

# STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA



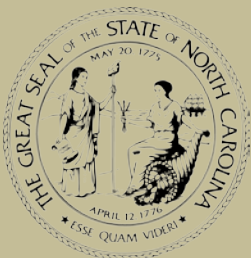
## FAYETTEVILLE STATE UNIVERSITY

FAYETTEVILLE, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

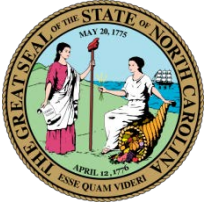
FOR THE YEAR ENDED JUNE 30, 2016

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



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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

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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, 2016, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

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

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

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

Beth A. Wood, CPA  
State Auditor



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.



# INDEPENDENT AUDITOR'S REPORT

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



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

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## **INDEPENDENT AUDITOR'S REPORT**

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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 (University), a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of Fayetteville State University Foundation, Inc. which represent 8.22 percent, 4.77 percent, and 0.55 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 0.43 percent, and 0.67 percent, respectively, of the assets, and net position 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 Fayetteville State University Foundation, Inc. and Subsidiary and Fayetteville State University Housing Corporation and Subsidiary, is based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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, 2016, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters – Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2016 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.



Beth A. Wood, CPA  
State Auditor

Raleigh, North Carolina

December 15, 2016



# **MANAGEMENT'S DISCUSSION AND ANALYSIS**

## Introduction

Fayetteville State University (University) provides this overview and Management Discussion and Analysis to assist in understanding the financial statements and the related Notes to the Financial Statements presented herewith for the year ended June 30, 2016, and includes comparative data for the year ended June 30, 2015. 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, along with the financial statements and Notes to the Financial Statements, has been prepared by and is the responsibility of University management. The report, including this discussion and analysis, 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 using 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 Revenues, Expenses, and Changes 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. If necessary, a discussion of accounting changes, adjustments to prior periods, and events subsequent to the University's financial statement period is also provided. 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, 2016. The combined net position for the University increased \$2.73 million, which is an increase of 1.90%.

### Statement 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 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 its 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 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 Statement of Net Position (in millions)

	2016	2015	Increase/ (Decrease)	Percent Change
<b>Assets:</b>				
Current Assets	\$ 21.25	\$ 14.55	\$ 6.70	46.05%
Noncurrent Assets:				
Capital	184.43	187.14	(2.71)	-1.45%
Other	22.35	27.99	(5.64)	-20.15%
Total Assets	<u>228.03</u>	<u>229.68</u>	<u>(1.65)</u>	-0.72%
<b>Deferred Outflows of Resources:</b>				
Accumulated Decrease in Fair Value of Hedging Derivatives	0.48	2.08	(1.60)	-76.92%
Deferred Outflows for Pensions	2.89	2.72	0.17	6.25%
Total Deferred Outflows of Resources	<u>3.37</u>	<u>4.80</u>	<u>(1.43)</u>	-29.79%
<b>Liabilities:</b>				
Current Liabilities				
Long-Term Liabilities	2.10	2.13	(0.03)	-1.41%
Other Current Liabilities	4.26	4.28	(0.02)	-0.47%
Noncurrent Liabilities				
Long-Term Liabilities	74.00	71.08	2.92	4.11%
Other Noncurrent Liabilities	2.59	4.26	(1.67)	-39.20%
Total Liabilities	<u>82.95</u>	<u>81.75</u>	<u>1.20</u>	1.47%
<b>Deferred Inflows of Resources:</b>				
Deferred Inflows for Pensions	<u>1.93</u>	<u>8.95</u>	<u>(7.02)</u>	-78.44%
<b>Net Position:</b>				
Net Investment in Capital Assets	120.42	120.43	(0.01)	-0.01%
Restricted:				
Nonexpendable	11.56	11.07	0.49	4.43%
Expendable	12.90	14.58	(1.68)	-11.52%
Unrestricted	1.64	(2.29)	3.93	171.62%
Total Net Position	<u>\$ 146.52</u>	<u>\$ 143.79</u>	<u>\$ 2.73</u>	1.90%

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

At June 30, 2016, the University's total net position was \$146.52 million. The University's largest asset category was capital assets of \$184.43 million, representing 80.88% of total assets. Capital assets decreased by \$2.71 million due to an increase in depreciation of \$1.62 million related to the completion of the student center renovation and the energy efficiency initiative. The University also reevaluated and reduced the remaining useful life of some assets which increased depreciation from the prior year. The University also disposed of \$1.25 million in equipment, the majority of which was networking equipment. Current assets increased \$6.70 million, or 46.05%, primarily due to the satisfaction of time restrictions on previously restricted Title III investment funds that were moved to current unrestricted cash and cash equivalents. The University also had an increase in restricted cash and cash equivalents resulting from more diligent and timely collection of restricted receivables. The satisfaction of the restricted Title III investment funds was also the primary cause for the decrease of \$5.64 million in other noncurrent assets.

The decrease of \$1.60 million or 76.92% in Accumulated Decrease in Fair Value of Hedging Derivatives is due to a different valuation technique being used. In fiscal year 2015, the fair value was estimated using the zero coupon method, while in fiscal year 2016 the value was established by market quotation obtained from third-parties using the income approach. The different valuation technique was used due to the implementation of Governmental Accounting Standards Board Statement No. 72, *Fair Value Measurement and Application*.

The University's liabilities totaled \$82.95 million at June 30, 2016. Current liabilities of \$6.36 million were consistent with the prior year and include accounts payable, unearned revenue, and current long-term liabilities. Noncurrent liabilities of \$76.59 million consist mainly of \$65.10 million in bonds and notes payable, \$7.34 million in net pension liability, and \$3.64 million in compensated absences.

The increase in noncurrent long-term liabilities of \$2.92 million is primarily due to the reduction of bonds payable, notes payable, capital lease payable, offset by an increase in net pension liability. Net pension liability increased due to actuarial changes caused by the difference between projected and actual investment earnings. Other noncurrent liabilities decreased \$1.67 million and are mainly due to a \$1.60 million decrease in the hedging derivative liability. The decrease in the hedging derivative liability is due to the different valuation technique discussed previously.

The University's current assets of \$21.25 million covered the current liabilities of \$6.36 million, at a ratio of 3.34 (\$3.34 in current assets for every \$1.00 in current liabilities).

The deferred inflows for pensions of \$1.93 million is another allocation of TSER's cost-sharing pension plan balances required by GASB 68, Accounting and Financial Reporting for Pensions. These deferred inflows for pensions are amortized over time as pension expense. Deferred inflows decreased by \$7.02 million due to differences between projected and actual earnings on pension plan investments.

Unrestricted net position increased by \$3.93 million or 171.62%. The increase was primarily due to the increase of net pension liability of \$4.87 million, offset with a decrease of deferred inflows related to pensions of \$7.02 million. Unrestricted net position also increased due to increases in tuition and fees and sales and services revenues.

### **Statement 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 allocates the cost of an asset over its expected useful life.

The change in total net position as presented on the Condensed Statement 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 constituents 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 are considered neither operating nor nonoperating revenues and are reported after "Loss Before Other Revenues."

