

STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA



FAYETTEVILLE STATE UNIVERSITY

FAYETTEVILLE, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2014



NC OSA
The Taxpayers' Watchdog

STATE OF NORTH CAROLINA
Office of the State Auditor



Beth A. Wood, CPA
State Auditor

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AUDITOR'S TRANSMITTAL

The Honorable Pat McCrory, Governor
The General Assembly of North Carolina
Board of Trustees, Fayetteville State University

We have completed a financial statement audit of Fayetteville State University for the year ended June 30, 2014, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

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

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

A handwritten signature in black ink that reads "Beth A. Wood".

Beth A. Wood, CPA
State Auditor



Beth A. Wood, CPA
State Auditor

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

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Fayetteville State University
Fayetteville, North Carolina

Report on the Financial Statements

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, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of Fayetteville State University Foundation Inc. and Subsidiary, which represent 7.73 percent, 3.86 percent, and 2.45 percent, respectively, of the assets, net position, and revenues of the University; nor the financial statements of Fayetteville State University Housing Corporation and Subsidiary, which represent 8.88 percent, 0.13 percent, and 1.50 percent, respectively, of the assets, net position and revenues of the University. Those statements were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for Fayetteville State University Foundation Inc. and Subsidiary and Fayetteville State University Housing Corporation and Subsidiary, is based solely on the report of the other auditors. We

conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the University's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of Fayetteville State University, as of June 30, 2014, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters – Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 9, 2015 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.



Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

February 9, 2015



MANAGEMENT'S DISCUSSION AND ANALYSIS

Introduction

Fayetteville State University (University) provides this overview and Management Discussion and Analysis to assist in understanding the statements and Notes to the Financial Statements presented herewith for the year ended June 30, 2014, and includes comparative data for the year ended June 30, 2013. 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 management along with the financial statements and 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 Position, the Statement of Revenues, Expenses, and Changes in Net Position, and the Statement of Cash Flows. The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position 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 Revenue, Expenses, and Change in Net Position as adjusted for changes in the beginning and ending balance of noncash accounts on the Statement of Net Position.

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 period. Overall, these Notes to the Financial Statements provide information to better understand details, risk, 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 (Corporation) and the Fayetteville State University Foundation, Inc. and Subsidiary (Foundation) are component units of the University, and are reported as if they were part of the University. The Foundation includes as a subsidiary the Fayetteville State University Housing Foundation, LLC (Housing Foundation), which owns University Place Apartments (UPA). UPA is currently leased to the University under a master lease agreement, for use as student housing. Operations of the Corporation and Foundation are blended with the University's financial statements and are included in this Management's Discussion and Analysis.

Financial Highlights

The University's financial position, as a whole, remained relatively stable during the fiscal year ended June 30, 2014. The combined net assets for the University increased \$4.09 million, which is an increase of 2.70%.

Summary of Net Position

The Statement of Net Position presents the assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position 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 Position 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 Position provides a picture of the net position and their availability for expenditure by the University.

Net position is divided into categories to show the availability to meet University obligations. The first category, net investment in capital assets, provides the University's equity in property, plant, and equipment. The next net position category is restricted net position, which is divided into two categories, nonexpendable and expendable. Restricted nonexpendable net position consists primarily of the University's permanent endowment funds and is only available for investment purposes. Restricted expendable net position is 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 position. Unrestricted net position is available to the University for any lawful purpose of the University. Although unrestricted net position is not subject

to externally imposed stipulations, substantially all of the University's unrestricted net position has been designated for various academic and research programs and initiatives.

Condensed Summary of Net Position (in millions)

	2014	2013	Increase/ (Decrease)	Percent Change
Assets:				
Current Assets	\$ 23.39	\$ 18.39	\$ 5.00	27.19%
Noncurrent Assets:				
Capital	178.63	163.73	14.90	9.10%
Other	36.86	16.74	20.12	120.19%
Total Assets	238.88	198.86	40.02	20.12%
Deferred Outflows of Resources:				
Accumulated Decrease in Fair Value of Hedging	2.22	2.34	(0.12)	-5.13%
Liabilities:				
Current Liabilities	11.55	6.11	5.44	89.03%
Noncurrent Liabilities	74.02	43.65	30.37	69.58%
Total Liabilities	85.57	49.76	35.81	71.97%
Deferred Inflows of Resources:				
Total deferred Inflows of Resources	0.00	0.00	0.00	0.00%
Net Position:				
Invested in Capital Assets, Net of Related Debt	127.02	131.94	(4.92)	-3.73%
Restricted:				
Nonexpendable	11.85	10.84	1.01	9.32%
Expendable	12.95	6.90	6.05	87.68%
Unrestricted	3.71	1.76	1.95	110.80%
Total Net Position	\$ 155.53	\$ 151.44	\$ 4.09	2.70%

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

As of June 30, 2014, total University net position was \$155.53 million. The University's largest assets are the capital assets of \$178.63 million, representing 75% of total assets. Noncurrent capital assets increased by \$14.90 million due to the student center renovation and the energy efficiency initiative. Other assets increased \$20.12 million is largely due to an increase in cash which is attributable to unexpended bond and note proceeds of \$20.5 million. The \$4.09 million overall increase in net position was largely attributable to the increases expendable restricted capital project funds of \$3.5 million for unexpended capital gifts and grants, and expendable restricted scholarships and fellowships funds of \$1 million for earnings and appreciation on endowment investments. Current assets increased \$5.00 million or 27.19%, mainly due to an increase in cash and cash equivalents related to increases in current construction liabilities of \$3.8 million.

The University's liabilities totaled \$85.57 million at June 30, 2014. Noncurrent liabilities of \$74.02 million consist mainly of \$66.81 million in bonds and notes payable. Other liabilities include contracts and accounts payable, U. S. government grants refundable, and funds held for others. Current liabilities increased \$5.44 million or 89.03% primarily due to increases in accounts payable related to the student center and the energy efficiency project. Details of both current and noncurrent liabilities are shown on the Statement of Net Position and in Notes 6 and 8 in the Notes to the Financial Statements.

Expendable restricted net position increased \$6.05 million or 87.68% due to increases in scholarships and fellowships, endowed professorships, capital projects and debt service. The unrestricted net assets increased \$1.95 million or 110.80%.

The University's current assets of \$23.39 million covered the current liabilities of \$11.55 million, at a ratio of 2.03 (\$2.03 in current assets for every \$1.00 in current liabilities).

At June 30th, the University had a liability for bonds payable of \$56.41 million. Bonds payable is the University's largest liability, representing 65.92% of total University liabilities. This increase in bonds payable and total liabilities is largely due to the bond for \$23.4 million for the student center renovation and the loan of \$10.4 million for the energy efficiency initiative.

Summary of Revenues, Expenses, and Changes in Net Position

The Statement of Revenues, Expenses, and Changes in Net Position presents the revenues earned and expenses incurred during the year. Activities are reported as either operating or nonoperating. A public University's dependency on State 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 position as presented on the Condensed Summary of Net Position is based on the activity presented in the Statement of Revenues, Expenses, and Changes in Net Position. The purpose of the statement is to present the revenues received by the University, both operating and nonoperating, the expenses paid by the University, operating and nonoperating, and any other revenues, expenses, and any 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 the 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 and gifts are considered neither operating nor nonoperating revenues and are reported after "Loss Before Other Revenues."

