt	385,744.72
Other Nonoperating Expenses	(151,853.72)
	<hr/>

Net Nonoperating Revenues 51,795,651.15

Loss Before Other Revenues, Expenses, Gains, or Losses (2,758,584.32)

Refund of Prior Years Capital Appropriations	(210.48)
Capital Grants	2,008,331.06
Additions to Endowments	87,939.29
	<hr/>

Decrease in Net Position (662,524.45)

NET POSITION

Net Position - July 1, 2013, as Restated (Note 15)	143,247,058.66
	<hr/>
Net Position - June 30, 2014	\$ 142,584,534.21
	<hr/> <hr/>

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, 2014

Exhibit A-3
Page 1 of 2

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 16,951,430.42
Payments to Employees and Fringe Benefits	(43,069,579.02)
Payments to Vendors and Suppliers	(18,296,419.88)
Payments for Scholarships and Fellowships	(5,222,190.14)
Loans Issued	(122,086.42)
Collection of Loans	96,995.35
Interest Earned on Loans	70,238.70

Net Cash Used by Operating Activities (49,591,610.99)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Appropriations	33,869,131.00
Noncapital Grants - Student Financial Aid	10,803,353.02
Noncapital Grants	7,650,394.10
Noncapital Gifts	1,026,540.20
Additions to Endowments	87,939.29
William D. Ford Direct Lending Receipts	13,529,964.00
William D. Ford Direct Lending Disbursements	(13,529,964.00)

Net Cash Provided by Noncapital Financing Activities 53,437,357.61

CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES

Capital Grants	2,106,499.19
Proceeds from Sale of Capital Assets	6,506.08
Acquisition and Construction of Capital Assets	(2,244,918.66)
Principal Paid on Capital Debt and Leases	(1,059,967.31)
Interest and Fees Paid on Capital Debt and Leases	(2,378,726.04)
Federal Interest Subsidy on Debt Received	385,744.72
Other Payments	(59,071.23)

Net Cash Used by Capital Financing and Related Financing Activities (3,243,933.25)

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from Sales and Maturities of Investments	2,102,095.91
Investment Income	79,410.73
Purchase of Investments and Related Fees	(2,248,696.41)

Net Cash Used by Investing Activities (67,189.77)

Net Increase in Cash and Cash Equivalents 534,623.60
Cash and Cash Equivalents - July 1, 2013 17,911,606.21

Cash and Cash Equivalents - June 30, 2014 \$ 18,446,229.81

Elizabeth City State University
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2014

Exhibit A-3
Page 2 of 2

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

Operating Loss	\$ (54,554,235.47)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	4,482,351.02
Allowances and Write-Offs	23,594.48
Nonoperating Other Expenses	31,670.11
Changes in Assets and Liabilities:	
Receivables, Net	(194,949.98)
Inventories	1,122,472.94
Other Assets	(37,647.16)
Prepaid Items	(5,580.94)
Notes Receivable, Net	(25,091.07)
Accounts Payable and Accrued Liabilities	262,134.59
Due to Primary Government	33,171.54
Unearned Revenue	(40,459.84)
Compensated Absences	(689,041.21)
	<u>(49,591,610.99)</u>
Net Cash Used by Operating Activities	<u>\$ (49,591,610.99)</u>

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	\$ 9,035,095.08
Restricted Cash and Cash Equivalents	3,633,184.17
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	5,777,950.56
	<u>18,446,229.81</u>
Total Cash and Cash Equivalents - June 30, 2014	<u>\$ 18,446,229.81</u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through the Assumption of a Liability	\$ 237,293.30
Change in Fair Value of Investments	732,379.59
Loss on Disposal of Capital Assets	(132,332.05)
Amortization of Bond Premiums/Discounts	(8,638.95)

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

ELIZABETH CITY STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

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 (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, 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

estimates may differ from the values that would have been used had a ready market existed for the investments. The net increase in the fair value of investments is recognized as a component of investment income.