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

	2016	2015	Increase/ (Decrease)	Percent Change
<b>Operating Revenues:</b>				
Student Tuition and Fees, Net	\$ 17.85	\$ 17.58	\$ 0.27	1.54%
Grants and Contracts	0.19	0.78	(0.59)	-75.64%
Sales and Services, Net	9.90	8.93	0.97	10.86%
Other Operating Revenues	0.02	0.58	(0.56)	-96.55%
Total Operating Revenues	<u>27.96</u>	<u>27.87</u>	<u>0.09</u>	0.32%
<b>Operating Expenses:</b>				
Salaries and Benefits	65.40	66.70	(1.30)	-1.95%
Supplies and Materials	5.59	7.82	(2.23)	-28.52%
Services	16.70	16.67	0.03	0.18%
Scholarships and Fellowships	10.83	11.34	(0.51)	-4.50%
Utilities	2.80	3.14	(0.34)	-10.83%
Depreciation	5.53	3.91	1.62	41.43%
Total Operating Expenses	<u>106.85</u>	<u>109.58</u>	<u>(2.73)</u>	-2.49%
Operating Loss	<u>(78.89)</u>	<u>(81.71)</u>	<u>(2.82)</u>	-3.45%
<b>Nonoperating Revenues (Expenses):</b>				
State Appropriations	48.41	49.32	(0.91)	-1.85%
Noncapital Grants	31.08	31.64	(0.56)	-1.77%
Interest and Fees on Debt	(2.94)	(2.89)	(0.05)	-1.73%
Other Nonoperating Revenue	1.00	2.00	(1.00)	-50.00%
Net Nonoperating Revenues	<u>77.55</u>	<u>80.07</u>	<u>(2.52)</u>	-3.15%
Loss Before Other Revenues	<u>(1.34)</u>	<u>(1.64)</u>	<u>0.30</u>	18.29%
Capital Appropriations	1.41		1.41	100.00%
Capital Grants	0.12	0.04	0.08	200.00%
Capital Gifts	0.82		0.82	100.00%
Permanent Endowment Additions	0.49	0.22	0.27	122.73%
Special Items	1.23		1.23	100.00%
Increase (Decrease) in Net Position	<u>2.73</u>	<u>(1.38)</u>	<u>4.11</u>	297.83%
<b>Net Position:</b>				
Beginning of Year	<u>143.79</u>	<u>145.17</u>	<u>(1.38)</u>	-0.95%
End of Year	<u>\$ 146.52</u>	<u>\$ 143.79</u>	<u>\$ 2.73</u>	1.90%
<b>Reconciliation of Change in Net Position</b>				
Total Revenues	\$ 112.77	\$ 111.40	\$ 1.37	1.23%
Less: Total Expenses	<u>110.04</u>	<u>112.78</u>	<u>(2.74)</u>	-2.43%
Increase (Decrease) in Net Position	<u>\$ 2.73</u>	<u>\$ (1.38)</u>	<u>\$ 4.11</u>	-297.83%

The Condensed Statement of Revenues, Expenses, and Changes in Net Position shows an increase in net position of \$2.73 million for the fiscal year. The total operating loss for fiscal year 2016 was \$78.89 million. Since the State of North Carolina's appropriations and significant student financial aid revenue are 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 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.

State appropriations are received through an allotment and requisition system from 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, 2015, and ending June 30, 2016, the appropriations from the State to the University were \$48.41 million for operations and \$1.41 million for capital projects.

The decrease of \$1.00 million or 50.00% in other nonoperating revenue is primarily due to the gain on the sale of Common Fund investments in the prior year as well as an increase in unrealized loss on investments in the current year.

Operating revenues include tuition and fees, operating grants and contracts, and sales and services (primarily from students housing, dining, bookstore, health and other services). Operating revenue remained relatively stable compared to the previous year with only \$.09 million, or 0.32% increase. Grants and Contracts decreased by \$.59 million or 75.64% because one exchange grant ended, one exchange grant is winding down and no additional exchange grants were awarded.

Operating expenses, including depreciation of \$5.54 million, totaled \$106.85 million. Of this total, \$45.03 million, or 42.14%, was used for instruction and academic support; \$12.48 million, or 11.68%, was used for institutional support; \$9.26 million, or 8.67%, was used for operations and maintenance of plant; \$15.33 million, or 14.35%, was used for auxiliary enterprises. Other operating expenses included research of \$.82 million, or 0.76%, public service of \$3.46 million, or 3.24%, student services of \$4.10, or 3.84%, and student financial aid of \$10.83 million, or 10.14%.

The decrease in supplies and materials of \$2.23 million, or 28.52%, is due to a decrease in expenses for the student center renovation. The increase of \$1.62 million, or 41.43%, in depreciation is due to the completion of the student center renovation and the energy efficiency initiative. The University also reevaluated some assets based on determined changes to the assets expected remaining life which increased depreciation from the prior year.

The special item represents the gain on sale of the University radio station and its operations to WUNC Public Radio. The gain was \$1.23 million based on the sale price of \$1.35 million less broker fee expenses of \$.09 million and the book value of tangible equipment transferred to the buyer of \$.03 million.

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**

Total renovations completed and capitalized during the 2015-16 fiscal year totaled \$11.18 million and included the UNC System ESCO savings upgrade and the FSU energy savings upgrade.

The total capital assets, net of accumulated depreciation, at June 30, 2016 were \$184.43 million. For more detailed information about capital asset holdings, see Note 6 of the Notes to the Financial Statements.

Outstanding commitments on construction contracts totaled \$.37 million for the year ended June 30, 2016, which is a decrease of \$1.10 million from the previous fiscal year. The construction commitments decrease is due to the completion of the student center renovation.

**Long-Term Debt Activities**

The University incurs long-term debt to finance construction projects, to fund the net pension liability, and to provide for accumulated unused vacation benefits for employees.

(In Millions)	2016	2015	Increase/ (Decrease)
Bonds Payable	\$ 55.29	\$ 56.36	\$ (1.07)
Less: Unamortized Discount	(0.80)	(0.83)	0.03
Net Pension Liability	7.34	2.48	4.86
Notes Payable	10.61	10.87	(0.26)
Capital Leases Payable		0.27	(0.27)
Compensated Absences	3.64	4.02	(0.38)
Pollution Remediation Payable	0.01	0.03	(0.02)
<b>Total Long-Term Liabilities</b>	<b>\$ 76.09</b>	<b>\$ 73.20</b>	<b>\$ 2.89</b>

Long-term liabilities increased by \$2.89 million, primarily due to an increase in the pension liability.

No new bond debt was issued during fiscal year 2016. For detailed information about long-term debt, see Note 9 of the Notes to the Financial Statements.

**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 were minimal during fiscal year 2016 and are not considered to have a significant effect on the continued operations and financial position of the University.

A crucial element to the University's future will continue to be its 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 its 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 anticipates additional increases in state appropriations in fiscal year 2017.

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 planned growth and the continuing effects of technology on teaching methodologies.

In March 2016, the \$2 Billion Connect NC Public Improvement Bond was approved by the voters of North Carolina. Fayetteville State University plans to utilize \$10 million of these funds to perform a comprehensive renovation of the 30-year-old, 89,000-square foot Lyons Science Building. This facility's renovation will enhance the fire sprinkler and fire alarm systems, enhance the exterior building envelope and replace roofing, replace fume hoods, improve accessibility, expand hazardous material storage and replace aging mechanical equipment. The renovation will also provide support for new academic programs as well as space for student science organizations, a student lounge complete with library extension services, group study halls with state-of-the-art technology, and a learning center. The renovation will expand the planetarium into a more comprehensive science center. The science center will have an aquarium, designated space for permanent science exhibits and a room set up for classroom-style demonstrations and interactive activities. In the renovation, the observatory will be expanded to safely accommodate more people. The roof is also valuable for astronomy viewing events featuring smaller telescopes, and a viewing deck with railings will be installed. A telescope with digital camera capabilities will be added with a video feed delivered to the planetarium. The repayment of these bonds will be made from the State's general fund and will have no effect on the debt position of Fayetteville State University.

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, 2016**

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

**ASSETS**

Current Assets:

Cash and Cash Equivalents	\$ 10,251,489.31
Restricted Cash and Cash Equivalents	6,385,729.12
Receivables, Net (Note 5)	3,772,712.82
Due from Primary Government	49,431.86
Inventories	125,459.77
Notes Receivable, Net (Note 5)	667,162.58
	<hr/>
Total Current Assets	21,251,985.46

Noncurrent Assets:

Restricted Cash and Cash Equivalents	5,736,700.70
Receivables, Net (Note 5)	626,612.00
Restricted Due from Primary Government	5,120.78
Endowment Investments	14,233,322.00
Restricted Investments	23,833.24
Other Investments	475,922.42
Notes Receivable, Net (Note 5)	1,248,118.17
Capital Assets - Nondepreciable (Note 6)	2,143,728.64
Capital Assets - Depreciable, Net (Note 6)	182,289,026.33
	<hr/>
Total Noncurrent Assets	206,782,384.28

Total Assets	<hr/> <hr/> 228,034,369.74
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**DEFERRED OUTFLOWS OF RESOURCES**

Accumulated Decrease in Fair Value of Hedging Derivatives	476,332.00
Deferred Outflows Related to Pensions	2,890,664.34
	<hr/>
Total Deferred Outflows of Resources	3,366,996.34

**LIABILITIES**

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 7)	2,564,801.55
Due to Primary Government	9,238.92
Unearned Revenue	1,156,296.00
Interest Payable	530,347.88
Long-Term Liabilities - Current Portion (Note 9)	2,098,411.70
	<hr/>
Total Current Liabilities	6,359,096.05

Noncurrent Liabilities:

Funds Held for Others	432,429.14
U. S. Government Grants Refundable	1,678,588.50
Hedging Derivative Liability (Note 10)	476,332.00
Long-Term Liabilities, Net (Note 9)	74,000,544.59
	<hr/>
Total Noncurrent Liabilities	76,587,894.23