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

	<u>2014</u>	<u>2013</u>	<u>Increase/ (Decrease)</u>	<u>Percent Change</u>
Operating Revenues:				
Student Tuition and Fees, Net	\$ 17.65	\$ 16.96	\$ 0.69	4.07%
Grants and Contracts	0.66	0.00	0.66	100.00%
Sales and Services, Net	9.51	9.12	0.39	4.28%
Other Operating Revenues	0.72	0.74	(0.02)	-2.70%
Total Operating Revenues	<u>28.54</u>	<u>26.82</u>	<u>1.72</u>	<u>6.41%</u>
Operating Expenses:				
Salaries and Benefits	68.76	68.30	0.46	0.67%
Supplies and Materials	4.79	5.80	(1.01)	-17.41%
Services	14.88	15.82	(0.94)	-5.94%
Scholarships and Fellowships	12.37	11.65	0.72	6.18%
Utilities	3.18	3.24	(0.06)	-1.85%
Depreciation	3.66	3.37	0.29	8.61%
Total Operating Expenses	<u>107.64</u>	<u>108.18</u>	<u>(0.54)</u>	<u>-0.50%</u>
Operating Loss	<u>(79.10)</u>	<u>(81.36)</u>	<u>(2.26)</u>	<u>-2.78%</u>
Nonoperating Revenues (Expenses):				
State Appropriations	49.47	49.78	(0.31)	-0.62%
Noncapital Grants	28.29	31.87	(3.58)	-11.23%
Interest and Fees on Debt	(2.18)	(1.67)	(0.51)	-30.54%
Other Nonoperating Revenue	2.70	1.86	0.84	45.16%
Net Nonoperating Revenues	<u>78.28</u>	<u>81.84</u>	<u>(3.56)</u>	<u>-4.35%</u>
Gain (Loss) Before Other Revenues	<u>(0.82)</u>	<u>0.48</u>	<u>(1.30)</u>	<u>-270.83%</u>
Capital Grants	2.50	10.09	(7.59)	-75.22%
Capital Gifts	1.50	1.50	1.50	100.00%
Permanent Endowment Additions	0.91	1.07	(0.16)	-14.95%
Increase in Net Position	<u>4.09</u>	<u>11.64</u>	<u>(7.55)</u>	<u>-64.86%</u>
Net Position:				
Beginning of Year	<u>151.44</u>	<u>139.80</u>	<u>11.64</u>	<u>8.33%</u>
End of Year	<u>\$ 155.53</u>	<u>\$ 151.44</u>	<u>\$ 4.09</u>	<u>2.70%</u>

The Condensed Summary of Revenues, Expenses, and Changes in Net Position show an increase in net position of \$4.09 million for the fiscal year. The total operating loss for fiscal year 2014 was \$79.10 million. Since the State of North Carolina appropriation and significant student financial aid revenue is not included within operating revenue per GASB, the University shows a significant operating loss.

The University strives to provide students with the opportunity to obtain a quality education. Future University enrollments 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 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, 2013, and ending June 30, 2014, the appropriations from the State for the University were \$49.47 million for operations and \$2.50 million for capital projects. State appropriations decreased \$0.31 million, or 0.62%, and capital grants decreased \$7.59 million or 75.22% during the fiscal year. The state appropriation decreases were the result of stated mandated budget reductions.

Operating revenues include tuition and fees, operating grants and contracts, and sales and services, primarily to students (housing, dining, bookstore, health and other services). The University had increases in the annual cost of Undergraduate Resident Tuition (\$158), Undergraduate Nonresident Tuition (\$250), Graduate Resident Tuition (\$183), Graduate Nonresident Tuition (\$400), and fees increased by \$123 per student. Sales and Services revenue increased \$0.39 million, or 4.28%, due to an increase in dorm rent.

Operating expenses, including depreciation of \$3.66 million, totaled \$107.64 million. Of this total, \$47.17 million, or 43.82%, was used for instruction and academic support; \$10.69 million, or 9.93%, was used for institutional support; \$9.90 million, or 9.20%, was used for operations and maintenance of plant; \$13.83 million, or 12.85%, was used for auxiliary enterprises. Other operating expenses included Research of \$0.56 million or 0.52%, Public Service of \$5.45 million or 5.06%, Student Services of \$4.00 or 3.72%, and Student Financial Aid of \$12.37 million or 11.49%.

Decreases in Supplies and Materials of \$1.01 million or 17.41% are due to decreased construction expenses related to the completion of the Science and Technology Building and Renaissance Hall. The increase of \$0.29 million or 8.61% in depreciation expense is due to a full year depreciation of the Science and Technology Building and Renaissance Hall.

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. The University has embarked upon "The Campaign for Fayetteville State University", a comprehensive five year, \$25 million fundraising effort.

Capital Assets

Capital projects for the fiscal year 2014 include expenditures related to the student renovation (\$14.2 million), the energy efficiency initiative (\$2.3 million), the Science and Technology Building (\$0.42 million) and Washington Drive School project (\$.19 million).

The total capital assets, net of accumulated depreciation, at June 30, 2014 were \$178.63 million. For more detailed information about asset holdings, see Note 5 of the Notes to the Financial Statements.

Outstanding commitments on construction contracts totaled \$7.82 million for the year ending June 30, 2014, which is an increase of \$4.75 million from the previous fiscal year. The construction commitments increase is due to the student center renovation and the energy efficiency initiative.

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 employees.

	2014	2013	Increase/ Decrease
Bonds Payable	\$ 57,265,000.00	\$ 35,925,000.00	\$ 21,340,000.00
Less: Unamortized Discount	(859,351.76)		(859,351.76)
Notes Payable	10,400,044.00		10,400,044.00
Capital Leases Payable	557,344.40	925,994.36	(368,649.96)
Compensated Absences	3,861,359.00	3,680,519.82	180,839.18
Pollution Remediation Payable	85,000.00	10,000.00	75,000.00
Total Long-Term Liabilities	\$ 71,309,395.64	\$ 40,541,514.18	\$ 30,767,881.46

On August 20, 2013, Fayetteville State University sold \$21.4 million in Series 2013A tax-exempt General Revenue Bonds and \$2 million in Series 2013B taxable General Revenue Bonds. A portion of the proceeds of the 2013A Bonds will be used to refund in advance a portion of the 2002B Pool Bonds at a redemption price of 100% of the principal amount of the Refunded 2002B Pool Bonds to be redeemed plus interest accrued to the redemption date. The issuance of the bonds was to provide funding for the renovation of the Rudolph Jones Student Center located on the campus of Fayetteville State University. Notes payable also increased \$10.4 million due to the University's Energy Savings Project.

Factors Impacting Future Periods

Management believes that the University is positioned to continue its level of excellence in 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. Management changes during fiscal year 2014 included the continued vacancy of the Associate Vice Chancellor for Business and Finance and the ongoing recruitment for the Vice Chancellor for Business and Finance. While these are integral positions in the Division of Business and Finance, current staff is maintaining operations within the division.

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 will realize additional decreases in state appropriations in fiscal year 2015.

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 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 individual giving, including the support received through the Fayetteville State University Foundation, Inc. and Subsidiary. The University has embarked upon "The Campaign for Fayetteville State University", a comprehensive five year, \$25 million fundraising effort. The Campaign for Fayetteville State University seeks to grow the following strategic areas:

- Scholarships for deserving students - \$13 million
- Support for scholar athletes - \$1 million
- Professional development for faculty and staff - \$3 million
- Student enrichment and global enhancement - \$3 million
- Military and veteran partnerships - \$2 million
- Center for Defense and Homeland Security - \$3 million

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 current economic uncertainties.



FINANCIAL STATEMENTS

Fayetteville State University
Statement of Net Position
June 30, 2014

Exhibit A-1
Page 1 of 2

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 4,524,545.56
Restricted Cash and Cash Equivalents	11,671,177.71
Receivables, Net (Note 4)	6,157,496.90
Due from Primary Government	217,254.66
Due from State of North Carolina Component Units	4,969.81
Inventories	133,019.91
Notes Receivable (Note 4)	680,219.69
	<hr/>
Total Current Assets	23,388,684.24

Noncurrent Assets:

Restricted Cash and Cash Equivalents	23,072,165.76
Receivables, Net (Note 4)	646,632.00
Restricted Due from Primary Government	198,035.78
Endowment Investments	6,224,583.46
Restricted Investments	4,897,497.59
Other Investments	475,922.67
Notes Receivable, Net (Note 4)	1,344,876.59
Capital Assets - Nondepreciable (Note 5)	22,290,110.68
Capital Assets - Depreciable, Net (Note 5)	156,344,475.17
	<hr/>
Total Noncurrent Assets	215,494,299.70
	<hr/>
Total Assets	238,882,983.94

DEFERRED OUTFLOWS OF RESOURCES

Accumulated Decrease in Fair Value of Hedging Derivatives	2,218,503.00
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LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 6)	6,417,992.05
Unearned Revenue	2,935,632.02
Interest Payable	676,945.48
Long-Term Liabilities - Current Portion (Note 8)	1,522,400.62
	<hr/>
Total Current Liabilities	11,552,970.17

