



# STATE OF NORTH CAROLINA

**FAYETTEVILLE STATE UNIVERSITY**

**FAYETTEVILLE, NORTH CAROLINA**

**FINANCIAL STATEMENT AUDIT REPORT**

**FOR THE YEAR ENDED JUNE 30, 2011**

**OFFICE OF THE STATE AUDITOR**

**BETH A. WOOD, CPA**

**STATE AUDITOR**

**FAYETTEVILLE STATE UNIVERSITY**

**FAYETTEVILLE, NORTH CAROLINA**

**FINANCIAL STATEMENT AUDIT REPORT**

**FOR THE YEAR ENDED JUNE 30, 2011**

**BOARD OF GOVERNORS**

**THE UNIVERSITY OF NORTH CAROLINA**

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**Beth A. Wood, CPA**  
State Auditor

STATE OF NORTH CAROLINA  
**Office of the State Auditor**

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**AUDITOR'S TRANSMITTAL**

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

We have completed a financial statement audit of Fayetteville State University for the year ended June 30, 2011, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

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

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

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

Beth A. Wood, CPA  
State Auditor

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**INDEPENDENT AUDITOR'S REPORT**

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Board of Trustees  
Fayetteville State University  
Fayetteville, North Carolina

We have audited the accompanying financial statements of Fayetteville State University, a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 2011, which collectively comprise the University's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Fayetteville State University Student Housing Corporation and Subsidiary, which represents 1.04 percent of the assets of the University; nor the financial statements of the Fayetteville State University Foundation Inc. and Subsidiary, the University's discretely presented component unit. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for those entities, are based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of Fayetteville State University Foundation Inc. and Subsidiary were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinions.

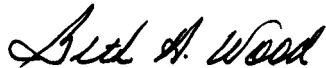
In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of Fayetteville State University and its discretely presented component unit as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

## INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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In accordance with *Government Auditing Standards*, we have also issued our report dated November 9, 2011 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis, as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



Beth A. Wood, CPA  
State Auditor

November 9, 2011

## **FAYETTEVILLE STATE UNIVERSITY MANAGEMENT'S DISCUSSION AND ANALYSIS**

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### **Introduction**

Fayetteville State University (University) provides this overview and Management's Discussion and Analysis to assist in understanding the financial statements and the Notes to the Financial Statements presented herewith for the year ended June 30, 2011, and includes comparative data for the year ended June 30, 2010. The discussion describes important trends and events that have impacted the fiscal health of the University and that may continue to exert influence in future years. This discussion has been prepared by and is the responsibility of the University's management along with the financial statements and the Notes to the Financial Statements. The report should be read and considered in its entirety.

### **Using the Annual Report**

This annual report consists of a series of financial statements, Notes to the Financial Statements, and other information prepared in accordance with the Governmental Accounting Standards Board (GASB). The GASB establishes standards for external financial reporting for public colleges and universities and requires that financial statements be presented on a consolidated basis for the University as a whole. These standards were used in the preparation of this document. The statements 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. Comparative information for the prior fiscal year is also presented in the condensed financial statements.

The basic financial statements include the Statement of Net Assets, the Statement of Revenues, Expenses, and Changes in Net Assets, and the Statement of Cash Flows. The Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets are discussed in later sections of this discussion and analysis.

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

The Notes to the Financial Statements should be read in conjunction with the financial statements. The Notes to the Financial Statements provide information regarding the significant accounting principles applied in the financial statements, authority for and associated risk of deposits and investments, detailed information on deposits and investments, long-term liabilities, accounts receivable, accounts payable, revenues, expenses, required information on pension plans, other post employment benefits, insurance against losses, commitments and contingencies, and if necessary, a discussion of accounting changes, adjustments to prior periods, and events subsequent to the University's financial statement

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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period. Overall, these Notes to the Financial Statements provide information to better understand details, risks, and uncertainties associated with amounts reported in the financial statements.

### **Reporting Entity**

The financial statements report information about the University as a whole using accounting methods similar to those used in the private-sector. Although legally separate, the Fayetteville State University Student Housing Corporation and Subsidiary is a component unit of the University, and is reported as if it were part of the University. The University's supporting organization, the Fayetteville State University Foundation Inc. and Subsidiary (Foundation) is a legally separate not-for-profit corporation and is reported as a discretely presented component unit based on the nature and significance of its relationship to the University. Therefore, the results of its operations are not blended with the University's financial statements, but are discretely presented, and are not included in this Management's Discussion and Analysis. The Foundation includes as a subsidiary the University Place Apartments (UPA). These apartments are currently leased to the University under a master lease agreement, for use as student housing.

### **Financial Highlights**

The University's financial position, as a whole, remained relatively stable during the fiscal year ended June 30, 2011. The combined net assets for the University increased \$2.98 million, which is an increase of 2.46 %.

### **Summary of Net Assets**

The Statement of Net Assets presents the assets, liabilities, and net assets of the University as of the end of the fiscal year. The statement is a point-in-time statement presenting a fiscal snapshot of Fayetteville State University. From the data presented, readers of the Statement of Net Assets are able to determine the assets available to continue the operations of the University. They are also able to determine how much the University owes to vendors and others and how much is held for future use by the University or others. Finally, the Statement of Net Assets provides a picture of the net assets and their availability for expenditure by the University.

Net assets are divided into categories to show the availability to meet University obligations. The first category, invested in capital assets, net of related debt, provides the University's equity in property, plant, and equipment. The next net asset category is restricted net assets, which is divided into two categories, nonexpendable and expendable. Restricted nonexpendable net assets consist primarily of the University's permanent endowment funds and are only available for investment purposes. Restricted expendable net assets are available for use by the University, but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets. The final category is unrestricted net assets. Unrestricted net assets are available to the University for any lawful purpose of the University. Although unrestricted net assets are not subject to externally imposed stipulations, substantially all of the University's unrestricted net assets have been designated for various academic and research programs and initiatives.



## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

### Condensed Summary of Net Assets (in millions)

	2011	2010	Increase/ (Decrease)	Percent Change
<b>Assets:</b>				
Current Assets	\$ 10.94	\$ 14.56	\$ (3.62)	-24.86%
Noncurrent Assets:				
Capital	112.19	109.16	3.03	2.78%
Other	13.23	11.71	1.52	12.98%
Total Assets	136.36	135.43	0.93	0.69%
<b>Liabilities:</b>				
Current Liabilities	3.52	5.28	(1.76)	-33.33%
Noncurrent Liabilities	8.59	8.88	(0.29)	-3.27%
Total Liabilities	12.11	14.16	(2.05)	-14.48%
<b>Net Assets:</b>				
Invested in Capital Assets, Net of Related Debt	108.60	104.69	3.91	3.73%
Restricted:				
Nonexpendable	6.39	5.57	0.82	14.72%
Expendable	3.68	2.80	0.88	31.43%
Unrestricted	5.58	8.21	(2.63)	-32.03%
Total Net Assets	\$ 124.25	\$ 121.27	\$ 2.98	2.46%

Net Assets categories are defined in Note 1.L of the Notes to the Financial Statements.

As of June 30, 2011, total University net assets were \$124.25 million. The University's largest assets are the capital assets of \$112.19 million, representing 90.29% of total net assets. Noncurrent capital assets increased by \$3.03 million due to the increases in assets being greater than the increases in depreciation. The increase in noncurrent capital assets was primarily due to expenditures for the Nursing Education and Research Center and the new student housing project. The \$2.98 million overall increase in net assets was largely attributable to this increase in noncurrent capital assets.

Current assets decreased \$3.62 million or 24.86%, mainly due to the carry forward decrease of \$1.63 million for fiscal year 2011 and \$1.42 million expended for the new student housing project. Other noncurrent assets increased by \$1.52 million, or 12.98%, primarily due to an appreciation in endowment investments of \$788,477 and an increase in restricted cash and cash equivalents, related to additions to endowments of \$794,223.