Total Liabilities	<hr/> <hr/> 82,946,990.28
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**DEFERRED INFLOWS OF RESOURCES**

Deferred Inflows Related to Pensions	<hr/> 1,929,988.00
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**Fayetteville State University**  
**Statement of Net Position**  
**June 30, 2016**

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

**NET POSITION**

Net Investment in Capital Assets	120,420,834.31
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	4,864,198.93
Endowed Professorships	5,149,554.99
Departmental Uses	1,026,487.50
Loans	520,238.24
Expendable:	
Scholarships and Fellowships	5,175,049.00
Endowed Professorships	1,283,755.08
Departmental Uses	1,087,269.37
Capital Projects	1,389,090.10
Debt Service	3,960,356.72
Unrestricted	1,647,553.56
Total Net Position	<u>\$ 146,524,387.80</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, 2016**

**Exhibit A-2**

**REVENUES**

Operating Revenues:

Student Tuition and Fees, Net (Note 12)	\$ 17,846,199.34
Federal Grants and Contracts	194,643.50
Sales and Services, Net (Note 12)	9,904,677.25
Interest Earnings on Loans	19,123.38
	<hr/>
Total Operating Revenues	27,964,643.47
	<hr/>

**EXPENSES**

Operating Expenses:

Salaries and Benefits	65,398,959.23
Supplies and Materials	5,589,849.10
Services	16,698,135.34
Scholarships and Fellowships	10,829,357.95
Utilities	2,795,097.53
Depreciation	5,536,485.60
	<hr/>
Total Operating Expenses	106,847,884.75
	<hr/>
Operating Loss	(78,883,241.28)
	<hr/>

**NONOPERATING REVENUES (EXPENSES)**

State Appropriations	48,405,924.52
Noncapital Grants - Federal Student Financial Aid	16,686,836.97
Noncapital Grants	14,391,460.92
Noncapital Gifts	1,293,945.74
Investment Loss (Includes Investment Expense of \$65,364.15)	(107,811.61)
Interest and Fees on Debt	(2,937,555.59)
Other Nonoperating Expenses	(180,831.72)
	<hr/>
Net Nonoperating Revenues	77,551,969.23
	<hr/>
Loss Before Other Revenues and Gains	(1,331,272.05)
	<hr/>
Capital Appropriations	1,410,300.00
Capital Grants	118,106.37
Capital Gifts	821,166.67
Additions to Endowments	484,553.20
Special Items	1,234,725.17
	<hr/>
Increase in Net Position	2,737,579.36
	<hr/>

**NET POSITION**

Net Position - July 1, 2015	143,786,808.44
	<hr/>
Net Position - June 30, 2016	\$ 146,524,387.80
	<hr/> <hr/>

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

**Fayetteville State University**  
**Statement of Cash Flows**  
**For the Fiscal Year Ended June 30, 2016**

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

**CASH FLOWS FROM OPERATING ACTIVITIES**

Received from Customers	\$ 27,660,945.43
Payments to Employees and Fringe Benefits	(67,831,992.15)
Payments to Vendors and Suppliers	(24,734,785.46)
Payments for Scholarships and Fellowships	(10,829,357.95)
Loans Issued	(265,126.70)
Collection of Loans	225,841.42
Other Receipts	6,989.28
	<hr/>
Net Cash Used by Operating Activities	(75,767,486.13)

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

State Appropriations	48,405,924.52
Noncapital Grants - Federal Student Financial Aid	16,523,943.50
Noncapital Grants	17,934,319.41
Noncapital Gifts	1,440,615.74
Additions to Endowments	484,553.20
William D. Ford Direct Lending Receipts	32,627,412.00
William D. Ford Direct Lending Disbursements	(32,922,404.33)
Related Activity Agency Receipts	261,621.94
Other Receipts	1,343,680.00
	<hr/>
Net Cash Provided by Noncapital Financing Activities	86,099,665.98

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

Capital Appropriations	1,410,300.00
Capital Grants	123,081.37
Proceeds from Sale of Capital Assets	7,653.98
Acquisition and Construction of Capital Assets	(2,097,060.64)
Principal Paid on Capital Debt and Leases	(1,599,801.17)
Interest and Fees Paid on Capital Debt and Leases	(3,136,722.07)
	<hr/>
Net Cash Used by Capital Financing and Related Financing Activities	(5,292,548.53)

**CASH FLOWS FROM INVESTING ACTIVITIES**

Proceeds from Sales and Maturities of Investments	452,169.53
Investment Income	77,428.70
Purchase of Investments and Related Fees	(2,032,228.00)
	<hr/>
Net Cash Used by Investing Activities	(1,502,629.77)
	<hr/>
Net Increase in Cash and Cash Equivalents	3,537,001.55
Cash and Cash Equivalents - July 1, 2015	18,836,917.58
	<hr/>
Cash and Cash Equivalents - June 30, 2016	\$ 22,373,919.13

**Fayetteville State University**  
**Statement of Cash Flows**  
**For the Fiscal Year Ended June 30, 2016**

**Exhibit A-3**

**Page 2 of 2**

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

Operating Loss	\$ (78,883,241.28)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	5,536,485.60
Allowances and Write-Offs	209,955.62
Pension Expense	636,026.00
Nonoperating Other Expenses	(81,179.66)
Changes in Assets, Liabilities, and Deferred Outflows of Resources:	
Receivables, Net	(421,568.69)
Inventories	19,072.66
Accounts Payable and Accrued Liabilities	640,119.41
Due to Primary Government	(19,716.88)
Unearned Revenue	(62,092.54)
Deferred Outflows for Contributions Subsequent to the Measurement Date	(2,881,773.34)
Government Grants Refundable	(77,641.11)
Compensated Absences	(380,383.00)
Student Loan Principal Repayments	225,841.42
Student Loans Issued	(227,390.34)
Net Cash Used by Operating Activities	<u>\$ (75,767,486.13)</u>

**RECONCILIATION OF CASH AND CASH EQUIVALENTS**

Current Assets:	
Cash and Cash Equivalents	\$ 10,251,489.31
Restricted Cash and Cash Equivalents	6,385,729.12
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	<u>5,736,700.70</u>
Total Cash and Cash Equivalents - June 30, 2016	<u>\$ 22,373,919.13</u>

**NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES**

Assets Acquired through the Assumption of a Liability	213,824.10
Assets Acquired through a Gift	821,166.67
Change in Fair Value of Investments	(192,460.92)
Loss on Disposal of Capital Assets	(289,786.55)
Amortization of Bond Premiums/Discounts	30,957.72

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. See below for further discussion of the University's component units.

**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 22-member board consisting of 8 ex-officio directors and 14 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 blended component units is provided in Note 20.

- 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** – To the extent available, investments are recorded at fair value based on quoted market prices in active markets on a trade-date basis. Additional information regarding the fair value measurement of investments is disclosed in Note 3. Because of the inherent uncertainty in the use of estimates, values that are based on estimates may differ from

the values that would have been used had a ready market existed for the investments. The net increase (decrease) in the value of investments is recognized as a component of investment income.

Money market investments that have a remaining maturity at the time of purchase of one year or less are reported at cost, if purchased, or at fair value or appraised value at date of gift, if donated.

Endowment investments include the principal amount of gifts and bequests that, according to donor restrictions, must be held in perpetuity or for a specified period of time, along with any accumulated investment earnings on such amounts. Further, endowment investments also include amounts internally designated by the University for investment in an endowment capacity (i.e. quasi-endowments), along with accumulated investment earnings on such amounts. 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. Receivables are recorded net of estimated uncollectible amounts.
- G. **Inventories** - Inventories, consisting of expendable supplies and merchandise for resale, are valued at cost using the first-in, first-out method.
- H. **Capital Assets** - Capital assets are stated at cost at date of acquisition or acquisition value at date of donation in the case of gifts. Donated capital assets acquired prior to July 1, 2015 are stated at fair value as of the date of donation. The value of assets constructed includes all material direct and indirect construction costs. Interest costs incurred are capitalized during the period of construction.

The University capitalizes assets that have a value or cost of \$5,000 or greater at the date of acquisition and an estimated useful life of more than one year.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets in the following manner:

<u>Asset Class</u>	<u>Estimated Useful Life</u>
Buildings	50-100 years
Machinery & Equipment	7-30 years
General Infrastructure	15-75 years

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

- I. **Restricted Assets** - Certain resources are reported as restricted assets because restrictions on asset use change the nature or normal understanding of the availability of the asset. Resources that are not available for current operations and are reported as restricted include resources restricted for the acquisition or construction of capital assets, 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, limited obligation bonds, net pension liability, 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.