Noncurrent Liabilities:

Funds Held for Others	358,539.79
U. S. Government Grants Refundable	1,657,950.13
Hedging Derivative Liability	2,218,503.00
Long-Term Liabilities, Net (Note 8)	69,786,995.02
	<hr/>
Total Noncurrent Liabilities	74,021,987.94
	<hr/>
Total Liabilities	85,574,958.11

DEFERRED INFLOWS OF RESOURCES

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

Exhibit A-1
Page 2 of 2

NET POSITION

Net Investment in Capital Assets	127,022,023.45
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	5,014,185.23
Endowed Professorships	5,147,630.79
Departmental Uses	1,028,500.00
Loans	654,957.41
Expendable:	
Scholarships and Fellowships	3,918,950.20
Endowed Professorships	1,551,278.06
Departmental Uses	1,582,497.82
Capital Projects	3,737,295.88
Debt Service	2,161,562.88
Unrestricted	<u>3,707,647.11</u>
Total Net Position	<u>\$ 155,526,528.83</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 Position
For the Fiscal Year Ended June 30, 2014

Exhibit A-2

REVENUES

Operating Revenues:

Student Tuition and Fees, Net (Note 11)	\$ 17,653,510.61
Federal Grants and Contracts	656,781.19
Sales and Services, Net (Note 11)	9,513,073.04
Interest Earnings on Loans	1,366.16
Other Operating Revenues	718,798.36

Total Operating Revenues	28,543,529.36
--------------------------	---------------

EXPENSES

Operating Expenses:

Salaries and Benefits	68,763,356.58
Supplies and Materials	4,789,615.83
Services	14,882,779.69
Scholarships and Fellowships	12,366,519.52
Utilities	3,177,071.93
Depreciation	3,656,269.83

Total Operating Expenses	107,635,613.38
--------------------------	----------------

Operating Loss	(79,092,084.02)
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NONOPERATING REVENUES (EXPENSES)

State Appropriations	49,466,570.08
Noncapital Grants - Student Financial Aid	16,544,794.93
Noncapital Grants	11,746,910.52
Noncapital Gifts	1,011,336.13
Investment Income (Net of Investment Expense of \$18,996.47)	1,799,091.91
Interest and Fees on Debt	(2,179,349.10)
Other Nonoperating Expenses	(121,557.89)

Net Nonoperating Revenues	78,267,796.58
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Loss Before Other Revenues	(824,287.44)
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Capital Grants	2,502,458.26
Capital Gifts	1,500,000.00
Additions to Endowments	912,469.75

Increase in Net Position	4,090,640.57
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NET POSITION

Net Position - July 1, 2013	151,435,888.26
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Net Position - June 30, 2014	\$ 155,526,528.83
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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, 2014

Exhibit A-3
Page 1 of 2

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 28,321,567.80
Payments to Employees and Fringe Benefits	(68,259,812.58)
Payments to Vendors and Suppliers	(23,428,775.80)
Payments for Scholarships and Fellowships	(12,366,519.52)
Loans Issued	(318,022.98)
Collection of Loans	253,718.00
Interest Earned on Loans	27,812.17
Other Receipts	691,831.14
	<hr/>
Net Cash Used by Operating Activities	(75,078,201.77)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Appropriations	49,466,570.08
Noncapital Grants - Student Financial Aid	16,398,431.67
Noncapital Grants	16,761,058.19
Noncapital Gifts	308,562.13
Additions to Endowments	912,469.75
William D. Ford Direct Lending Receipts	35,796,378.00
William D. Ford Direct Lending Disbursements	(35,747,501.00)
Agency Fund Activity	54,780.78
Other Receipts	554.11
	<hr/>
Net Cash Provided by Noncapital Financing Activities	83,951,303.71

CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES

Proceeds from Capital Debt	32,927,474.00
Capital Grants	2,502,458.26
Capital Gifts	750,000.00
Proceeds from Sale of Capital Assets	14,937.00
Acquisition and Construction of Capital Assets	(14,213,675.05)
Principal Paid on Capital Debt and Leases	(1,723,649.54)
Interest and Fees Paid on Capital Debt and Leases	(2,523,207.24)
Payment to bond escrow agent	(715,000.00)
	<hr/>
Net Cash Provided by Capital Financing and Related Financing Activities	17,019,337.43

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from Sales and Maturities of Investments	18,335.00
Investment Income	256,212.02
	<hr/>
Cash Provided by Investing Activities	274,547.02
	<hr/>
Net Increase in Cash and Cash Equivalents	26,166,986.39
Cash and Cash Equivalents - July 1, 2013	13,100,902.64
	<hr/>
Cash and Cash Equivalents - June 30, 2014	\$ 39,267,889.03

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

Exhibit A-3
Page 2 of 2

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

Operating Loss	\$ (79,092,084.02)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	3,656,269.83
Allowances and Write-Offs	444,163.39
Changes in Assets and Liabilities:	
Receivables, Net	(780,517.90)
Student Loan Principal Repayments	253,718.00
Student Loans Issued	(432,981.00)
Inventories	2,207.27
Accounts Payable and Accrued Liabilities	145,205.98
Due to Primary Government	(20,235.00)
Unearned Revenue	823,247.80
Government Grants Refundable	(258,035.12)
Compensated Absences	180,839.00
	<u>180,839.00</u>
Net Cash Used by Operating Activities	<u>\$ (75,078,201.77)</u>

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	\$ 4,524,545.56
Restricted Cash and Cash Equivalents	11,671,177.71
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	<u>23,072,165.76</u>
Total Cash and Cash Equivalents - June 30, 2014	<u>\$ 39,267,889.03</u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Change in Fair Value of Investments	\$ 1,537,255.43
Loss on Disposal of Capital Assets	137,049.00
Amortization of Bond Discounts	23,218.00
Increase in Receivables Related to Nonoperating Income	222,224.00

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



NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

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

The accompanying financial statements present all funds belonging to the University and its component 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 blended in the University's financial statements.

Blended Component Units - Although legally separate, Fayetteville State University Student Housing Corporation and Subsidiary (Corporation) and Fayetteville State University Foundation Inc. and Subsidiary (Foundation), component units of the University, are reported as if they were part of the University.

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 of the 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.

Separate financial statements for the Corporation may be obtained from Fayetteville State University Housing Corporation and Subsidiary c/o Vice Chancellor for Business and Finance, 1200 Murchison Road, Fayetteville, NC 28301, or by calling 910-672-1151.

The Foundation is governed by a 27-member board consisting of 8 ex-officio directors and 19 elected directors. The Foundation's purpose is to aid, support, and promote teaching, research, and

service in the various educational, scientific, scholarly, professional, artistic, and creative endeavors of the University. Because the Foundation's operations are so intertwined with the University, its financial statements, as well as those of its wholly owned subsidiaries have been included with those of the University.

Separate financial statements for the Foundation may be obtained from Fayetteville State University Foundation, Inc. and Subsidiary c/o Vice Chancellor for Business and Finance, 1200 Murchison Road, Fayetteville, NC 28301, or by calling 910-672-1151. Other related foundations and similar nonprofit corporations for which the University is not financially accountable or for which the nature of their relationship is not considered significant to the University are not part of the accompanying financial statements.

Condensed combining information regarding the blended component units is provided in Note 18.

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

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

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

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

- D. Cash and Cash Equivalents** - This classification includes undeposited receipts, petty cash, cash on deposit with private bank accounts, cash on deposit with fiscal agents, and deposits held by the State Treasurer in the Short-Term Investment Fund (STIF). The STIF maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.
- E. Investments** - Investments generally are reported at fair value, as determined by quoted market prices or estimated amounts determined by management if quoted market prices are not available. The fair value for investments in the UNC Investment Fund was based on amounts reported to the University by UNC Management Company, Inc. as well as the valuation methods and assumptions used in determining the fair value of such investments. Because of the inherent uncertainty in the use of estimates, values that are based on estimates may differ from the values that would have been used had a ready market existed for the investments. The net increase (decrease) in the fair value of investments is recognized as a component of investment income.

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. Land and other real estate held as investments by endowments are reported at fair value, consistent with how investments are generally reported.