The University's liabilities totaled \$12.11 million at June 30, 2011. Noncurrent liabilities of \$8.59 million consist mainly of \$2.68 million in bonds payable and \$3.43 million in compensated absences. Other liabilities include contracts, capital leases, accounts payable, U.S. government grants refundable, and funds held for others. Current liabilities decreased \$1.76 million or 33.33% primarily due to a decrease in accrued payroll of \$809,222 and a decrease in accounts payable of \$496,932. The University transitioned from a monthly to bi-weekly processing of temporary and student payroll in October, 2010, resulting in less accrued payroll. The fiscal year 2010 accounts payable was high due to the state not funding the June 30, 2010 cash requisition request until July 2010; however that did not occur this fiscal year, resulting in a decrease in accounts payable compared to June 30, 2010. Details of

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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both current and noncurrent liabilities are shown on the Statement of Net Assets and in notes 6 and 7 of the Notes to the Financial Statements.

Expendable restricted net assets increased \$0.88 million or 31.43% due to marginal increases in all categories (\$0.06 million in scholarships and fellowships, \$0.23 million in endowed professorships, \$0.34 million in departmental use, \$0.18 million in capital projects, and \$0.07 million in debt service). These marginal increases can be attributed to increased spending allocations for endowments. The unrestricted net assets decreased \$2.63 million or 32.03%, mainly due to the carry forward decrease of \$1.63 million for fiscal year 2011 and expenditures for the new student housing project.

The University's current assets of \$10.94 million covered the current liabilities of \$3.52 million, at a ratio of 3.11 (\$3.11 in current assets for every \$1.00 in current liabilities).

At June 30, the University had a liability for compensated absences of \$3.73 million. Compensated absences is the University's largest liability, representing 30.8% of total University liabilities.

### **Summary of Revenues, Expenses, and Changes in Net Assets**

The Statement of Revenues, Expenses, and Changes in Net Assets presents the revenues earned and expenses incurred during the year. Activities are reported as either operating or nonoperating. A public University's dependency on State aid, certain grants, and gifts will result in operating deficits since the GASB requires that State appropriations, certain grants, and gifts be classified as nonoperating revenues. The utilization of long-lived assets, referred to as capital assets, is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life.

The change in total net assets as presented on the Condensed Summary of Net Assets is based on the activity presented in the Statement of Revenues, Expenses, and Changes in Net Assets. The purpose of the statement is to present the revenues received by the University, both operating and nonoperating, the expenses paid by the University, both operating and nonoperating, and any other revenues, expenses, gains and/or losses received or spent by the University.

Generally speaking, operating revenues are received for providing goods and services to the various customers and constituencies of the University. Operating expenses are those expenses paid to acquire or produce the goods and services provided in return for operating revenues, and to carry out the mission of the University. Nonoperating revenues are revenues received for which goods and services are not provided. Capital grants are considered neither operating nor nonoperating revenues and are reported after "Gain (Loss) Before Other Revenues (Expenses)."

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

### Condensed Summary of Revenues, Expenses, and Changes in Net Assets (in millions)

	2011	2010 (Restated)	Increase/ (Decrease)	Percent Change
<b>Operating Revenues:</b>				
Student Tuition and Fees, Net	\$ 11.74	\$ 12.30	\$ (0.56)	-4.55%
Grants and Contracts	0.27	0.12	0.15	125.00%
Sales and Services, Net	6.51	7.69	(1.18)	-15.34%
Other Operating Revenues	0.37	0.15	0.22	146.67%
Total Operating Revenues	<u>18.89</u>	<u>20.26</u>	<u>(1.37)</u>	-6.76%
<b>Operating Expenses:</b>				
Salaries and Benefits	66.80	64.25	2.55	3.97%
Supplies and Materials	6.95	6.99	(0.04)	-0.57%
Services	17.41	16.49	0.92	5.58%
Scholarships and Fellowships	14.00	14.42	(0.42)	-2.91%
Utilities	2.83	2.72	0.11	4.04%
Depreciation	2.29	2.85	(0.56)	-19.65%
Total Operating Expenses	<u>110.28</u>	<u>107.72</u>	<u>2.56</u>	2.38%
Operating Loss	<u>(91.39)</u>	<u>(87.46)</u>	<u>(3.93)</u>	4.49%
<b>Nonoperating Revenues (Expenses):</b>				
State Appropriations	48.36	52.04	(3.68)	-7.07%
State Aid-Federal Recovery Funds		2.80	(2.80)	-100.00%
Noncapital Grants	39.79	34.49	5.30	15.37%
Interest and Fees on Debt	(0.20)	(0.26)	0.06	23.08%
Other Net Nonoperating Revenue	<u>2.28</u>	<u>2.12</u>	<u>0.16</u>	7.55%
Net Nonoperating Revenues	<u>90.23</u>	<u>91.19</u>	<u>(0.96)</u>	-1.05%
Gain (Loss) Before Other Revenues (Expenses)	<u>(1.16)</u>	<u>3.73</u>	<u>(4.89)</u>	-131.10%
Refund of Prior Year's Capital Appropriations		(0.02)	0.02	-100.00%
Capital Grants	3.35	5.76	(2.41)	-41.84%
Permanent Endowment Additions	<u>0.79</u>	<u>0.76</u>	<u>0.03</u>	3.95%
Increase in Net Assets	<u>2.98</u>	<u>10.23</u>	<u>(7.25)</u>	-70.86%
<b>Net Assets:</b>				
Beginning of Year	<u>121.27</u>	<u>111.04</u>	<u>10.23</u>	9.21%
End of Year	<u>\$ 124.25</u>	<u>\$ 121.27</u>	<u>\$ 2.98</u>	2.46%

The Condensed Summary of Revenues, Expenses, and Changes in Net Assets shows an increase in net assets of \$2.98 million for the fiscal year. For proper comparison, the 2010 column includes a restatement to bookstore revenue and expense, affecting Sales and Services, Net in Operating Revenues and Services in Operating Expenses. The restatement corrects the University's historical recording of bookstore rental fees as revenue when collected from the student and an expense when remitted to the vendor. The restatement of bookstore revenues and expenses also modified the allocation of the prior year's scholarship discount amongst Student Tuition and Fees, Net as well as Sales and Services, Net. These allocations are restated as well.

The total operating loss for fiscal year 2011 was \$91.39 million. Since the State of North Carolina appropriation and student financial aid revenue are not included within operating revenue per GASB, the University shows a significant operating loss.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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The University strives to provide students with the opportunity to obtain a quality education. Future University enrollment may be affected by a number of factors, including the national economy and any material increase in tuition and/or other mandatory charges. Changes in appropriation funding from the State of North Carolina may influence costs to students and the ability to continue normal operations. The State appropriations, which were reduced in fiscal year 2011, are a critical source of funding for the University.

The State appropriations are received through an allotment and requisition system through the North Carolina Office of State Budget and Management and the North Carolina Office of State Controller. There is no direct connection between the amount of tuition revenues collected by the University and the amount of State funds appropriated in any given year. For the fiscal year beginning July 1, 2010, and ending June 30, 2011, the University received \$48.36 million in State appropriations for operations and \$3.35 million from the State in capital grants for capital projects. Appropriations decreased \$3.68 million, or 7.07%, and capital grants decreased \$2.41 million or 41.84% during the fiscal year. These decreases were the result of budget reductions and mandated reversions to meet statewide budget needs.

Noncapital grants were \$39.79 million for the year ending June 30, 2011. State Aid-Federal Recovery Funds are combined with Noncapital grants for the current year, whereas they were presented separately in the financial statements in the prior year. Of the \$5.30 million, or 15.37%, increase in Noncapital Grants, \$3.20 million of the increase results from the State Aid - Federal Recovery Funds financial statement presentation change. There was also a \$3.50 million increase in Pell Grants and a \$0.83 million increase in State Grants. There were several new State grants awarded during fiscal year 2011, including the Raising a Reader grant of \$0.17 million, the Dropout Prevention (FAME) grant of \$0.14 million, the Minority Male grant of \$0.10 million, the School of Education Recruitment Advisor grants of \$0.10 million, and the NC Department of Commerce grant of \$0.08 million.

Operating revenues include tuition and fees, operating grants and contracts, and sales and services, primarily to students (housing, dining, bookstore, health and other services). Although the University had increases in the annual cost of in-state Undergraduate Tuition (\$224), in-state Graduate Tuition (\$247), Athletic Fees (\$40), Ed Tech Fees (\$10), and Student Activity Fees (\$25), a decline in enrollment caused a decrease of \$0.56 million, or 4.55%, in net tuition and fee revenues. Sales and Services, Net revenue decreased \$1.18 million, or 15.34%, also due to enrollment declines, causing a reduction in receipts related to dorm rent and food services.