The net pension liability represents the University's proportionate share of the collective net pension liability reported in the State of North Carolina's 2015 *Comprehensive Annual Financial Report*. This liability represents the University's portion of the collective total pension liability less the fiduciary net position of the Teachers' and State Employees' Retirement System. See Note 14 for further information regarding the University's policies for recognizing liabilities, expenses, and deferred outflows and inflows related to pensions.

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

In addition to the vacation leave described above, compensated absences include the accumulated unused portion of the special annual leave bonuses awarded by the North Carolina General Assembly. The

bonus leave balance on December 31 is retained by employees and transferred into the next calendar year. It is not subject to the limitation on annual leave carried forward described above and is not subject to conversion to sick leave.

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

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

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

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

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

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

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

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

recorded as nonoperating revenues in the accompanying Statement of Revenues, Expenses, and Changes in Net Position. To the extent that revenues from these programs are used to satisfy tuition, fees, and other charges, the University has recorded a scholarship discount.

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

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

- O. Internal Sales Activities** - Certain institutional auxiliary operations provide goods and services to University departments, as well as to its customers. These institutional auxiliary operations include activities such as 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.

Cash on hand at June 30, 2016 was \$2,967.53. The carrying amount of the University's deposits not with the State Treasurer was \$2,444,249.58 and the bank balance was \$2,444,249.58. Custodial credit risk is the risk that in the event of a bank failure, the University's deposits may not be returned to it. The University does not have a deposit policy for custodial credit risk. As of June 30, 2016, the University's bank balance was exposed to custodial credit risk as follows:

Uninsured and Uncollateralized	<u>\$ 1,989,358.20</u>
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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 specified ratings; general obligations of other states; general obligations of North Carolina local governments; and obligations of certain entities with specified ratings.

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

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

Investments of the University's component unit, 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 value of investments. The University does not have a formal policy that addresses interest rate risk.

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

**Short-Term Investment Fund** - At June 30, 2016, the amount shown on the Statement of Net Position as cash and cash equivalents includes \$19,926,702.02 which represents the University's equity position in the State Treasurer's Short-Term Investment Fund (STIF). The STIF (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission or subject to any other regulatory oversight and does not have a credit rating) had a weighted average maturity of 1.5 years as of June 30, 2016. Assets and shares of the STIF are valued at fair value. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's STIF) are included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.nc.gov/> and clicking on "Reports" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

**UNC Investment Fund, LLC** - At June 30, 2016, the University and the Foundation had \$9,211,647.61 and 5,021,674.39 respectively, for a total of \$14,233,322.00 which represents the 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. 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.

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

	Amount	Investment Maturities (in Years) Less Than 1
<b>Investment Type</b>		
Debt Securities		
Money Market Mutual Funds	\$ 23,833.24	<u>\$ 23,833.24</u>
Other Securities		
Investments in Real Estate	<u>475,922.42</u>	
<b>Total Non-Pooled Investments</b>	<u>\$ 499,755.66</u>	

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

	Amount	AAA Aaa
Money Market Mutual Funds	<u>\$ 23,833.24</u>	<u>\$ 23,833.24</u>
Rating Agency: Moody's, Standards & Poors		

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

	Amount
<b>Investment Type</b>	
Debt Securities	
Money Market Mutual Funds	\$ 23,833.24
Other Securities	
UNC Investment Fund	14,233,322.00
Investments in Real Estate	<u>475,922.42</u>
<b>Total Investments</b>	<u>\$ 14,733,077.66</u>



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

Cash on Hand	\$ 2,967.53
Amount of Deposits with Private Financial Institutions	2,444,249.58
Deposits in the Short-Term Investment Fund	19,926,702.02
Investment in the UNC Investment Fund	14,233,322.00
Non-Pooled Investments	<u>499,755.66</u>
<b>Total Deposits and Investments</b>	<b><u>\$ 37,106,996.79</u></b>
Deposits	
Current:	
Cash and Cash Equivalents	\$ 10,251,489.31
Restricted Cash and Cash Equivalents	6,385,729.12
Noncurrent:	
Restricted Cash and Cash Equivalents	<u>5,736,700.70</u>
<b>Total Deposits</b>	<b><u>22,373,919.13</u></b>
Investments	
Noncurrent:	
Endowment Investments	14,233,322.00
Restricted Investments	23,833.24
Other Investments	<u>475,922.42</u>
<b>Total Investments</b>	<b><u>14,733,077.66</u></b>
<b>Total Deposits and Investments</b>	<b><u>\$ 37,106,996.79</u></b>

**NOTE 3 - FAIR VALUE MEASUREMENTS**

To the extent available, the University's investments and hedging derivatives are recorded at fair value as of June 30, 2016. GASB Statement No. 72 - *Fair Value Measurement and Application*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Inputs are used in applying the various valuation techniques and take into account the assumptions that market participants use to make valuation decisions. Inputs may include price information, credit data, interest and yield curve data, and other factors specific to the financial instrument. Observable inputs reflect market data obtained from independent sources. In contrast, unobservable inputs reflect the entity's assumptions about how market participants would value the financial instrument. Valuation techniques should maximize the use of observable inputs to the extent available.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The following describes the hierarchy of inputs used to measure fair value and the

primary valuation methodologies used for financial instruments measured at fair value on a recurring basis:

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

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

	Fair Value	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
<b>Investments by Fair Value Level</b>				
Other Securities				
Short-Term Investment Fund	\$ 19,926,702.02	\$ 0.00	\$ 19,926,702.02	\$ 0.00
UNC Investment Fund	14,233,322.00			14,233,322.00
Investments in Real Estate	475,922.42			475,922.42
<b>Total Investments by Fair Value Level</b>	<b>\$ 34,635,946.44</b>	<b>\$ 0.00</b>	<b>\$ 19,926,702.02</b>	<b>\$ 14,709,244.42</b>
<b>Derivative Instruments</b>				
Hedging Derivative Instruments				
Interest Rate Swaps	\$ (476,332.00)	\$ 0.00	\$ (476,332.00)	\$ 0.00

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

**UNC Investment Fund** - Ownership interests of the UNC Investment Fund are determined on a market unit valuation basis each month and in accordance with the UNC Investment Fund’s operating procedures.

**Investments in Real Estate** – The Foundation currently holds parcels of land for resale valued at \$475,922.42. This investment is classified in Level 3. The real estate was donated to the Foundation to be sold. The fair value is initially determined by donor appraisal. The investment is periodically measured at fair value by comparing it to comparative sales, county property tax values and/or tentative asking prices.

**Derivative Instruments** - These mark-to-market valuations were established by market quotations obtained from third parties, using the income approach. The income approach to measure fair value converts future payable or receivable amounts to a single current amount by applying a present value factor to the predicted cash flows.

The University's valuation agent used Level 2 inputs to calculate the fair value including:

- 1) Interest rates and yield curves observable at commonly quoted intervals;
- 2) Credit spreads applicable to municipal revenue bonds.

#### **NOTE 4 - ENDOWMENT INVESTMENTS**

Investments of the University's endowment funds including the Foundation 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 including the Foundation 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% and 4.5%, respectively of the University's and Foundations endowment's trailing 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, 2016, net appreciation of \$5,451,205.54 was available to be spent, of which \$1,088,642.16 was classified in net position as restricted, expendable, endowed professorships and \$2,402,670.25 was classified in net position as restricted, expendable, scholarships as they are restricted for specific purposes. The remaining portion of \$1,959,893.13 available to be spent is classified as unrestricted net position.