- F. Receivables** - Receivables consist of tuition and fees charged to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from the federal government, state and local governments, private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants, and pledges that are verifiable, measurable, and expected to be collected and available for expenditures for which the resource provider's conditions have been satisfied. In addition, receivables include funds given to the University for the renovation of the student center. 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 in the bookstore is valued using the weighted average 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.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 15 to 75 years for general infrastructure, 50 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 the 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, resources legally segregated for the payment of principal and interest as required by debt covenants, unspent debt proceeds, and endowment and other restricted investments.
- J. Noncurrent Long-Term Liabilities** - Noncurrent long-term liabilities include principal amounts of revenue bonds payable, capital lease obligations, notes payable, compensated absences and pollution remediation payable that will not be paid within the next fiscal year.

Revenue bonds payable are reported net of unamortized discounts. The University amortizes bond discounts over the life of the bonds using the straight-line method.

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

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

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

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

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

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

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

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

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

- M. Scholarship Discounts** - Student tuition and fees revenues and certain other revenues from University charges are reported net of scholarship discounts in the accompanying Statement of Revenues, Expenses, and Changes in Net Position. The scholarship discount is the difference between the actual charge for goods and services provided by the University and the amount that is paid by students or by third parties on the students' behalf. Student financial assistance grants, such as Pell grants, and other federal, state, or nongovernmental programs, are recorded as nonoperating revenues in the accompanying Statement of Revenues, Expenses, and Changes in Net Position. To the extent that revenues from these programs are used to satisfy tuition, fees, and other charges, the University has recorded a scholarship discount.
- N. Revenue and Expense Recognition** - The University classifies its revenues and expenses as operating or nonoperating in the accompanying Statement of Revenues, Expenses, and Changes in Net Position. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the University's principal ongoing operations. Operating revenues include activities that have characteristics of exchange transactions, such as (1) student tuition and fees, (2) sales and services of auxiliary enterprises, (3) certain federal, state, and local grants and contracts that are essentially contracts for services, and (4) interest earned on loans. Operating expenses are all expense transactions incurred other than those related to capital and noncapital financing or investing activities as defined by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*.

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

- O. Internal Sales Activities** - Certain institutional auxiliary operations provide goods and services to University departments, as well as to its customers. These institutional auxiliary operations include activities such as central stores, 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. However, the University of North Carolina Board of Governors, pursuant to G.S. 116-36.1, may authorize the University to deposit its institutional trust funds in interest-bearing accounts and other investments authorized by the Board of Governors, without regard to any statute or rule of law relating to the investment of funds by fiduciaries. Although specifically exempted, the University may voluntarily deposit institutional trust funds, endowment funds, special funds, revenue bond proceeds, debt service funds, and funds received for services rendered by health care professionals with the State Treasurer. Special funds consist of moneys for intercollegiate athletics and agency funds held directly by the University.

At June 30, 2014, the amount shown on the Statement of Net Position as cash and cash equivalents includes \$28,229,424.01 which represents the University's equity position in the State Treasurer's STIF. The STIF (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission and does not have

a credit rating) had a weighted average maturity of 1.3 years as of June 30, 2014. Assets and shares of the STIF are valued at amortized cost, which approximates fair value. Deposit and investment risks associated with the State Treasurer’s Investment Pool (which includes the State Treasurer’s STIF) are included in the State of North Carolina’s *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller’s Internet home page <http://www.osc.nc.gov/> and clicking on “Reports” or by calling the State Controller’s Financial Reporting Section at (919) 707-0500.

Cash on hand at June 30, 2014, was \$9,100. The carrying amount of the University’s deposits not with the State Treasurer was \$11,029,365.02. Custodial credit risk is the risk that in the event of a bank failure, the University’s deposits may not be returned to it. The University does not have a deposit policy for custodial credit risk. As of June 30, 2014, the University’s bank balance was exposed to custodial credit risk as follows:

Uninsured and Uncollateralized	\$10,300,271.10.
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B. Investments - The University is authorized by The University of North Carolina Board of Governors pursuant to G.S. 116-36.2 and Section 600.2.4 of the Policy Manual of the University of North Carolina to invest its special funds and funds received for services rendered by health care professionals in the same manner as the State Treasurer is required to invest, as discussed below.

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

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

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

Investments of the University's component unit, 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.

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

Investments are subject to the following risks:

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

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

The following table presents the fair value of investments by type and investments subject to interest rate risk at June 30, 2014.

Investments		
Investment Type	<u>Fair Value</u>	<u>Investment Maturities (In Years)</u> 6 to 10 Years
Debt Securities		
Mutual Bond Funds	\$ 1,968,031.46	<u>\$ 1,968,031.46</u>
Other Securities		
Other Mutual Funds	<u>5,163,629.46</u>	
Total Investments	<u>\$ 7,131,660.92</u>	

The University's mutual bond funds held at June 30, 2014 were unrated.

UNC Investment Fund, LLC - At June 30, 2014, the Foundation's investments include \$3,990,420.38 which represents the Foundation's equity position in the UNC Investment Fund, LLC (UNC Investment Fund). The UNC Investment Fund is an external investment pool that is not registered with the Securities and Exchange Commission, does not have a credit rating, and is not subject to any regulatory oversight. Asset and ownership interests of the UNC Investment Fund are determined on a market unit valuation basis each month. Investment risks associated with the UNC Investment Fund are included in audited financial statements of the UNC Investment Fund, LLC which may be obtained from UNC Management Company, Inc., 1400 Environ Way, Chapel Hill, NC 27517.

Investments for the Foundation also include donated land which is available for sale. At June 30, 2014 land value totaled \$475,922.67.

C. Reconciliation of Deposits and Investments - A reconciliation of deposits and investments for the University as of June 30, 2014, is as follows:

Cash on Hand	\$ 9,100.00
Amount of Deposits with Private Financial Institutions	11,029,365.02
Deposits in the Short-Term Investment Fund	28,229,424.01
Donated Land	475,922.42
Investment in the UNC Investment Fund	3,990,420.38
Non-Pooled Investments	<u>7,131,660.92</u>
Total Deposits and Investments	<u>\$ 50,865,892.75</u>
Deposits	
Current:	
Cash and Cash Equivalents	\$ 4,524,545.56
Restricted Cash and Cash Equivalents	11,671,177.71
Noncurrent:	
Restricted Cash and Cash Equivalents	<u>23,072,165.76</u>
Total Deposits	<u>39,267,889.03</u>
Investments	
Noncurrent:	
Endowment Investments	6,224,583.46
Restricted Investments	4,897,497.59
Other Investments	<u>475,922.67</u>
Total Investments	<u>11,598,003.72</u>
Total Deposits and Investments	<u>\$ 50,865,892.75</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 5.00% 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, 2014, net appreciation of \$4,999,176.87 was available to be spent, of which \$1,047,506.57 was classified in net position as restricted, expendable, endowed professorships and \$2,027,341.27 was classified in net position as restricted, expendable, scholarships as they are restricted for specific purposes. The remaining portion of net appreciation of \$1,924,329.03 available to be spent is classified as unrestricted net position.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 4 - RECEIVABLES

Receivables at June 30, 2014, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	\$ 2,172,646.08	\$ 554,914.47	\$ 1,617,731.61
Student Sponsors	33,081.19		33,081.19
Intergovernmental	4,874,682.06	1,777,775.51	3,096,906.55
Investment Earnings	35,089.19		35,089.19
Interest on Loans	136,611.82	122,037.78	14,574.04
Other	1,151,433.32		1,151,433.32
Pledges	216,924.00	8,243.00	208,681.00
Total Current Receivables	\$ 8,620,467.66	\$ 2,462,970.76	\$ 6,157,496.90
Noncurrent Receivables:			
Pledges	\$ 809,500.00	\$ 162,868.00	\$ 646,632.00
Notes Receivable:			
Notes Receivable - Current:			
Federal Loan Programs	\$ 680,219.69	\$ 0.00	\$ 680,219.69
Notes Receivable - Noncurrent:			
Federal Loan Programs	\$ 1,923,331.34	\$ 578,454.75	\$ 1,344,876.59

NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2014, is presented as follows:

	Balance July 1, 2013	Increases	Decreases	Balance June 30, 2014
Capital Assets, Nondepreciable:				
Land and Permanent Easements	\$ 1,766,577.76	\$ 0.00	\$ 0.00	\$ 1,766,577.76
Construction in Progress	2,617,239.75	17,906,293.17		20,523,532.92
Total Capital Assets, Nondepreciable	4,383,817.51	17,906,293.17	0.00	22,290,110.68
Capital Assets, Depreciable:				
Buildings	181,332,848.38			181,332,848.38
Machinery and Equipment	15,589,901.25	766,238.17	438,107.24	15,918,032.18
General Infrastructure	7,218,598.66	18,046.00	29,562.00	7,207,082.66
Total Capital Assets, Depreciable	204,141,348.29	784,284.17	467,669.24	204,457,963.22
Less Accumulated Depreciation for:				
Buildings	35,309,273.23	2,749,907.55		38,059,180.78
Machinery and Equipment	7,140,833.38	715,463.18	314,293.41	7,542,003.15
General Infrastructure	2,337,731.45	190,899.10	16,326.43	2,512,304.12
Total Accumulated Depreciation	44,787,838.06	3,656,269.83	330,619.84	48,113,488.05
Total Capital Assets, Depreciable, Net	159,353,510.23	(2,871,985.66)	137,049.40	156,344,475.17
Capital Assets, Net	\$ 163,737,327.74	\$ 15,034,307.51	\$ 137,049.40	\$ 178,634,585.85

During the year ended June 30, 2014, the University incurred \$2,488,536.04 in interest costs related to the acquisition and construction of capital assets. Of this total, \$1,709,029.36 was charged in interest expense, and \$779,506.68 was capitalized.

The University has pledged energy conservation equipment, including but not limited to heating and air conditioning systems, chilled water and hot water systems, water conservation devices, lighting and lighting control systems, and high efficiency mechanical drives, with a carrying value of \$10,400,044.00 as security for an installment financing contract. Additional information regarding the energy efficiency project can be found in Note 8.

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	<u>Amount</u>
Current Accounts Payable and Accrued Liabilities	
Accounts Payable	\$ 1,217,335.24
Accounts Payable- Construction	3,930,966.58
Accrued Payroll	474,742.22
Contract Retainage	<u>794,948.01</u>
Total	<u><u>\$ 6,417,992.05</u></u>

NOTE 7 - SHORT-TERM DEBT – LETTER OF CREDIT

In connection with the long-term debt the Foundation has a direct-pay letter of credit in the amount of \$12,631,675 with Wells Fargo Bank, National Association. The direct-pay letter of credit serves as a credit enhancement to the bonds and expires July 14, 2015.

Short-term debt activity for the year ended June 30, 2014, was as follows:

	<u>Balance July 1, 2013</u>	<u>Draws</u>	<u>Repayments</u>	<u>Balance June 30, 2014</u>
Direct Pay Letter of Credit	<u>\$ 0.00</u>	<u>\$ 383,784.00</u>	<u>\$ 383,784.00</u>	<u>\$ 0.00</u>

NOTES TO THE FINANCIAL STATEMENTS

NOTE 8 - LONG-TERM LIABILITIES

A. Changes in Long-Term Liabilities - A summary of changes in the long-term liabilities for the year ended June 30, 2014, is presented as follows:

	Balance July 1, 2013	Additions	Reductions	Balance June 30, 2014	Current Portion
Revenue Bonds Payable	\$ 35,925,000.00	\$ 23,410,000.00	\$ 2,070,000.00	\$ 57,265,000.00	\$ 820,000.00
Less: Unamortized Discount		(859,351.76)		(859,351.76)	
Total Revenue Bonds Payable	35,925,000.00	22,550,648.24	2,070,000.00	56,405,648.24	820,000.00
Notes Payable		10,400,044.00		10,400,044.00	
Capital Leases Payable	925,994.36		368,649.96	557,344.40	290,132.62
Compensated Absences	3,680,519.82	2,569,427.18	2,388,588.00	3,861,359.00	337,268.00
Pollution Remediation Payable	10,000.00	75,000.00		85,000.00	75,000.00
Total Long-Term Liabilities	\$ 40,541,514.18	\$ 35,595,119.42	\$ 4,827,237.96	\$ 71,309,395.64	\$ 1,522,400.62

Additional information regarding capital lease obligations is included in Note 10.

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

Purpose	Series	Interest Rate/ Ranges	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2014	Principal Outstanding June 30, 2014
Revenue Bonds Payable						
<u>Fayetteville State University Housing Foundation, LLC Facilities Revenue Bonds</u> University Place Apartments	2001	3.396%*	11/01/2033	\$ 14,950,000.00	\$ 2,525,000.00	\$ 12,425,000.00
<u>The University of North Carolina System Pool Revenue Bonds</u> Dining	2005B	4%-4.5%	04/01/2023	2,770,000.00	1,150,000.00	1,620,000.00
<u>Fayetteville State University Housing LLC Limited Obligation Bond (Non-Taxable)</u> Student Center Renovation	2011	2%-5%	04/01/2043	20,715,000.00	230,000.00	20,485,000.00
<u>Fayetteville State University Series 2013A General Obligations Bond (Non-Taxable)</u> Student Center Renovation	2013A	2%-5.125%	04/01/2043	21,410,000.00	110,000.00	21,300,000.00
<u>Fayetteville State University Series 2013B General Obligations Bond (Taxable)</u> Student Center Renovation	2013B	4.25%	04/01/2021	2,000,000.00	565,000.00	1,435,000.00
Total Revenue Bonds Payable (principal only)				\$ 61,845,000.00	\$ 4,580,000.00	57,265,000.00
Less: Unamortized Discount						(859,351.76)
Total Revenue Bonds, Payable, Net						\$ 56,405,648.24

* For variable rate debt, interest rates in effect at June 30, 2014 are included. For variable rate debt with interest rate swaps, the synthetic fixed rates are included.

- C. **Demand Bonds** - Included in bonds payable is a variable rate demand bond issue. Demand bonds are securities that contain a “put” feature that allows bondholders to demand payment before the maturity of the debt upon proper notice to the University’s remarketing or paying agents.

With regards to the bond, the University has entered into a legal agreement, which would convert the demand bonds not successfully remarketed into another form of long-term debt.

North Carolina Capital Facilities Finance Agency Student Housing Facilities Revenue Bonds (Fayetteville State University Housing Foundation, LLC Project) Series 2001: On October 1, 2001 the Housing Foundation issued variable rate demand bonds in the amount of \$14,950,000 that have a final maturity date of November 1, 2033. The bonds are subject to a mandatory sinking fund redemption that began on November 1, 2002. The proceeds of this issuance were used for refinancing a portion of an existing loan and for the Construction of University Place Apartments (UPA), a residence hall near the campus of the University.

While bearing interest at a weekly rate, the bonds are subject to purchase on demand with seven days’ notice and delivery to the bond Trustee, First Citizens Bank & Trust Company. Upon notice from the Trustee, the Remarketing Agent, Wells Fargo Bank, N.A., has agreed to exercise its best efforts to remarket the bonds for which a notice of purchase has been received.

Under an irrevocable standby letter of credit issued by Wells Fargo Bank, N.A., the trustee is entitled to draw amounts sufficient to pay principal and interest on the bonds and amounts sufficient to pay the purchase price and accrued interest on bonds delivered for purchase. The Housing Foundation pays an annual fee of 1.1% on a quarterly basis to Wells Fargo Bank, N.A. for commissions related to the Letter of Credit and Reimbursement Agreement.

If the remarketing agent is unable to resell any bonds that are “put” within 90 days of the “put” date, the Letter of Credit and Reimbursement Agreement with Wells Fargo Bank, N.A. will automatically convert the amount of the bonds “put” to an installment loan payable over a five-year period bearing an adjustable interest rate equal to the bank’s prime lending rate (currently 3.25%) plus 1.5%. In the event that the outstanding \$12,425,000 of demand bonds was “put” and not resold, the Housing Foundation would be required to pay an average of \$2,839,112 a year for five years. Per the agreement, the structure

NOTES TO THE FINANCIAL STATEMENTS

of the installment loan cannot allow the bond principal to be retired faster than originally prescribed in the bond indenture amortization schedule. As of June 30, 2014, there were no outstanding installment loan payables associated with this agreement.