Operating expenses, including depreciation of \$2.29 million, totaled \$110.28 million. Of this total, \$48.99 million, or 44.42%, was used for instruction and academic support; \$11.29 million, or 10.24%, was used for institutional support; \$9.76 million, or 8.85%, was used for operations and maintenance of plant; \$13.82 million, or 12.54%, was used for auxiliary enterprises. Other operating expenses included Research of \$0.88 million or 0.80%, Public Service of \$4.61 million or 4.18%, Student Services of \$4.63 or 4.20%, and Student Financial Aid of \$14.00 million or 12.70%.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

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Although there were no salary increases during fiscal year 2011, an increase in employer contributions for retirement and medical insurance as well as the University transitioning from a monthly to bi-weekly processing of temporary and student payroll resulting in an additional payroll cycle during fiscal year 2011 which caused a 3.97% increase in Salaries and Benefits. The decrease in operating expenses for Supplies and Materials is related to the state mandated budget reductions. The increase in Services is due to various marginal increases in several categories such as printing and contracted services.

One of the University's greatest strengths is the diverse streams of revenues that supplement student tuition and fees, including voluntary private support from individuals, foundations, and corporations, along with government and other sponsored programs, State appropriations, and investment income. The University has in the past and will continue to seek funding aggressively from all possible sources consistent with its mission, to supplement student tuition, and prudently manage the financial resources realized from these efforts to fund its operating activities.

### **Capital Assets**

Capital projects for the fiscal year 2011 include capitalized repair and renovation expenditures related to the Mitchell Building (\$74,789), the Barber Building Generator (\$103,245), the Lilly Building Phase II (\$116,300), and the Energy Efficiency Upgrades (\$63,938). Planning and design continue for the Science and Technology complex, with expenditures during the current year of \$613,666. In addition, the Fayetteville State University Student Housing Corporation and Subsidiary, discussed previously in Note 1 to the financial statements began construction for its first student housing project. Total capitalized expenditures related to this project were \$1.42 million for the year.

Total Buildings and renovations completed and capitalized during the 2010-11 fiscal year totaled \$8.46 million and included the Nursing Education and Research Center, with capitalized expenditures during the current fiscal year of \$2,053,416 and the Mitchell Building.

Total capital assets, net of accumulated depreciation, at June 30, 2011 were \$112.19 million. For more detailed information about asset holdings, see Note 5 of the Notes to the Financial Statements.

Outstanding commitments on construction contracts totaled \$19.02 million for the year ending June 30, 2011, which is an increase of \$16.62 million from the previous fiscal year. The construction commitment amount is primarily related to the \$17.03 million contract for the new Science and Technology Building.

### **Long-Term Debt Activities**

The University incurs long-term debt to finance construction projects, to purchase equipment using lease arrangements and to provide for accumulated unused vacation benefits for

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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employees. As shown in the table below, the University decreased its long-term debt by \$634,407.35 during fiscal year 2011.

	2011	2010	Increase/ (Decrease)
Bonds Payable	\$ 3,225,000.00	\$ 3,740,000.00	\$ (515,000.00)
Capital Leases Payable	367,118.39	733,519.74	(366,401.35)
Compensated Absences	3,726,819.00	3,504,525.00	222,294.00
Pollution Remediation Payable	55,000.00	30,300.00	24,700.00
<b>Total Long-Term Liabilities</b>	<b>\$ 7,373,937.39</b>	<b>\$ 8,008,344.74</b>	<b>\$ (634,407.35)</b>

No new bond debt was issued during fiscal year 2011. However, on August 10, 2011 Fayetteville State University Housing LLC sold \$20,715,000 in Series 2011 tax-exempt Limited Obligation Bonds. The bonds were issued to provide funds for constructing, equipping and furnishing a new student housing facility to be located on the Fayetteville State University Campus. For detailed information about long-term debt, see Note 7 and Note 8 of the Notes to the Financial Statements.

### Factors Impacting Future Periods

Management believes that the University is positioned to continue its level of excellence of service to students, the community, and governmental agencies. However, it is becoming increasingly challenging to maintain service levels due to ongoing budget reductions. The University's ongoing efforts toward revenue diversification and cost containment will enable the University to provide the necessary resources to support this level of excellence. The University's management team continues to abide by the strategic priorities for the University, and is expecting reaffirmation of SACS (Southern Association of Colleges and Schools) accreditation in December 2011. Management changes were minimal during fiscal year 2011 are not considered to have a significant effect on the continued operations and financial position of the University.

A crucial element to the University's future will continue to be our relationship with the State of North Carolina, as well as working to manage tuition and fees while staying competitive and providing an outstanding college education for our students. There is a direct relationship between the growth of State support and the University's ability to control tuition growth, as declines in State appropriations generally result in increased tuition levels.

The University continues to execute its long-range plan to modernize and expand its complement of facilities with a balance of new construction and renovations to older facilities. This strategy addresses the University's future growth and the continuing effects of technology on teaching methodologies.

Private gifts are an important supplement to the fundamental support from the State, student tuition and fees, and other revenue sources. Gifts are a significant factor in the growth and support of academic units and support for student scholarships. Economic pressures affecting donors may affect the future level of support the University receives from corporate and

## **MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)**

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individual giving, including the support received through the Fayetteville State University Foundation Inc. and Subsidiary.

The University will continue to employ its long-term investment strategy to maximize total returns, at an appropriate level of risk, while utilizing a spending rate policy to insulate the University's operations from temporary market volatility.

While it is not possible to predict the ultimate results, management believes that with cost reduction measures implemented and the continued support of the State of North Carolina and faithful donors, the University's financial condition is strong enough to weather the current economic uncertainties.

***Fayetteville State University***  
***Statement of Net Assets***  
***June 30, 2011***

***Exhibit A-1***  
***Page 1 of 2***

**ASSETS**

Current Assets:

Cash and Cash Equivalents	\$ 4,203,626.13
Restricted Cash and Cash Equivalents	3,238,578.15
Receivables, Net (Note 4)	3,156,190.81
Inventories	129,240.84
Notes Receivable (Note 4)	217,398.82
	<hr/>
Total Current Assets	10,945,034.75

Noncurrent Assets:

Restricted Cash and Cash Equivalents	5,680,580.97
Restricted Due from Primary Government	19,282.80
Endowment Investments	5,527,062.87
Notes Receivable, Net (Note 4)	2,002,179.85
Capital Assets - Nondepreciable (Note 5)	4,419,087.16
Capital Assets - Depreciable, Net (Note 5)	107,769,704.36
	<hr/>
Total Noncurrent Assets	125,417,898.01
	<hr/>
Total Assets	136,362,932.76

**LIABILITIES**

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 6)	1,394,279.52
Due to Primary Government	23,146.83
Unearned Revenue	1,062,436.06
Interest Payable	36,956.64
Long-Term Liabilities - Current Portion (Note 7)	998,911.05
	<hr/>
Total Current Liabilities	3,515,730.10

Noncurrent Liabilities:

Funds Held for Others	296,803.41
U. S. Government Grants Refundable	1,926,654.01
Long-Term Liabilities (Note 7)	6,375,026.34
	<hr/>
Total Noncurrent Liabilities	8,598,483.76
	<hr/>
Total Liabilities	12,114,213.86



***Fayetteville State University***  
***Statement of Net Assets***  
***June 30, 2011***

***Exhibit A-1***  
***Page 2 of 2***

**NET ASSETS**

Invested in Capital Assets, Net of Related Debt	108,596,673.13
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	1,016,682.52
Endowed Professorships	4,147,489.79
Departmental Uses	626,000.00
Loans	596,394.22
Expendable:	
Scholarships and Fellowships	1,105,875.71
Endowed Professorships	1,341,221.18
Departmental Uses	771,635.52
Capital Projects	195,653.99
Debt Service	268,880.09
Unrestricted	<u>5,582,212.75</u>
Total Net Assets	<u>\$ 124,248,718.90</u>