**NOTE 5 - RECEIVABLES**

Receivables at June 30, 2016, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
<b>Current Receivables:</b>			
Students	\$ 2,372,645.22	\$ 655,665.47	\$ 1,716,979.75
Intergovernmental	1,487,768.15	31,646.46	1,456,121.69
Pledges	462,983.00	17,593.00	445,390.00
Interest on Loans	186,193.21	168,310.33	17,882.88
Other	136,338.50		136,338.50
<b>Total Current Receivables</b>	<u>\$ 4,645,928.08</u>	<u>\$ 873,215.26</u>	<u>\$ 3,772,712.82</u>
<b>Noncurrent Receivables:</b>			
Pledges	<u>\$ 783,040.00</u>	<u>\$ 156,428.00</u>	<u>\$ 626,612.00</u>
<b>Notes Receivable:</b>			
<b>Notes Receivable - Current:</b>			
Federal Loan Programs	<u>\$ 702,470.69</u>	<u>\$ 35,308.11</u>	<u>\$ 667,162.58</u>
<b>Notes Receivable - Noncurrent:</b>			
Federal Loan Programs	<u>\$ 1,863,283.39</u>	<u>\$ 615,165.22</u>	<u>\$ 1,248,118.17</u>

**NOTE 6 - CAPITAL ASSETS**

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

	Balance July 1, 2015	Increases	Decreases	Balance June 30, 2016
<b>Capital Assets, Nondepreciable:</b>				
Land and Permanent Easements	\$ 1,766,577.98	\$ 0.00	\$ 0.00	\$ 1,766,577.98
Construction in Progress	10,998,371.21	563,696.36	11,184,916.91	377,150.66
<b>Total Capital Assets, Nondepreciable</b>	<u>12,764,949.19</u>	<u>563,696.36</u>	<u>11,184,916.91</u>	<u>2,143,728.64</u>
<b>Capital Assets, Depreciable:</b>				
Buildings	201,675,705.88	562,976.25		202,238,682.13
Machinery and Equipment	16,425,905.73	1,826,144.45	1,248,090.74	17,003,959.44
General Infrastructure	7,875,702.52	11,361,769.46		19,237,471.98
<b>Total Capital Assets, Depreciable</b>	<u>225,977,314.13</u>	<u>13,750,890.16</u>	<u>1,248,090.74</u>	<u>238,480,113.55</u>
<b>Less Accumulated Depreciation for:</b>				
Buildings	41,009,166.66	4,229,913.19		45,239,079.85
Machinery and Equipment	7,869,887.68	810,488.60	950,650.21	7,729,726.07
General Infrastructure	2,726,197.49	496,083.81		3,222,281.30
<b>Total Accumulated Depreciation</b>	<u>51,605,251.83</u>	<u>5,536,485.60</u>	<u>950,650.21</u>	<u>56,191,087.22</u>
<b>Total Capital Assets, Depreciable, Net</b>	<u>174,372,062.30</u>	<u>8,214,404.56</u>	<u>297,440.53</u>	<u>182,289,026.33</u>
<b>Capital Assets, Net</b>	<u>\$ 187,137,011.49</u>	<u>\$ 8,778,100.92</u>	<u>\$ 11,482,357.44</u>	<u>\$ 184,432,754.97</u>

During the year ended June 30, 2016, the University incurred \$2,784,522.48 in interest costs related to the acquisition and construction of capital assets. Of this total, \$2,782,140.68 was charged in interest expense, and \$2,381.80 was capitalized.

The University has pledged the energy savings improvements installed in its buildings and other structures financed through the UNC System Guaranteed Energy Savings Installment Financing Agreement (agreement) dated September 1, 2014. The value of the energy savings improvement assets associated with the agreement is \$447,950.47 and is subject to security provisions in the agreement to ensure timely debt service payments. Additional information regarding the UNC System Energy Savings Installment Financing Agreement - Note Payable can be found in Note 9.

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 \$10,498,843.35 as security for FSU Energy Savings Installment Financing Contract. Additional information regarding FSU Energy Savings Installment Financing Contract – Note Payable can be found in Note 9.

**NOTE 7 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

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

	<u>Amount</u>
Current Accounts Payable and Accrued Liabilities	
Accounts Payable	\$ 1,283,916.28
Accounts Payable - Construction	274,119.82
Accrued Payroll	984,013.30
Contract Retainage	<u>22,752.15</u>
 Total Current Accounts Payable and Accrued Liabilities	 <u><u>\$ 2,564,801.55</u></u>

**NOTE 8 - 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 \$11,956,700 with Wells Fargo Bank, National Association. The direct-pay letter of credit serves as a credit enhancement to the bonds and expires July 31, 2017.

Short-term debt activity for the year ended June 30, 2016, was as follows:

	<u>Balance July 1, 2015</u>	<u>Draws</u>	<u>Repayments</u>	<u>Balance June 30, 2016</u>
Direct Pay Letter Credit	<u>\$ 0.00</u>	<u>\$ 359,354.00</u>	<u>\$ 359,354.00</u>	<u>\$ 0.00</u>

**NOTE 9 - LONG-TERM LIABILITIES**

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

	Balance July 1, 2015	Additions	Reductions	Balance June 30, 2016	Current Portion
Revenue Bonds Payable	\$ 36,107,000.00	\$ 0.00	\$ 757,000.00	\$ 35,350,000.00	\$ 816,000.00
Limited Obligation Bonds Payable	20,250,000.00		310,000.00	19,940,000.00	385,000.00
Less: Unamortized Discount	(828,394.04)		(30,957.72)	(797,436.32)	
<b>Total Revenue Bonds and Limited Obligation Bonds Payable, Net</b>	<b>55,528,605.96</b>		<b>1,036,042.28</b>	<b>54,492,563.68</b>	<b>1,201,000.00</b>
Net Pension Liability	2,479,201.00	4,865,767.00		7,344,968.00	
Notes Payable	10,872,983.00		265,589.39	10,607,393.61	551,042.70
Capital Leases Payable	267,211.78		267,211.78		
Compensated Absences	4,024,414.00	2,509,987.00	2,890,370.00	3,644,031.00	346,369.00
Pollution Remediation Payable	32,500.00		22,500.00	10,000.00	
<b>Total Long-Term Liabilities, Net</b>	<b>\$ 73,204,915.74</b>	<b>\$ 7,375,754.00</b>	<b>\$ 4,481,713.45</b>	<b>\$ 76,098,956.29</b>	<b>\$ 2,098,411.70</b>

Additional information regarding the net pension liability is included in Note 14.

**B. Revenue Bonds Payable and Limited Obligation Bonds Payable - The University was indebted for revenue bonds payable and limited obligation bonds payable for the purposes shown in the following table:**

Purpose	Series	Interest Rate/ Range	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2016	Principal Outstanding June 30, 2016
<b>Revenue Bonds Payable</b>						
<u>Fayetteville State University Housing Foundation, LLC Facilities Revenue Bonds</u>						
University Place Apartments	2001	3.45%*	11/01/2033	\$ 14,950,000.00	\$ 3,190,000.00	\$ 11,760,000.00
<u>Fayetteville State University Series 2013A Bond</u>						
Student Center Renovations	2013A	2.00%	04/01/2043	21,410,000.00	315,000.00	21,095,000.00
<u>Fayetteville State University Series 2013B Bond</u>						
Student Center Renovations	2013B	4.25%	04/01/2021	2,000,000.00	835,000.00	1,165,000.00
<u>Fayetteville State University Series 2015 General Revenue Bond</u>						
Dining	2015	3.26%	04/01/2023	1,497,000.00	167,000.00	1,330,000.00
<b>Total Revenue Bonds Payable</b>				<b>39,857,000.00</b>	<b>4,507,000.00</b>	<b>35,350,000.00</b>
<b>Limited Obligation Bonds Payable</b>						
<u>Fayetteville State University Housing LLC Limited Obligation Bonds</u>						
Student Housing Project	2011	2% - 5%	04/01/2043	20,715,000.00	775,000.00	19,940,000.00
<b>Total Revenue Bonds Payable and Limited Obligation Bonds Payable (principal only)</b>				<b>\$ 60,572,000.00</b>	<b>\$ 5,282,000.00</b>	<b>55,290,000.00</b>
Less: Unamortized Discount						(797,436.32)
<b>Total Revenue Bonds Payable and Limited Obligation Bonds Payable, Net</b>						<b>\$ 54,492,563.68</b>

\* For variable rate debt, interest rates in effect at June 30, 2016 are included. For variable rate debt with interest rate swaps, the synthetic fixed rates are included.

- C. **Demand Bonds** - Included in bonds payable are several variable rate demand bond issues. 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 demand bonds, the University has entered into a take-out 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 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 3.50%) plus 1.5%. In the event that the outstanding \$11,760,000.00 of demand bonds was “put” and not resold, the Housing Foundation would be required to pay an average of \$2,704,800.00 a year for five years. Per the agreement, the structure 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, 2016, 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, 2016, the earliest expiration date is July 31, 2017.