One hundred eighty days prior to its expiration date, the Letter of Credit and Reimbursement Agreement may be extended for successive additional periods of one calendar year each unless a Notice of Non-Extension is received from the Bank. As of June 30, 2014, the earliest expiration date is July 14, 2015.

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

Fiscal Year	Annual Requirements				
	Revenue Bonds Payable			Notes Payable	
	Principal	Interest	Interest Rate Swaps, Net	Principal	Interest
2015	\$ 820,000.00	\$ 2,120,912.52	\$ 346,517.04	\$ 0.00	\$ 284,337.00
2016	1,175,000.00	2,100,300.02	324,432.72	250,685.04	374,701.40
2017	1,190,000.00	2,076,255.02	299,407.88	490,508.92	357,335.40
2018	1,295,000.00	2,048,387.52	263,820.75	508,294.11	339,385.53
2019	1,355,000.00	2,017,047.52	232,220.38	526,728.95	320,784.73
2020-2024	7,640,000.00	9,504,006.36	803,406.55	2,934,608.26	1,300,416.02
2025-2029	8,825,000.00	8,414,532.56	442,605.62	3,538,172.07	721,264.89
2030-2034	12,985,000.00	6,827,265.02	171,476.45	2,151,046.65	107,549.63
2035-2039	10,740,000.00	4,550,456.28			
2040-2044	11,240,000.00	1,466,681.28			
Total Requirements	\$ 57,265,000.00	\$ 41,125,844.10	\$ 2,883,887.39	\$ 10,400,044.00	\$ 3,805,774.60

Interest on the variable rate 2001 revenue bonds is calculated at 0.05% at June 30, 2014
Interest rates are reset weekly by the remarketing agent based upon prevailing market conditions.

This schedule also includes the debt service requirements for debt associated with interest rate swaps. More detailed information about interest rate swaps is presented in Note 9 Derivative Instrument.

E. Bond Defeasance – The University has extinguished long-term debt obligations by the issuance of new long-term debt instruments as follows:

On September 12, 2013, the University issued \$21,410,000 in Fayetteville State University General Revenue Bonds Series 2013A of which a portion of the proceeds were used to refund in advance of their maturities a portion of the 2002B Pool Bonds maturing on and after April 1, 2014 with an average interest rate of 4.34%. The bonds were issued to advance refund \$715,000 of outstanding 2002B Pool Bonds with an average interest rate of 2.81%. The net proceeds of the refunding bonds portion along with

other resources were used to purchase U.S. government securities. These securities were deposited in an irrevocable trust to provide for all future debt service on the refunded bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the Statement of Net Position. This advance refunding was undertaken to reduce total debt service payments by \$895,551 over the next 9 years and resulted in an economic loss of \$142,899. At June 30, 2014, the outstanding balance was \$650,000 for the defeased 2002B Pool Bonds.

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, 2014, the outstanding balance of prior year defeased bonds was \$1,700,000.

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

Purpose	Financial Institution	Interest Rate	Final Maturity Date	Original Amount of Issue	Principal Paid Through 06/30/2014	Principal Outstanding 06/30/2014
Energy Savings Project	Bank of America	3.60%	02/15/2032	\$ 10,400,044.00	\$ 0.00	\$ 10,400,044.00

G. Pollution Remediation Payable – The University has recognized a pollution remediation liability for the following:

Underground tank removal at the Lily Building. The amount of the estimated liability is \$10,000. This estimate was calculated from the estimated cost of removal, and is not expected to be completed in the next fiscal year.

Asbestos Floor Tile Removal at the Facilities Management Building and the Helen Chick Building. The amount of the estimated liability is \$50,000. This estimate was calculated from the estimated cost of removal, and is expected to be completed during the next fiscal year.

Removal of asbestos pipe insulation in basement at the Helen Chick Building and in the boiler room at the Telecom Building. The amount of the estimated liability is \$25,000. This estimate was calculated from the estimated cost of removal, and is expected to be completed during the next fiscal year.

NOTE 9 - DERIVATIVE INSTRUMENT

The derivative instrument held at June 30, 2014, is as follows:

Type	Notional Amount	Change in Fair Value		Fair Value at June 30, 2014	
		Classification	Decrease	Classification	Liability
<i>Hedging Derivative Instrument</i>					
<i>Cash Flow Hedges</i>					
Pay-Fixed, Receive Variable Interest Rate	\$ 11,182,500.00	Deferred Outflow of Resources	\$ (120,421.00)	Hedging Derivative Liability	\$ 2,218,503.00

The hedging derivative instrument held at June 30, 2014, is as follows:

Type	Objective	Notional Amount	Effective Date	Maturity Date	Terms
Pay-fixed, receive variable interest rate swap	Hedge Cash Flows for 2001 Bonds	\$ 11,182,500.00	10/01/01	11/01/33	Pay 3.45%, Receive 67% of 1-month USD-LIBOR-BBA

The fair value of the pay-fixed, receive-variable interest rate swap was estimated using the zero coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swap.

Hedging Derivative Risks

Interest Rate Risk: The Foundation is exposed to interest rate risk on the interest rate swap. The fair value of this instrument is highly sensitive to interest rate changes. As the London Interbank Offered Rate (LIBOR) increases, the Foundation's net payment on the swap decreases.

Basis Risk: The Foundation is exposed to basis risk on the pay fixed interest rate swap because the variable-rate payments received by the Foundation on the hedging derivative is based on a different rate than the Foundation pays on its 2001 Series variable rate debt. As of June 30, 2014, the interest rate on the Foundation's pay-fixed interest rate swap is benchmarked to 67% of 1 month LIBOR, which is 0.104%. The variable-interest rate paid on the Foundation's 2001 debt is not

benchmarked to a reference rate but is reset weekly by the remarketing agent based upon market conditions and the Foundation's credit rating. At June 30, 2014, the interest rate upon the demand bond was 0.05%.

Termination Risk: The Foundation or its counterparty may terminate the pay-fixed, receive-variable interest rate swap if the other party fails to perform under the terms of the contract.

NOTE 10 - LEASE OBLIGATIONS

A. Capital Lease Obligations – Capital lease obligations relating to synthetic turf for the athletic fields and computer networking equipment are recorded at the present value of the minimum lease payments. Future minimum lease payments under capital lease obligations consists of the following at June 30, 2014:

<u>Fiscal Year</u>	<u>Amount</u>
2015	\$ 304,240.70
2016	274,151.00
Total Minimum Lease Payments	578,391.70
Amount Representing Interest (5.46% to 8.95% Rate of Interest)	21,047.30
Present Value of Future Lease Payments	\$ 557,344.40

Machinery and equipment acquired under capital lease amounted to \$1,989,091.12 at June 30, 2014.

Depreciation for the capital assets associated with capital leases is included in depreciation expense, and accumulated depreciation for assets acquired under capital lease totaled \$514,446.90 at June 30, 2014.

NOTES TO THE FINANCIAL STATEMENTS

B. Operating Lease Obligations - The University continued or renewed leases for spaces at Bronco Square for Military Affairs, Continuing Education, Center for Community Justice, Public Computing Center, and the FSU Bookstore; modular storage units; managed printing services; equipment at FSU Print Shop; Small Business Technology and Development Center; and storage space. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2014:

<u>Fiscal Year</u>	<u>Amount</u>
2015	\$ 449,824.71
2016	158,955.64
2017	99,869.76
2018	49,934.88
Total Minimum Lease Payments	\$ 758,584.99

Rental expense for all operating leases during the year was \$742,045.49.