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

***Fayetteville State University***  
***Statement of Revenues, Expenses, and***  
***Changes in Net Assets***  
***For the Fiscal Year Ended June 30, 2011***

***Exhibit A-2***

**REVENUES**

Operating Revenues:	
Student Tuition and Fees, Net (Note 9)	\$ 11,742,182.45
Federal Grants and Contracts	265,714.45
Sales and Services, Net (Note 9)	6,514,609.00
Interest Earnings on Loans	4,051.65
Other Operating Revenues	358,629.05
	<hr/>
Total Operating Revenues	18,885,186.60
	<hr/>

**EXPENSES**

Operating Expenses:	
Salaries and Benefits	66,797,862.38
Supplies and Materials	6,946,310.30
Services	17,413,098.20
Scholarships and Fellowships	14,000,962.78
Utilities	2,830,191.45
Depreciation	2,292,041.53
	<hr/>
Total Operating Expenses	110,280,466.64
	<hr/>
Operating Loss	(91,395,280.04)
	<hr/>

**NONOPERATING REVENUES (EXPENSES)**

State Appropriations	48,356,664.60
Noncapital Grants - Student Financial Aid	24,941,749.61
Other Noncapital Grants	14,853,032.25
Noncapital Gifts, Net	1,269,822.21
Investment Income (Net of Investment Expense of \$19,517.77)	1,032,019.09
Interest and Fees on Debt	(203,541.99)
Other Nonoperating (Expenses)	(21,753.74)
	<hr/>
Net Nonoperating Revenues	90,227,992.03
	<hr/>
Income Before Other Revenues, Expenses, Gains, or Losses	(1,167,288.01)
	<hr/>
Capital Grants	3,346,148.72
Additions to Endowments	794,223.93
	<hr/>
Increase in Net Assets	2,973,084.64

**NET ASSETS**

Net Assets - July 1, 2010	<hr/>
	121,275,634.26
Net Assets - June 30, 2011	<hr/>
	\$ 124,248,718.90
	<hr/>

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

***Fayetteville State University***  
***Statement of Cash Flows***  
***For the Fiscal Year Ended June 30, 2011***

***Exhibit A-3***  
***Page 1 of 2***

**CASH FLOWS FROM OPERATING ACTIVITIES**

Received from Customers	\$ 19,340,768.88
Payments to Employees and Fringe Benefits	(67,388,629.35)
Payments to Vendors and Suppliers	(27,528,625.38)
Payments for Scholarships and Fellowships	(14,000,962.78)
Loans Issued	(247,534.00)
Collection of Loans	230,582.81
Interest Earned on Loans	3,581.02
Other Receipts	115,257.99
	<hr/>
Net Cash Used by Operating Activities	(89,475,560.81)

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

State Appropriations	48,356,664.60
Noncapital Grants - Student Financial Aid	24,848,933.11
Other Noncapital Grants	14,263,280.69
Noncapital Gifts	1,269,822.21
Additions to Endowments	794,223.93
William D. Ford Direct Lending Receipts	24,048,965.52
William D. Ford Direct Lending Disbursements	(24,028,644.41)
Related Activity Agency Receipts	94,085.42
Other Payments	(24,736.00)
	<hr/>
Net Cash Provided by Noncapital Financing Activities	89,622,595.07

**CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES**

Capital Grants	3,418,379.31
Proceeds from Sale of Capital Assets	12,179.88
Acquisition and Construction of Capital Assets	(5,715,269.15)
Principal Paid on Capital Debt and Leases	(881,401.35)
Interest and Fees Paid on Capital Debt and Leases	(212,236.60)
	<hr/>
Net Cash Used by Capital Financing and Related Financing Activities	(3,378,347.91)

**CASH FLOWS FROM INVESTING ACTIVITIES**

Investment Income	240,476.74
	<hr/>
Net Cash Provided by Investing Activities	240,476.74
	<hr/>
Net Decrease in Cash and Cash Equivalents	(2,990,836.91)
Cash and Cash Equivalents - July 1, 2010	16,113,622.16
	<hr/>
Cash and Cash Equivalents - June 30, 2011	\$ 13,122,785.25



***Fayetteville State University Foundation Inc. and Subsidiary***  
***Statement of Financial Position***  
***June 30, 2011***

***Exhibit B-1***

**ASSETS**

Current Assets:

Cash in Bank	\$ 1,685,843
Restricted Cash in Bank - Housing Foundation	1,340,395
Accounts Receivable	12,400
Investment - Land Held	475,922
Investments	2,542,176
	<hr/>
Total Current Assets	6,056,736

Property, Plant and Equipment:

Furniture and Equipment	1,100,733
Land and Buildings	12,424,385
	<hr/>
	13,525,118
Less: Accumulated Depreciation	3,856,107
	<hr/>
Net Property, Plant, and Equipment	9,669,011

Total Assets	<u><u>\$ 15,725,747</u></u>
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**LIABILITIES**

Current Liabilities:

Accounts Payable	\$ 4,357
Current Maturities of Long-Term Debt	275,000
	<hr/>
Total Current Liabilities	279,357

Long-Term Debt	<hr/> 13,020,000
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**NET ASSETS**

Unrestricted:

Subsidiary - FSU Housing Foundation	(3,847,499)
Fayetteville State University Foundation	706,986

Temporarily Restricted:

Subsidiary - FSU Housing Foundation	1,340,395
Fayetteville State University Foundation	1,605,334

Permanently Restricted:	<hr/> 2,621,174
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Total Net Assets	<hr/> 2,426,390
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Total Liabilities and Net Assets	<u><u>\$ 15,725,747</u></u>
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The accompanying notes to the financial statements are an integral part of this statement.

***Fayetteville State University Foundation, Inc. and Subsidiary***  
***Statement of Activities***  
***For the Fiscal Year Ended June 30, 2011***

***Exhibit B-2***

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>SUPPORT:</b>				
Gifts and Donations	\$ 128,641	\$ 143,292	\$ 37,276	\$ 309,209
<b>REVENUE:</b>				
Interest and Dividend Income	1,746	18,523		20,269
Miscellaneous Income	50			50
Rental Income	1,310,420			1,310,420
Net Mandatory Transfers to and from Debt Service Reserve Accounts and Released from Restrictions	468,541	(468,541)		
Total Revenue	1,780,757	(450,018)		1,330,739
Total Support and Revenue	1,909,398	(306,726)	37,276	1,639,948
<b>OPERATING EXPENSES:</b>				
Program Services	1,616,926			1,616,926
Management and General	45,071			45,071
Fund Raising Expenses	170,414			170,414
Total Operating Expenses	1,832,411			1,832,411
Increase (Decrease) in Net Assets Before Other Revenue and Expenses	76,987	(306,726)	37,276	(192,463)
Other Revenue (Expenses) Net Gain on Investments		342,064		342,064
Increase in Net Assets	76,987	35,338	37,276	149,601
<b>NET ASSETS:</b>				
Beginning of Year	(3,217,500)	2,910,391	2,583,898	2,276,789
End of Year	<u>\$ (3,140,513)</u>	<u>\$ 2,945,729</u>	<u>\$ 2,621,174</u>	<u>\$ 2,426,390</u>

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

**FAYETTEVILLE STATE UNIVERSITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES**

- A. Financial Reporting Entity** - The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their constituents for their actions. As required by accounting principles generally accepted in the United States of America (GAAP), the financial reporting entity includes both the primary government and all of its component units. An organization other than a primary government serves as a nucleus for a reporting entity when it issues separate financial statements. Fayetteville State University is a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina and an integral part of the State's *Comprehensive Annual Financial Report*.

The accompanying financial statements present all funds belonging to the University and its component units. 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 units are either blended or discretely presented 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. The discretely presented component unit's financial data is reported in separate financial statements because of its use of different GAAP reporting models and to emphasize its legal separateness.

**Blended Component Unit** - Although legally separate, the Fayetteville State University Student Housing Corporation and Subsidiary (Corporation), a component unit of the University, is reported as if it were part of the University. The Fayetteville State Housing LLC is a wholly owned subsidiary of the Corporation.

