

STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

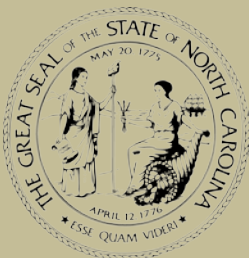
BETH A. WOOD, CPA



ELIZABETH CITY STATE UNIVERSITY

ELIZABETH CITY, NORTH CAROLINA
FINANCIAL STATEMENT AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2016

A CONSTITUENT INSTITUTION OF THE UNIVERSITY OF NORTH CAROLINA SYSTEM
AND A COMPONENT UNIT OF THE STATE OF NORTH CAROLINA



NC OSA
The Taxpayers' Watchdog

STATE OF NORTH CAROLINA
Office of the 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, 2016, 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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State Auditor

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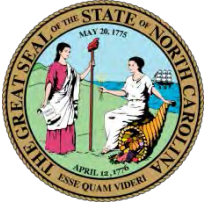
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Article V, Chapter 147 of the *North Carolina General Statutes*, gives the Auditor broad powers to examine all books, records, files, papers, documents, and financial affairs of every state agency. The Auditor also has the power to summon people to produce records and to answer questions under oath.



INDEPENDENT AUDITOR'S REPORT

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Office of the 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 (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, 2016, 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 6.3 percent, 0.6 percent, and 1.1 percent, respectively, of the assets, net position, 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 The 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 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.

Opinion

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of Elizabeth City State University, as of June 30, 2016, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters – Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and other required supplementary information, as listed in the table of contents, 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 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 8, 2016 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.



Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

December 8, 2016



MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Elizabeth City State University (University) annual financial report presents our discussion and analysis of the financial performance of the University during the fiscal year ended June 30, 2016. 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, 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 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 2015-2016, the University had a 2% increase in state appropriations as shown in the Comparative Condensed Statement of Revenues, Expenses and Changes in Net Position below. The increase includes \$3 million in budget stabilization funds from House Bill 97 offset by budget reductions discussed below. The funds were appropriated during the North Carolina General Assembly's 2015 Session to enhance technology related to enrollment and recruitment of students, campus access and safety, and human resources management.

State appropriations accounts for the majority of the University's operating budget and is 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 2016, the University instituted mandated budget reductions of \$1.9 million in appropriations for Enrollment, \$1.5 million in receipts for Non-Resident Undergraduate Tuition, and \$1.8 million in receipts for Resident Undergraduate Tuition. The University will continue to implement the rightsizing plan 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, 2016, remained strong with total current assets of \$15.8 million which is sufficient to cover current liabilities of \$4.8 million by 3.31 times. This scenario indicates the University's ability to pay current liabilities as they become due.

Net position, which was \$134.0 million at June 30, 2016, represents the residual interest in the University's assets and deferred outflows after deducting liabilities and deferred inflows. During the fiscal year, the University's net position increased by \$0.6 million which resulted from total revenues being more 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, 2016 and June 30, 2015. This provides the readers of this statement with information on assets available to continue operations.

Comparative Condensed Statements of Net Position
June 30, 2016 and June 30, 2015

	2016	2015	\$ Change	% Chg
Assets				
Current Assets	\$ 15,793,145.91	\$ 16,350,159.52	\$ (557,013.61)	-3%
Noncurrent Assets				
Capital	144,151,095.66	145,628,927.33	(1,477,831.67)	-1%
Other	17,610,176.63	17,954,211.23	(344,034.60)	-2%
Total Assets	<u>177,554,418.20</u>	<u>179,933,298.08</u>	<u>(2,378,879.88)</u>	-1%
Deferred Outflows of Resources	<u>1,726,973.90</u>	<u>1,899,370.58</u>	<u>(172,396.68)</u>	-9%
Liabilities				
Current Liabilities				
Long-Term Liabilities	1,463,066.02	1,435,709.65	27,356.37	2%
Other Current Liabilities	3,305,557.44	3,140,587.45	164,969.99	5%
Total Current Liabilities	<u>4,768,623.46</u>	<u>4,576,297.10</u>	<u>192,326.36</u>	4%
Noncurrent Liabilities				
Long-Term Liabilities, Net	37,012,033.11	35,836,866.01	1,175,167.10	3%
Other Noncurrent Liabilities	783,278.22	843,056.22	(59,778.00)	-7%
Total Noncurrent Liabilities	<u>37,795,311.33</u>	<u>36,679,922.23</u>	<u>1,115,389.10</u>	3%
Total Liabilities	<u>42,563,934.79</u>	<u>41,256,219.33</u>	<u>1,307,715.46</u>	3%
Deferred Inflows of Resources	<u>2,767,452.00</u>	<u>7,219,017.00</u>	<u>(4,451,565.00)</u>	-62%
Net Position				
Net Investment in Capital Assets	112,467,329.29	112,166,680.54	300,648.75	0%
Restricted:				
Nonexpendable	7,530,252.73	7,745,438.20	(215,185.47)	-3%
Expendable	11,939,669.41	11,725,158.30	214,511.11	2%
Unrestricted	2,012,753.88	1,720,155.29	292,598.59	17%
Total Net Position	<u>\$ 133,950,005.31</u>	<u>\$ 133,357,432.33</u>	<u>\$ 592,572.98</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 \$2.4 million. Current assets decreased by \$0.6 million, noncurrent capital assets decreased by \$1.5 million and other noncurrent assets increased by \$0.3 million. The decrease in current assets was a result of a decrease in accounts receivable. During the year, the University stopped participating in the Perkins Loan Program, which resulted in a decrease in \$0.4 million and is the primary reason for the decrease to current assets. The decrease in other noncurrent assets is the result of

the write off of institutional student loan programs receivables of \$1.0 million. This decrease was offset by an increase in noncurrent cash and cash equivalents of \$1.3 million due to unspent funds received for repairs and renovations.

The \$1.5 million decrease in noncurrent capital assets is a result of construction in progress of \$2.6 million for a new information technology infrastructure upgrade project offset by current year depreciation of \$4.4 million. For additional information on capital assets, see the Capital Asset and Debt Administration section below and refer to Note 6 of the Notes to the Financial Statements.

Current liabilities increased by \$0.2 million and noncurrent liabilities increased by \$1.1 million resulting in total liabilities increasing by \$1.3 million from the prior year. The increase in other current liabilities is the result of recording a liability for the US Department of Education to repay student financial aid from the 2013-2014 award year. The increase in noncurrent long-term liabilities is the result of an increase in net pension liability of \$2.6 million primarily due to lower than anticipated investment earnings generated from the pension plan. The increase to noncurrent long-term liabilities was offset by outstanding debt payments of \$1.3 million and decreases in compensated absences of \$0.1 million due to a reduction in force.

The University recorded deferred inflows related to pensions for \$2.8 million, a decrease of \$4.5 million from prior year. This amount represents the net amount of the University's pension deferrals that will decrease pension expense in fiscal years 2017 to 2020. For more information about the University's deferred outflows and inflows related to pensions, refer to Note 12 of the Notes to the Financial Statements.

The University's net position was \$134.0 million at June 30, 2016, an increase of \$0.6 million from the prior year. This change primarily consists of an increase in the category of net investment in capital assets of \$0.3 million, a decrease in the category of nonexpendable net position of \$0.2 million, an increase in expendable net position of \$0.2 million and an increase in the category of unrestricted net position of \$0.3 million.

The University experienced changes in the net investment in capital assets due to the changes in construction in progress, depreciated assets and outstanding debt payments discussed above. The increase in the restricted expendable net position category is primarily the result of writing off a Perkins Loan receivable in order to liquidate the loan portfolio as required by the Department of Education, receiving 2015 Repair and Renovation funds and spending down the Aviation Department's Golden Leaf Foundation grant. The Golden Leaf grant was awarded to upgrade the school's air traffic control lab and to develop the drone program. The increase in unrestricted is a result of imposed budget reductions, reduced spending levels and the University recording the required liability for pension.