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

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

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

The University capitalizes assets that have a value or cost 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

available for current operations and are reported as restricted include resources restricted for the acquisition or construction of capital assets and resources legally segregated for the payment of principal and interest as required by debt covenants.

- J. Noncurrent Long-Term Liabilities** - Noncurrent long-term liabilities include principal amounts of revenue bonds payable, notes payable, and compensated absences that will not be paid within the next fiscal year.

Revenue bonds payable are reported net of unamortized premiums or discounts. The University amortizes bond premiums/discounts over the life of the bonds using the straight-line method. Deferred charges on refundings are amortized over the life of the new debt using the straight-line method, and are included as Deferred Outflows or Deferred Inflows of Resources on the Statement of Net Position. Issuance costs are expensed.

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

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

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

- L. Net 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

expended for capital assets, such amounts are not included as a component of Net Investment in Capital Assets. Additionally, deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of capital assets or related debt are also included in this component of net position.

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. Both restricted and unrestricted net position include consideration of deferred inflows and outflows of resources.

- 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

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

NOTE 2 - DEPOSITS AND INVESTMENTS

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 2014, the amount shown on the Statement of Net Position as cash and cash equivalents includes \$18,438,612.56 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 Commission and does not have a credit rating) had a weighted average maturity of 1.3 years as of June 30, 2014. 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.

The carrying amount of the University's deposits not with the State Treasurer was \$7,617.25 and the bank balance was \$9,870.86. Custodial credit risk is the risk that in the event of a bank failure, the University's deposits may not be returned to it. The University does not have a deposit policy for custodial credit risk.

- 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; certificates of deposit and other deposit accounts of specified financial institutions; prime quality commercial paper; asset-backed securities with specified ratings, specified bills of exchange or time drafts, and corporate bonds/notes with specified ratings; general obligations of other states; general obligations of North Carolina local governments; and obligations of certain entities with specified ratings.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

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

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

Investments are subject to the following risks.

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

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

Custodial Credit Risk: Custodial credit risk is the risk that, in the event of the failure of the counterparty, the University will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The University does not have a formal policy for custodial credit risk.

Long-Term Investment Pool - This is an internal investment pool that is utilized for the investment of the endowment funds. Fund ownership is measured using the unit value method. Under this method, each participating fund's investment balance is determined on market value basis. The investment strategy, including the selection of investment managers, is based on the directives of the University's Endowment Board.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The following table presents the fair value of investments by type and investments subject to interest rate risk at June 30, 2014, for the Long-Term Investment Pool.

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	\$ 1,861,432.65	\$ 199,953.09	\$ 839,582.40	\$ 803,468.91	\$ 18,428.25
Money Market Mutual Funds	221,687.14	221,687.14			
Total Debt Securities	2,083,119.79	<u>\$ 421,640.23</u>	<u>\$ 839,582.40</u>	<u>\$ 803,468.91</u>	<u>\$ 18,428.25</u>
Other Securities					
International Mutual Funds	866,096.50				
Equity Mutual Funds	2,981,988.40				
Investments in Real Estate	277,303.65				
Total Long-Term Investment Pool	<u>\$ 6,208,508.34</u>				

At June 30, 2014, 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	\$ 1,861,432.65	\$ 108,206.74	\$ 10,137.62	\$ 37,828.03	\$ 92,558.61	\$ 357,822.77	\$ 1,254,878.89
Money Market Mutual Funds	221,687.14	221,687.14					
Totals	<u>\$ 2,083,119.79</u>	<u>\$ 329,893.88</u>	<u>\$ 10,137.62</u>	<u>\$ 37,828.03</u>	<u>\$ 92,558.61</u>	<u>\$ 357,822.77</u>	<u>\$ 1,254,878.89</u>

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, 2014, for the University's non-pooled investments.