The Corporation is governed by a board consisting of six appointed directors. The Corporation's purpose is to develop, finance, prepare and provide residential housing facilities for the students and faculty of Fayetteville State University. Because the elected directors of the Corporation are appointed by the University and the Corporation's sole purpose is to benefit Fayetteville State University, its financial statements have been blended with those of the University.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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Separate financial statements for the Corporation can be obtained from the Fayetteville State University Student Housing Corporation and Subsidiary at (910) 672-1151. Other related foundations and similar nonprofit corporations for which the University is not financially accountable are not part of the accompanying financial statements.

**Discretely Presented Component Unit** - The Fayetteville State University Foundation, Inc. and Subsidiary (Foundation) is a legally separate tax-exempt not-for-profit corporation and is reported as a discretely presented component unit based on the nature and significance of its relationship to the University. The Fayetteville State University Housing Foundation, LLC is a wholly owned subsidiary of the Foundation. Its primary purpose is to build, maintain, and manage a student housing facility for students of Fayetteville State University.

The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the University in support of its programs. The Foundation board consists of 36 directors. Although the University does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, that the Foundation holds and invests are restricted to the activities of the University by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of the University, the Foundation is considered a component unit of the University and is reported in separate financial statements because of the difference in its reporting model, as described below.

The Foundation is a private not-for-profit organization that reports its financial results under Financial Accounting Standards Board (FASB) Statements. As such, certain revenue recognition criteria and presentation features are different from the Governmental Accounting Standards Board (GASB) revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information in the University's financial reporting entity for these differences.

During the year ended June 30, 2011, the Foundation distributed \$299,052.00 to the University for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from Fayetteville State University Foundation Inc. and Subsidiary at (910) 672-1151.

- 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 Governmental Accounting Standards Board (GASB).

Pursuant to the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and*



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the University does not apply Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless the GASB amends its pronouncements to specifically adopt FASB pronouncements issued after that date.

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

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

- D. Cash and Cash Equivalents** - This classification includes undeposited receipts, petty cash, cash on deposit with private bank accounts, cash on deposit with fiscal agents, and deposits held by the State Treasurer in the Short-Term Investment Fund. The Short-Term Investment Fund maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.

- E. Investments** - Investments generally are reported at fair value, as determined by quoted market prices. The net increase (decrease) in the fair value of investments is recognized as a component of investment income.

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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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- 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 that are verifiable, measurable, and expected to be collected and available for expenditures for which the resource provider's conditions have been satisfied. Receivables are recorded net of estimated uncollectible amounts.
- G. Inventories** - Inventories, consisting of expendable supplies, are valued at cost using the last invoice cost method. Merchandise for resale is valued using the first-in, first-out method.
- H. Capital Assets** - Capital assets are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. The value of assets constructed includes all material direct and indirect construction costs. Interest costs incurred are capitalized during the period of construction.

The University capitalizes assets that have a value or cost of \$5,000 or greater at the date of acquisition and an estimated useful life of more than one year. Library books are generally not considered to have a useful life of more than one year unless part of a collection and are expensed in the year of acquisition.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 35 to 75 years for general infrastructure, 75 to 100 years for buildings, and 7 to 30 years for equipment.

The University does not capitalize its art collection. This collection adheres to the University's policy to maintain for public exhibition, education, or research; protect, keep unencumbered, care for, and preserve; and require proceeds from their sale to be used to acquire other collection items. Accounting principles generally accepted in the United States of America permit collections maintained in this manner to be charged to operations at time of purchase rather than be capitalized.

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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compensated absences, and pollution remediation payable that will not be paid within the next fiscal year.

The University's bond premiums/discounts are considered immaterial and are expensed.

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

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

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

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

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

### NOTE 2 - DEPOSITS AND INVESTMENTS

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

At June 30, 2011, the amount shown on the Statement of Net Assets as cash and cash equivalents includes \$12,924,311.23 which represents the University's equity position in the State Treasurer's Short-Term Investment Fund. The Short-Term Investment Fund (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission and does not have a credit rating) had a weighted average maturity of 1.9 years as of June 30, 2011. Assets and shares of the Short-Term Investment Fund are valued at amortized cost, which approximates fair value. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's Short-Term Investment Fund) are included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.nc.gov/> and clicking on "Reports," or by

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

Cash on hand at June 30, 2011 was \$9,100.00. The carrying amount of the University's deposits not with the State Treasurer was \$189,374.02 and the bank balance was \$181,822.14. Custodial credit risk is the risk that in the event of a bank failure, the University's deposits may not be returned to it. Pursuant to G.S. 116-36.1, funds received for health care services not deposited with the State Treasurer shall be fully secured in the manner as prescribed by the State Treasurer for the security of public deposits. The University does not have a deposit policy for custodial credit risk. As of June 30, 2011, the University's bank balance was covered by federal depository insurance and was not subject to custodial credit risk.

### **B. Investments**

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

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Investments are subject to the following risks.

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

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

The following table presents the fair value of investments by type and investments subject to interest rate risk at June 30, 2011.

<b>Investment Type</b>	<u>Fair Value</u>	<u>Investment Maturities (in Years) More than 10</u>
Debt Securities		
Mutual Bond Funds	\$ 1,875,981.13	<u>\$ 1,875,981.13</u>
Other Securities		
Other Mutual Funds	<u>3,651,081.74</u>	
Total Investments	<u>\$ 5,527,062.87</u>	

The University's mutual bond funds held at June 30, 2011, were unrated.

Component Unit - Investments of the University's discretely presented component unit, the Fayetteville State University Foundation Inc. and Subsidiary, 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. Because the Foundation reports under the FASB reporting model, disclosures of the various investments risks are not required. The following is an analysis of investments by type:

Investments are presented in the financial statements at fair market value. Investments earned \$-0- during the year ending June 30, 2011, and incurred management fees of \$12,270. Investments within the account are composed of the following:

	<u>Cost</u>	<u>Market</u>	<u>Unrealized Appreciation</u>
UNC Investment Fund	<u>\$ 2,530,808</u>	<u>\$ 2,542,176</u>	<u>\$ 11,368</u>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Investments also include donated land. At June 30, 2011 land value totaled \$475,922.

**C. Reconciliation of Deposits and Investments** - A reconciliation of deposits and investments for the University at June 30, 2011, is as follows:

Cash on Hand	\$ 9,100.00
Amount of Deposits with Private Financial Institutions	189,374.02
Deposits in the Short-Term Investment Fund	12,924,311.23
Non-Pooled Investments	<u>5,527,062.87</u>
Total Deposits and Investments	<u>\$ 18,649,848.12</u>
Deposits	
Current:	
Cash and Cash Equivalents	\$ 4,203,626.13
Restricted Cash and Cash Equivalents	3,238,578.15
Noncurrent:	
Restricted Cash and Cash Equivalents	<u>5,680,580.97</u>
Total Deposits	<u>\$ 13,122,785.25</u>
Noncurrent Endowment Investments	<u>\$ 5,527,062.87</u>

### NOTE 3 - ENDOWMENT INVESTMENTS

Investments of the University's endowment funds are pooled, unless required to be separately invested by the donor. If a donor has not provided specific instructions, State law permits the Board of Trustees to authorize for expenditure the net appreciation, realized and unrealized, of the investments of the endowment funds. Under the "Uniform Prudent Management of Institutional Funds Act" (UPMIFA), authorized by the North Carolina General Assembly on March 19, 2009, the Board may also appropriate expenditures from eligible nonexpendable balances if deemed prudent and necessary to meet program outcomes and for which such spending is not specifically prohibited by the donor agreements. 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 University's endowment spending policy governs the rate at which funds are released to the operating budget from the endowment. The University uses a disciplined spending rate with a long-term spending rule. The target rate for spending is set as up to 2.5% of the endowment's three-year average year end market value. In order to preserve the purchasing power of the endowment, the portfolio is invested with the expectation of generating a long-term rate of return at least equal to the payout plus the rate of inflation. At June 30, 2011, endowment net assets of \$5,355,813.49 were available to be spent, of which \$1,570,458.11 was restricted to specific purposes.