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, 2016 and June 30, 2015

	2016	2015 As Restated	Change	% Chg
Operating Revenues:				
Student Tuition and Fees, Net	\$ 6,117,396.66	\$ 5,967,675.24	\$ 149,721.42	3%
Grants and Contracts	443,571.51	435,731.92	7,839.59	2%
Sales and Services, Net	5,161,724.99	5,171,015.87	(9,290.88)	0%
Other	128,931.44	282,866.91	(153,935.47)	-54%
Total Operating Revenues	11,851,624.60	11,857,289.94	(5,665.34)	0%
Operating Expenses:				
Salaries and Benefits	30,724,623.34	34,131,880.01	(3,407,256.67)	-10%
Supplies and Materials	2,911,736.15	3,298,608.43	(386,872.28)	-12%
Services	11,963,123.53	11,753,083.20	210,040.33	2%
Scholarships and Fellowships	5,387,092.95	4,335,197.10	1,051,895.85	24%
Utilities	2,379,553.28	2,731,913.62	(352,360.34)	-13%
Depreciation	4,388,341.76	4,473,475.56	(85,133.80)	-2%
Total Operating Expenses	57,754,471.01	60,724,157.92	(2,969,686.91)	-5%
Operating Loss	(45,902,846.41)	(48,866,867.98)	(2,964,021.57)	-6%
Nonoperating Revenues and Expenses:				
State Appropriations	32,345,436.00	31,662,719.00	682,717.00	2%
Noncapital Grants - Student Financial Aid	7,575,258.71	8,686,062.30	(1,110,803.59)	-13%
Other Noncapital Grants	7,389,875.65	9,989,444.51	(2,599,568.86)	-26%
Noncapital Gifts	725,397.43	521,720.84	203,676.59	39%
Investment Income (Loss) (Net of Expense)	(7,167.15)	62,485.14	(69,652.29)	-111%
Interest and Fees on Debt	(2,117,638.82)	(2,219,567.06)	101,928.24	5%
Federal Interest Subsidy on Debt	389,516.25	388,678.13	838.12	0%
Other Nonoperating Revenues and Expenses	(1,630,486.13)	131,888.90	(1,762,375.03)	-1336%
Net Nonoperating Revenues	44,670,191.94	49,223,431.76	(4,553,239.82)	-9%
Income (Loss) Before Other Revenues and Expenses	(1,232,654.47)	356,563.78	(1,589,218.25)	-446%
Capital Grants	1,715,440.00	335,448.26	1,379,991.74	411%
Additions to Endowment	109,787.45	42,945.00	66,842.45	156%
Capital Asset Impairment Loss		(1,497,093.92)	1,497,093.92	-100%
Total Other Revenues (Expenses)	1,825,227.45	(1,118,700.66)	2,943,928.11	263%
Increase (Decrease) in Net Position	592,572.98	(762,136.88)	1,354,709.86	178%
Net Position at the Beginning of the Year	133,357,432.33	142,584,534.21	(9,227,101.88)	-6%
Restatement		(8,464,965.00)	8,464,965.00	-100%
Net Position at the End of the Year	\$ 133,950,005.31	\$ 133,357,432.33	\$ 592,572.98	0%
Total Revenues	\$ 62,143,495.42	\$ 63,678,682.02	\$ (1,535,186.60)	-2%
Total Expenses	\$ 61,550,922.44	\$ 64,440,818.90	\$ (2,889,896.46)	-4%

The increase or decrease of revenues over expenses directly affects (increases/decreases) the total net position 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 remained relatively unchanged when compared to 2015. There were no significant changes or transactions noted in the operating revenue captions for the year. Tuition and fees increased by \$0.1 million as a result of increases of 3% in tuition and fees rates from the prior year.

The University experienced a significant decrease in total operating expenses for the year. Salaries and Benefits decreased by \$3.4 million and Scholarship and Fellowships increased by \$1.0 million. The decrease in salaries and benefits resulted from a reduction in force for permanent employees and eliminated vacant positions in fiscal years 2014, 2015 and 2016 related to budgetary reductions imposed in order to rightsize the University. Scholarship and fellowship expense increased due to increased residence hall pricing and students receiving more refunds from financial aid than in the prior year. For additional information on enrollment, see the Comparative Enrollment Data section below. Supplies and materials and utilities decreased as a result of lower student enrollment and budget reductions. There were no significant changes or transactions noted in the remaining operating expense captions.

The University also experienced significant decreases in nonoperating revenues for the year. The \$1.1 million decrease in noncapital grants – student financial aid, is a direct result of the University receiving less funding and receipts related to financial aid due to low student enrollment. State appropriated aid and Pell grants accounted for the majority of the decrease. Other noncapital grants decreased by \$2.6 million as a result of state and federal nonexchange grant projects concluding and a reduction in the number of noncapital grants within the University's portfolio.

Investment income decreased by \$69 thousand, due to the endowment investment portfolios' performance and a overall decline in market conditions. Other nonoperating revenues and expenses decreased by \$1.8 million. The primary reasons are from a loss on the disposal of property, plant, and equipment, the writing off a Perkins Loan receivable to liquidate the loan portfolio as required by the Department of Education, and writing off the institutional student loan program receivables.

Capital grants increased by \$1.4 million as a result of new 2015 Repair and Renovation funds. This represents an increases in aid received from the State to ease the backlogged repairs on campus.

The University had a \$1.6 million decrease in total revenues in 2016 when compared to total revenues in 2015. The decrease is primarily from a decrease in sales and services, noncapital grants – student financial aid, other noncapital grants, investment income, and other nonoperating revenues and expenses. The total revenues decrease is primarily attributable to the low student enrollment, a reduction in financial aid awarded to students, a reduction in active state and federal nonexchange grants, a decline in market conditions for investments and a receivable write off in the Perkins Loan portfolio.

Capital Asset and Debt Administration

In 2016, the University added \$2.6 million to construction in progress for the new Information Technology Infrastructure Upgrade Project. House Bill 97 stabilization funds were utilized to fund the project. Stabilization funds were appropriated in efforts of enhancing technology related to enrollment and recruitment of students, campus access and safety, and human resources management.

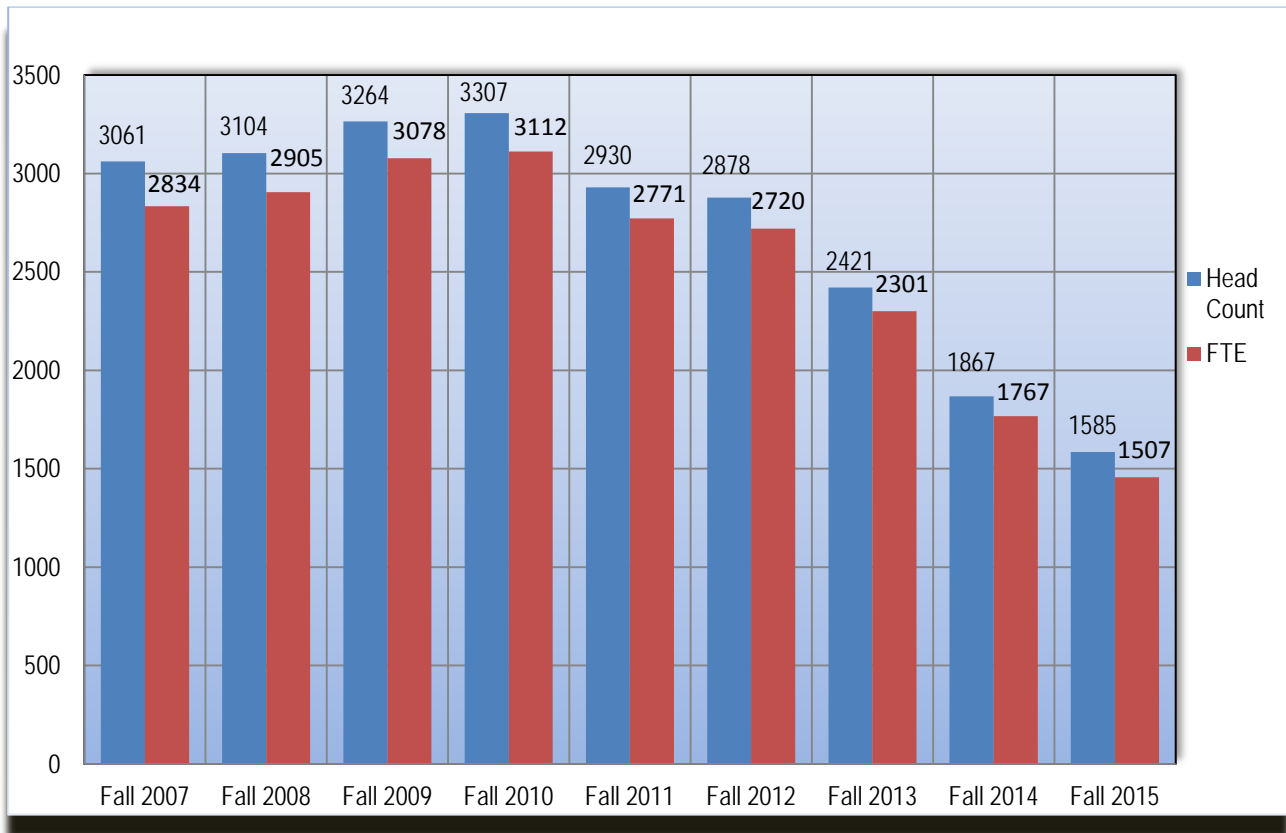
The University's capital assets, net of accumulated depreciation at June 30, 2016, were \$144.1 million. For more information about the University's asset holdings, refer to Note 6 of the Notes to the Financial Statements.