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

Fiscal Year	Annual Requirements						
	Revenue Bonds Payable			Limited Obligation Bonds Payable		Notes Payable	
	Principal	Interest	Interest Rate Swaps, Net	Principal	Interest	Principal	Interest
2017	\$ 816,000.00	\$ 1,180,479.26	\$ 326,938.00	\$ 385,000.00	\$ 924,243.76	\$ 551,042.70	\$ 365,357.43
2018	874,000.00	1,163,764.16	316,492.00	430,000.00	912,693.76	570,996.35	346,278.51
2019	921,000.00	1,145,433.26	305,481.00	440,000.00	899,793.76	592,050.09	326,504.76
2020	989,000.00	1,124,732.66	293,835.00	455,000.00	885,493.76	613,854.99	306,007.57
2021	1,050,000.00	1,102,371.26	281,483.00	470,000.00	870,706.26	636,436.50	284,760.79
2022-2026	5,265,000.00	5,158,354.60	1,196,653.00	2,630,000.00	4,073,450.04	3,285,118.55	1,084,148.36
2027-2031	6,695,000.00	4,506,767.54	767,583.00	3,245,000.00	3,460,037.50	3,808,683.43	457,026.97
2032-2036	8,425,000.00	3,450,950.02	185,914.00	4,125,000.00	2,578,750.00	549,211.00	7,440.25
2037-2041	6,860,000.00	1,988,243.78		5,270,000.00	1,438,750.00		
2042-2046	3,455,000.00	268,550.02		2,490,000.00	188,250.00		
<b>Total Requirements</b>	<b>\$ 35,350,000.00</b>	<b>\$ 21,089,646.56</b>	<b>\$ 3,674,379.00</b>	<b>\$ 19,940,000.00</b>	<b>\$ 16,232,168.84</b>	<b>\$ 10,607,393.61</b>	<b>\$ 3,177,524.64</b>

Interest on the variable rate 2001 revenue bonds is calculated at 0.40% at June 30, 2016  
Interest rates are reset weekly by the remarketing agent based upon prevailing market conditions.

The 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 10 Derivative Instruments.

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

**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, 2016, the outstanding balance of prior year defeased bonds was \$3,010,000.00.

**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 June 30, 2016	Principal Outstanding June 30, 2016
Energy Savings Loan - University Project	Bank of America	3.60%	02/15/2032	\$ 10,400,044.00	\$ 250,684.97	\$ 10,149,359.03
UNC System Guaranteed Energy Savings	Bank of America	1.84%	02/14/2023	472,939.00	14,904.42	458,034.58
				<u>\$ 10,872,983.00</u>	<u>\$ 265,589.39</u>	<u>\$ 10,607,393.61</u>



**G. Pollution Remediation Payable** - The University has recognized a pollution remediation liability for underground tank removal at the Lily Building. The amount of the estimated liability is \$10,000.00. This estimate was calculated from the estimated cost of removal. This liability is subject to potential changes due to an increase in the cost of removal.

**NOTE 10 - DERIVATIVE INSTRUMENTS**

Derivative instruments held at June 30, 2016 are as follows:

Type	Notional Amount	Change in Value		Value at June 30, 2016	
		Classification	Increase (Decrease)	Classification	Asset (Liability)
<i>Hedging Derivative Instruments</i>					
<i>Cash Flow Hedges</i>					
Pay-Fixed, Receive Variable Interest Rate	<u>\$ 10,584,000.00</u>	Deferred Outflow of Resources	<u>\$ (1,607,472.00)</u>	Hedging Derivative Liability	<u>\$ (476,332.00)</u>

Hedging derivative instruments held at June 30, 2016 are as follows:

Type	Objective	Notional Amount	Effective Date	Maturity Date	Terms
Pay-Fixed, Receive Variable Interest Rate Swap	Hedge Cash Flows for 2001 Bonds	\$ 10,584,000.00	10/1/2001	12/1/2017	Pay 3.45%, Received 68% of 1-month USD-LIBOR-BBA

*Hedging Derivative Risks*

**Interest Rate Risk:** The Foundation is exposed to interest rate risk on its 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, 2016, the interest rate on the Foundation's pay-fixed interest rate swap is benchmarked to 68% of 1 month LIBOR, which is 0.313%. The variable-interest rate on the Foundation's 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, 2016, the interest rate upon the demand bond was 0.40%.

**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.

*Rollover Risk:* The Foundation is exposed to rollover risk because the derivative contract expires on December 1, 2017 while the Series 2001 Bonds mature November 1, 2033. There is no assurance the Foundation will be able to enter into a new cash flow hedge at a fixed rate equal to or lower than the existing swap.

**NOTE 11 - OPERATING LEASE OBLIGATIONS**

The University entered into operating leases at Bronco Square for Military Affairs, Continuing Education, Center for Community Justice, and the FSU Bookstore; modular storage units; managed printing; equipment at mailroom and 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, 2016:

<u>Fiscal Year</u>	<u>Amount</u>
2017	\$ 168,763.16
2018	65,152.14
2019	<u>6,104.25</u>
<b>Total Minimum Lease Payments</b>	<b><u>\$ 240,019.55</u></b>

Rental expense for all operating leases during the year was \$538,986.52.

**NOTE 12 - 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>
<b>Operating Revenues:</b>					
Student Tuition and Fees, Net	\$ 27,610,341.58	\$ 0.00	\$ 9,747,175.97	\$ 16,966.27	\$ 17,846,199.34
<b>Sales and Services:</b>					
Sales and Services of Auxiliary Enterprises:					
Residential Life	\$ 7,908,913.85	\$ 0.00	\$ 2,801,554.45	\$ 3,690.47	\$ 5,103,668.93
Dining	4,843,807.67		1,782,406.69	10,407.29	3,050,993.69
Bookstore	268,073.80			1,454.62	266,619.18
Central Store	21,494.64	13,670.05			7,824.59
Copy Center	109,537.05	107,347.15			2,189.90
Athletics	135,802.70				135,802.70
Security Operations	290,768.47			12.30	290,756.17
Other	427,183.19	277.50		3,020.40	423,885.29
Sales and Services of Education and Related Activities	<u>622,936.80</u>				<u>622,936.80</u>
<b>Total Sales and Services, Net</b>	<b><u>\$ 14,628,518.17</u></b>	<b><u>\$ 121,294.70</u></b>	<b><u>\$ 4,583,961.14</u></b>	<b><u>\$ 18,585.08</u></b>	<b><u>\$ 9,904,677.25</u></b>

**NOTE 13 - OPERATING EXPENSES BY FUNCTION**

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

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	\$ 34,695,592.80	\$ 567,132.36	\$ 1,443,237.77	\$ 0.00	\$ 0.00	\$ 0.00	\$ 36,705,962.93
Research	460,811.45	83,584.33	271,462.20				815,857.98
Public Service	2,170,819.58	216,800.01	1,076,887.23				3,464,506.82
Academic Support	5,751,634.24	1,390,216.88	1,181,729.59				8,323,580.71
Student Services	3,242,046.72	63,403.52	795,608.96				4,101,059.20
Institutional Support	8,482,042.00	1,056,629.13	2,937,120.45		6,875.45		12,482,667.03
Operations and Maintenance of Plant	5,105,926.55	1,166,234.35	1,223,416.32		1,767,715.44		9,263,292.66
Student Financial Aid				10,829,357.95			10,829,357.95
Auxiliary Enterprises	5,490,085.89	1,045,848.52	7,768,672.82		1,020,506.64		15,325,113.87
Depreciation						5,536,485.60	5,536,485.60
<b>Total Operating Expenses</b>	<b>\$ 65,398,959.23</b>	<b>\$ 5,589,849.10</b>	<b>\$ 16,698,135.34</b>	<b>\$ 10,829,357.95</b>	<b>\$ 2,795,097.53</b>	<b>\$ 5,536,485.60</b>	<b>\$ 106,847,884.75</b>

**NOTE 14 - PENSION PLANS**

**A. Defined Benefit Plan**

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

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

for life or a return of the member's contributions. The plan does not provide for automatic post-retirement benefit increases. Increases are contingent upon actuarial gains of the plan.

*Contributions:* Contribution provisions are established by General Statute 135-8 and may be amended only by the North Carolina General Assembly. Employees are required to contribute 6% of their annual pay. The contribution rate for employers is set each year by the NC General Assembly in the Appropriations Act based on the actuarially-determined rate recommended by the actuary. The University's contractually-required contribution rate for the year ended June 30, 2016 was 9.15% of covered payroll. The University's contributions to the pension plan were \$2,718,297.21, and employee contributions were \$1,782,489.98 for the year ended June 30, 2016.

The TSERS Plan's financial information, including all information about the plan's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fiduciary net position, is included in the State of North Carolina's fiscal year 2015 *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.nc.gov> and clicking on "Reports" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

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

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

*Net Pension Liability:* At June 30, 2016, the University reported a liability of \$7,344,968.00 for its proportionate share of the collective net pension liability. The net pension liability was measured as of June 30, 2015. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2014, and

update procedures were used to roll forward the total pension liability to June 30, 2015. The University's proportion of the net pension liability was based on the present value of future salaries for the University relative to the present value of future salaries for all participating employers, actuarially-determined. As of June 30, 2015, the University's proportion was 0.19931%, which was a decrease of 0.01215 from its proportion measured as of June 30, 2014.