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 4 - RECEIVABLES

Receivables at June 30, 2011, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
<b>Current Receivables:</b>			
Students	\$ 1,670,373.15	\$ 966,961.73	\$ 703,411.42
Accounts	374,285.94		374,285.94
Intergovernmental	1,944,872.20		1,944,872.20
Investment Earnings	32,765.99		32,765.99
Interest on Loans	23,666.50		23,666.50
Other	77,188.76		77,188.76
<b>Total Current Receivables</b>	<u>\$ 4,123,152.54</u>	<u>\$ 966,961.73</u>	<u>\$ 3,156,190.81</u>
<b>Notes Receivable:</b>			
<b>Notes Receivable - Current:</b>			
Federal Loan Programs	\$ 189,940.99	\$ 0.00	\$ 189,940.99
Institutional Student Loan Programs	27,457.83		27,457.83
<b>Total Notes Receivable - Current</b>	<u>\$ 217,398.82</u>	<u>\$ 0.00</u>	<u>\$ 217,398.82</u>
<b>Notes Receivable - Noncurrent:</b>			
Federal Loan Programs	<u>\$ 2,427,029.16</u>	<u>\$ 424,849.31</u>	<u>\$ 2,002,179.85</u>

### NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2011, is presented as follows:

	Balance			Balance
	July 1, 2010	Increases	Decreases	June 30, 2011
Capital Assets, Nondepreciable:				
Land	\$ 963,243.22	\$ 94,446.54	\$ 0.00	\$ 1,057,689.76
Construction in Progress	7,841,762.15	3,980,207.26	8,460,572.01	3,361,397.40
<b>Total Capital Assets, Nondepreciable</b>	<u>8,805,005.37</u>	<u>4,074,653.80</u>	<u>8,460,572.01</u>	<u>4,419,087.16</u>
Capital Assets, Depreciable:				
Buildings	117,149,131.57	8,391,862.69		125,540,994.26
Machinery and Equipment	11,584,292.94	1,356,323.25	247,512.47	12,693,103.72
General Infrastructure	4,828,487.27	5,978.00		4,834,465.27
<b>Total Capital Assets, Depreciable</b>	<u>133,561,911.78</u>	<u>9,754,163.94</u>	<u>247,512.47</u>	<u>143,068,563.25</u>
Less Accumulated Depreciation for:				
Buildings	25,907,506.25	1,910,675.25		27,818,181.50
Machinery and Equipment	5,358,040.98	269,228.84	197,345.91	5,429,923.91
General Infrastructure	1,938,616.04	112,137.44		2,050,753.48
<b>Total Accumulated Depreciation</b>	<u>33,204,163.27</u>	<u>2,292,041.53</u>	<u>197,345.91</u>	<u>35,298,858.89</u>
<b>Total Capital Assets, Depreciable, Net</b>	<u>100,357,748.51</u>	<u>7,462,122.41</u>	<u>50,166.56</u>	<u>107,769,704.36</u>
<b>Capital Assets, Net</b>	<u>\$ 109,162,753.88</u>	<u>\$ 11,536,776.21</u>	<u>\$ 8,510,738.57</u>	<u>\$ 112,188,791.52</u>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2011, were as follows:

	Amount
Accounts Payable	\$ 1,054,396.84
Accrued Payroll	224,947.53
Contract Retainage	69,396.81
Other	45,538.34
<b>Total Accounts Payable and Accrued Liabilities</b>	<b>\$ 1,394,279.52</b>

### NOTE 7 - LONG-TERM LIABILITIES

#### UNIVERSITY

**A. Changes in Long-Term Liabilities** - A summary of changes in the long-term liabilities for the year ended June 30, 2011, is presented as follows:

	Balance July 1, 2010	Additions	Reductions	Balance June 30, 2011	Current Portion
Revenue Bonds Payable	\$ 3,740,000.00	\$ 0.00	\$ 515,000.00	\$ 3,225,000.00	\$ 545,000.00
Capital Leases Payable	733,519.74		366,401.35	367,118.39	113,905.29
Compensated Absences	3,504,525.00	2,132,451.00	1,910,157.00	3,726,819.00	295,005.76
Pollution Remediation Payable	30,300.00	55,000.00	30,300.00	55,000.00	45,000.00
<b>Total Long-Term Liabilities</b>	<b>\$ 8,008,344.74</b>	<b>\$ 2,187,451.00</b>	<b>\$ 2,821,858.35</b>	<b>\$ 7,373,937.39</b>	<b>\$ 998,911.05</b>

Additional information regarding capital lease obligations is included in Note 8.

**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, 2011	Principal Outstanding June 30, 2011
The University of North Carolina System Pool Revenue Bonds						
Refunding of U.S. Department of Education Notes Payable	2002B	3.5%-5.375%	04/01/2022	\$ 1,245,000.00	\$ 410,000.00	\$ 835,000.00
Stadium Renovation	2002B	3.5%-5.0%	04/01/2012	2,735,000.00	2,390,000.00	345,000.00
Dining	2005B	3.5%-4.5%	04/01/2023	2,770,000.00	725,000.00	2,045,000.00
Total The University of North Carolina System Pool Revenue Bonds				<b>\$ 6,750,000.00</b>	<b>\$ 3,525,000.00</b>	<b>\$ 3,225,000.00</b>

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

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**C. Annual Requirements** - The annual requirements to pay principal and interest on the long-term obligations at June 30, 2011, are as follows:

Fiscal Year	Annual Requirements	
	Revenue Bonds Payable	
	Principal	Interest
2012	\$ 545,000.00	\$ 145,257.50
2013	200,000.00	120,107.50
2014	210,000.00	111,987.50
2015	220,000.00	102,693.76
2016	225,000.00	93,000.00
2017-2021	1,315,000.00	300,943.78
2022-2023	510,000.00	32,350.00
Total Requirements	<u>\$ 3,225,000.00</u>	<u>\$ 906,340.04</u>

**D. Bond Defeasance - Prior Year Defeasances** - During prior years, the University defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the University's financial statements. At June 30, 2011, the outstanding balance of prior year defeased bonds was \$1,945,000.00.

**E. Pollution Remediation Payable** - The University has recognized a pollution remediation liability for asbestos and underground tank removals at the Lilly Building and Lyons Science Building. The amount of the estimated liability is \$55,000.00. This estimate was calculated from the estimated costs of the abatement and removal. There are no estimated recoveries for this estimated liability.

**COMPONENT UNIT**

**Fayetteville State University Foundation Inc. and Subsidiary**

Long-term debt at June 30, 2011 consisted of a North Carolina Student Housing Facilities Revenue Bond with a balance of \$13,295,000, secured by real property. The Foundation has entered into an interest rate swap arrangement to lock in the interest rate on 90% of the bond at 3.45%. The remainder of the bond is at a variable interest rate based on the BMA index. The buildings are used as housing for students of Fayetteville State University.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Maturities of long term debt are as follows:

Year ending June 30,	Amount
2012 (included in current maturities)	\$ 275,000
2013	290,000
2014	305,000
2015	325,000
2016	340,000
2017 and after	11,760,000
	\$ 13,295,000

### NOTE 8 - LEASE OBLIGATIONS

- A. Capital Lease Obligations** - Capital lease obligations relating to synthetic turf for the athletic field and computer networking equipment are recorded at the present value of the minimum lease payments. Future minimum lease payments under capital lease obligations consist of the following at June 30, 2011:

Fiscal Year	Amount
2012	\$ 131,579.62
2013	120,358.80
2014	120,358.80
2015	30,089.70
Total Minimum Lease Payments	402,386.92
Amount Representing Interest (5.46% to 8.95% Rate of Interest)	35,268.53
Present Value of Future Lease Payments	\$ 367,118.39

Machinery and equipment acquired under capital lease amounted to \$765,474.00 and landscaping assets (turf) amounted to \$685,994.00 at June 30, 2011. Depreciation for the capital assets associated with capital leases is included in depreciation expense.

- B. Operating Lease Obligations** - The University entered into an operating lease for space at Bronco Square for the Public Computing Center. The University renewed its operating lease for 341 beds at University Place Apartments and space at Bronco Square for the Center for Community Justice. The University continues operating leases for the University Bookstore at Bronco Square, one modular storage unit, managed printing services, a digital copier and a Spectrophotometer used by the University Print Shop, a printer for the Small Business Technology and Development Center (SBTDC), and mailroom equipment. Future minimum lease

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

payments under noncancelable operating leases consist of the following at June 30, 2011:

Fiscal Year	Amount
2012	\$ 2,438,335.40
2013	2,294,535.62
2014	1,870,780.32
2015	1,921,038.26
2016	1,952,747.87
2017-2021	10,667,401.44
Total Minimum Lease Payments	\$ 21,144,838.91

Rental expense for all operating leases during the year was \$2,555,156.18.