The University had \$38.5 million in total long-term liabilities at June 30, 2016, and continues to make all of its debt payments in a timely manner. Refer to Note 8 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 282 student decrease in total enrollment when comparing fall 2015 with fall 2014. The decrease in enrollment is a direct result of enforcing academic policies and admission standards. The University anticipates another drop in enrollment for fall 2016. 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 2015



Factors Impacting Future Periods

Several factors impact the outlook for the University, such as student enrollment, support from the State of North Carolina, Connect NC Bonds and the NC Promise Tuition Plan.

Due to the University of North Carolina's Board of Governors mandated admission standards, for fall 2015, the University was not completely successful in mitigating a significant loss of students. The total headcount was 1,585 for fall 2015 and FTE was 1,507. As a result of declining enrollment, the University's focus will continue in the recruitment and retention areas.

For fiscal year 2016-2017, the University projected another budget gap caused by a decline in enrollment. In 2015-2016, the University executed another reduction in force for twenty-three employees in efforts of aligning existing resources to accommodate budget projections. Unfortunately, the University plans to execute another reduction in force during the 2016-2017 fiscal year. Anticipation is that the process will affect approximately twenty employees and/or positions. The University will continue to look for financial resources to supplement state appropriations, strategically reorganize, review low performing programs, purchase only critical goods and services, enhance fundraising strategies for private contributions, and restructure departments in order to maintain the level of services required for student and research activities, and academic support.

Support from the State of North Carolina remains solid. During the North Carolina General Assembly's 2015 Session, House Bill 97 was passed. The Bill appropriated the University an additional \$6 million in budget stabilization funds for the 2015-2017 fiscal biennium. In the 2015-2016 fiscal year, the University received the first \$3 million installment in stabilization funds. The funds were utilized to automate admission processes and to upgrade the information technology infrastructure on campus. The University will receive the final installment of stabilization funds in the 2016-2017 fiscal year and will continue to utilize them to enhance technology related to enrollment and recruitment of students, campus access and safety, and human resources management.

During the 2015-2016 North Carolina General Assembly session, \$2 billion was authorized for a statewide referendum issuance of general obligation bonds, (Connect NC Bond). On June 7, 2016, the Council of State authorized the sale of up to \$200 million in general obligation bonds to provide funds for the Connect NC project. The University will receive \$13 million of the funding and will utilize them to renovate Moore Hall and the G. R. Little Library on campus. Projects for the University are scheduled to start in fiscal year 2016-2017.

The 2016 Appropriations Act, House Bill 1030, was passed by the General Assembly and signed by Governor McCrory on July 14, 2016. The Bill included the NC Promise Tuition Plan (NC Promise) in Section 11.4(c). NC Promise will set the tuition rates for the University at \$500 per semester (\$1,000 per year) for resident undergraduate students and \$2,500 per semester (\$5,000 per year) for nonresident undergraduate students.

The University was chosen to participate in efforts of providing a geographically diverse opportunity for residents in North Carolina to have an affordable higher education. Participating will make the University more affordable and enrollment increases are anticipated. NC Promise is funding neutral for the University. Any potential loss in funding for the University due to lower tuition will be compensated by state appropriations. NC Promise will take effect in the fall 2018 semester.

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 meet our core mission and goals.



FINANCIAL STATEMENTS

Elizabeth City State University
Statement of Net Position
June 30, 2016

Exhibit A-1
Page 1 of 2

ASSETS

Current Assets:	
Cash and Cash Equivalents	\$ 8,764,775.34
Restricted Cash and Cash Equivalents	3,423,564.25
Receivables, Net (Note 5)	1,916,910.82
Due from State of North Carolina Component Units	938,981.09
Inventories	98,276.81
Notes Receivable (Note 5)	66,123.63
Prepaid Items	584,513.97
	<hr/>
Total Current Assets	15,793,145.91
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	6,839,963.24
Endowment Investments	5,824,220.23
Restricted Investments	4,175,785.29
Other Investments	47,099.76
Notes Receivable, Net (Note 5)	136,927.31
Prepaid Insurance	586,180.80
Capital Assets - Nondepreciable (Note 6)	4,822,600.32
Capital Assets - Depreciable, Net (Note 6)	139,328,495.34
	<hr/>
Total Noncurrent Assets	161,761,272.29
	<hr/>
Total Assets	177,554,418.20

DEFERRED OUTFLOWS OF RESOURCES

Deferred Loss on Refunding	167,540.90
Deferred Outflows Related to Pensions	1,559,433.00
	<hr/>
Total Deferred Outflows of Resources	1,726,973.90

LIABILITIES

Current Liabilities:	
Accounts Payable and Accrued Liabilities (Note 7)	2,425,804.37
Due to Primary Government	25,346.83
Unearned Revenue	481,234.90
Interest Payable	373,171.34
Long-Term Liabilities - Current Portion (Note 8)	1,463,066.02
	<hr/>
Total Current Liabilities	4,768,623.46
Noncurrent Liabilities:	
Funds Held for Others	134,106.95
U. S. Government Grants Refundable	649,171.27
Long-Term Liabilities, Net (Note 8)	37,012,033.11
	<hr/>
Total Noncurrent Liabilities	37,795,311.33
	<hr/>
Total Liabilities	42,563,934.79

DEFERRED INFLOWS OF RESOURCES

Deferred Inflows Related to Pensions	2,767,452.00
	<hr/>
Total Deferred Inflows of Resources	2,767,452.00

Elizabeth City State University
Statement of Net Position
June 30, 2016

Exhibit A-1
Page 2 of 2

NET POSITION

Net Investment in Capital Assets	112,467,329.29
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	2,368,752.73
Endowed Professorships	5,010,000.00
Departmental Uses	151,500.00
Expendable:	
Scholarships and Fellowships	4,049,581.09
Endowed Professorships	1,056,527.79
Loans	219,310.97
Capital Projects	1,837,412.94
Debt Service	3,971,670.02
Restricted for Specific Programs	805,166.60
Unrestricted	<u>2,012,753.88</u>
Total Net Position	<u><u>\$ 133,950,005.31</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, 2016

Exhibit A-2

REVENUES

Operating Revenues:

Student Tuition and Fees, Net (Note 10)	\$ 6,117,396.66
Federal Grants and Contracts	288,528.35
State and Local Grants and Contracts	149,038.48
Nongovernmental Grants and Contracts	6,004.68
Sales and Services, Net (Note 10)	5,161,724.99
Interest Earnings on Loans	7,339.51
Other Operating Revenues	121,591.93
	<hr/>
Total Operating Revenues	11,851,624.60

EXPENSES

Operating Expenses:

Salaries and Benefits	30,724,623.34
Supplies and Materials	2,911,736.15
Services	11,963,123.53
Scholarships and Fellowships	5,387,092.95
Utilities	2,379,553.28
Depreciation	4,388,341.76
	<hr/>
Total Operating Expenses	57,754,471.01

Operating Loss	<hr/> <u>(45,902,846.41)</u>
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NONOPERATING REVENUES (EXPENSES)

State Appropriations	32,345,436.00
Noncapital Grants - Student Financial Aid	7,575,258.71
Noncapital Grants	7,389,875.65
Noncapital Gifts, Net (Note 10)	725,397.43
Investment Loss (Net of Investment Expense of \$48,326.48)	(7,167.15)
Interest and Fees on Debt	(2,117,638.82)
Federal Interest Subsidy on Debt	389,516.25
Other Nonoperating Expenses	(1,630,486.13)
	<hr/>

Net Nonoperating Revenues	44,670,191.94
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Loss Before Other Revenues	(1,232,654.47)
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Capital Grants	1,715,440.00
Additions to Endowments	109,787.45
	<hr/>

Increase in Net Position	592,572.98
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NET POSITION

Net Position - July 1, 2015	<hr/> 133,357,432.33
Net Position - June 30, 2016	<hr/> <u>\$ 133,950,005.31</u>

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

Elizabeth City State University
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2016