NOTE 11 - REVENUES

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

	<u>Gross Revenues</u>	<u>Internal Sales Eliminations</u>	<u>Less Scholarship Discounts</u>	<u>Less Allowance for Uncollectibles</u>	<u>Net Revenues</u>
Operating Revenues:					
Student Tuition and Fees	\$ 26,891,627.88	\$ 0.00	\$ 9,411,313.91	\$ (173,196.64)	\$ 17,653,510.61
Sales and Services:					
Sales and Services of Auxiliary Enterprises:					
Residential Life	\$ 7,434,965.28	\$ 0.00	\$ 2,561,665.01	\$ (17,066.89)	\$ 4,890,367.16
Dining	4,465,444.95		1,540,023.79	(29,396.80)	2,954,817.96
Bookstore	291,063.55			16,563.65	274,499.90
Central Store	71,777.76	62,150.25			9,627.51
Copy Center	210,608.54	205,697.03			4,911.51
Athletics	132,157.42				132,157.42
Security Operations	294,525.82			5.57	294,520.25
Other	367,607.26			4,361.62	363,245.64
Sales and Services of Education and Related Activities	588,925.69				588,925.69
Total Sales and Services	\$ 13,857,076.27	\$ 267,847.28	\$ 4,101,688.80	\$ (25,532.85)	\$ 9,513,073.04

NOTE 12 - 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	\$ 36,219,661.20	\$ 459,514.29	\$ 1,191,288.85	\$ 0.00	\$ (849.82)	\$ 0.00	\$ 37,869,614.52
Research	406,670.57	68,396.72	87,090.01				562,157.30
Public Service	3,373,131.17	496,419.95	1,580,740.59		568.93		5,450,860.64
Academic Support	6,130,750.61	1,370,156.50	1,796,604.64		238.46		9,297,750.21
Student Services	3,359,585.40	84,111.10	564,077.23				4,007,773.73
Institutional Support	8,478,997.79	177,013.65	2,036,535.78		1,004.21		10,693,551.43
Operations and Maintenance of Plant	5,868,057.66	1,278,313.53	663,029.94		2,088,939.52		9,898,340.65
Student Financial Aid				12,366,519.52			12,366,519.52
Auxiliary Enterprises	4,926,502.18	855,690.09	6,963,412.65		1,087,170.63		13,832,775.55
Depreciation						3,656,269.83	3,656,269.83
Total Operating Expenses	\$ 68,763,356.58	\$ 4,789,615.83	\$ 14,882,779.69	\$ 12,366,519.52	\$ 3,177,071.93	\$ 3,656,269.83	\$ 107,635,613.38

NOTE 13 - PENSION PLANS

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

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

Benefit and contribution provisions for the TSERS are established by *North Carolina General Statutes* 135-5 and 135-8 and may be amended only by the North Carolina General Assembly. Employer and member contribution rates are set each year by the North Carolina General Assembly based on annual actuarial valuations. For the year ended June 30, 2014, these rates were set at 8.69% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the University had a total payroll of \$52,884,674.66, of which \$30,894,777.52 was covered under the TSERS. Total employer and employee contributions for pension benefits for the year were \$2,684,756.17 and \$1,853,686.65, respectively.

Required employer contribution rates for the years ended June 30, 2013, and 2012, were 8.33% and 7.44%, respectively, while employee contributions were 6% each year. The University made 100% of its annual required contributions for the years ended June 30, 2014, 2013, and 2012, which were \$2,684,756.17, \$2,654,132.83, and \$2,342,704.39, respectively.

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

The Optional Retirement Program (Program) is a defined contribution retirement plan that provides retirement benefits with options for payments to beneficiaries in the event of the participant's death. Administrators and eligible faculty of the University may join the Program instead of the TSERS. The Board of Governors of The University of North Carolina is responsible for the administration of the Program and designates the companies authorized to offer investment products or the trustee responsible for the investment of contributions under the Program and approves the form and contents of the contracts and trust agreements.

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

Participant eligibility and contributory requirements are established by General Statute 135-5.1. Employer and member contribution rates are set each year by the North Carolina General Assembly. For the year ended June 30, 2014, these rates were set at 6.84% of covered payroll for employers and 6% of covered payroll for members. The University assumes no liability other than its contribution.

For the current fiscal year, the University had a total payroll of \$52,884,674.66, of which \$17,039,086.17 was covered under the Optional Retirement Program. Total employer and employee contributions for pension benefits for the year were \$1,165,473.49 and \$1,022,345.17, respectively.

NOTE 14 - OTHER POSTEMPLOYMENT BENEFITS

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

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

By General Statute, a Retiree Health Benefit Fund (the Fund) has been established as a fund in which accumulated contributions from employers and any earnings on those contributions shall be used to provide health benefits to retired and disabled employees and applicable beneficiaries. By statute, the Fund is administered by the Board of Trustees of the Teachers' and State Employees' Retirement System and contributions to the Fund are irrevocable. Also by law, Fund assets are dedicated to providing benefits to retired and disabled employees and applicable beneficiaries and are not subject to the claims of creditors of the employers making contributions to the Fund. Contribution rates to the Fund, which are intended to finance benefits and administrative expenses on a pay-as-you-go basis, are established by the General Assembly.

For the current fiscal year the University contributed 5.40% of the covered payroll under the Teachers' and State Employees' Retirement System and the Optional Retirement Program to the Fund. Required contribution rates for the years ended June 30, 2013, and 2012, were 5.3% and 5.0%, respectively. The University made 100% of its annual required contributions to the Plan for the years ended June 30, 2014, 2013, and 2012, which were \$2,588,428.64, \$2,541,841.34, and \$2,354,394.22, respectively. The University assumes no liability for retiree health care benefits provided by the programs other than its required contribution.

Additional detailed information about these programs can be located in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by

accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.nc.gov/> and clicking on "Reports" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

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

Disability income benefits are funded by actuarially determined employer contributions that are established by the General Assembly. For the fiscal year ended June 30, 2014, the University made a statutory contribution of .44% of covered payroll under the Teachers' and State Employees' Retirement System and the Optional Retirement Program to the DIPNC. Required contribution rates for the years ended June 30, 2013, and 2012, were .44% and .52%, respectively. The University made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2014, 2013, and 2012, which were \$210,909.00, \$211,020.80, and \$244,857.02, respectively. The University assumes no liability for long-term disability benefits under the Plan other than its contribution.

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

NOTE 15 - RISK MANAGEMENT

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

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

The University is required to maintain fire and lightning coverage on all state-owned buildings and contents through the State Property Fire Insurance Fund (Fund), an internal service fund of the State. Such coverage is provided at no cost to the University for operations supported by the State's General Fund. Other operations not supported by the State's General Fund are charged for the coverage. Losses covered by the Fund are subject to a \$5,000 per occurrence deductible.

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 building foundations, and costs of excavations, grading, backfilling, or filling. "All Risk" provides coverage to property for risk of direct physical loss. While conditions to the general policy still apply, "all risks" takes the place of 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. In addition, the University purchases first party comprehensive and collision coverage on certain vehicles. This coverage is subject to a \$100 deductible and is purchased separately through the North Carolina Association of Insurance Agents.

The University is protected for losses from employee dishonesty and computer fraud. This coverage is with a private insurance company and is handled by the North Carolina Department of Insurance. Universities are charged a premium by the private insurance company. Coverage limit is \$5,000,000 per occurrence. The private insurance company pays 90% of each loss less a \$75,000 deductible.

The University purchased other authorized coverage from private insurance companies through the North Carolina Department of Insurance.

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. Covered persons includes all student athletes, student managers, and student trainers whose names are on the official team roster of FSU's sponsored and supervised sports teams including basketball, bowling, cheerleading, cross country, football, tennis, track and field, softball, and volleyball. This coverage is effective during play, practice, and team related travel. There is a \$3,000 deductible for all sports (disappearing deductible).

The University purchased Accident and Health Insurance for Gear Up and Upward Bound camps from a private insurance company through the North Carolina Department of Insurance. This policy includes a \$5,000 accidental death benefit, \$5,000 accidental dismemberment benefit, \$35,000 paralysis and coma benefit, \$5,000 maximum accident medical expense benefit, with a maximum dental benefit of \$250, and a \$1,500 maximum sickness medical expense benefit. Covered persons include each camp attendee. This coverage is effective for the period the attendee is scheduled to be at the Camp including while on the camp's premises during the day, not on camp premises but traveling to and from and attending or participating in camp activity supervised by camp authorities, and traveling between camp and home. There is not a deductible for this policy.

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

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

Term life insurance (death benefits) of \$25,000 to \$50,000 is provided to eligible workers. This Death Benefit Plan is administered by the State Treasurer and funded via employer contributions. The employer contribution rate was .16% for the current fiscal year.

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

NOTE 16 - COMMITMENTS

- 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 \$7,822,067.93 and on other purchases were \$2,396,388.54 at June 30, 2014.
- B. Pending Litigation and Claims** - The University is a party to litigation and claims in the ordinary course of its operations. Since it is not possible to predict the ultimate outcome of these matters, no provision for any liability has been made in the financial statements. University management is of the opinion that the liability, if any, for any of these matters will not have a material adverse effect on the financial position of the University.