### NOTE 9 - 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
<b>Operating Revenues:</b>					
<b>Student Tuition and Fees</b>	\$ 22,073,570.87	\$ 0.00	\$ 9,909,809.05	\$ 421,579.37	\$ 11,742,182.45
<b>Sales and Services:</b>					
Sales and Services of Auxiliary Enterprises:					
Residential Life	\$ 5,664,595.65	\$ 0.00	\$ 2,512,262.69	\$ 155,413.79	\$ 2,996,919.17
Dining	4,065,474.67		1,872,711.30	111,746.67	2,081,016.70
Bookstore	239,959.95			57,488.99	182,470.96
Central Stores	356,120.80	349,398.40			6,722.40
Copy Center	207,449.27	201,080.22			6,369.05
Athletics	131,949.01			(14,713.04)	146,662.05
Security Operations	246,871.75			683.49	246,188.26
Other	426,639.91			(6,203.67)	432,843.58
Sales and Services of Education and Related Activities	415,416.83				415,416.83
<b>Total Sales and Services</b>	\$ 11,754,477.84	\$ 550,478.62	\$ 4,384,973.99	\$ 304,416.23	\$ 6,514,609.00

### NOTE 10 - OPERATING EXPENSES BY FUNCTION

The University's operating expenses by functional classification are presented as follows:

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	\$ 34,152,932.55	\$ 581,426.12	\$ 1,917,303.70	\$ 0.00	\$ 0.00	\$ 0.00	\$ 36,651,662.37
Research	547,429.15	77,990.98	259,728.72				885,148.85
Public Service	3,160,340.72	432,141.53	1,021,748.93				4,614,231.18
Academic Support	6,804,721.77	2,968,230.77	2,564,293.10				12,337,245.64
Student Services	3,648,210.85	190,434.97	787,632.52				4,626,278.34
Institutional Support	7,954,258.00	585,767.90	2,752,603.60				11,292,629.50
Operations and Maintenance of Plant	5,764,672.08	969,044.00	944,554.26		2,078,001.04		9,756,271.38
Student Financial Aid				14,000,962.78			14,000,962.78
Auxiliary Enterprises	4,765,297.26	1,141,274.03	7,165,233.37		752,190.41		13,823,995.07
Depreciation						2,292,041.53	2,292,041.53
Total Operating Expenses	\$ 66,797,862.38	\$ 6,946,310.30	\$ 17,413,098.20	\$ 14,000,962.78	\$ 2,830,191.45	\$ 2,292,041.53	\$ 110,280,466.64

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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### NOTE 11 - PENSION PLANS

- A. **Retirement Plans** - Each permanent full-time employee, as a condition of employment, is a member of either the Teachers' and State Employees' Retirement System or the Optional Retirement Program. Eligible employees can elect to participate in the Optional Retirement Program at the time of employment, otherwise they are automatically enrolled in the Teachers' and State Employees' Retirement System.

The Teachers' and State Employees' Retirement System is a cost-sharing multiple-employer defined benefit pension plan established by the State to provide pension benefits for employees of the State, its component units, and local boards of education. The plan is administered by the North Carolina State Treasurer.

Benefit and contribution provisions for the Teachers' and State Employees' Retirement System are established by *North Carolina General Statutes* 135-5 and 135-8 and may be amended only by the North Carolina General Assembly. Employer and member contribution rates are set each year by the North Carolina General Assembly based on annual actuarial valuations. For the year ended June 30, 2011, these rates were set at 4.93% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the University had a total payroll of \$52,424,580.84, of which \$31,834,404.79 was covered under the Teachers' and State Employees' Retirement System. Total employer and employee contributions for pension benefits for the year were \$1,569,436.16 and \$1,910,624.29, respectively.

Required employer contribution rates for the years ended June 30, 2010, and 2009, were 3.57% and 3.36%, respectively, while employee contributions were 6% each year. The University made 100% of its annual required contributions for the years ended June 30, 2011, 2010, and 2009, which were \$1,569,436.16, \$1,127,912.09, and \$1,082,006.49, respectively.

The Teachers' and State Employees' Retirement System's financial information is included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.nc.gov/> and clicking on "Reports," or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

The Optional Retirement Program (Program) is a defined contribution retirement plan that provides retirement benefits with options for payments to beneficiaries in the event of the participant's death.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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Administrators and eligible faculty of the University may join the Program instead of the Teachers' and State Employees' Retirement System. The Board of Governors of The University of North Carolina is responsible for the administration of the Program and designates the companies authorized to offer investment products or the trustee responsible for the investment of contributions under the Program and approves the form and contents of the contracts and trust agreements.

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

Participant eligibility and contributory requirements are established by General Statute 135-5.1. Employer and member contribution rates are set each year by the North Carolina General Assembly. For the year ended June 30, 2011, 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 \$52,424,580.84, of which \$15,531,588.90 was covered under the Optional Retirement Program. Total employer and employee contributions for pension benefits for the year were \$1,062,360.68 and \$931,895.33, respectively.

**B. Deferred Compensation and Supplemental Retirement Income Plans** - IRC Section 457 Plan - The State of North Carolina offers its permanent employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 through the North Carolina Public Employee Deferred Compensation Plan (the Plan). The Plan permits each participating employee to defer a portion of his or her salary until future years. The deferred compensation is available to employees upon separation from service, death, disability, retirement, or financial hardships if approved by the Board of Trustees of the Plan. The Board, a part of the North Carolina Department of Administration, maintains a separate fund for the exclusive benefit of the participating employees and their beneficiaries, *the North Carolina Public Employee Deferred Compensation Trust Fund*. The Board also contracts with an external third party to perform certain administrative requirements and to manage the trust fund's assets. All costs of administering and funding the Plan are the responsibility of the Plan participants. No costs are incurred by the University. The voluntary contributions by employees amounted to \$161,644.00 for the year ended June 30, 2011.

IRC Section 401(k) Plan - All members of the Teachers' and State Employees' Retirement System and the Optional Retirement Program are

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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eligible to enroll in the Supplemental Retirement Income Plan, a defined contribution plan, created under Internal Revenue Code Section 401(k). All costs of administering the Plan are the responsibility of the Plan participants. No costs are incurred by the University except for a 5% employer contribution for the University's law enforcement officers, which is mandated under General Statute 143-166.30(e). Total employer contributions on behalf of University law enforcement officers for the year ended June 30, 2011, were \$45,247.12. The voluntary contributions by employees amounted to \$233,188.00 for the year ended June 30, 2011.

IRC Section 403(b) and 403(b)(7) Plans - Eligible University employees can participate in tax sheltered annuity plans created under Internal Revenue Code Sections 403(b) and 403(b)(7). The employee's eligible contributions, made through salary reduction agreements, are exempt from federal and State income taxes until the annuity is received or the contributions are withdrawn. These plans are exclusively for employees of universities and certain charitable and other nonprofit institutions. All costs of administering and funding these plans are the responsibility of the Plan participants. No costs are incurred by the University. The voluntary contributions by employees amounted to \$598,015.88 for the year ended June 30, 2011.

### NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS

- A. Health Benefits** - The University participates in the Comprehensive Major Medical Plan (the Plan), a cost-sharing, multiple-employer defined benefit health care plan that provides postemployment health insurance to eligible former employees. Eligible former employees include long-term disability beneficiaries of the Disability Income Plan of North Carolina and retirees of the Teachers' and State Employees' Retirement System or the Optional Retirement Program. Coverage eligibility varies depending on years of contributory membership service in their retirement system prior to disability or retirement.

The Plan's benefit and contribution provisions are established by *North Carolina General Statute 135-7* and Chapter 135, Article 3A, of the General Statutes and may be amended only by the North Carolina General Assembly. The Plan does not provide for automatic post-retirement benefit increases.