Exhibit A-3
Page 1 of 2

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 11,813,055.03
Payments to Employees and Fringe Benefits	(32,679,170.39)
Payments to Vendors and Suppliers	(16,987,965.99)
Payments for Scholarships and Fellowships	(5,387,092.95)
Collection of Loans	17,321.60
Interest Earned on Loans	385,614.41
	<hr/>
Net Cash Used by Operating Activities	(42,838,238.29)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Appropriations	32,345,436.00
Noncapital Grants - Student Financial Aid	7,575,258.71
Noncapital Grants	7,389,875.65
Noncapital Gifts	725,397.43
Additions to Endowments	109,787.45
William D. Ford Direct Lending Receipts	9,303,905.00
William D. Ford Direct Lending Disbursements	(9,303,905.00)
Related Activity Agency Receipts	9,014.91
Other Payments	(385,813.51)
	<hr/>
Net Cash Provided by Noncapital Financing Activities	47,768,956.64

CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES

Capital Grants	1,715,440.00
Proceeds from Sale of Capital Assets	2,787.00
Acquisition and Construction of Capital Assets	(3,033,438.76)
Principal Paid on Capital Debt	(1,241,988.53)
Interest and Fees Paid on Capital Debt	(2,101,294.27)
Federal Interest Subsidy on Debt Received	389,516.25
Other Receipts	4,960.14
	<hr/>
Net Cash Used by Capital Financing and Related Financing Activities	(4,264,018.17)

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from Sales and Maturities of Investments	4,896,341.76
Investment Income	569,378.38
Purchase of Investments and Related Fees	(5,563,186.34)
	<hr/>
Net Cash Used by Investing Activities	(97,466.20)
	<hr/>
Net Increase in Cash and Cash Equivalents	569,233.98
Cash and Cash Equivalents - July 1, 2015	18,459,068.85
	<hr/>
Cash and Cash Equivalents - June 30, 2016	\$ 19,028,302.83

Elizabeth City State University
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2016

Exhibit A-3
Page 2 of 2

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

Operating Loss	\$ (45,902,846.41)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	4,388,341.76
Allowances and Write Offs	259,642.86
Pension Adjustment	(136,608.00)
Changes in Assets, Liabilities, and Deferred Outflows of Resources:	
Receivables, Net	293,981.01
Inventories	12,873.07
Prepaid Insurance	(219,411.95)
Accounts Payable and Accrued Liabilities	461,277.12
Due to Primary Government	(349,193.18)
Unearned Revenue	53,063.83
Deferred Outflows for Contributions Subsequent to the Measurement Date	(1,559,433.00)
Compensated Absences	(157,247.00)
Student Loans Principal Repayments	17,321.60
	<u>17,321.60</u>
Net Cash Used by Operating Activities	<u>\$ (42,838,238.29)</u>

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	\$ 8,764,775.34
Restricted Cash and Cash Equivalents	3,423,564.25
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	<u>6,839,963.24</u>
Total Cash and Cash Equivalents - June 30, 2016	<u>\$ 19,028,302.83</u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Change in Fair Value of Investments	\$ (576,545.53)
Loss on Disposal of Capital Assets	(120,141.67)

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



NOTES TO THE FINANCIAL STATEMENTS

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 (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, The Elizabeth City State University Foundation (Foundation), a component unit of the University, is reported as if it were part of the University.

The Foundation is governed by a 24-member board. There are 20 voting directors consisting of the University's Chancellor, 6 directors appointed by the Chancellor, 12 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.

Separate financial statements for the Foundation and the Investment Fund 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 16.

- 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** – To the extent available, investments are recorded at fair value based on quoted market prices in active markets on a trade-date basis. Additional information regarding the fair value measurement of investments is disclosed in Note 3. Because of the inherent uncertainty in the use of estimates, values that are based on estimates may differ from the values that would have been used had a ready market existed for the investments. The net increase (decrease) in the fair value of investments is recognized as a component of investment income.

Other asset holdings 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, and private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants. Receivables are recorded net of estimated uncollectible amounts.
- G. **Inventories** - Inventories, consisting of expendable supplies, and motor fuel 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 acquisition value at date of donation in the case of gifts. Donated capital assets acquired prior to July 1, 2015 are stated at fair value as of the date of donation. 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 in the following manner:

<u>Asset Class</u>	<u>Estimated Useful Life</u>
Buildings	50-100 years
Machinery & Equipment	5-25 years
General Infrastructure	10-75 years

- I. **Restricted Assets** - Certain resources are reported as restricted assets because restrictions on asset use change the nature or normal understanding of the availability of the asset. Resources that are not available for current operations and are reported as restricted include resources restricted for the acquisition or construction of capital assets, resources legally segregated for the payment of principal and interest as required by debt covenants, unspent debt proceeds, and endowment and other restricted investments.
- J. **Noncurrent Long-Term Liabilities** - Noncurrent long-term liabilities include principal amounts of revenue bonds payable, net pension liability, 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.

The net pension liability represents the University's proportionate share of the collective net pension liability reported in the State of North Carolina's 2015 *Comprehensive Annual Financial Report*. This liability represents the University's portion of the collective total pension liability less the fiduciary net position of the Teachers' and State Employees' Retirement System. See Note 12 for further information regarding the University's policies for recognizing liabilities, expenses, and deferred outflows and inflows related to pensions.

- 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 liabilities related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of Net Investment in Capital Assets. 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 outflows and inflows 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. 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 that represent subsidies or gifts to the University, as well as investment income, are considered nonoperating since these are either investing, capital, or noncapital financing activities. Capital contributions are presented separately after nonoperating revenues and expenses.

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

NOTE 2 - DEPOSITS AND INVESTMENTS

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

The carrying amount of the University's deposits not with the State Treasurer was \$289,342.95 and the bank balance was \$1,054,441.19. Custodial credit risk is the risk that in the event of a bank failure, the University's deposits may not be returned to it. The University does not have a deposit policy for custodial credit risk. As of June 30, 2016, the University's bank balance exposed to custodial credit risk (amounts that are uninsured and uncollateralized) was \$798,803.96.

- 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.

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 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.

Short-Term Investment Fund - At June 30, 2016, the amount shown on the Statement of Net Position as cash and cash equivalents includes \$18,738,959.88 which represents the University's equity position in the State Treasurer's Short-Term Investment Fund (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 or subject to any other regulatory oversight and does not have a credit rating) had a weighted average maturity of 1.5 years as of June 30, 2016. Assets and shares of the STIF are valued at 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.

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

The following table presents investments by type and investments subject to interest rate risk at June 30, 2016, for the Long-Term Investment Pool.

Long-Term Investment Pool

Investment Type	Amount	Investment Maturities (in Years)		
		Less Than 1	1 to 5	6 to 10
Debt Securities				
Debt Mutual Funds	\$ 1,281,686.37	\$ 391,848.74	\$ 125,252.52	\$ 764,585.11
Money Market Mutual Funds	181,459.23	181,459.23		
Total Debt Securities	1,463,145.60	<u>\$ 573,307.97</u>	<u>\$ 125,252.52</u>	<u>\$ 764,585.11</u>
Other Securities				
International Mutual Funds	1,418,559.75			
Equity Mutual Funds	2,885,289.13			
Investments in Real Estate	252,912.42			
Total Long-Term Investment Pool	<u>\$ 6,019,906.90</u>			

At June 30, 2016, investments in the Long-Term Investment Pool had the following credit quality distribution for securities with credit exposure:

	Amount	AAA Aaa	AA Aa	A	BBB Baa	BB/Ba and below
Debt Mutual Funds	\$ 1,281,686.37	\$ 623,733.95	\$ 63,171.24	\$ 162,836.72	\$ 200,739.47	\$ 231,204.99
Money Market Mutual Funds	181,459.23	181,459.23				
Totals	<u>\$ 1,463,145.60</u>	<u>\$ 805,193.18</u>	<u>\$ 63,171.24</u>	<u>\$ 162,836.72</u>	<u>\$ 200,739.47</u>	<u>\$ 231,204.99</u>

Rating Agency: Moody's

Non-Pooled Investments - The following table presents investments by type and investments subject to interest rate risk at June 30, 2016, for the University's non-pooled investments.