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

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

\* Salary increases include 3.5% inflation and productivity factor.

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

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

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

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

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2015 (the valuation date) are summarized in the following table:

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

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

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

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

Net Pension Liability (Asset)		
1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
\$ 22,106,327.00	\$ 7,344,968.00	\$ (5,181,747.00)

*Deferred Inflows of Resources and Deferred Outflows of Resources Related to Pensions:* For the year ended June 30, 2016, the University recognized pension expense of \$636,026.00. At June 30, 2016, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Actual and Expected Experience	\$ 0.00	\$ 835,123.00
Changes of Assumptions		
Net Difference Between Projected and Actual Earnings on Pension Plan Investments		795,765.00
Change in Proportion and Differences Between Agency's Contributions and Proportionate Share of Contributions	8,891.00	299,100.00
Contributions Subsequent to the Measurement Date	<u>2,881,773.34</u>	
Total	<u>\$ 2,890,664.34</u>	<u>\$ 1,929,988.00</u>

The amount of \$2,881,773.34 reported as deferred outflows of resources related to pensions will be included as a reduction of the net pension liability in the fiscal year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Deferred Outflows of Resources and Deferred Inflows of Resources That will be Recognized in Pension Expense:

Year ended June 30:	Amount
2017	\$ (1,036,029.00)
2018	(1,036,029.00)
2019	(1,006,513.00)
2020	1,157,474.00
Total	<u>\$ (1,921,097.00)</u>

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

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

Participant eligibility and contributory requirements are established by General Statute 135-5.1. Employer and member contribution rates are set each year by the North Carolina General Assembly. For the year ended June 30, 2016, these rates were set at 6.84% of covered payroll for employers and 6% of covered payroll for members. The University assumes no liability other than its contribution.

For the current fiscal year, the University had a total payroll of \$52,569,397.62, of which \$16,612,115.91 was covered under the Optional Retirement Program. Total employer and employee contributions for pension benefits for the year were \$1,136,268.73 and \$996,726.95, respectively. The amount of pension expense recognized in the current year related to ORP is equal to the employer contributions. The University had forfeitures reflected in pension expense for the current fiscal year of \$38,269.26.

**NOTE 15 - OTHER POSTEMPLOYMENT BENEFITS**

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

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

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

For the current fiscal year the University contributed 5.60% of the covered payroll under TSERS and ORP to the Fund. Required contribution rates for the years ended June 30, 2015, and 2014, were 5.49% and 5.40%, respectively. The University made 100% of its annual



required contributions to the Plan for the years ended June 30, 2016, 2015, and 2014, which were \$2,593,935.80, \$2,607,671.71, and \$2,588,428.64, respectively. The University assumes no liability for retiree health care benefits provided by the programs other than its required contribution.

Additional detailed information about these programs can be located in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.nc.gov/> and clicking on "Reports" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

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

Disability income benefits are funded by actuarially determined employer contributions that are established by the General Assembly. For the fiscal year ended June 30, 2016, the University made a statutory contribution of .41% of covered payroll under TSERS and ORP to the DIPNC. Required contribution rates for the years ended June 30, 2015, and 2014, were .41% and .44%, respectively. The University made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2016, 2015, and 2014, which were \$189,913.16, \$194,744.15, and \$210,909.00, 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 16 - RISK MANAGEMENT**

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

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

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

**2. Death Benefit Plan of North Carolina**

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

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

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

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 risks" 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 Department of Insurance.

**2. Public Officers' and Employees' Liability Insurance**

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

**3. Employee Dishonesty and Computer Fraud**

The University is protected for losses from employee dishonesty and computer fraud. This coverage is with a private insurance company and is handled by the North Carolina Department of Insurance. Universities are charged a premium by the private insurance company. Coverage limit is \$5,000,000 per occurrence. The private insurance company pays 90% of each loss less a \$100,000 deductible.

**4. Statewide Workers' Compensation Program**

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

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

**5. Other Insurance Held by the University**

The University retained the following risks as of June 30, 2016:

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 the 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 Camper's Accidental Insurance policies for the Upward Bound Residential Institute and the 21st Century Learning Center 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.

#### **NOTE 17 - COMMITMENTS AND CONTINGENCIES**

- A. Commitments** - The University has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were \$368,668.10 and on other purchases were \$2,168,028.00 at June 30, 2016.
- B. Pending Litigation and Claims** - The University is a party to litigation and claims in the ordinary course of its operations. Since it is not possible to predict the ultimate outcome of these matters, no provision for any liability has been made in the financial statements. University management is of the opinion that the liability, if any, for any of these matters will not have a material adverse effect on the financial position of the University.

#### **NOTE 18 - DISPOSAL OF GOVERNMENT OPERATIONS**

Effective November 24, 2015, Fayetteville State University sold its WFSS radio station (Station) and its operations to WUNC Public Radio for \$1,350,000.00. The assets included in the sale included: (1) authorizations/licenses issued by the FCC and used in respect to the operation of the Station except for the antenna structure registration; (2) tangible assets including transmission equipment, devices, and other equipment used in the chain or process of transmitting the Station's signal to the public except for studio production equipment, computers, and other devices that are used to create program material; (3) records relating to the operations of the Station including records required by the FCC, the Station's public inspection file, software, warranties and business records; (4) assumed contracts, licenses, leases and other agreements listed in the agreement; (5) intangible assets/intellectual property associated with the Station;

(6) donation records; and (7) rights held and transferable in and title to satellite receiver dish to receive certain programming in connection with the Station operations and certain fiber link connecting the satellite dish receiver unit to the Station's tower. The sale did not include the radio tower or the transmitter building; however, these assets were leased to WUNC Public Radio for 20 years under a separate lease agreement.

The gain on the sale of Station operations was \$1,234,725.17 based on the Sale Price of \$1,350,000 less a broker fee of \$87,500.00 and the book value of tangible equipment transferred to the buyer of \$27,774.83.

The funding model for the radio station was designed on the premise that the station would be self-sufficient. The radio station was not able to attain self-sufficiency due to insufficient income from fund raising. As a result, the University made the decision to sell the radio station.

The operating and nonoperating income and expenses for fiscal year 2015 follow:

Operating Revenue - \$83,329.90  
Operating Expenses - \$261,310.56  
Nonoperating Revenue - \$201,128.23  
Nonoperating Expenses - \$0.00

**NOTE 19 - RELATED PARTIES**

**Foundations** - 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 operational transactions of the foundations, except for support from each organization to the University. No support was provided from these organizations to the University for the year ended June 30, 2016.

**NOTE 20 - BLENDED COMPONENT UNITS**

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

*Condensed Statement of Net Position*

*June 30, 2016*

	Fayetteville State University	Fayetteville State University Foundation Inc., and Subsidiary	Fayetteville State University Student Housing Corporation and Subsidiary	Eliminations	Total
<b>ASSETS</b>					
Current Assets	\$ 16,967,374.46	\$ 3,295,910.00	\$ 1,887,994.00	\$ (899,293.00)	\$ 21,251,985.46
Capital Assets	176,145,921.97	8,286,833.00			184,432,754.97
Other Noncurrent Assets	15,181,818.31	7,167,811.00	19,555,000.00	(19,555,000.00)	22,349,629.31
Total Assets	<u>208,295,114.74</u>	<u>18,750,554.00</u>	<u>21,442,994.00</u>	<u>(20,454,293.00)</u>	<u>228,034,369.74</u>
Total Deferred Outflows of Resources	<u>2,890,664.34</u>	<u>476,332.00</u>			<u>3,366,996.34</u>
<b>LIABILITIES</b>					
Current Liabilities	5,992,817.05	366,279.00	899,293.00	(899,293.00)	6,359,096.05
Long-Term Liabilities, Net	62,600,544.59	11,400,000.00	19,555,000.00	(19,555,000.00)	74,000,544.59
Other Noncurrent Liabilities	2,111,017.64	476,332.00			2,587,349.64
Total Liabilities	<u>70,704,379.28</u>	<u>12,242,611.00</u>	<u>20,454,293.00</u>	<u>(20,454,293.00)</u>	<u>82,946,990.28</u>
Total Deferred Inflows of Resources	<u>1,929,988.00</u>				<u>1,929,988.00</u>
<b>NET POSITION</b>					
Net Investment in Capital Assets	122,850,398.31			(2,429,564.00)	120,420,834.31
Restricted - Nonexpendable	8,454,148.66	3,106,331.00			11,560,479.66
Restricted - Expendable	7,528,620.27	6,410,402.00	101.00	(1,043,603.00)	12,895,520.27
Unrestricted	(281,755.44)	(2,532,458.00)	988,600.00	3,473,167.00	1,647,553.56
Total Net Position	<u>\$ 138,551,411.80</u>	<u>\$ 6,984,275.00</u>	<u>\$ 988,701.00</u>	<u>\$ 0.00</u>	<u>\$ 146,524,387.80</u>

Due to presentation requirements that prohibit reporting negative restricted net position in the financial statements, the University Housing Foundation included its net investment in capital assets of negative \$2,429,564 as unrestricted net position and restricted-expendable net position 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 position and restricted-expendable net position.