Non-Pooled Investments

Investment Type	Investment Maturities (in Years)		
	Fair Value	Less Than 1	1 to 5
Debt Securities			
U.S. Treasuries	\$ 283,006.78	\$ 0.00	\$ 283,006.78
Money Market Mutual Funds	3,524,538.08	3,524,538.08	
Total Non-Pooled Investments	<u>\$ 3,807,544.86</u>	<u>\$ 3,524,538.08</u>	<u>\$ 283,006.78</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

At June 30, 2014, 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	\$ 3,524,538.08	\$ 3,524,538.08

Rating Agency: Moody's

At June 30, 2014, the University's non-pooled investments were exposed to custodial credit risk as follows:

Investment Type	Held by Counterparty
U. S. Treasury	\$ 283,006.78

Total Investments - The following table presents the fair value of the total investments at June 30, 2014:

Investment Type	Fair Value
Debt Securities	
U.S. Treasuries	\$ 283,006.78
Debt Mutual Funds	1,861,432.65
Money Market Mutual Funds	3,746,225.22
Other Securities	
International Mutual Funds	866,096.50
Equity Mutual Funds	2,981,988.40
Investments in Real Estate	277,303.65
Total Investments	\$ 10,016,053.20

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, 2014, is as follows:

Amount of Deposits with Private Financial Institutions	\$	7,617.25
Deposits in the Short-Term Investment Fund		18,438,612.56
Long-Term Investment Pool		6,208,508.34
Non-Pooled Investments		3,807,544.86
Total Deposits and Investments	\$	28,462,283.01
Deposits		
Current:		
Cash and Cash Equivalents	\$	9,035,095.08
Restricted Cash and Cash Equivalents		3,633,184.17
Noncurrent:		
Restricted Cash and Cash Equivalents		5,777,950.56
Total Deposits		18,446,229.81
Investments		
Noncurrent:		
Endowment Investments		6,004,503.27
Restricted Investments		4,009,143.24
Other Investments		2,406.69
Total Investments		10,016,053.20
Total Deposits and Investments	\$	28,462,283.01

NOTE 3 - ENDOWMENT INVESTMENTS

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

Investment return of the University's endowment funds is predicated on the total return concept (yield plus appreciation). The non-mandatory spending policy is to take annual withdrawals on August 1 of each year in the annual

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 2014, endowment net position of \$2,909,094.33 was available to be spent, of which \$2,825,709.15 was classified in net position as restricted: scholarships and fellowships and endowed professorships as it is restricted for 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, 2014, were as follows:

	<u>Gross Receivables</u>	<u>Less Allowance for Doubtful Accounts</u>	<u>Net Receivables</u>
Current Receivables:			
Students	\$ 1,788,868.93	\$ 801,979.11	\$ 986,889.82
Accounts	367,986.10		367,986.10
Intergovernmental	790,356.60		790,356.60
Pledges	92,038.50		92,038.50
Interest on Loans	436,859.99		436,859.99
Other	384,822.33		384,822.33
Total Current Receivables	<u>\$ 3,860,932.45</u>	<u>\$ 801,979.11</u>	<u>\$ 3,058,953.34</u>
Noncurrent Receivables:			
Pledges	<u>\$ 41,106.00</u>	<u>\$ 21,154.00</u>	<u>\$ 19,952.00</u>
Notes Receivable:			
Notes Receivable - Current:			
Federal Loan Programs	\$ 46,047.00	\$ 0.00	\$ 46,047.00
Institutional Student Loan Programs	16,071.60		16,071.60
Total Notes Receivable - Current	<u>\$ 62,118.60</u>	<u>\$ 0.00</u>	<u>\$ 62,118.60</u>
Notes Receivable - Noncurrent:			
Federal Loan Programs	\$ 922,623.44	\$ 519,893.16	\$ 402,730.28
Institutional Student Loan Programs	1,093,348.55	52,149.51	1,041,199.04
Total Notes Receivable - Noncurrent	<u>\$ 2,015,971.99</u>	<u>\$ 572,042.67</u>	<u>\$ 1,443,929.32</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, 2014, is presented as follows:

	Balance July 1, 2013	Increases	Decreases	Balance June 30, 2014
Capital Assets, Nondepreciable:				
Land and Permanent Easements	\$ 2,280,272.20	\$ 0.00	\$ 38,000.00	\$ 2,242,272.20
Art, Literature, and Artifacts	5,503.81		5,503.81	0.00
Construction in Progress	1,879,558.58	1,696,368.06	383,741.05	3,192,185.59
Total Capital Assets, Nondepreciable	4,165,334.59	1,696,368.06	427,244.86	5,434,457.79
Capital Assets, Depreciable:				
Buildings	168,950,617.90	490,802.43	110,000.00	169,331,420.33
Machinery and Equipment	11,661,066.24	684,286.33	317,589.99	12,027,762.58
General Infrastructure	16,757,781.90			16,757,781.90
Total Capital Assets, Depreciable	197,369,466.04	1,175,088.76	427,589.99	198,116,964.81
Less Accumulated Depreciation for:				
Buildings	37,984,001.76	2,816,415.91	38,500.00	40,761,917.67
Machinery and Equipment	5,991,960.57	845,355.27	288,251.86	6,549,063.98
General Infrastructure	4,643,659.31	820,579.84		5,464,239.15
Total Accumulated Depreciation	48,619,621.64	4,482,351.02	326,751.86	52,775,220.80
Total Capital Assets, Depreciable, Net	148,749,844.40	(3,307,262.26)	100,838.13	145,341,744.01
Capital Assets, Net	\$ 152,915,178.99	\$ (1,610,894.20)	\$ 528,082.99	\$ 150,776,201.80

During the year ended June 30, 2014, the University incurred \$1,197,314.26 in interest costs related to the acquisition and construction of capital assets. Of this total, \$1,197,314.26 was charged in interest expense.

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2014, were as follows:

	Amount
Current Accounts Payable and Accrued Liabilities	
Accounts Payable	\$ 1,850,093.28
Accrued Payroll	1,240,685.83
Contract Retainage	77,306.43
Other	159,276.17
Total Current Accounts Payable and Accrued Liabilities	\$ 3,327,361.71

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 2014, is presented as follows:

	Balance July 1, 2013 (As Restated)	Additions	Reductions	Balance June 30, 2014	Current Portion
Revenue Bonds Payable	\$ 30,425,000.00	\$ 0.00	\$ 880,000.00	\$ 29,545,000.00	\$ 960,000.00
Plus: Unamortized Premium	52,888.45		3,823.26	49,065.19	
Less: Unamortized Discount	(242,442.33)		(12,462.21)	(229,980.12)	
Total Revenue Bonds Payable, Net	30,235,446.12		871,361.05	29,364,085.07	960,000.00
Notes Payable	5,501,946.80		179,967.31	5,321,979.49	198,575.82
Compensated Absences	2,786,156.00	1,525,473.43	2,214,514.64	2,097,114.79	194,251.16
Total Long-Term Liabilities	\$ 38,523,548.92	\$ 1,525,473.43	\$ 3,265,843.00	\$ 36,783,179.35	\$ 1,352,826.98

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, 2014	Principal Outstanding June 30, 2014	See Table Below
Revenue Bonds Payable							
Dormitory System Revenue Bonds of 1981							
Wamack Hall and Mitchell-Lewis Hall	A	3.00%	10/01/2017	\$ 675,000.00	\$ 575,000.00	\$ 100,000.00	(1)
Wamack Hall and Mitchell-Lewis Hall	B	3.00%	10/01/2020	1,680,000.00	1,225,000.00	455,000.00	(1)
Total Dormitory System Revenue Bonds of 1981				2,355,000.00	1,800,000.00	555,000.00	
Educational Facilities Revenue Bonds							
Elizabeth City Housing Foundation	A	2.00%-5.25%	06/01/2033	\$ 13,895,000.00	\$ 2,730,000.00	\$ 11,165,000.00	(2)
Total Educational Facilities Revenue Bonds				13,895,000.00	2,730,000.00	11,165,000.00	
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	\$ 1,460,000.00	\$ 3,065,000.00	
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	165,000.00	40,000.00	
Total General Revenue Bonds				19,450,000.00	1,625,000.00	17,825,000.00	
Total Revenue Bonds Payable				\$ 35,700,000.00	\$ 6,155,000.00		
Less: Unamortized Discount						(229,980.12)	
Plus: Unamortized Premium						49,065.19	
Total Revenue Bonds Payable, Net						\$ 29,364,085.07	