Non-Pooled Investments

Investment Type	Amount	Investment Maturities (in Years)
		Less Than 1
Debt Securities		
Money Market Mutual Funds	\$ 3,982,479.29	\$ 3,982,479.29
Total Debt Securities	3,982,479.29	<u>\$ 3,982,479.29</u>
Other Securities		
Other	44,719.09	
Total Non-Pooled Investments	<u>\$ 4,027,198.38</u>	

At June 30, 2016, the University's non-pooled investments had the following credit quality distribution for securities with credit exposure:

	Amount	AAA Aaa
Money Market Mutual Funds	<u>\$ 3,982,479.29</u>	<u>\$ 3,982,479.29</u>

Rating Agency: Moody's

Total Investments - The following table presents the total investments at June 30, 2016:

	Amount
Investment Type	
Debt Securities	
Debt Mutual Funds	\$ 1,281,686.37
Money Market Mutual Funds	4,163,938.52
Other Securities	
International Mutual Funds	1,418,559.75
Equity Mutual Funds	2,885,289.13
Investments in Real Estate	252,912.42
Other	44,719.09
Total Investments	\$ 10,047,105.28

C. Reconciliation of Deposits and Investments - A reconciliation of deposits and investments for the University as of June 30, 2016, is as follows:

Amount of Deposits with Private Financial Institutions	\$ 289,342.95
Deposits in the Short-Term Investment Fund	18,738,959.88
Long-Term Investment Pool	6,019,906.90
Non-Pooled Investments	4,027,198.38
Total Deposits and Investments	\$ 29,075,408.11
Deposits	
Current:	
Cash and Cash Equivalents	\$ 8,764,775.34
Restricted Cash and Cash Equivalents	3,423,564.25
Noncurrent:	
Restricted Cash and Cash Equivalents	6,839,963.24
Total Deposits	19,028,302.83
Investments	
Noncurrent:	
Endowment Investments	5,824,220.23
Restricted Investments	4,175,785.29
Other Investments	47,099.76
Total Investments	10,047,105.28
Total Deposits and Investments	\$ 29,075,408.11

NOTE 3 - FAIR VALUE MEASUREMENTS

To the extent available, the University's investments are recorded at fair value as of June 30, 2016. GASB Statement No. 72 - *Fair Value Measurement and Application*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement establishes a hierarchy

of valuation inputs based on the extent to which the inputs are observable in the marketplace. Inputs are used in applying the various valuation techniques and take into account the assumptions that market participants use to make valuation decisions. Inputs may include price information, credit data, interest and yield curve data, and other factors specific to the financial instrument. Observable inputs reflect market data obtained from independent sources. In contrast, unobservable inputs reflect the entity's assumptions about how market participants would value the financial instrument. Valuation techniques should maximize the use of observable inputs to the extent available.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used for financial instruments measured at fair value on a recurring basis:

- Level 1 Investments whose values are based on quoted prices (unadjusted) for identical assets in active markets that a government can access at the measurement date.
- Level 2 Investments with inputs – other than quoted prices included within Level 1 – that are observable for an asset, either directly or indirectly.
- Level 3 Investments classified as Level 3 have unobservable inputs for an asset and may require a degree of professional judgment.

The following table summarizes the University's investments, including the Short-Term Investment Fund, within the fair value hierarchy at June 30, 2016:

	Fair Value Measurements Using		
	Fair Value	Level 1	Level 2
Investments by Fair Value Level			
Debt Securities			
Debt Mutual Funds	\$ 1,281,686.37	\$ 1,281,686.37	\$ 0.00
Money Market Mutual Funds	4,163,938.52	4,163,938.52	
Total Debt Securities	5,445,624.89	5,445,624.89	
Other Securities			
Short-Term Investment Fund	18,738,959.88		18,738,959.88
International Mutual Funds	1,418,559.75	1,418,559.75	
Equity Mutual Funds	2,885,289.13	2,885,289.13	
Other (Real Estate Investment Trust)	252,912.42	252,912.42	
Total Investments by Fair Value Level	28,741,346.07	\$ 10,002,386.19	\$ 18,738,959.88
Investments Valued at Net Asset Value (NAV)			
Unallocated Insurance Contracts	44,719.09		
Total Investments Measured at the NAV	44,719.09		
Total Investments Measured at Fair Value	\$ 28,786,065.16		

Short-Term Investment Fund - Ownership interest of the STIF is determined on a fair market valuation basis as of fiscal year end in accordance with the STIF operating procedures. Valuation of the underlying assets is performed by the custodian.

Debt and Equity Securities – Debt and equity securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities.

The valuation of investments measured at the Net Asset Value (NAV) per share (or its equivalent) is presented on the following table.

Investments Measured at the NAV

	Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Unallocated Insurance Contracts	\$ 44,719.09	\$ 0.00	Ineligible	N/A

NOTE 4 - ENDOWMENT INVESTMENTS

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

Investment return of the University’s endowment funds is predicated on the total return concept (yield plus appreciation). The non-mandatory spending policy is to take annual withdrawals on August 1 of each year in the annual amount of 5% of a three-year rolling average of the market value of the endowment. The investment manager is expected to liquidate such investments as may be necessary to accomplish this objective, while still maintaining a balance portfolio. At June 30, 2016, endowment net position of \$2,616,098.83 was available to be spent, of which \$2,534,382.40 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 5 - RECEIVABLES

Receivables at June 30, 2016, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	\$ 1,542,520.79	\$ 869,704.21	\$ 672,816.58
Student Sponsors	67,966.39		67,966.39
Accounts	400,510.51		400,510.51
Intergovernmental	587,792.15		587,792.15
Interest on Loans	7,339.51		7,339.51
Other	180,485.68		180,485.68
Total Current Receivables	<u>\$ 2,786,615.03</u>	<u>\$ 869,704.21</u>	<u>\$ 1,916,910.82</u>
Notes Receivable:			
Notes Receivable - Current:			
Federal Loan Programs	\$ 60,297.03	\$ 0.00	\$ 60,297.03
Institutional Student Loan Programs	5,826.60		5,826.60
Total Notes Receivable - Current	<u>\$ 66,123.63</u>	<u>\$ 0.00</u>	<u>\$ 66,123.63</u>
Notes Receivable - Noncurrent:			
Federal Loan Programs	\$ 715,669.09	\$ 578,741.78	\$ 136,927.31

NOTE 6 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2016, is presented as follows:

	Balance July 1, 2015	Increases	Decreases	Balance June 30, 2016
Capital Assets, Nondepreciable:				
Land	\$ 2,242,272.20	\$ 0.00	\$ 11,400.00	\$ 2,230,872.20
Construction in Progress		2,591,728.12		2,591,728.12
Total Capital Assets, Nondepreciable	<u>2,242,272.20</u>	<u>2,591,728.12</u>	<u>11,400.00</u>	<u>4,822,600.32</u>
Capital Assets, Depreciable:				
Buildings	171,123,495.74		11,210.00	171,112,285.74
Machinery and Equipment	12,683,493.94	441,710.64	358,617.44	12,766,587.14
General Infrastructure	16,757,781.90			16,757,781.90
Total Capital Assets, Depreciable	<u>200,564,771.58</u>	<u>441,710.64</u>	<u>369,827.44</u>	<u>200,636,654.78</u>
Less Accumulated Depreciation for:				
Buildings	43,580,540.66	2,832,346.46	4,596.10	46,408,291.02
Machinery and Equipment	7,312,756.80	735,679.48	253,702.67	7,794,733.61
General Infrastructure	6,284,818.99	820,315.82		7,105,134.81
Total Accumulated Depreciation	<u>57,178,116.45</u>	<u>4,388,341.76</u>	<u>258,298.77</u>	<u>61,308,159.44</u>
Total Capital Assets, Depreciable, Net	<u>143,386,655.13</u>	<u>(3,946,631.12)</u>	<u>111,528.67</u>	<u>139,328,495.34</u>
Capital Assets, Net	<u>\$ 145,628,927.33</u>	<u>\$ (1,354,903.00)</u>	<u>\$ 122,928.67</u>	<u>\$ 144,151,095.66</u>

NOTE 7 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2016, were as follows:

	Amount
Current Accounts Payable and Accrued Liabilities	
Accounts Payable	\$ 588,570.45
Accrued Payroll	966,129.60
Intergovernmental Payables	476,958.77
Other	394,145.55
	<hr/>
Total Current Accounts Payable and Accrued Liabilities	<u>\$ 2,425,804.37</u>

NOTE 8 - LONG-TERM LIABILITIES

A. Changes in Long-Term Liabilities - A summary of changes in the long-term liabilities for the year ended June 30, 2016, is presented as follows:

	Balance July 1, 2015	Additions	Reductions	Balance June 30, 2016	Current Portion
Revenue Bonds Payable	\$ 28,585,000.00	\$ 0.00	\$ 1,035,000.00	\$ 27,550,000.00	\$ 1,105,000.00
Plus: Unamortized Premium	45,241.93		3,823.26	41,418.67	
Less: Unamortized Discount	(217,566.94)		(12,167.96)	(205,398.98)	
	<hr/>		<hr/>	<hr/>	
Total Revenue Bonds Payable, Net	28,412,674.99		1,026,655.30	27,386,019.69	1,105,000.00
	<hr/>		<hr/>	<hr/>	
Net Pension Liability	1,729,086.00	2,601,759.00		4,330,845.00	
Notes Payable	5,123,403.67		215,333.23	4,908,070.44	232,956.80
Compensated Absences	2,007,411.00	1,245,657.94	1,402,904.94	1,850,164.00	125,109.22
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total Long-Term Liabilities, Net	<u>\$ 37,272,575.66</u>	<u>\$ 3,847,416.94</u>	<u>\$ 2,644,893.47</u>	<u>\$ 38,475,099.13</u>	<u>\$ 1,463,066.02</u>

Additional information regarding the net pension liability is included in Note 12.