## NOTES TO THE FINANCIAL STATEMENTS

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

	Fayetteville State University	Fayetteville State University Foundation Inc., and Subsidiary	Fayetteville State University Student Housing Corporation and Subsidiary	Eliminations	Total
<b>OPERATING REVENUES</b>					
Student Tuition and Fees, Net	\$ 17,846,199.34	\$ 0.00	\$ 0.00	\$ 0.00	\$ 17,846,199.34
Federal Grants and Contracts	194,643.50				194,643.50
Sales and Services, Net	9,904,677.25				9,904,677.25
Interest Earnings on Loans	19,123.38				19,123.38
Other Operating Revenues		1,937,640.00	456,456.00	(2,394,096.00)	
Total Operating Revenues	<u>27,964,643.47</u>	<u>1,937,640.00</u>	<u>456,456.00</u>	<u>(2,394,096.00)</u>	<u>27,964,643.47</u>
<b>OPERATING EXPENSES</b>					
Operating Expenses	103,017,605.15	1,097,149.00	88,835.00	(2,892,190.00)	101,311,399.15
Depreciation	5,233,554.60	302,931.00			5,536,485.60
Total Operating Expenses	<u>108,251,159.75</u>	<u>1,400,080.00</u>	<u>88,835.00</u>	<u>(2,892,190.00)</u>	<u>106,847,884.75</u>
Operating Income (Loss)	<u>(80,286,516.28)</u>	<u>537,560.00</u>	<u>367,621.00</u>	<u>498,094.00</u>	<u>(78,883,241.28)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>					
State Appropriations	48,405,924.52				48,405,924.52
Noncapital Grants - Federal Student Financial Aid	16,686,836.97				16,686,836.97
Noncapital Grants	14,391,460.92				14,391,460.92
Noncapital Gifts	768,845.74	525,100.00			1,293,945.74
Investment Income (Loss) (Net of Expenses)	(2,807.61)	(105,004.00)	936,924.00	(936,924.00)	(107,811.61)
Interest and Fees on Debt	(1,489,295.59)	(515,316.00)	(932,944.00)		(2,937,555.59)
University Support		(438,830.00)		438,830.00	
Other Nonoperating Expenses	(180,831.72)				(180,831.72)
Net Nonoperating Revenues (Expenses)	<u>78,580,133.23</u>	<u>(534,050.00)</u>	<u>3,980.00</u>	<u>(498,094.00)</u>	<u>77,551,969.23</u>
Capital Appropriations	1,410,300.00				1,410,300.00
Capital Grants	118,106.37				118,106.37
Capital Gifts	821,166.67				821,166.67
Additions to Endowments	384,962.20	99,591.00			484,553.20
Special Items	1,234,725.17				1,234,725.17
Increase in Net Position	2,262,877.36	103,101.00	371,601.00		2,737,579.36
<b>NET POSITION</b>					
Net Position, July 1, 2015	136,288,534.44	6,881,174.00	617,100.00		143,786,808.44
Net Position, June 30, 2016	<u>\$ 138,551,411.80</u>	<u>\$ 6,984,275.00</u>	<u>\$ 988,701.00</u>	<u>\$ 0.00</u>	<u>\$ 146,524,387.80</u>

*Condensed Statement of Cash Flows  
June 30, 2016*

	Fayetteville State University	Fayetteville State University Foundation Inc., and Subsidiary	Fayetteville State University Student Housing Corporation and Subsidiary	Total
Net Cash Provided (Used) by Operating Activities	\$ (76,796,001.13)	\$ 660,894.00	\$ 367,621.00	\$ (75,767,486.13)
Net Cash Provided by Noncapital Financing Activities	85,767,134.98	332,531.00		86,099,665.98
Net Cash Used by Capital and Related Financing Activities	(3,501,963.53)	(855,316.00)	(935,269.00)	(5,292,548.53)
Net Cash Provided (Used) by Investing Activities	(2,454,134.77)	12,256.00	939,249.00	(1,502,629.77)
Net Increase in Cash and Cash Equivalents	3,015,035.55	150,365.00	371,601.00	3,537,001.55
Cash and Cash Equivalents, July 1, 2015	14,192,827.58	3,743,758.00	900,332.00	18,836,917.58
Cash and Cash Equivalents, June 30, 2016	<u>\$ 17,207,863.13</u>	<u>\$ 3,894,123.00</u>	<u>\$ 1,271,933.00</u>	<u>\$ 22,373,919.13</u>

**NOTE 21 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING**

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

*GASB Statement No. 72 - Fair Value Measurement and Application*

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

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

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

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

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

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

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





# **REQUIRED SUPPLEMENTARY INFORMATION**

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

**Exhibit B-1**

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Proportionate Share Percentage of Collective Net Pension Liability	0.19931%	0.21146%	0.21480%
Proportionate Share of TSERS Collective Net Pension Liability	\$ 7,344,968.00	\$ 2,479,201.00	\$ 12,924,556.81
Covered-Employee Payroll	\$ 30,607,328.10	\$ 30,894,777.52	\$ 31,862,338.89
Net Pension Liability as a Percentage of Covered-Employee Payroll	24.00%	8.02%	40.56%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	94.64%	98.24%	90.60%

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

**Exhibit B-2**

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Contractually Required Contribution	\$ 2,718,297.21	\$ 2,800,570.52	\$ 2,684,756.17	\$ 2,654,132.13	\$ 2,342,704.39
Contributions in Relation to the Contractually Determined Contribution	2,718,297.21	2,800,570.52	2,684,756.17	2,654,132.13	2,342,704.39
Contribution Deficiency (Excess)	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>
Covered-Employee Payroll	\$ 29,708,166.27	\$ 30,607,328.10	\$ 30,894,777.52	\$ 31,862,338.89	\$ 31,487,962.18
Contributions as a Percentage of Covered-Employee Payroll	9.15%	9.15%	8.69%	8.33%	7.44%

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	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Contractually Required Contribution	\$ 1,569,436.16	\$ 1,127,912.09	\$ 1,082,006.49	\$ 905,105.47	\$ 712,913.53
Contributions in Relation to the Contractually Determined Contribution	1,569,436.16	1,127,912.09	1,082,006.49	905,105.47	712,913.53
Contribution Deficiency (Excess)	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>
Covered-Employee Payroll	\$ 31,834,404.79	\$ 31,594,176.31	\$ 32,202,573.97	\$ 29,675,589.18	\$ 26,801,260.42
Contributions as a Percentage of Covered-Employee Payroll	4.93%	3.57%	3.36%	3.05%	2.66%

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

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Changes of Benefit Terms:

**Cost of Living Increase**

<b>2015*</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>
1.00%	N/A	1.00%	N/A	N/A	N/A	2.20%	2.20%	3.00%	2.00%

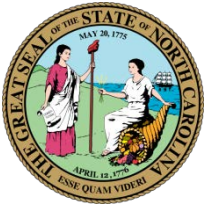
*Changes of assumptions.* In 2008, and again in 2012, the rates of withdrawal, mortality, service retirement and salary increase for active members and the rates of mortality for beneficiaries were adjusted to more closely reflect actual experience. Assumptions for leave conversions and loads were also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

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



# INDEPENDENT AUDITOR'S REPORT

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



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

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

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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 (University), a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated December 15, 2016. 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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we do not express an opinion on the effectiveness of the University's internal control.

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

possibility that a material misstatement of the University's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

### Compliance and Other Matters

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

### Purpose of this Report

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



Beth A. Wood, CPA  
State Auditor

Raleigh, North Carolina

December 15, 2016

# ORDERING INFORMATION

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For additional information contact:  
Bill Holmes  
Director of External Affairs  
**919-807-7513**



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This audit required 600 hours at an approximate cost of \$61,800.00.