NOTE 17 - RELATED PARTIES

There are four separately incorporated nonprofit foundations associated with the University. These entities are the:

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

These organizations serve as the primary fundraising arm of 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 position, or operations transactions of the foundations, except for the support from each organization to the University. This support approximated \$5,750 for the year ended June 30, 2014.

NOTE 18 - BLENDED COMPONENT UNIT

Condensed combining information for the University's blended component units for the year ended June 30, 2014, is presented as follows:

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

	Fayetteville State University	Fayetteville State University Foundation, Inc. and Subsidiaries	Fayetteville State University Student Housing Corporation	Eliminations	Total
ASSETS					
Current Assets	\$ 18,637,032.24	\$ 4,548,981.00	\$ 956,051.00	\$ (753,380.00)	\$ 23,388,684.24
Capital Assets	169,842,035.85	8,792,550.00			178,634,585.85
Other Noncurrent Assets	31,746,738.85	5,112,975.00	20,250,000.00	(20,250,000.00)	36,859,713.85
Total Assets	<u>220,225,806.94</u>	<u>18,454,506.00</u>	<u>21,206,051.00</u>	<u>(21,003,380.00)</u>	<u>238,882,983.94</u>
Deferred Outflows of Resources	0.00	2,218,503.00	0.00	0.00	2,218,503.00
LIABILITIES					
Current Liabilities	11,197,445.17	355,525.00	753,380.00	(753,380.00)	11,552,970.17
Noncurrent Liabilities	59,703,484.94	14,318,503.00	20,250,000.00	(20,250,000.00)	74,021,987.94
Total Liabilities	<u>70,900,930.11</u>	<u>14,674,028.00</u>	<u>21,003,380.00</u>	<u>(21,003,380.00)</u>	<u>85,574,958.11</u>
Deferred Inflows of Resources	0.00	0.00	0.00	0.00	0.00
NET POSITION					
Net Investment in Capital Assets	130,654,473.45			(3,632,450.00)	127,022,023.45
Restricted - Nonexpendable	8,119,700.43	3,725,573.00			11,845,273.43
Restricted - Expendable	7,753,796.84	4,673,564.00	100.00	524,124.00	12,951,584.84
Unrestricted	2,796,906.11	(2,400,156.00)	202,571.00	3,108,326.00	3,707,647.11
Total Net Position	<u>\$ 149,324,876.83</u>	<u>\$ 5,998,981.00</u>	<u>\$ 202,671.00</u>	<u>0.00</u>	<u>\$ 155,526,528.83</u>

Due to presentation requirements that prohibit reporting negative restricted net assets in the financial statements, the University Student Housing Corporation included its net investment in capital assets of negative \$3,632,450 as unrestricted net assets in its separately issued financial statements. Included in the eliminations column comparing the amounts reported in the separately issued financial statements and the university's financial statements is an adjustment to show this amount as part of the university's net investment in capital assets rather than its unrestricted net assets.

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

	Fayetteville State University	Fayetteville State University Foundation, Inc. and Subsidiary	Fayetteville State University Student Housing Corporation	Eliminations	Total
OPERATING REVENUES					
Student tuition and Fees	\$ 17,653,510.61	\$ 0.00	\$ 0.00	\$ 0.00	\$ 17,653,510.61
Federal Grants and Contracts	656,781.19				656,781.19
Sales and Services	9,503,694.04	9,379.00			9,513,073.04
Interest Earnings on Loans	1,366.16				1,366.16
Other Operating Revenues	(1,162,389.64)	1,881,188.00	524,806.00	(524,806.00)	718,798.36
Total Operating Revenues	<u>26,652,962.36</u>	<u>1,890,567.00</u>	<u>524,806.00</u>	<u>(524,806.00)</u>	<u>28,543,529.36</u>
OPERATING EXPENSES					
Operating Expenses	102,979,543.55	630,488.00	171,310.00	198,002.00	103,979,343.55
Depreciation	3,358,107.83	298,162.00			3,656,269.83
Total Operating Expenses	<u>106,337,651.38</u>	<u>928,650.00</u>	<u>171,310.00</u>	<u>198,002.00</u>	<u>107,635,613.38</u>
Operating Income (Loss)	<u>(79,684,689.02)</u>	<u>961,917.00</u>	<u>353,496.00</u>	<u>(722,808.00)</u>	<u>(79,092,084.02)</u>
NONOPERATING REVENUES (EXPENSES)					
State Appropriations	49,466,570.08				49,466,570.08
Noncapital Grants - Student Financial Aid	16,544,794.93				16,544,794.93
Other Noncapital Grants	11,746,910.52				11,746,910.52
Noncapital Gifts	641,884.13	369,452.00			1,011,336.13
Financing Fees	0.00	(156,663.00)	(4,175.00)	160,838.00	
Investment Income (Net of Expenses)	1,258,414.91	535,638.00	1,181,808.00	(1,176,769.00)	1,799,091.91
Interest and Fees on Debt	(692,258.10)	(383,784.00)	(944,044.00)	(159,263.00)	(2,179,349.10)
University Support	0.00	(198,002.00)		198,002.00	
Other Nonoperating Expenses	(121,557.89)				(121,557.89)
Net Nonoperating Revenues (Expenses)	<u>78,844,758.58</u>	<u>166,641.00</u>	<u>233,589.00</u>	<u>(977,192.00)</u>	<u>78,267,796.58</u>
Capital Contributions	4,002,458.26				4,002,458.26
Transfers	(1,700,000.00)			1,700,000.00	
Additions to Endowments	85,361.75	827,108.00			912,469.75
Increase (Decrease) in Net Position	<u>1,547,889.57</u>	<u>1,955,666.00</u>	<u>587,085.00</u>	<u>0.00</u>	<u>4,090,640.57</u>
NET POSITION					
Net Position, July 1, 2013	<u>147,776,987.26</u>	<u>4,043,315.00</u>	<u>(384,414.00)</u>	<u>0.00</u>	<u>151,435,888.26</u>
Net Position, June 30, 2014	<u>\$ 149,324,876.83</u>	<u>\$ 5,998,981.00</u>	<u>\$ 202,671.00</u>	<u>\$ 0.00</u>	<u>\$ 155,526,528.83</u>

**Condensed Statement of Cash Flows
June 30, 2014**

	<u>Fayetteville State University</u>	<u>Fayetteville State University Foundation, Inc. and Subsidiary</u>	<u>Fayetteville State University Student Housing Corporation</u>	<u>Total</u>
Net Cash Provided (Used) by Operating Activities	\$ (76,668,199.77)	\$ 1,260,762.00	\$ 329,236.00	\$ (75,078,201.77)
Net Cash Provided (Used) by Noncapital Financing Activities	83,798,188.71	153,115.00		83,951,303.71
Net Cash Provided (Used) by Capital and Related Financing Activities	18,814,153.43	(845,447.00)	(949,369.00)	17,019,337.43
Net Cash Provided (Used) by Investing Activities	<u>(697,672.98)</u>	<u>25,560.00</u>	<u>946,660.00</u>	<u>274,547.02</u>
Net Increase (Decrease) in Cash and Cash Equivalents	25,246,469.39	593,990.00	326,527.00	26,166,986.39
Cash and Cash Equivalents, July 1, 2013	<u>9,319,549.64</u>	<u>3,621,977.00</u>	<u>159,376.00</u>	<u>13,100,902.64</u>
Cash and Cash Equivalents, June 30, 2014	<u>\$ 34,566,019.03</u>	<u>\$ 4,215,967.00</u>	<u>\$ 485,903.00</u>	<u>\$ 39,267,889.03</u>

STATE OF NORTH CAROLINA
Office of the State Auditor



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State Auditor

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

Board of Trustees
Fayetteville State University
Fayetteville, North Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of 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, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated February 9, 2015. Our report includes a reference to other auditors who audited the financial statements of Fayetteville State University Foundation Inc. and Subsidiary and Fayetteville State University Housing Corporation and Subsidiary, as described in our report on the University's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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



Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

February 9, 2015

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This audit required 1,105 audit hours at an approximate cost of \$103,870.