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, 2016	Principal Outstanding June 30, 2016	See Table Below
Revenue Bonds Payable							
Dormitory System Revenues Bonds of 1981							
Wamack Hall and Mitchell-Lewis Hall	A	3.00%	10/01/2017	\$ 675,000.00	\$ 625,000.00	\$ 50,000.00	(1)
Wamack Hall and Mitchell-Lewis Hall	B	3.00%	10/01/2020	1,680,000.00	1,345,000.00	335,000.00	(1)
Total Dormitory System Revenue Bonds of 1981				2,355,000.00	1,970,000.00	385,000.00	
Educational Facilities Revenue Bonds							
Elizabeth City Housing Foundation	A	2.00%-5.25%	06/01/2033	13,895,000.00	3,480,000.00	10,415,000.00	(2)
Total Educational Facilities Revenue Bonds				13,895,000.00	3,480,000.00	10,415,000.00	
General Revenue Bonds Series 2010							
Refund UNC System Pool Revenue Bonds 2002B	2010A	3.00%-5.50%	04/01/2027	4,525,000.00	2,495,000.00	2,030,000.00	
Student Housing Project (BAB)	2010B	6.386%-8.347%*	04/01/2040	14,720,000.00		14,720,000.00	
Total General Revenue Bonds				19,245,000.00	2,495,000.00	16,750,000.00	
Total Revenue Bonds Payable (principal only)				\$ 35,495,000.00	\$ 7,945,000.00		
Less: Unamortized Discount						(205,398.98)	
Plus: Unamortized Premium						41,418.67	
						\$ 27,386,019.69	

*The University has elected to treat these bonds as federally taxable "Build America Bonds" for the purpose 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.

The University has pledged future revenues, net of specific operating expenses, to repay revenue bonds and special indebtedness 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)	Dormitory Revenue	\$ 412,075.00	\$ 1,169,722.39	\$ 85,000.00 \$ 12,825.00	16%
(2)	Educational Facilities Revenue	15,693,137.50	1,411,552.94	385,000.00 538,010.00	74%

C. Annual Requirements - The annual requirements to pay principal and interest on the long-term obligations at June 30, 2016, are as follows:

Fiscal Year	Annual Requirements			
	Revenue Bonds Payable		Notes Payable	
	Principal	Interest	Principal	Interest
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	900,000.00	1,663,370.06	291,425.79	165,447.16
2021	975,000.00	1,616,261.36	312,926.68	153,201.58
2022-2026	5,625,000.00	7,127,598.72	1,926,684.46	549,357.31
2027-2031	6,850,000.00	4,737,606.61	1,621,630.94	119,380.30
2032-2036	5,755,000.00	3,105,276.90		
2037-2041	4,095,000.00	1,085,110.03		
Total Requirements	\$ 27,550,000.00	\$ 24,637,816.56	\$ 4,908,070.44	\$ 1,548,877.86

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, 2016	Principal Outstanding June 30, 2016
Energy Conservation Improvement	Banc of America Public Capital Corp.	4.09%	09/20/2029	\$ 5,621,819.86	\$ 713,749.42	\$ 4,908,070.44

NOTE 9 - OPERATING LEASE OBLIGATIONS

The University entered into operating leases for rental of storage units and airport hangers. Rental expense for all operating leases during the year was \$14,807.15.

NOTE 10 - 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, Net	\$ 10,021,458.85	\$ 0.00	\$ 3,744,224.27	\$ 159,837.92	\$ 6,117,396.66
Sales and Services:					
Sales and Services of Auxiliary Enterprises:					
Residential Life	\$ 4,894,324.67	\$ 0.00	\$ 2,010,052.82	\$ 134,954.27	\$ 2,749,317.58
Dining	1,988,140.12		834,781.79	40,368.94	1,112,989.39
Bookstore	983,623.67		214,759.54		768,864.13
Parking	2,754.15				2,754.15
Athletic	196,429.93			15,379.02	181,050.91
Vending	23,365.18				23,365.18
Other	670,976.33	330,677.82		16,914.86	323,383.65
Total Sales and Services, Net	\$ 8,759,614.05	\$ 330,677.82	\$ 3,059,594.15	\$ 207,617.09	\$ 5,161,724.99
Nonoperating - Noncapital Gifts, Net	\$ 726,484.93	\$ 0.00	\$ 0.00	\$ 1,087.50	\$ 725,397.43

NOTE 11 - 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	\$ 12,383,713.33	\$ 47,169.23	\$ 205,306.36	\$ 0.00	\$ 818.47	\$ 0.00	\$ 12,637,007.39
Research	461,869.98	233,182.18	331,583.88				1,026,636.04
Public Service	634,509.62	42,503.61	113,900.11				790,913.34
Academic Support	2,032,193.34	557,165.42	322,612.23				2,911,970.99
Student Services	3,922,857.13	660,963.14	1,552,852.89		3,835.61		6,140,508.77
Institutional Support	4,699,030.13	522,350.81	2,863,548.58		525.71		8,085,455.23
Operations and Maintenance of Plant	4,184,020.25	572,190.57	1,426,673.29		1,696,509.78		7,879,393.89
Student Financial Aid				5,387,092.95			5,387,092.95
Auxiliary Enterprises	2,406,429.56	276,211.19	5,146,646.19		677,863.71		8,507,150.65
Depreciation						4,388,341.76	4,388,341.76
Total Operating Expenses	\$ 30,724,623.34	\$ 2,911,736.15	\$ 11,963,123.53	\$ 5,387,092.95	\$ 2,379,553.28	\$ 4,388,341.76	\$ 57,754,471.01

NOTE 12 - PENSION PLANS

A. Defined Benefit Plan

Plan Administration: The State of North Carolina administers the Teachers' and State Employees' Retirement System (TSERS) plan. This plan is a cost-sharing, multiple-employer, defined benefit pension plan established by the State to provide pension benefits for general employees and law enforcement officers (LEOs) of the State, general employees and LEOs of its component units, and employees of Local Education Agencies (LEAs) and charter schools not in the reporting entity. Membership is comprised of employees of the State (state agencies and institutions), universities, community colleges, and certain proprietary component units along with the LEAs and charter schools. Benefit provisions are established by General Statute 135-5 and may be amended only by the North Carolina General Assembly.

Benefits Provided: TSERS provides retirement and survivor benefits. Retirement benefits are determined as 1.82% of the member's average final compensation times the member's years of creditable service. A member's average final compensation is calculated as the average of a member's four highest consecutive years of compensation. General employee plan members are eligible to retire with full retirement benefits at age 65 with five years of creditable service, at age 60 with 25 years of creditable service, or at any age with 30 years of creditable service. General employee plan members are eligible to retire with partial retirement benefits at age 50 with 20 years of creditable service or at age 60 with five years of creditable service. Survivor benefits are available to eligible beneficiaries of general members who die while in active service or within 180 days of their last day of service and who also have either completed 20 years of creditable service regardless of age, or have completed five years of service and have reached age 60.

Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions. The plan does not provide for automatic post-retirement benefit increases. Increases are contingent upon actuarial gains of the plan.

Contributions: Contribution provisions are established by General Statute 135-8 and may be amended only by the North Carolina General Assembly. Employees are required to contribute 6% of their annual pay. The contribution rate for employers is set each year by the NC General Assembly in the Appropriations Act based on the actuarially-determined rate recommended by the actuary. The University's contractually-required contribution rate for the year ended June 30, 2016 was 9.15% of covered payroll. The University's contributions to the pension plan were \$1,559,433.00, and employee contributions were \$1,022,579.02 for the year ended June 30, 2016.

The TSERS Plan's financial information, including all information about the plan's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fiduciary net position, is included in the State of North Carolina's fiscal year 2015 *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.

TSERS Basis of Accounting: The financial statements of the TSERS plan were prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has a legal requirement to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan. The plan's fiduciary net position was determined on the same basis used by the pension plan.