* 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 32% 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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	\$ 610,275.00	\$ 2,207,994.09	\$ 85,000.00	\$ 17,925.00	16%
(2)	Housing Revenues	17,538,320.00	1,308,000.37	350,000.00	572,222.50	74%

C. Annual Requirements - The annual requirements to pay principal and interest on the long-term obligations at June 30, 2014, are as follows:

Fiscal Year	Annual Requirements			
	Revenue Bonds Payable		Notes Payable	
	Principal	Interest	Principal	Interest
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	1,150,000.00	1,718,956.86	270,960.61	176,839.99
2020-2024	5,050,000.00	7,766,462.84	1,683,174.82	695,595.77
2025-2029	6,395,000.00	5,999,085.68	2,334,792.72	290,413.27
2030-2034	6,915,000.00	3,788,842.68	134,700.33	1,377.31
2035-2039	4,735,000.00	1,688,598.12		
2040	1,105,000.00	92,234.36		
Total Requirements	\$ 29,545,000.00	\$ 28,400,142.98	5,321,979.49	\$ 1,969,863.36

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, 2014	Principal Outstanding June 30, 2014
Energy Conservation Improvement	Banc of America Public Capital Corp.	4.09%	09/20/2029	\$ 5,621,819.86	\$ 299,840.37	\$ 5,321,979.49

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	Less Allowance for Uncollectibles	Net Revenues
Operating Revenues:					
Student Tuition and Fees	\$ 14,264,421.12	\$ 0.00	\$ 6,995,626.51	\$ 223,894.44	\$ 7,044,900.17
Sales and Services:					
Sales and Services of Auxiliary Enterprises:					
Residential Life	\$ 6,592,078.67	\$ 0.00	\$ 2,494,506.53	\$ (74,299.50)	\$ 4,171,871.64
Dining	3,046,517.97		1,374,210.28	(36,143.09)	1,708,450.78
Bookstore	1,334,202.11		364,056.82	(10,387.78)	980,533.07
Parking	2,191.20				2,191.20
Athletic	437,154.23			156,517.47	280,636.76
Vending	54,931.74				54,931.74
Other	802,767.74	542,536.92		9,126.38	251,104.44
Total Sales and Services	<u>\$ 12,269,843.66</u>	<u>\$ 542,536.92</u>	<u>\$ 4,232,773.63</u>	<u>\$ 44,813.48</u>	<u>\$ 7,449,719.63</u>
Nonoperating - Noncapital Gifts	<u>\$ 1,015,722.25</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ (1,217.60)</u>	<u>\$ 1,016,939.85</u>

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	\$ 16,961,336.25	\$ 72,817.25	\$ 178,033.28	\$ 0.00	\$ 0.00	\$ 0.00	\$ 17,212,186.78
Research	820,985.76	235,601.40	503,199.57				1,559,786.73
Public Service	716,168.91	29,057.91	309,070.12				1,054,296.94
Academic Support	3,719,829.55	481,209.33	309,896.60				4,510,935.48
Student Services	4,387,677.48	937,636.95	1,824,803.07		31,702.58		7,181,820.08
Institutional Support	7,703,490.82	311,346.89	1,885,498.16		1,006.62		9,901,342.49
Operations and Maintenance of Plant	4,332,242.35	459,777.06	996,516.22		1,977,074.59		7,765,610.22
Student Financial Aid				5,222,190.14			5,222,190.14
Auxiliary Enterprises	3,638,642.12	3,064,392.53	5,336,042.73		930,353.27		12,969,430.65
Depreciation						4,482,351.02	4,482,351.02
Total Operating Expenses	<u>\$ 42,280,373.24</u>	<u>\$ 5,591,839.32</u>	<u>\$ 11,343,059.75</u>	<u>\$ 5,222,190.14</u>	<u>\$ 2,940,137.06</u>	<u>\$ 4,482,351.02</u>	<u>\$ 71,859,950.53</u>