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



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

For the current fiscal year the University contributed 4.9% of the covered payroll under the Teachers' and State Employees' Retirement System and the Optional Retirement Program to the Fund. Required contribution rates for the years ended June 30, 2010, and 2009, were 4.5% and 4.1%, respectively. The University made 100% of its annual required contributions to the Plan for the years ended June 30, 2011, 2010, and 2009, which were \$2,320,933.70, \$2,121,516.40, and \$1,964,254.92, 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.ncosc.net/> and clicking on "Reports," or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

- B. Disability Income** - The University participates in the Disability Income Plan of North Carolina (DIPNC), a cost-sharing, multiple-employer defined benefit plan, to provide short-term and long-term disability benefits to eligible members of the Teachers' and State Employees' Retirement System and the Optional Retirement Program. Benefit and contribution provisions are established by Chapter 135, Article 6, of the General Statutes, and may be amended only by the North Carolina General Assembly. The plan does not provide for automatic post-retirement benefit increases.

Disability income benefits are funded by actuarially determined employer contributions that are established by the General Assembly. For the fiscal year ended June 30, 2011, the University made a statutory contribution of .52% of covered payroll under the Teachers' and State Employees' Retirement System and the Optional Retirement Program to the DIPNC. Required contribution rates for the years ended June 30, 2010, and 2009, were .52% and .52%, respectively. The University made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2011, 2010, and 2009, which were \$246,303.18, \$245,153.01, and \$249,125.01, respectively. The University assumes no liability for long-term disability benefits under the Plan other than its contribution.

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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### NOTE 13 - RISK MANAGEMENT

The University is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These exposures to loss are handled via a combination of methods, including participation in State-administered insurance programs, purchase of commercial insurance, and self-retention of certain risks. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

The risk of tort claims of up to \$1,000,000 is retained under the authority of the State Tort Claims Act. In addition, the State provides excess public officers' and employees' liability insurance up to \$10,000,000 via contract with a private insurance company. The University pays the premium, based on a composite rate, directly to the private insurer.

The University is required to maintain fire and lightning coverage on all State-owned buildings and contents through the State Property Fire Insurance Fund (Fund), an internal service fund of the State. Such coverage is provided at no cost to the University for operations supported by the State's General Fund. Other operations not supported by the State's General Fund are charged for the coverage. Losses covered by the Fund are subject to a \$5,000 per occurrence deductible. The University also purchased, through the Fund, extended coverage for "all risks" for all buildings and contents, excluding accounts, bills, currency, deeds, evidences of debt, money, notes or securities, animals, paved surfaces except buildings foundations, and cost of excavations, grading, backfilling or filling. "All Risk" provides coverage to property for risks of direct physical loss. While conditions of the general policy still apply, "all risks" takes the place of the exclusions in the general policy. Losses covered by the "all risks" policy are subject to a \$25,000 per occurrence deductible. The University also purchased additional insurance for any loss or damage to Fine Arts and a Boiler and Machinery policy.

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

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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occurrence. The private insurance company pays 90% of each loss less a \$75,000 deductible.

The University purchased Intercollegiate Sports Accident Insurance from a private insurance company through the North Carolina Department of Insurance. This policy covers medical expenses incurred for the treatment of injury to covered persons with an excess limit of \$75,000 and a \$3,000 deductible. In addition, the policy includes an accidental death and specific loss benefit of \$25,000 per claim and \$1,000,000 per accident. Covered persons are defined as student athletes, student managers, and student trainers whose names are on the official team roster of the University's sponsored and supervised sports teams including basketball, bowling, cheerleading, cross-country, football, tennis, track and field, and volleyball. This coverage is effective during play, practice, and team related travel.

The University purchased Accident and Sickness Insurance from a private insurance company through the North Carolina Department of Insurance for the GEAR Up summer camp program. This policy covers accidents, sickness, and death for participants in summer camps offered by this program. This policy covers accident medical expenses to covered persons with a maximum benefit of \$5,000, and a sickness medical expense to covered persons with a maximum benefit of \$1,500. In addition, the policy includes an accidental death and dismemberment benefit of \$5,000 and a paralysis and coma benefit of \$35,000. There are no deductibles for this coverage. Covered persons are defined as persons enrolled as a camper at the camp. The coverage is effective for the period the camper is scheduled to be at camp while on the camp's premises during a camp day, not on the camp's premises but attending or participating in a camp activity or traveling to or from a camp as part of a camp group supervised by camp authorities, or traveling directly between the campers home and the camp. Coverage for this travel time will not exceed 48 hours before or after any scheduled day or period of camp attendance.

University employees and retirees are provided comprehensive major medical care benefits. Coverage is funded by contributions to the State Health Plan (Plan), a discretely presented component unit of the State of North Carolina. The Plan has contracted with third parties to process claims.

The North Carolina Workers' Compensation Program provides benefits to workers injured on the job. All employees of the State and its component units are included in the program. When an employee is injured, the University's primary responsibility is to arrange for and provide the necessary treatment for work related injury. The University is responsible for paying medical benefits and compensation in accordance with the North Carolina Workers' Compensation Act. The University retains the risk for workers' compensation.

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

### NOTE 14 - COMMITMENTS AND CONTINGENCIES

**A. Commitments** - The University has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were \$19,022,598.90 and on other purchases were \$1,582,927.49 at June 30, 2011.

**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.

### NOTE 15 - RELATED PARTIES

There are four separately incorporated nonprofit entities associated with the University that were not discussed in Note 1. These entities are the:

Fayetteville State University Athletic Club Inc.  
Fayetteville State University National Alumni Association Incorporated  
Fayetteville State University Development Corporation  
Fayetteville State University Research Corporation

Most of these organizations provide fundraising for the University through which individuals, corporations, and other organizations support University programs by providing scholarships, fellowships, faculty salary supplements, and unrestricted funds to specific colleges and the University's overall academic environment. The University's financial statements do not include the assets, liabilities, net assets, or operational transactions of these entities, except for support from each organization to the University. This support approximated \$0.00 for the year ended June 30, 2011, because these nonprofit entities provide support directly to students and others in the Fayetteville State University community.

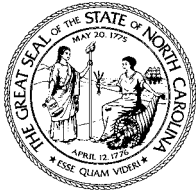
## NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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### NOTE 16 - SUBSEQUENT EVENTS

On August 10, 2011, Fayetteville State University Housing LLC sold \$20,715,000 in Series 2011 tax-exempt Limited Obligation Bonds. These bonds are dated August 24, 2011, and bear interest from that date. Interest will be paid semiannually on April 1 and October 1, starting on April 1, 2012. The principal on the bonds will be paid annually on April 1, starting on April 1, 2012. The maturity of the bonds will be from 2014 to 2043 and were issued at coupon rates ranging from 2% to 5%. The issuance of the bonds was to provide funds for the construction, equipping, and furnishing of a new student housing facility to be located on the Fayetteville State University campus.

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**Beth A. Wood, CPA**  
State Auditor

STATE OF NORTH CAROLINA  
**Office of the 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**

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Board of Trustees  
Fayetteville State University  
Fayetteville, North Carolina

We have audited the financial statements of Fayetteville State University, a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 2011, which collectively comprise the University's basic financial statements and have issued our report thereon dated November 9, 2011. Our report includes a reference to other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the Fayetteville State University Student Housing Corporation and Subsidiary and the discretely presented component unit, 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. The financial statements of the discretely presented component unit were not audited in accordance with *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the University's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a

**INDEPENDENT AUDITOR'S REPORT  
ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
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GOVERNMENT AUDITING STANDARDS (CONCLUDED)**

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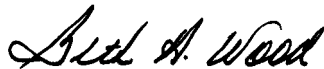
deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the University's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters

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

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



Beth A. Wood, CPA  
State Auditor

November 9, 2011



## **ORDERING INFORMATION**

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Audit reports issued by the Office of the State Auditor can be obtained from the web site at [www.ncauditor.net](http://www.ncauditor.net). Also, parties may register on the web site to receive automatic email notification whenever reports of interest are issued. Otherwise, copies of audit reports may be obtained by contacting the:

Office of the State Auditor  
State of North Carolina  
2 South Salisbury Street  
20601 Mail Service Center  
Raleigh, North Carolina 27699-0601

Telephone: 919/807-7500

Facsimile: 919/807-7647