Methods Used to Value TSERS Investment: Pursuant to North Carolina General Statutes, the State Treasurer is the custodian and administrator of the retirement systems. The State Treasurer maintains various investment portfolios in its Investment Pool. The pension trust funds are the primary participants in the Long-term Investment portfolio and the sole participants in the External Fixed Income Investment, Equity Investment, Real Estate Investment, Alternative Investment, Credit Investment, and Inflation Protection Investment portfolios. The investment balance of each pension trust fund represents its share of the fair market value of the net position of the various portfolios within the pool. Detailed descriptions of the methods and significant assumptions regarding investments of the State Treasurer are provided in the 2015 *Comprehensive Annual Financial Report*.

Net Pension Liability: At June 30, 2016, the University reported a liability of \$4,330,845.00 for its proportionate share of the collective net pension liability. The net pension liability was measured as of June 30, 2015. The

total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2014, and update procedures were used to roll forward the total pension liability to June 30, 2015. The University's proportion of the net pension liability was based on the present value of future salaries for the University relative to the present value of future salaries for all participating employers, actuarially-determined. As of June 30, 2015, the University's proportion was 0.11752%, which was a decrease of 0.02996 from its proportion measured as of June 30, 2014.

Actuarial Assumptions: The following table presents the actuarial assumptions used to determine the total pension liability for the TSERS plan at the actuarial valuation date:

Valuation Date	12/31/2014
Inflation	3%
Salary Increases*	4.25% - 9.10%
Investment Rate of Return**	7.25%

* Salary increases include 3.5% inflation and productivity factor.

** Investment rate of return is net of pension plan investment expense, including inflation.

TSERS currently uses mortality tables that vary by age, gender, employee group (i.e. teacher, general, law enforcement officer) and health status (i.e. disabled and healthy). The current mortality rates are based on published tables and based on studies that cover significant portions of the U.S. population. The healthy mortality rates also contain a provision to reflect future mortality improvements.

The actuarial assumptions used in the December 31, 2014 valuations were based on the results of an actuarial experience study for the period January 1, 2005 through December 31, 2009.

Future ad hoc Cost of Living Adjustment (COLA) amounts are not considered to be substantively automatic and are therefore not included in the measurement.

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major

asset class included in the pension plan's target asset allocation as of June 30, 2015 (the valuation date) are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed Income	2.2%
Global Equity	5.8%
Real Estate	5.2%
Alternatives	9.8%
Credit	6.8%
Inflation Protection	3.4%

The information above is based on 30-year expectations developed with the consulting actuary for the 2014 asset, liability and investment policy study for the North Carolina Retirement Systems. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.19%. All rates of return and inflation are annualized.

Discount Rate: The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate: The following presents the net pension liability of the plan calculated using the discount rate of 7.25%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.25%) or 1-percentage point higher (8.25%) than the current rate:

<u>Net Pension Liability (Asset)</u>		
<u>1% Decrease (6.25%)</u>	<u>Current Discount Rate (7.25%)</u>	<u>1% Increase (8.25%)</u>
\$ 13,034,647.00	\$ 4,330,845.00	\$ (3,055,355.00)

Deferred Inflows of Resources and Deferred Outflows of Resources Related to Pensions: For the year ended June 30, 2016, the University recognized pension expense of \$421,997.00 net of the change in employer contributions and proportional share of contributions of (\$558,605.00). At June 30, 2016, the University reported deferred

outflows of resources and deferred inflows of resources related to pensions from the following sources:

Employer Balances of Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions by Classification:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Actual and Expected Experience	\$ 0.00	\$ 492,417.00
Changes of Assumptions		
Net Difference Between Projected and Actual Earnings on Pension Plan Investments		469,210.00
Change in Proportion and Differences Between Agency's Contributions and Proportionate Share of Contributions		1,805,825.00
Contributions Subsequent to the Measurement Date	1,559,433.00	
Total	<u>\$ 1,559,433.00</u>	<u>\$ 2,767,452.00</u>

The amount of \$1,559,433.00 reported as deferred outflows of resources related to pensions will be included as a reduction of the net pension liability in the fiscal year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Schedule of the Net Amount of the Employer's Balances of Deferred Outflows of Resources and Deferred Inflows of Resources That will be Recognized in Pension Expense:

Year ended June 30:	Amount
2017	\$ (1,122,509.00)
2018	(1,122,509.00)
2019	(1,050,741.00)
2020	528,307.00
Total	<u>\$ (2,767,452.00)</u>

B. Defined Contribution Plan - The Optional Retirement Program (Program) is a defined contribution pension 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 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, 2016, 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 \$24,716,741.17, of which \$4,518,518.76 was covered under the Optional Retirement Program. Total employer and employee contributions for pension benefits for the year were \$309,066.68 and \$271,111.13, respectively. The amount of pension expense recognized in the current year related to ORP is equal to the employer contributions. The University had forfeitures of \$98,172.56 reflected in employer contributions during the current fiscal year.

NOTE 13 - 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 (TSERS) or the Optional Retirement Program (ORP). 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 TSERS 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.

For the current fiscal year the University contributed 5.60% of the covered payroll under TSERS and ORP to the Fund. Required contribution rates for the years ended June 30, 2015, and 2014, were 5.49% and 5.40%, respectively. The University made 100% of its annual required contributions to the Plan for the years ended June 30, 2016, 2015, and 2014, which were \$1,207,444.13, \$1,332,771.34, and \$1,562,914.76, 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 TSERS and ORP. 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, 2016, the University made a statutory contribution of .41% of covered payroll under TSERS and ORP to the DIPNC. Required contribution rates for the years ended June 30, 2015, and 2014, were .41% and .44%, respectively. The University made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2016, 2015, and 2014, which were \$88,402.16, \$99,533.01, and \$127,348.61, 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 14 - 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.

A. Employee Benefit Plans**1. State Health Plan**

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.

2. Death Benefit Plan of North Carolina

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.

B. Other Risk Management and Insurance Activities**1. Automobile, Fire, and Other Property Losses**

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 University also purchased through the Fund extended coverage for all buildings which cover windstorm or hail and "all risk" coverage for selected buildings and contents such as high value equipment and computers. The extended coverage deductible is \$5,000 per occurrence for theft losses and all other losses.

All state-owned vehicles are covered by liability insurance through a private insurance company and handled by the North Carolina Department of Insurance. The liability limits for losses are \$1,000,000 per claim and \$10,000,000 per occurrence. The University pays premiums to the North Carolina Department of Insurance for the coverage.

2. Public Officers' and Employees' Liability Insurance

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.

3. Employee Dishonesty and Computer Fraud

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 \$100,000 deductible.

4. Statewide Workers' Compensation Program

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.

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.

5. Other Insurance Held by the University

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.

NOTE 15 - 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 \$1,144,768.58 at June 30, 2016.
- 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.

In June 2016, the NC Office of the State Auditor initiated an audit of the University's administration of programs authorized pursuant to Title IV of the Higher Education Act of 1965, as amended. Although the audit has not been completed, findings include aid being awarded to ineligible students, to students who did not meet Satisfactory Academic Progress Standards, and errors in the calculation of awards required to be returned. The potential liability ranges from \$133,548.73 to \$2,686,660.97. Since it is not possible to predict the US Department of Education's final determination in this matter, no provision for any liability has been made in the financial statements.