NOTE 10 - PENSION PLANS

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 2014, these rates were set at 8.69% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the University had a total payroll of \$33,105,438.10, of which \$22,430,604.26 was covered under the TSERS. Total employer and employee contributions for pension benefits for the year were \$1,949,219.51 and \$1,345,836.26 respectively.

Required employer contribution rates for the years ended June 30, 2013, and 2012, were 8.33% and 7.44%, respectively, while employee contributions were 6% each year. The University made 100% of its annual required contributions for the years ended June 30, 2014, 2013, and 2012, which were \$1,949,219.51, \$2,094,514.70, and \$1,859,713.37, respectively.

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

The Optional Retirement Program (Program) is a defined contribution retirement plan that provides retirement benefits with options for payments to beneficiaries in the event of the participant's death. Administrators and eligible faculty of the University may join the Program instead of the 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 2014, 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 \$33,105,438.10, of which \$6,512,261.68 was covered under the Optional Retirement Program. Total employer and employee contributions for pension benefits for the year were \$445,438.70 and \$390,735.70 respectively.

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 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the current fiscal year the University contributed 5.40% 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, 2013, and 2012, were 5.30% and 5.0%, respectively. The University made 100% of its annual required contributions to the Plan for the years ended June 30, 2014, 2013, and 2012, which were \$1,562,914.76, \$1,683,409.44, and \$1,593,179.72, 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, 2014, 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, 2013, and 2012, were .44% and .52%, respectively. The University made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2014, 2013, and 2012, which were \$127,348.61, \$139,754.75, and \$165,690.69, respectively. The University assumes no liability for long-term disability benefits under the Plan other than its contribution.

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

NOTE 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 \$470,815.17 and on other purchases were \$440,765.61 at June 30, 2014.
- 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 combining information for the University's blended component unit for the year ended June 30, 2014, is presented as follows:

***Condensed Statement of Net Position
June 30, 2014***

	<u>Elizabeth City State University</u>	<u>ECSU Foundation</u>	<u>Eliminations</u>	<u>Total</u>
ASSETS				
Current Assets	\$ 13,402,297.35	\$ 2,727,586	\$ (225,076)	\$ 15,904,807.35
Capital Assets	150,764,801.80	11,400		150,776,201.80
Other Noncurrent Assets	9,490,349.65	18,300,740	(9,826,566)	17,964,523.65
Total Assets	<u>173,657,448.80</u>	<u>21,039,726</u>	<u>(10,051,642)</u>	<u>184,645,532.80</u>
Deferred Outflows of Resources	199,968.26			199,968.26
LIABILITIES				
Current Liabilities	5,635,897.20	422,452		6,058,349.20
Noncurrent Liabilities	25,504,300.65	12,591,552	(1,893,235)	36,202,617.65
Total Liabilities	<u>31,140,197.85</u>	<u>13,014,004</u>	<u>(1,893,235)</u>	<u>42,260,966.85</u>
Deferred Inflows of Resources	0.00			0.00
NET POSITION				
Net Investment in Capital Assets	116,046,900.10			116,046,900.10
Restricted - Nonexpendable	5,043,411.48	1,951,631		6,995,042.48
Restricted - Expendable	14,605,015.05	5,340,500	(8,158,407)	11,787,108.05
Unrestricted	7,021,892.58	733,591		7,755,483.58
Total Net Position	<u>\$ 142,717,219.21</u>	<u>\$ 8,025,722</u>	<u>\$ (8,158,407)</u>	<u>\$ 142,584,534.21</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Condensed Statement of Revenues, Expenses, and Changes in Net Position For the Fiscal Year Ended June 30, 2014

	Elizabeth City State University	ECSU Foundation	Eliminations	Total
OPERATING REVENUES (by major source)				
Tuition and Fees	\$ 7,044,900.17	\$ 0	\$ 0	\$ 7,044,900.17
Grants and Contracts	2,425,545.96			2,425,545.96
Sales and Services, Net	7,449,719.63			7,449,719.63
Other Revenue	385,549.30	1,264,700	(1,264,700)	385,549.30
Total Operating Revenues	<u>17,305,715.06</u>	<u>1,264,700</u>	<u>(1,264,700)</u>	<u>17,305,715.06</u>
OPERATING EXPENSES (identify depreciation separately)				
Operating Expenses	66,226,423.51	1,002,468	148,708	67,377,599.51
Depreciation	4,482,351.02			4,482,351.02
Total Operating Expenses	<u>70,708,774.53</u>	<u>1,002,468</u>	<u>148,708</u>	<u>71,859,950.53</u>
Operating Loss	<u>(53,403,059.47)</u>	<u>262,232</u>	<u>(1,413,408)</u>	<u>(54,554,235.47)</u>
NONOPERATING REVENUES (EXPENSES)				
Report major revenues and expenses separately				
State Appropriations	33,869,131.00			33,869,131.00
Other Revenues	18,872,772.91	1,222,739	253,339	20,348,850.91
Interest and Fees on Debt	(1,660,823.04)	(609,654)		(2,270,477.04)
Other Expenses	(151,853.72)	(179,934)	179,934	(151,853.72)
Net Nonoperating Revenues (Expenses)	<u>50,929,227.15</u>	<u>433,151</u>	<u>433,273</u>	<u>51,795,651.15</u>
Capital Appropriations/Grants	2,008,120.58			2,008,120.58
Additions to Endowments		87,939		87,939.29
Increase (Decrease) in Net Position	<u>(465,711.74)</u>	<u>783,322</u>	<u>(980,135)</u>	<u>(662,524.45)</u>
NET POSITION				
Net Position, July 1, 2013, as Restated	<u>143,182,930.95</u>	<u>7,242,400</u>	<u>(7,178,272)</u>	<u>143,247,058.66</u>
Net Position, June 30, 2014	<u>\$ 142,717,219.21</u>	<u>\$ 8,025,722</u>	<u>\$ (8,158,407)</u>	<u>\$ 142,584,534.21</u>

Condensed Statement of Cash Flows June 30, 2014

	Elizabeth City University	ECSU Foundation	Total
Net Cash Provided (Used) by Operating Activities	\$ (49,716,617.99)	\$ 125,007	\$ (49,591,610.99)
Net Cash Provided by Noncapital Financing Activities	52,384,286.61	1,053,071	53,437,357.61
Net Cash Used by Capital and Related Financing Activities	(2,666,853.25)	(577,080)	(3,243,933.25)
Net Cash Provided (Used) by Investing Activities	376,516.23	(443,706)	(67,189.77)
Net Increase in Cash and Cash Equivalents	377,331.60	157,292	534,623.60
Cash and Cash Equivalents, July 1, 2013	<u>15,616,087.21</u>	<u>2,295,519</u>	<u>17,911,606.21</u>
Cash and Cash Equivalents, June 30, 2014	<u>\$ 15,993,418.81</u>	<u>\$ 2,452,811</u>	<u>\$ 18,446,229.81</u>

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

NOTE 15 - NET POSITION RESTATEMENT

As of July 1, 2013, net position as previously reported was restated as follows:

	<u>Amount</u>
July 1, 2013 Net Position as Previously Reported	\$ 143,562,527.74
Restatements:	
Expense previously amortized bond issuance costs pursuant to GASB 65 requirements	<u>(315,469.08)</u>
July 1, 2013 Net Position as Restated	<u><u>\$ 143,247,058.66</u></u>

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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, 2014, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated December 12, 2014. Our report includes a reference to other auditors who audited the financial statements of The Elizabeth City State University Foundation, 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,

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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 12, 2014

ORDERING INFORMATION

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