NOTE 16 - BLENDED COMPONENT UNIT

Condensed combining information for the University's blended component unit for the year ended June 30, 2016, is presented as follows:

*Condensed Statement of Net Position
June 30, 2016*

	Elizabeth City State University	ECSU Foundation	Eliminations	Total
ASSETS				
Current Assets	\$ 13,288,696.91	\$ 2,765,122	\$ (260,673)	\$ 15,793,145.91
Capital Assets	144,151,095.66			144,151,095.66
Other Noncurrent Assets	8,943,163.63	17,794,809	(9,127,796)	17,610,176.63
Total Assets	<u>166,382,956.20</u>	<u>20,559,931</u>	<u>(9,388,469)</u>	<u>177,554,418.20</u>
Total Deferred Outflows of Resources	<u>1,726,973.90</u>			<u>1,726,973.90</u>
LIABILITIES				
Current Liabilities	4,316,831.46	451,792		4,768,623.46
Long-Term Liabilities, Net	27,093,013.11	9,919,020		37,012,033.11
Other Noncurrent Liabilities	783,278.22	2,387,357	(2,387,357)	783,278.22
Total Liabilities	<u>32,193,122.79</u>	<u>12,758,169</u>	<u>(2,387,357)</u>	<u>42,563,934.79</u>
Total Deferred Inflows of Resources	<u>2,767,452.00</u>			<u>2,767,452.00</u>
NET POSITION				
Net Investment in Capital Assets	112,467,329.29			112,467,329.29
Restricted - Nonexpendable	5,402,304.73	2,127,948		7,530,252.73
Restricted - Expendable	13,727,763.41	5,213,018	(7,001,112)	11,939,669.41
Unrestricted	1,551,957.88	460,796		2,012,753.88
Total Net Position	<u>\$ 133,149,355.31</u>	<u>\$ 7,801,762</u>	<u>\$ (7,001,112)</u>	<u>\$ 133,950,005.31</u>

*Condensed Statement of Revenues, Expenses, and
Changes in Net Position
For the Fiscal Year Ended June 30, 2016*

	Elizabeth City State University	ECSU Foundation	Eliminations	Total
OPERATING REVENUES				
Tuition and Fees	\$ 6,117,396.66	\$ 0	\$ 0	\$ 6,117,396.66
Grants and Contracts	443,571.51			443,571.51
Sales and Services, Net	5,082,570.99		79,154	5,161,724.99
Contribution		395,440	(395,440)	
Donated Facilities and Services		314,816	(314,816)	
Other Operating Revenue	128,931.44	220,052	(220,052)	128,931.44
Total Operating Revenues	<u>11,772,470.60</u>	<u>930,308</u>	<u>(851,154)</u>	<u>11,851,624.60</u>
OPERATING EXPENSES				
Operating Expenses	53,956,157.25	918,213	(1,508,241)	53,366,129.25
Depreciation	4,388,341.76			4,388,341.76
Total Operating Expenses	<u>58,344,499.01</u>	<u>918,213</u>	<u>(1,508,241)</u>	<u>57,754,471.01</u>
Operating Loss	<u>(46,572,028.41)</u>	<u>12,095</u>	<u>657,087</u>	<u>(45,902,846.41)</u>
NONOPERATING REVENUES (EXPENSES)				
State Appropriations	32,345,436.00			32,345,436.00
Noncapital Grants	14,965,134.36			14,965,134.36
Noncapital Gifts	189,440.43		535,957	725,397.43
Interest on Direct Financing Lease		484,894	(484,894)	
Investment Income (Loss), Net	65,124.85	(72,292)		(7,167.15)
Interest and Fees on Debt	(1,542,628.82)	(575,010)		(2,117,638.82)
Other Nonoperating Revenues (Expenses)	(1,240,969.88)	(14,399)	14,399	(1,240,969.88)
Net Nonoperating Revenues (Expenses)	<u>44,781,536.94</u>	<u>(176,807)</u>	<u>65,462</u>	<u>44,670,191.94</u>
Capital Grants	1,715,440.00			1,715,440.00
Additions to Endowments		109,787		109,787.45
Increase (Decrease) in Net Position	(75,051.47)	(54,925)	722,549	592,572.98
NET POSITION				
Net Position, July 1, 2015	<u>133,224,406.33</u>	<u>7,856,687</u>	<u>(7,723,661)</u>	<u>133,357,432.33</u>
Net Position, June 30, 2016	<u>\$ 133,149,354.86</u>	<u>\$ 7,801,762</u>	<u>\$ (7,001,112)</u>	<u>\$ 133,950,005.31</u>

*Condensed Statement of Cash Flows
June 30, 2016*

	Elizabeth City State University	ECSU Foundation	Total
Net Cash Used by Operating Activities	\$ (42,321,008.29)	\$ (517,230)	\$ (42,838,238.29)
Net Cash Provided by Noncapital Financing Activities	46,638,318.64	1,130,638	47,768,956.64
Net Cash Used by Capital and Related Financing Activities	(4,015,291.17)	(248,727)	(4,264,018.17)
Net Cash Provided (Used) by Investing Activities	55,683.80	(153,150)	(97,466.20)
Net Increase in Cash and Cash Equivalents	357,702.98	211,531	569,233.98
Cash and Cash Equivalents, July 1, 2015	<u>16,166,150.85</u>	<u>2,292,918</u>	<u>18,459,068.85</u>
Cash and Cash Equivalents, June 30, 2016	<u>\$ 16,523,853.83</u>	<u>\$ 2,504,449</u>	<u>\$ 19,028,302.83</u>

NOTE 17 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2016, the University implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 72, Fair Value Measurement and Application

GASB Statement No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68

GASB Statement No. 76, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments

GASB Statement No. 79, Certain External Investment Pools and Pool Participants

GASB Statement No. 72 provides guidance for determining a fair value measurement for financial reporting purposes. This statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

GASB Statement No. 73 establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement No. 68. It also amends certain provisions of Statement No. 67, *Financial Reporting for Pension Plans*, and Statement No. 68 for pension plans and pensions that are within their respective scopes.

GASB Statement No. 76 reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP.

GASB Statement No. 79 establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes.



REQUIRED SUPPLEMENTARY INFORMATION

Elizabeth City State University
Required Supplementary Information
Schedule of the Proportionate Net Pension Liability
Teachers' and State Employees' Retirement System
Last Three Fiscal Years

Exhibit B-1

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Proportionate Share Percentage of Collective Net Pension Liability	0.11752%	0.14748%	0.17140%
Proportionate Share of TSERS Collective Net Pension Liability	\$ 4,330,845.00	\$ 1,729,086.00	\$ 1,032,073.23
Covered-Employee Payroll	\$ 18,749,899.40	\$ 22,430,604.26	\$ 25,144,234.15
Net Pension Liability as a Percentage of Covered-Employee Payroll	23.10%	7.71%	4.10%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	94.64%	98.24%	90.60%

Elizabeth City State University
Required Supplementary Information
Schedule of University Contributions
Teachers' and State Employees' Retirement System
Last Ten Fiscal Years

Exhibit B-2

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Contractually Required Contribution	\$ 1,559,433.00	\$ 1,715,615.80	\$ 1,949,219.51	\$ 2,094,514.70	\$ 1,859,713.37
Contributions in Relation to the Contractually Determined Contribution	<u>1,559,433.00</u>	<u>1,715,615.80</u>	<u>1,949,219.51</u>	<u>2,094,514.70</u>	<u>1,859,713.37</u>
Contribution Deficiency (Excess)	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>
Covered-Employee Payroll	\$ 17,042,983.61	\$ 18,749,899.40	\$ 22,430,604.26	\$ 25,144,234.15	\$ 24,996,147.39
Contributions as a Percentage of Covered-Employee Payroll	9.15%	9.15%	8.69%	8.33%	7.44%

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Contractually Required Contribution	\$ 1,229,306.66	\$ 876,277.73	\$ 830,963.76	\$ 725,282.28	\$ 579,986.23
Contributions in Relation to the Contractually Determined Contribution	<u>1,229,306.66</u>	<u>876,277.73</u>	<u>830,963.76</u>	<u>725,282.28</u>	<u>579,986.23</u>
Contribution Deficiency (Excess)	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>
Covered-Employee Payroll	\$ 24,935,226.37	\$ 24,545,594.69	\$ 24,731,064.37	\$ 23,779,746.74	\$ 21,803,993.52
Contributions as a Percentage of Covered-Employee Payroll	4.93%	3.57%	3.36%	3.05%	2.66%

Elizabeth City State University
Notes to Required Supplementary Information
Schedule of University Contributions
Teachers' and State Employees' Retirement System
Last Ten Fiscal Years

Changes of Benefit Terms:

<u>Cost of Living Increase</u>									
<u>2015*</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
1.00%	N/A	1.00%	N/A	N/A	N/A	2.20%	2.20%	3.00%	2.00%

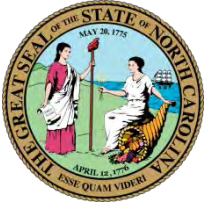
Changes of assumptions. In 2008, and again in 2012, the rates of withdrawal, mortality, service retirement and salary increase for active members and the rates of mortality for beneficiaries were adjusted to more closely reflect actual experience. Assumptions for leave conversions and loads were also revised in 2012.

*Per the 2015 State of North Carolina *Comprehensive Annual Financial Report*, the 1.00% cost of living adjustment applies to retirees whose retirement began on or before July 1, 2013.



INDEPENDENT AUDITOR'S REPORT

STATE OF NORTH CAROLINA
Office of the State Auditor



Beth A. Wood, CPA
State Auditor

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Elizabeth City State University (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, 2016, 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 8, 2016. 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, 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 8, 2016

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This audit required 604 hours at an approximate cost of \$62,212.00.